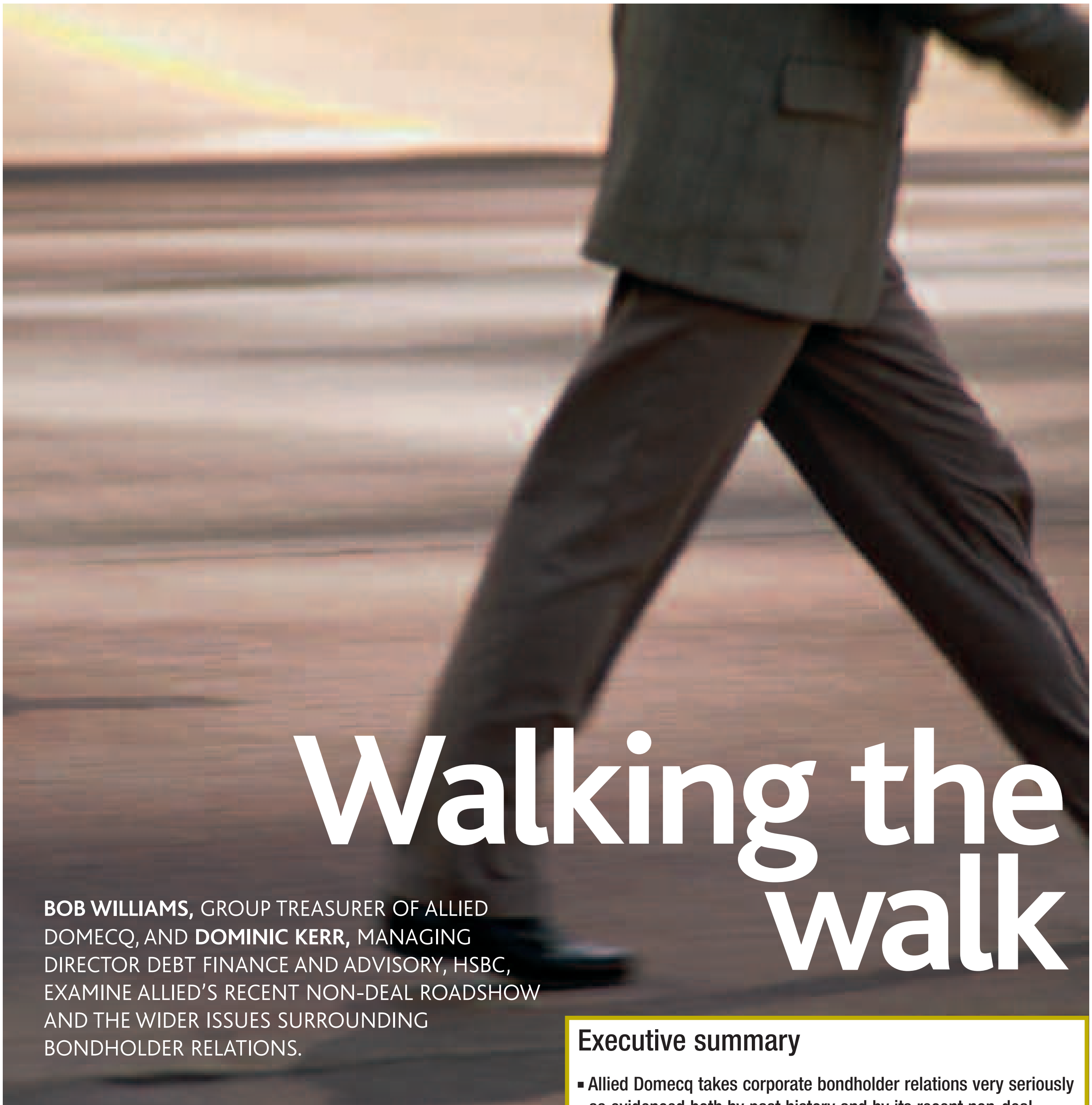

Walking the walk

BOB WILLIAMS, GROUP TREASURER OF ALLIED DOMECQ, AND **DOMINIC KERR,** MANAGING DIRECTOR DEBT FINANCE AND ADVISORY, HSBC, EXAMINE ALLIED'S RECENT NON-DEAL ROADSHOW AND THE WIDER ISSUES SURROUNDING BONDHOLDER RELATIONS.

