TEAM SPIRIT

Industrial gas producer Linde made the news last year with its circa $4.6bn acquisition of US healthcare group Lincare. Treasury played a key part in the purchase, as Sven Schneider, Stefan Hess and Christoph Schlegel explain

Words: **Sally Percy** / Photos: **Marc Oeder**

Last September, German industrial gas producer Linde issued an eight-year €1bn bond with a mouthwateringly low coupon of 1.75%. And the deal, which was undertaken to help fund its high-profile circa $4.6bn acquisition of US healthcare company Lincare, has put its 30-strong treasury team firmly in the industry spotlight. In February, the team was named European treasury team of the year in the ACT's 2012 Deals of the Year Awards (see page 28 of *The Treasurer*, February 2013).

Such was the demand from investors in Germany, the UK and France that the order book was three times oversubscribed, with 65% of the notes allocated to fund managers, 15% to banks, 10% to pension funds and the remaining 10% to insurance companies and corporates. The coupon was, at the time of the launch, the lowest ever achieved by an A-rated German corporate for bonds of this tenor and the spread of 35 basis points was the same as investors paid in June for Linde bonds that had a tenor of seven years.

"We took advantage of a window of opportunity in the market," reveals Stefan Hess, head of financial markets in Linde's treasury team. "Interest rates were low and there was strong investor demand for solid, core European corporate credits due to the high level of market uncertainty ahead of the European Central Bank meeting and the German Constitutional Court's ruling on the European Stability Mechanism."

Of course, issuing the bond wasn't the only activity undertaken by Linde's treasury team as part of the acquisition. "Treasury is always very much involved in major acquisitions," says Dr Sven Schneider, Linde's group treasurer. "We help to structure the deal, secure bridge financing, lead the rating discussions and hedge the underlying risks. We also plan and execute – to the extent needed – the associated equity and debt transactions, and the general banking syndication."

He adds: "It's down to us to make sure that funds are flowing from Day One and that we are able to efficiently integrate the treasury function of the acquired business as quickly as is reasonably possible."

Fortunately, Linde's treasury team has had plenty of practice with mergers since the group has made three major acquisitions in the past 15 years. In 2000, it bought Swedish gas company AGA, followed by British industrial gas supplier BOC in 2006 and then Lincare in August 2012. "To succeed with these acquisitions, you need a very committed and experienced team, which can handle the relevant issues in a professional, competent and reliable way," says Schneider. He points out that Linde's treasury acted as a support function to the board in the early phase of the Lincare deal, advising on matters such as the debt/equity structure of the acquisition and timing considerations, as well as potential risks and how to mitigate them.

The acquisition inevitably brought the team's relationships with its credit rating agencies and banks into sharper focus. "It is of utmost importance to have a trustful and open relationship with the rating agencies," says Schneider. "We present major acquisitions upfront in a very confidential manner." Conscious that Linde's enviable credit rating (A stable/A3 stable) should not be negatively affected by the deal, the CFO and treasury team carefully assessed how the Lincare transaction would affect the group's financials. As a result, it managed the size of the equity increase accordingly.

Linde has a good relationship with its broad group of national and international banks. "Be a challenging and demanding – but fair – partner," advises Schneider. "Then the banks will be there when you need them for funding – as was demonstrated by the very strong banking support we got from existing, as well as new, financial institutions in our acquisition. Because of the challenging overall environment, we have seen other cases where borrowers have faced difficulties in setting up US dollar facilities."

By working closely with two of its banks, Linde's treasury team was able to secure $4.5bn in bridge and term funding to support the acquisition within a very

