A blockbuster of a deal

PIPPA MASON RECOUNTS HOW ASTRAZENECA SUCCESSFULLY ISSUED $6.9BN OF SEC REGISTERED BONDS FOLLOWED BY THEIR EURO DEBUT AMIDST VOLATILITY OF A MAGNITUDE RARELY EXPERIENCED IN THE CAPITAL MARKETS.

AstraZeneca always planned to tap the bond market to refinance debt taken on to purchase MedImmune. However, given the market turbulence of recent months, successfully completing such a deal was not an insignificant challenge. The cash acquisition was initially funded by a bridge loan, taken out in the USCP market. The long-term corporate strategy involved refinancing the deal through bond issues, primarily but not exclusively in the US markets (to mirror the US acquisition). The company's finance strategy incorporated flexibility in the sequencing of markets and timing of issuance.

No one could have forecast the volatility and deterioration in both the US and European bond markets at the end of June 2007. European investors stayed on the sidelines, with the situation further exacerbated by the holiday season. In contrast, the US market closed only for a brief period, followed by steady, albeit intermittent, supply. Names such as Kimberly-Clark (A2/A+), Johnson & Johnson (Aaa/AAA) and Wal-Mart (Aa2/AA) tapped the market with multi-billion, multi-tranche issues. It was no coincidence that it was such well-known and trusted names which provided a re-pricing of the corporate market, leading to the busiest August on record for US corporate bonds. Borrowers tapped the market to take advantage of attractive fixed-rate funding levels as rallying Treasury markets helped to offset rising credit spreads.

There was no doubt that the problems with the US sub-prime market affected structured credit and the ability of financial institutions to access the market, whilst the high yield and leveraged loan markets had their own concerns. Access to commercial paper markets also became challenging for asset-backed and lower-quality issuers. However, high-quality investment-grade corporates were, in the main, insulated against shocks elsewhere.

Indeed, as always at times of crisis, worried investors sought quality. AstraZeneca's borrowing costs moved only marginally from June to when the company accessed the market in September.

Five banks were involved in the deal: Citi, Deutsche, Goldman Sachs, HSBC and JPMorgan. Citi, the only active bookrunner in both the US and European markets, coordinated across the five banks and ran the dual documentation processes for AstraZeneca.

Timing is always important but in this instance it was crucial. AstraZeneca targeted being first to market after the US Labor Day holiday (the first Monday in September), subject to market conditions. Extensive marketing was required as this was the company's first issuance since 2004. The key points to be communicated included the rationale for the funding, the associated double notch ratings downgrades, the credit and business fundamentals and the commitment to a targeted debt and rating level going forward. The CEO joined appropriate parts of the marketing process, including the global investor calls. One of the key reasons for the deal's success was the way AstraZeneca management explained its strategy to investors.

AstraZeneca was determined not to push on size for the sake of price – the US issue was to be sized to investor demand. The company had the flexibility, if required, to fund via alternative bond

AstraZeneca: The Treasurer's tale

DIRECTOR OF TREASURY AT ASTRAZENECA, SEAN CHRISTIE, TALKED TO **GRAHAM BUCK**.

To launch one of the biggest-ever corporate bond transactions is a daunting prospect at the best of times, but even more so at a time of market volatility and a deepening credit crunch.

Yet drugs giant AstraZeneca pulled off the feat in early September, when it successfully issued a hefty $6.9bn in bonds, followed by its €750m debut Eurobond. The fact that AstraZeneca felt confident enough to go into the market after such a turbulent summer impressed many. The issue was the first for a European corporate in the US market since the recent volatility.

Sean Christie, AstraZeneca's Director of Treasury, says that: "The deal represents the execution of the long-term financing strategy approved by the Board earlier in the summer: and de-risks the group's funding profile by terming out a significant portion of our commercial paper. Although the timing of the deal was during a period of wider credit spreads in general, the rally in the US treasury yields over the same period did much to compensate, making the all-in yield attractive."

