How to do a Eurobond

RECOGNISING THAT IT WOULD NEED EXTRA FUNDING TO BE ABLE TO FINANCE A CAPACITY EXPANSION, INTERNATIONAL ENERGY AND TECHNOLOGY GROUP URENCO SUCCESSFULLY ISSUED A SEVEN-YEAR €500M EUROBOND IN JANUARY 2010. GROUP TREASURER **ALAN DICK** EXPLAINS THE URENCO BOND AND THE PROCESS GENERALLY.

The whole Eurobond process can take from as little as one day to as much as several weeks, depending on a number of factors. One key element is documentation. If a company has an existing euro medium-term note programme, the documentation process is much simplified, as the process is more focused on any amendments to the base prospectus rather than starting from scratch. Otherwise, bespoke documentation has to be put in place, which will take additional time.

The other key element is investor awareness of the issuer. If a company is followed by debt investors and reasonably well known, a deal can be launched on the back of an update call and completed very quickly. When the company is an infrequent issuer, less well known or a difficult credit story, then a roadshow can prove beneficial.

For the public Eurobond market, a credit rating is advisable although some issuers (particularly household names) can issue without being formally rated. There is, however, generally a pricing disadvantage in being unrated.

At Urenco, we had an up-to-date euro medium-term note programme, but the business was an infrequent issuer in the public markets, was privately owned (and so had little or no equity coverage) and not well known generally. Therefore we felt that a roadshow would give best execution and pricing for our Eurobond issue. Ultimately, this proved to be correct.

INTERNAL RESOURCE. There is a significant amount of work required for a Eurobond issue from treasury, group finance, legal, investor relations and senior management. The treasury department has to select the bookrunners, co-ordinate the whole process, establish benchmark pricing and comparables, get board sign-off, decide on the ultimate currency and fixed/floating mix, agree maturity and ultimately decide whether to proceed or not.

Group finance ensures that any auditor comfort letter is signed off accordingly, based on the latest available information, and to cover any accounting-related due diligence questions. Legal co-ordinates and finalises the documentation for the bond. Investor relations co-ordinates the messages that will be presented to investors. Senior management (generally the group finance director) are required for due diligence calls and for some investor roadshow presentations.

BOOKRUNNERS. Bookrunners are key to the success of an issue. They help prepare the roadshow materials, organise investor meetings and have both marketing and pricing discussions directly with the investors. In addition to the actual placing of the issue, ancilliary roles must be allocated between the bookrunners to ensure efficient workstreams; the core roles are documentation, roadshow logistics and presentation materials.

The typical method of selecting bookrunners is a beauty parade, giving relationship banks the opportunity to pitch for the business. The number of bookrunners is variable. Deals are rarely done with a single bookrunner. It is typical to reward multiple relationship banks by appointing between two and four bookrunners. This helps ensure breadth of investor coverage as well as broader secondary trading over time.

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Urenco chose to have three bookrunners so it could combine the rewarding of relationship banks with efficient execution (in other words, so the bookrunners did not get in each other's way around investors). We held a beauty parade with our seven relationship banks in the first week of January 2010 and selected three (BNP Paribas, Citi and RBS) based on a number of factors including their strengths in the euro market, the suggested strategy for achieving optimum results, their existing relationship with Urenco, their ability to manage any associated hedging, and so on.

The fees charged by the bookrunners are part of the discussion but generally these can be negotiated amicably and should not have too large a bearing on the ultimate decision over who to use.

DOCUMENTATION. If there is an up-to-date euro medium-term note programme, it is very easy to use the existing terms and conditions inherent in the programme as the basis for the bond. There should only be an issue if any problems are highlighted in the due diligence process or if market precedent has changed materially in the intervening period. In Urenco's case there was no need for additional covenants or amended terms.

ROADSHOW. Urenco took on the primary responsibility of preparing the roadshow presentation. A three-day roadshow, undertaken by the group finance director and the group treasurer in London, Paris, Frankfurt and Munich, took place between 26 and 28 January 2010. Although it was billed as an investor update, we advised investors in the meetings that if there was strong appetite and market conditions were good, we would aim to do an issue following the roadshow.

In retrospect, the roadshow was well worth the additional time and effort as it had been two years since Urenco had accessed the market. It helped reinforce investors' views on the defensive qualities inherent in the business (such as not building additional capacity until orders had been booked, an order book approaching €20bn, high barriers to entry, a strong competitive position, and so on).

Figure 1: Key points

- Eurobonds are a key source of alternative funding available to companies.
- Access to the market can be very quick depending on the level of pre-existing documentation and any investor marketing required.
- A significant amount of time and effort is required from a company, but this is generally rewarded.

ISSUE/PRICING. On the last day of the roadshow, it was clear there was strong investor demand for the Urenco credit and that a bond issue would be well received. We had a slight complication in that an existing bond that matured in 2015 was solidly held by buy and hold investors, so quoted secondary levels in this "illiquid" benchmark did not reflect our credit story. Our aim was to price the new bond (with an additional two years tenor) within the secondary quotes of the existing issue.

Following a go/no go call with the banks early the following morning, we gave them authority to go to the market to announce a new long seven-year issue with price guidance in the range of 95 to 100 basis points above mid-swaps.

Within a very short time, the book was almost eight times oversubscribed. After a call with the bookrunners, we agreed to finalise pricing inside guidance at mid-swaps+93bp; given the overall level of demand, the bookrunners were very confident that this could be achieved. A key barrier to any further tightening was investors targeting a minimum yield of 4%; with underlying interest rates where they were it was difficult to push the pricing further.

By 10am the book had been closed. Some orders were lost as a consequence of tightening the spread, but there was still a large oversubscription. Our existing bond to 2015 also benefitted from the roadshow and secondary quotes tightened in reaction to the new issue, establishing a more orderly secondary curve for our bonds.

Pricing was done in a call at 2pm that day and the bond was priced at coupon of 4% flat. Funds were then received five working days after pricing.

HEDGING. Many companies have to decide whether to leave the bond in fixed rate or to swap part or all to floating – or, indeed, to swap the proceeds to a different currency. It is very important to get the correct co-ordination of these swaps to ensure there is no timing mismatch with the actual pricing of the bond. Many companies will appoint a bookrunner as a hedge co-ordinator to ensure that this is done effectively and efficiently. In addition, it is now common practice to pre-agree credit charges and the screens that will be used for pricing the various elements of any swap. Organising the hedging in this way gives complete transparency to the issuer.

As part of their presentation, the bookrunners were asked to focus on their strengths in this area. In addition, they were asked to offer their thoughts on pre-hedging an issue. Given the very short time window between finalising the bookrunners and the ultimate issue, it was decided not to pre-hedge the transaction. In addition, it was decided to leave the issue as fixed-rate euros, so the banks' expertise was not required, rather unfortunately for them!

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