A PRESSING MATTER

■ JOHNSTON PRESS
£680m syndicated loan facility, 12 March 2002

■ CORPORATE PROFILE
Johnston Press is the fourth largest publisher of regional and local newspapers in the UK, based on a weekly circulation of 8.6 million copies of paid for and free titles, which represents a 14.3% market share. The stable includes many historically rooted titles including the *Falkirk Herald*, *Stamford Mercury* and the *Yorkshire Post*. The group also hosts more than 130 local internet sites. Johnston Press is a constituent of the FTSE 250.
www.johnstonpress.co.uk

On 12 March 2002, Johnston Press signed a £680m loan facility for syndication, together with a £200m bridge facility to an impending £220m rights issue. The loan was a welcome respite for the embattled TMT sector and was very successfully syndicated on a relationship basis to enable Johnston to acquire Regional Independent Media Holdings Limited (RIM), the UK's fifth largest regional newspaper publisher. The shares were up 24p or 7% on the announcement of the acquisition and have since been the best performing European media stock, proving the success of this pressing matter (see *Figure 1*).

Lois Salter, Senior Director, Origination, at The Royal Bank of Scotland, said: "A great deal of the success of this transaction can be attributed to the excellent relationships between Johnston Press, the mandated lead arrangers (MLAs) and their respective advisers involved in the syndicated loan, bond and equity areas. Not only was it regarded as a landmark deal by players in the syndicated loan market, it was also regarded as a positive and impressive end result for a high-profile borrower."

COMPELLING LOGIC. Johnston announced its recommended cash offer for RIM for £560m on 12 March 2002. Stuart Paterson, Finance Director of Johnston Press, said: "The acquisition expanded our geographic presence, adds excellent titles to our existing portfolio and generated significant cost savings and economies of scale. Uniting RIM's newspaper markets in Yorkshire, the North West of England and parts of Scotland with the broad geographic coverage of Johnston Press has proved to be compelling logic."

RIM was established in February 1998 as a vehicle for the £360m management buy-out of UPN (Holdings) Ltd from United News & Media plc, which was withdrawing from regional newspaper publishing. This earlier buy-out was financed through 10.5% cash pay notes and 12.875% senior notes, both due in 2008, with typical high-yield financial covenants placing restrictions on the borrower. These terms were obviously not attractive to Johnston, which placed its bid for RIM on a debt-free basis. RIM had to obtain consent solicitation to amend the covenants in the notes and launch a cash tender offer for the outstanding $110m and £93m.

Paterson said: "This was absolutely not our responsibility but inevitably you get drawn in as you attempt to ensure successful closure of the deal."

GESTATION. The acquisition had a long gestation period. Candover, the venture capital house, wanted an exit route but preferred an IPO over a trade sale. Paterson said: "We were involved in a loose consortium in 2000 but RIM did not want to deal with a consortium and I can understand that, as it was probably not in their best interest. However, the consortium dissolved in the summer of 2001 and not long after we started talking again and got quite close to an agreement before 11 September. The tragic events of that day meant everything had to be put on hold, however we remained on good terms, monitoring advertising revenues, and as markets stabilised we went on to announce the acquisition on 12 March."

TABLE 1
THE LOAN FACILITIES

<table>
<tr><th>Tranche</th><th>Type</th><th>Amounts</th><th>Repayment</th><th>Maturity</th><th>Margin</th><th>Commitment fees</th></tr>
<tr><td>A</td><td>Revolver</td><td>£220m</td><td>Bullet</td><td>5-year</td><td rowspan="3">150bp stepping down to a floor of 75bp</td><td>50% of the margin</td></tr>
<tr><td>B</td><td>Term loan</td><td>£360m</td><td>Amortising</td><td>5-year</td><td>n/a</td></tr>
<tr><td>C</td><td>Revolver</td><td>£100m</td><td>Bullet</td><td>364-day + 12-month term out</td><td>50% of the margin</td></tr>
<tr><td></td><td></td><td>£680m</td><td colspan="4">TOTAL SYNDICATED</td></tr>
<tr><td>Bridge</td><td>Term loan</td><td>£200m</td><td>Bullet</td><td>2 months</td><td>50bp</td><td>35bp</td></tr>
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THE RIGHTS ISSUE. The rights issue was approved at the EGM on 12 April 2002 and proceeded to raise a net £220m on a two-for-five basis at 280p per share, a mere 5% discount to the theoretical ex rights price. Directors and founding shareholders, who between them were entitled to 28.5 %, came to swallow their tails to support the transaction. Tail swallowing is not some highland mating ritual but a positive move to demonstrate support for the issue within their means. The Johnston family sold just enough, 27% of their rights at the nil-paid price of 22.5p to fund the purchase of 1.5%. Citigroup/SSSB and Deutsche Bank arranged a one-day accelerated bookbuild and successfully placed these shares at a total cost to the subscribers of 305p per share, a 7% discount to the theoretical ex rights price.