The US bond sale, the largest issue in US dollars for a European corporate since 2001, was composed of:

- $650m of 2-year FRNs, paying Libor plus 30 basis points;
- $1.75bn 5-year bond, paying a coupon of 5.4%;

Executive summary

- On Wednesday 5 September 2007, A1/AA- rated AstraZeneca priced $6.9bn of SEC-registered bonds in four tranches, followed by a €750m debut Eurobond the following week.
- The issues refinanced debt taken on with the company's $15.2bn cash acquisition of American biotech group MedImmune Inc. A traditional bank bridge financing was initially taken out with US commercial paper (USCP), with the intention to refinance on a longer-term basis in the capital markets.
- The $6.9bn US offering marked a confident re-opening of the bond market for European corporates and represents the largest US dollar investment-grade corporate transaction in the last five years. The follow-on debut Eurobond re-opened the corporate Eurobond market following the recent volatility.

markets or continue using the USCP market. However, shortly after the global investor call on the second day of a planned two-day execution process, there were $10bn of orders with US demand strongest in 10 and particularly 30 years. In addition to the five, 10 and 30-year benchmarks, a two-year FRN was added due to reverse inquiry, culminating in a "who's who" book of US investors buying across the curve. The company also successfully executed a hedging programme such that they achieved smooth bond execution as well as their desired fixed/floating funding mix. The transaction tightened initially 2-3bp after the launch indicating it was properly priced to demand. Subsequently the whole market has tightened and at the time of writing the transaction has outperformed the market by 3-4bp.

Careful monitoring of markets was a constant theme of these transactions. Having completed the core of the bond financing in the US, the company could then consider issuance in other markets. In response to European investor inquiry, the company's finance team literally came off the US pricing call on the Wednesday evening and accelerated their pre-prepared plans for the European process, such that they were in front of UK investors on the Friday. Only Euro investors were targeted given the relatively small amount of funding required to complete the term out of the MedImmune funding plan.

Demand for the 5-7 year part of the curve and a desire for an issue straight away allowed AstraZeneca to target an immediate issue with a long seven-year maturity as a best fit with its existing maturity profile. The company's debut Eurobond priced at the tight end of guidance at 70bp over mid swaps, in line with the already performing US benchmarks. The company maintained the targeted €750m issue size despite the high-quality €2.4bn order book as this completed its planned term out and the issue initially tightened 3-4bp.

At every step of the way, the company's management delivered what they promised to the capital markets, thereby cementing their credibility with the fixed-income community. It is a huge achievement in unprecedented market conditions and a text-book example of fundraising.

Pippa Mason is Managing Director, Head of UK Fixed Income Origination, at Citi.
pippa.mason@citi.com
www.citi.com

- $1.75bn 10-year bond, paying a coupon of 5.9%; and
- $2.75bn 30-year bond, paying a coupon of 6.45%.

Buoyed by its success in the US, AstraZeneca was back in the market within days – this time to launch its first Eurobond, which was issued off a new Euro Medium Term Note (EMTN) programme. The €750m fixed rate issue, which comes with a coupon of 5.125% and matures in January 2015, was also the first senior corporate Euro issue to reach the market since July.

According to the group's Chief Executive, David Brennan, both the US bond issue and the Eurobond represented an enhancement to the group's financial flexibility by further diversifying its sources of funding.

The response from prospective investors to roadshows and presentations prior to the launch was very positive, which was reflected in the level of interest, the size of the order books and the resulting oversubscription.

In the US, marketing comprised select telephonic 1-on-1 calls with key investors, an electronic roadshow and a telephonic global conference call. The latter two attracted 350 and 150 investors respectively. The web presentation provided voiceovers from the Chief Executive and the Group's Financial Controller.

The result was a total of 225 investors on the four tranches and a total order book in excess of $10bn for the $6.9bn issuance.

Despite the background of volatile market conditions "we were confident there were real money accounts out there awaiting a quality name to invest," says Christie.

Demand for the US bonds was predominantly from US investors. "The investor base was broadly in line with our expectations, and we judged from other issuances during July that there would be significant appetite for 30-year bonds," says Christie.

In the European market, the group's roadshow took place over three days and covered London, Frankfurt and Paris. Some 140 investors contributed to an order book of more than €2.4bn.

The investors in the Eurobond comprised 50% from the UK, 40% from continental Europe and 10% from the Nordic and other regions.

The only covenant not offered on previous issues was a change of control clause, which is increasingly becoming a standard feature of bond offerings. Although the timing of the issue may have appeared risky to some outsiders, Christie says that AstraZeneca was under no pressure to refinance; it simply monitored the markets closely and judged that the time was right.

"Early in the process we wanted to give ourselves capacity and flexibility, so established the means to access the two main debt markets.

"Although we had the option to delay, we were conscious of a build up of pending supply in the market and were confident that a quality name would be well-received."