Billion dollar man

JOHN JACKSON TELLS **PETER WILLIAMS** HOW FTSE 100 BUSINESS WEIR RECENTLY RAISED $1BN IN THE US PRIVATE PLACEMENT MARKET.

Raising a billion dollars in the US private placement (USPP) market is no bad way to start the year. As to why his company has taken on such a large amount of long-term debt, John Jackson, group treasurer of engineering solutions business Weir Group, says: "We needed to refinance a bank facility arranged as part of the acquisition of Seaboard, plus an opportunity existed for diversification away from the bank markets at very low long-term rates."

For Weir there is an average coupon of 4.16% for the USPP over its tranches of seven ($210m), 10 ($590m) and 11 years ($200m). "Historically, private placement debt at that sort of average coupon is very attractive," says Jackson.

The USPP money repays a $380m bridge facility, funds a $176m acquisition and pays down an existing revolver. "We have a small amount of cash on deposit and an undrawn revolving credit facility." And that is that for capital raising at present, he says. "Next year we will look to refinance our $800m 2014 revolving credit facility." With what he has, though, he should be well positioned if his CFO rings to let him know of another acquisition.

Such a phone call would not be a complete surprise since Weir Group has been in acquisition mode. When The Treasurer spoke to Jackson, the company was actively pursuing Australian mining equipment supplier Ludowici.

Whatever that outcome, two deals have been done and dusted in the last four months: the company's acquisition of Seaboard Holdings for $675m (£431m) at the end of November 2011 and its cash purchase of Novatech at the end of January 2012 for that $176m (£113m). Seaboard is a wellhead and pressure control solutions provider focused on the North American oil and gas drilling and production markets; Novatech is a US manufacturer of well service pump valves and valve seats for upstream oil and gas applications.

Weir Group can trace its history back over 140 years: two brothers, George and James Weir, founded the firm to produce pumping equipment, primarily for the Clyde shipyards and the steamships built there. Shipbuilding in Glasgow declined but the company remained in engineering, transforming itself out of all recognition. Over the years it has manufactured a range of products from autogyros (the precursor to the helicopter) to field guns and prefabricated housing. Now it is a global company, still headquartered in Scotland, but with a smaller proportion of its business derived from the UK.

Today the group employs over 14,000 people and provides engineering solutions to the minerals, oil and gas, and power and industrial sectors. It has a presence in more than 70 countries.

Weir has a flexible business model, focused on increasing the installed base of original machines, such as slurry handling equipment and pumps, to provide recurring aftermarket opportunities and exposure to both customers' capital and operating expenditure cycles. Jackson joined the company in 2008 in the midst of the downturn and at a time when the mining companies in particular were cutting back on their capital expenditure.

"What we saw through that downturn was the robustness of the Weir model," Jackson says. "In the mining sector the capex – the original equipment orders – was falling off but the mines were continuing to operate at similar levels of output, so the revenue stream from service and spare parts continued."

Following that the company saw a recovery in mining sector capex and a growth in the oil shale business in North America in particular. In essence the business model means the company is inherently cash-generative, although it has invested substantially, particularly in the upstream oil and gas business.

Looking back on the recent deals Jackson says: "When we were looking to make the acquisition of Seaboard and Novatech, we arranged acquisition finance of $680m in two parts: a term loan and a bridge facility."

The company first went into the USPP market in 2010, securing funding of $250m on a self-arranged basis. Until then the group had been entirely bank-financed.

The 2010 USPP helped Weir understand the USPP investor base much better. In 2012 it was initially looking to raise $380m but eventually ended up walking away with that $1bn. Jackson explains: "The second time around we did the more traditional approach of a US roadshow, information memorandum, working with two banks on an agented transaction, following that with Q&A sessions with investors and culminating with a due diligence day in early February. The transaction then closed and funded on the 16 February."

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Under an agented transaction the banks work on behalf of the issuer dealing with the potential investors. The alternative route – the one Weir took first time around – was to talk to investors direct. "If you do it yourself you will handle all the Q&A, which can be quite extensive. Fortunately we were talking to only four investors at the time. The company itself takes the bid from investors, allocates the notes and fixes the pricing."

In contrast, on an agency basis, the banks manage the 50-plus potential investors that may be involved in a large fundraising and so handle the Q&A and the bidding and allocation process. Weir maintained oversight over the allocation process to ensure the company was comfortable with the number of investors ultimately involved. "We wanted to be happy with the allocation process and also have significant input into the pricing discussions, having done it ourselves previously."

With the recent transaction Weir now joins an elite group of UK companies that have successfully gone to the USPP market for such a significant sum. Weir was the second largest issuer in the market in January with about 20% of the total issuance that month.

USPP investors will typically want to visit the business and meet the senior executives. An advantage for Weir was its ability to hold its due diligence day in one of its major US manufacturing facilities, located in Fort Worth, Texas. In the morning investors heard presentations from Weir's chief executive Keith Cochrane; Jon Stanton, finance director; as well as Steve Noon, divisional managing director for the Weir's oil and gas division. They had a chance to ask their questions and then had a tour of the site.

"You want the investors to understand the business and see in action the concepts that we talk about, such as lean manufacturing," says Jackson. The investors, typically large US insurance companies, have long-term liabilities and they like this asset class because it gives them a stable long-term return.

"It is a lot of work but overall you can say if you come out at the end of the process with no major issues, a solid group of investors and decent pricing, then you have achieved your objectives."

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John Jackson is speaking at the ACT Annual Conference in the session "Future-proof your treasury for an evolving world". For more on Weir Group, look out for the Summer 2012 Cash Management Supplement.

For previous articles on USPPs, see The Treasurer:
- *March 2012, page 22, Improving the Plumbing;*
- *December/January 2012, page 22, Borrowed Time; and*
- *July/August 2011, page 16, Private Property.*