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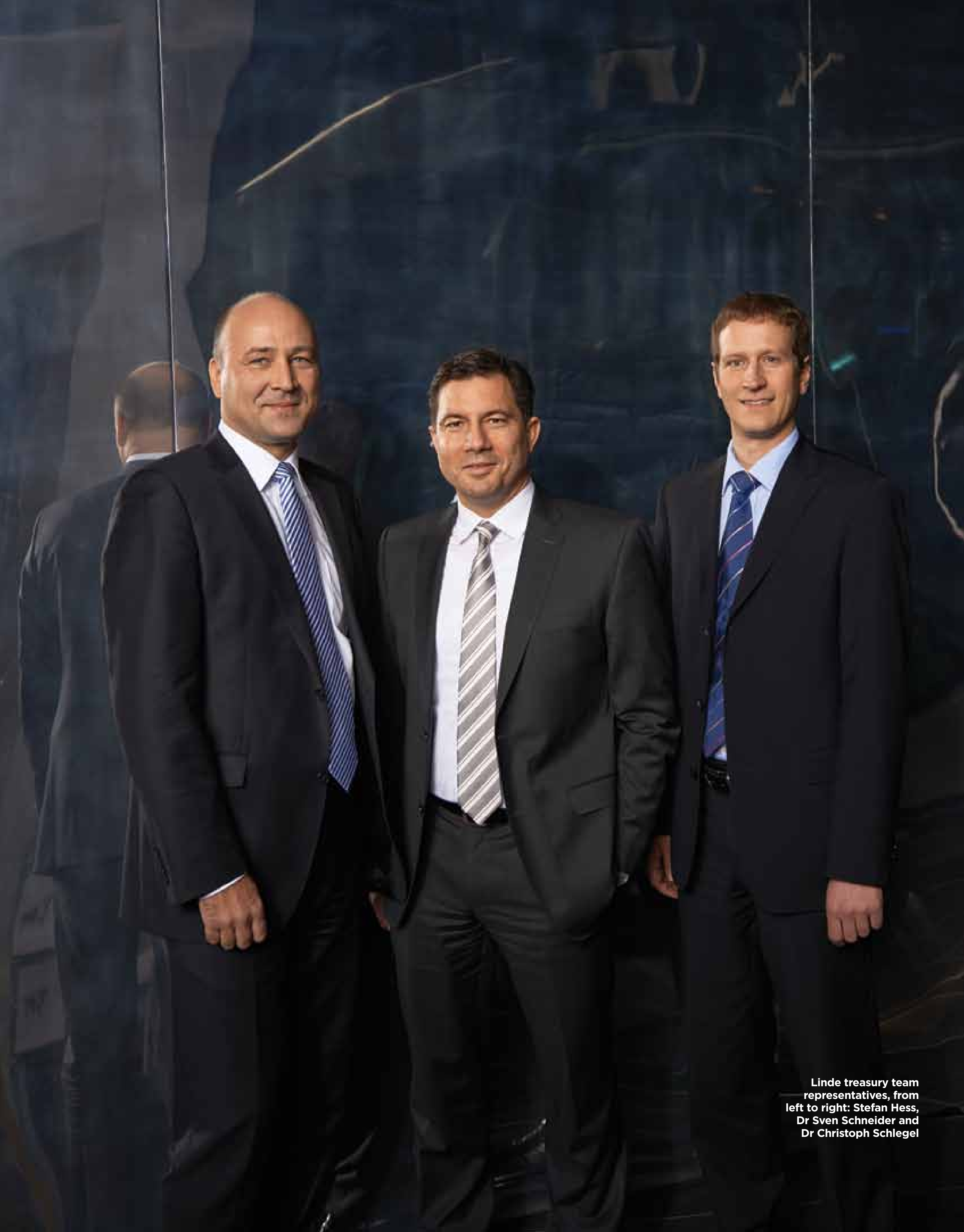

Linde treasury team representatives, from left to right: Stefan Hess, Dr Sven Schneider and Dr Christoph Schlegel

VITAL STATISTICS

1	**€13.8bn**	**30**	**62,000**	**100+**	**$380m**	**$4.6bn (approx)**	**€8.5bn**
Linde's position in the medical gas market	Linde's annual revenues for the 2011 financial year	the size of Linde's treasury team	the number of people employed by Linde (including Lincare)	the number of countries in which Linde operates	the amount that Linde is investing in the construction of two on-site plants for Sadara Chemical Company in Jubail, Saudi Arabia	how much Linde paid for Lincare, a Florida-based provider of oxygen and respiratory therapy services. The acquisition more than doubles its healthcare business	was Linde's total financial net debt at 30 September 2012

short period of time. It then began the process of refinancing with a €1.4bn accelerated equity book-build only one week after the announcement of the transaction. "After the accelerated book-build, the bridge facility was reduced to $2.8bn and syndicated within three weeks to a group of 26 international banks with a high degree of oversubscription," reveals Hess. Indeed, by the end of 2012, Linde had already refinanced $3.4bn of the $4.5bn acquisition loan through a combination of equity issuance, a euro bond and an opportunistic Norwegian krone bond issue that it undertook in September 2012, which raised NOK 2bn, fully swapped into fixed US dollars.

Linde's treasury team works from four locations. The head office, which is in Munich, has global responsibility for financial markets, bank and project financing, cash management, treasury control and pension investments. Then there is a team in Amsterdam that works for Linde's fully fledged finance entity in the Netherlands. It issues most of Linde's capital market debt transactions and takes responsibility for intercompany lending across the group. Team members in Guildford, south of London, look after the UK pension schemes, which are the biggest in the Linde group. Finally, there is a regional treasury hub in Singapore that oversees FX, cash management and financing in Asia-Pacific.

As of 30 September 2012, Linde held more than €1.9bn in cash, cash equivalents and securities. Of these, approximately €600m are kept as strategic cash reserves that are invested conservatively in German Bunds with short tenors. "Cash reserves are usually held as a safety net in case of huge market turmoil, such as that which followed the Lehman's bankruptcy," explains Hess. "The majority of funding that is needed for acquisitions is usually provided through a conservative mix of fully underwritten acquisition financing with relatively long tenors, including extension options at the borrowers' sole discretion and capital market equity and debt funding."

As Linde is active in more than 100 countries, it inevitably has bank balances in regulated countries from which it can be difficult to move money. "Where cross-border cash repatriation is heavily regulated, we carefully evaluate opportunities to optimise liquidity management, at least on an in-country level, for example, via intragroup entrustment loans in China," says Hess. "But regardless of whether cash is considered as trapped or available, a counterparty limit is applied to each bank counterpart."