Executive summary

- Allied Domecq takes corporate bondholder relations very seriously as evidenced both by past history and by its recent non-deal roadshow.
- The roadshow aimed to update existing investors on the Allied story after an absence of more than two years from the debt capital markets.
- Timing was important, as was managing the expectations of investors in the face of possible market scepticism.
- Allied is delighted with the results of the roadshow, both in terms of communicating its message, and in finding out the questions investors want to ask about the company. It helped to both refresh long-standing relationships and build new ones.

While it may be increasingly fashionable to pay lip service to the concept of managing relations with bond investors, there is little doubt that some corporates still have a good deal of work to do before this important stakeholder group receives the recognition it merits as a matter of course. One corporate that has clearly fulfiled its responsibilities in this respect, and continues to look for ways to enhance relations with bondholders is Allied Domecq, which operates globally in the businesses of spirits and wines, and quick service restaurants.

Allied Domecq is a well known name in the European debt capital markets, having brought benchmark Euro and Sterling trades to market in both 2001 and 2002: in fact the company made its debut in the markets as long ago as 1998 with a Deutschmark deal.

The company's experience as an issuer in the debt capital markets has been uniformly positive. The combination of an attractive sector story, strong brands and conservative financial management has proved very appealing to a wide range of investors in Europe and further afield. Allied's benchmark deals were both preceded by thorough physical roadshows and investor telephone conference calls and the company has consistently invited bondholders and other interested parties to interims and prelims conference calls specifically tailored to debt issues. Allied has never taken the support of either existing or potential bondholders for granted.

KEEPING INVESTORS UPDATED Allied's decision to undertake a full non-deal roadshow in October 2004 should therefore be seen in the context of the company's clear strategy to stay at the forefront of corporate bondholder relations. After an absence of more than two years from the debt capital markets, the company was keen to get back on the road and update existing investors on its credit story. Having made the decision to undertake this exercise, the company was understandably keen to do a thorough job and cover enough ground to make the exercise truly worthwhile.

Bob Williams, Group Treasurer of Allied, was clear on his motivations for dedicating the necessary time and resources to this exercise. He said: "We felt that we had kept bondholders updated since our last visit to the markets in May/June 2002, via regular bondholder conference calls and some ad hoc one-on-one meetings. We also knew that, inevitably given our relative inactivity in the debt capital markets, there were many investors who probably hadn't heard anything from us for some time. Our outstanding bonds were trading well, very well in fact and it wasn't the case that we were trying to achieve an improvement in investors' perception of us or to correct any misconceptions. There was no sense whatsoever that we were trying to disguise an actual funding exercise: we were absolutely clear from the outset that this was to be a non-deal roadshow. For us, this exercise was all about managing relations with a key stakeholder group."

As the key goal of this exercise was to get existing bond investors to focus properly on the Allied story, it was clearly important to hold the roadshow at a time when competing "new issue roadshows" were thin on the ground so that investors would not be distracted. It was also important to be totally clear with bondholders about the "non-deal" nature of this exercise, so that expectations were managed accordingly. On the latter point HSBC's Kerr said: "Given that a number of borrowers, less confident than Allied of their market access, had accessed the markets last year after holding euphemistically titled 'non-deal' roadshows, it's inevitable that there was always going to be a certain amount of scepticism from some quarters when another 'non-deal' roadshow was announced. Given Allied's obviously strong liquidity position there was less scepticism in this instance than might normally be expected. Whatever doubts may have existed were quickly and easily allayed before the roadshow started".

Allied's non-deal roadshow team comprised Director of Treasury and Taxation Peter Lyster and Group Treasurer Bob Williams. Both dedicated four full days to this non-deal roadshow.

The venues, selected to cover the maximum amount of ground in the time allocated, were Paris and Frankfurt (both of which merited a full day each), London (one and a half days) and Edinburgh (half a day).