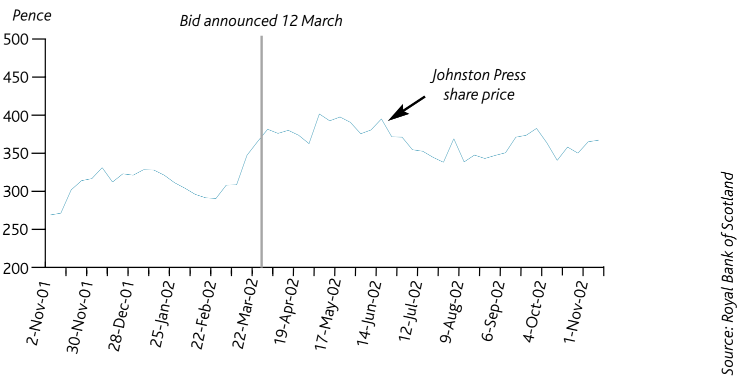
Paterson said: "The family has always been very supportive of board decisions and is not perturbed by their dilution. They have always acted as rationale investors and this has seen the value of their investment increase from 55% of £22m in 1988 to 20% of £1bn in 2002."

THE CRUX OF THE MATTER. Johnston Press has been an active participant in the consolidation of the fragmented industry. In addition to organic growth and a number of smaller acquisitions, it acquired Portsmouth and Sunderland Newspapers for a net £212m in 1999 and the regional interests of EMAP plc for £211m in 1996. Both acquisitions were financed with syndicated loans arranged by The Royal Bank of Scotland, which has enjoyed a banking relationship going back over 200 years. Salter said: "With these acquisitions, the company achieved margin enhancement and synergies and is an exceptionally well regarded player in its sector, laying the foundations for the syndication story."

Deutsche Bank and The Royal Bank of Scotland were appointed jointly to arrange and underwrite senior debt facilities to the tune of £880m (see *Table 1*.) A £200m bridge to the rights issue for two months at 50bp over Libor accompanied the winning £680m syndicated package. It was one of the UK's first major corporate acquisition facilities launched this year and certainly the first in its sector. This was quite a move against the backdrop of credit crunches affecting the TMT sector and general credit issues brought about by the opening of several cans of worms – Enron, GEC Marconi, etc.

Alasdair Garnham Director, Distribution at The Royal Bank of Scotland, said: "One of the challenges was to get banks to look beyond the sector and take in the specifics of the business, the strengths of its management, its niche in the market and its track record of two significant transforming acquisitions in a relatively short space of time."

FIGURE 1
MARKET REACTION.



TRANCHING. In these times when available budget is not a key driver of credit availability, issuers have to address credit quality, and in this case the banks took a lot of comfort from the structure. The tranching was established to follow the cashflow of the business and highlight its debt servicing capabilities. The shortest £100m was earmarked for early refinancing either through disposals or through the capital markets and therefore set up as 364-day revolver with a term out. Under Johnston's term out option, it can pay 10bp upfront to extend the facility on a fully-drawn basis for 12 months or it may prefer to extend the facility on a revolving basis, but that would be at the banks' discretion. The tranche could obviously be retired as well. The remainder of the facility has a five-year maturity but £360m amortises, giving an average life nearer three-and-a-half years, demonstrating Johnston's ability to pay down debt quickly. The three tranches start out at 150bp over libor and ratchet down with time and performance. As the net borrowings/Ebitda ratio strengthens below 3.5x, so the margin and commitment fees reduce with the lowest achievable margin at 75bp.

CLOSE RELATIONSHIPS. Paterson and his treasurer, Richard Cooper, maintain close and direct relationships with their banks and made full presentations to the 18 banks invited into the syndication, the majority of which were existing relationship banks with either Johnston or RIM. They were offered 25bp to sub-underwrite £75m, with a further 45bp on an indicated final hold of £45m. At the end of the day, the deal was oversubscribed and the banks were scaled back below this level to £35m. This allowed Paterson a little room for a limited retail phase where three additional relationship banks that were unable to take larger tickets in the senior syndication came in for smaller amounts.

Riding on the back of the £340m needed to fill the acquisition coffers, Paterson decided to refinance £320m of existing debt rather than move forward with two facilities largely from the same group of banks. Swapping 75% of the syndicated loan into fixed rate for its expected remaining life rounds off a neat little financing package for efficient ongoing treasury management.

STUART PATERSON'S TRANSACTION HIGHLIGHTS

- Taking a conference call on the London to Edinburgh, with one of the participants sitting just two carriages along in the train.
- Being able to tell a positive and forward-looking story in depressed markets.
- Wanting to be the best and this being another step on the right road.