

LEVERAGED FINANCE

Leveraged finance covers a broad range of structures and has a wide range of issues and our articles this month certainly illustrate this diversity. Firstly, **Mike Wright, Rod Ball** and **Andrew Burrows** of the Centre for Management Buyout Research at Nottingham University consider the buyout market. The recent relative weakness of the stock market has meant that an initial public offering is not an attractive exit route, leading to an increase in secondary buyouts. It has also led to an increase in the number of public to private transactions, such as the £1bn Debenhams deal, though the number is still short of the peak in 2000.

John Harris of the leading Private Finance Initiative (PFI) investor Innisfree, reviews the development of PFI projects in Britain in the light of Innisfree's experience. PFI projects are highly-leveraged deals where an asset that is normally procured directly by the public sector, a hospital or a group of schools for instance, is constructed and financed by the private sector in return for a stream of payments over 20-30 years. John concludes by outlining recent developments such as the emergence of a secondary market and looks forward to PFI's wider application overseas.

Craig Jamieson of the rating agency Standard & Poor's offers a different perspective on the PFI market and sets out the rating agency's criteria when reviewing PFI projects. Some of the factors S&P consider are generic to any leveraged deal, but some are specific to the PFI sector, such as the often unique nature of the asset, and some are structural, such as limiting the exposure to demand risk by availability based payment structures. Craig also offers his views on how the PFI market may develop in the future.

Finally, **Denise Bedell** takes an overview of the water industry, which has used leveraged structures ever since its emergence from the public sector upon privatisation. As well as looking at recent deals, she also assesses how trends in the financing of the water industry may change in the light of the forthcoming pricing review by the industry regulator.

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