Linde has two credit facilities in place. One is an undrawn back-up facility of €2.5bn with 25 international banks; the other is the remaining $1.2bn fully drawn facility for the Lincare acquisition with 26 international banks (most of which also provide the back-up facility). Only in areas where the key lending banks are unavailable or uncompetitive does Linde also work with local players.

In line with market best practice, Linde's treasury team prepares for the possibility of a eurozone break-up. "We are convinced that the euro will survive because of the strong political will across Europe to maintain the common currency," says Schneider. "But we have to be prepared. So we have undertaken a number of measures to address market turbulences well ahead of time." These measures include pre-financing by means of a forward-start credit facility, early refinancing of a syndicated loan, pre-funding upcoming loan maturities ahead of time and the designation of strategic cash reserves. The team has also reduced – in some cases to zero – the peripheral holdings in the group's pension plans and bank accounts. It has introduced credit support annexes for all derivative transactions with banks at corporate level and undertakes regular internal monitoring of counterparty, country and customer risk.

Linde faces limited FX transaction risk due to the local character of the gases

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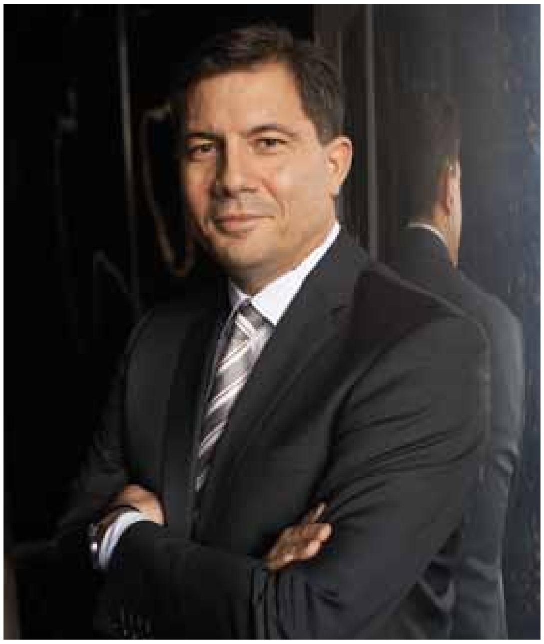

TOP TIPS FOR SUCCESS FROM THE LINDE TREASURY TEAM:

1

"Try to be a challenging – but fair – partner in the financial community. Banks know what we expect and we give them open feedback, both positive and negative. But they can rely on us and they know they will be treated fairly and equally as much as possible. The market appreciates this strategy."

2

"Watch out for the financial crisis. It's not solved yet, so safety takes precedence over yield. When it comes to investments, patience and discipline make up half the return."

3

"The road ahead will not be smooth, so prepare for a climate of general volatility. Always think one risk ahead."

business, where costs are incurred and revenues are mostly earned locally. But its treasury hedges FX for capex financings and dividend payments. Also, Linde takes on translation risk hedging for major assets in foreign currencies, such as the US dollar, sterling and the Australian dollar.

"Power is the most significant commodity risk that we face due to the high energy consumption of the gases business," says Hess. But Linde limits its exposure through contractual pass-through clauses with customers and manages the remaining, substantially reduced, risk actively on a rolling basis.

Since its takeover of BOC, Linde has needed to manage the risks associated with the British entity's £2.5bn defined benefit pension scheme. Its treasury focuses on four particular areas: benefit design, trustee relationship, investment strategy and funding. "Linde's relationship with the trustees is very good at present, which is the result of many years of trust-building and the commitment of management time, including that of the group treasurer and the CFO," says Dr Christoph Schlegel, head of pension investments.

Linde monitors pension risk at group level using quantitative tools, such as value at risk and scenario analysis, and it undertakes qualitative analysis of factors such as interest rates, inflation, equity markets and longevity. "Risk management actions, however, need to be done locally, because decisions on pensions are almost always taken by independent fiduciary bodies," Schlegel explains. Besides the UK, Linde manages sizable defined benefit pension schemes in Germany and the US, as well as smaller plans in the Netherlands, Ireland and Switzerland.

Looking ahead, Schneider expects to see greater regulation of the financial markets and further deleveraging of the banks. "We will probably see greater use made of local and regional capital market issuances instead of bank loans," he predicts. "And we will have to adapt to volatility in all areas, whether that relates to the banks, the development of new financial centres and instruments, or the rise of new financial markets."

The past year has undoubtedly been busy for Linde's treasury team. So what is the secret to running a strong treasury in challenging times? "Having professional and experienced people," says Schneider. "And a well-balanced team structure that includes members from a range of backgrounds such as banks and other corporates. It also helps to have international team members, especially for a truly global company like Linde." He also cites a high level of commitment from team members and a culture that is open to communication and continuous improvement as important factors. It might have three major acquisitions and a fine history of capital-raising under its belt, but you can't help feeling that the best of the Linde treasury team is yet to come.

Sally Percy is editor of *The Treasurer*