The response from investors when the non-deal roadshow was announced was immediate and strong, sufficient to fully fill out a timetable of one-on-one and group sessions in all four centres in short order. Williams said : "The investor response was very encouraging, especially given that we had no bonds to sell on this occasion. We were delighted with the quality as well as the quantity of the response." The strong response was perhaps in part due to the careful planning that had gone into the event. Kerr said: "Allied asked ourselves and BNP Paribas to coordinate the non-deal roadshow. We spent a good deal of time ahead of this event prioritising which investors should be targeted, particularly for one-on-one meetings. Having managed Allied's most recent benchmarks, with BNP Paribas, we of course knew the composition of the primary books. It was then a question of taking into account the changes brought about by subsequent secondary market trading, as well as trying to identify major holders of the issues launched in 2001. Given the strong performance of the credit markets in general and of Allied's bonds in particular, we knew that a lot of bonds had changed hands as original investors had taken profits, at least on part of their holdings. We were pretty confident that once we had prioritised the accounts to target, these would be interested in hearing the latest from Allied's senior management".

THE PHYSICALITY AND FOCUS BROUGHT BY A NON-DEAL ROADSHOW BRINGS AN IMMEDIACY AND A TWO-WAY DIALOGUE THAT IT IS VERY HARD TO REPLICATE VIA TELEPHONE CONFERENCE CALLS OR OTHER MEANS.

FACE TO FACE MEETINGS In the course of the roadshow, Allied was able to hold fourteen separate one-on-one bondholder meetings and to host four group sessions. Some of these investor accounts had previously met with Allied on roadshows ahead of the 2001 and 2002 bond issues whilst others had never met the company. Even in the former case, the personnel at the investor accounts had often changed, and these individuals, credit analysts and fund managers, were delighted to have the opportunity to meet with the company face to face and to get real colour on an investment that many of them had "inherited".

At the end of the roadshow, Allied had met with 68 investors in total, representing 56 different investor accounts. This illustrates just what can be achieved with a well organised, focused approach: the physicality and focus brought by a non-deal roadshow brings an immediacy and a two-way dialogue that it is very hard to replicate via telephone conference calls or other means. Kerr said: "Up to a point a telephone conference call is a good medium for interacting with investors: but it's so much harder for an investor to be distracted by phone calls, colleagues, other priorities etc. when the borrower is sitting across the other side of the table. And of course, the investor will feel much more comfortable to ask questions when the situation is more private".

The group presentations hosted by Allied in Paris and London proved particularly successful, with 25 and 17 attendees respectively. Overall demand for meetings and investor interest was equally strong in London and the Continental European venues, reflecting Allied's strong presence in both the Sterling and the Euro markets.

What does the borrower achieve for all this effort in time and resources? Williams said: "The level of investor preparation for these meetings exceeded my expectations. Of course the picture was mixed with some investors obviously being more familiar with us than others. But what we took away from this was a very clear picture of investors' main questions and issues with regard to Allied Domecq. That's hugely helpful for us in considering our capital structure, in our rating agency dialogues and in many other respects. We've also established direct relationships with a large number of bond investors, who know that they can approach us at any time with questions and concerns. Some of these relationships we were refreshing and some were new to us. The strong (and unsolicited) expressions of interest were we to be seeking new funding were the icing on the cake!".

RETURN ON THE EFFORT Was the effort worthwhile? Williams said: "Without any doubt. We always felt that this would be a worthwhile exercise and something we wanted to do. It was just a question of finding the right moment, for us and the market. The return certainly justified the effort we expended and we enjoyed the dialogues we had. In terms of the management time we put in, the physical costs we incurred – it was great value. Any corporate with a benchmark issue outstanding that has been relatively inactive for some time should strongly consider this type of non-deal roadshow".

Depending on how Allied's credit story develops in the coming years, it may be appropriate for Allied to non-deal roadshow again . Given a 'steady state' at Allied, the work the company has put in will keep its credit story fresh for many months to come and could obviate the need to roadshow in specific support of a future deal.

Given that it was not the point of the exercise and given the typical illiquidity of corporate bonds within 6-9 months of launch, it seems almost irrelevant to ask the question as to whether Allied's outstanding bonds saw any credit spread improvement as a result of this exercise. The answer is that in a very thin secondary market, there was no discernible change in Allied's outstanding spreads: but none had been expected. If a non-deal roadshow had been convened to address a particular concern or issue, then this is a different situation and the roadshow company might hope for a more immediate impact.

Subsequent to this non-deal roadshow Allied's outstanding issuance has continued to perform extremely well and the company continues to be held in high regard by bond investors. The benefits of the exercise will be even more fully seen in the medium to longer term.

Allied has proven its real commitment to pro-actively maintain and enhance relations with bondholders in the most tangible way possible via this exercise and remains a frontrunner amongst UK corporates in this respect.

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