DEALS OF THE YEAR 2012 Awards

Bonds category and overall Deals of the Year Awards winner

SCHAEFFLER

GERMAN ENGINEERING AT ITS BEST

LAST YEAR, SCHAEFFLER LAUNCHED ONE OF THE LARGEST BONDS OF ITS KIND, DESPITE HAVING A NON-INVESTMENT GRADE BALANCE SHEET

Klaus Rosenfeld
Schaeffler CFO
SCHAEFFLER

Schaeffler has been described as "German engineering at its best". It makes specialist bearings and other metal components for the automotive industry and other industrial applications, and Schaeffler products are found in vehicles, aircraft and manufacturing plants all over the world.

But while in engineering terms, this €10.7bn revenue, privately owned group doesn't put a foot wrong, its attempt in the midst of the 2008 financial crisis to take control of rival Continental resulted in shareholders tendering more shares than Schaeffler had wanted to buy. That left it with a 90% stake and more than €10bn of debt, provided by just four banks and due for repayment in mid-2013. It was a significant exposure risk for both sides. Refinancing in the capital markets was necessary, but Schaeffler was an almost completely unknown name to bond investors, especially in the US.

In February last year, the group launched a €1bn four-tranche offering as part of an €8bn refinancing package that increased the number of its banks to eight, and later to 11. Being regarded as a cyclical, European auto industry business would not have been a good thing in the middle of the euro crisis. But the success of Schaeffler's roadshows in Europe and the US shone through. "This is a company that's totally different to what you think it is," says head of investor relations Christoph Beumelburg. "When we started explaining to them, they immediately got it." Having been convinced about Schaeffler's global reach and high-margin, quality engineering, investor demand was so great that the bond offering was doubled to €2bn. Schaeffler wound up offering the largest debut dual-currency, high-yield bond since the financial crisis started.

Deal highlights

Issuer:
Schaeffler
Amount:
€2bn equivalent
Structure:
four-tranche, senior-secured, high-yield bond
Rating:
B1 (Moody's)/ B (Standard & Poor's)
Currency/tenor:
€/5yr; €/7yr; $/5yr; $/7yr
Interest rate:
7.75%; 8.75%; 7.75%; 8.5%

Schaeffler also had the confidence to agree to the bonds ranking *pari passu* with the loans, giving full 'one euro, one vote' enforcement voting rights. Market support for Schaeffler in the wake of this deal allowed it to return to the high-yield market for another €326m in July, while in December Schaeffler's banks agreed to more flexible covenant and repayment terms for €5.6bn of debt.

"We are in a much, much better position," says Beumelburg. "We must have done something right."

50
Schaeffler operates in more than 50 countries across six continents

15.8%
EBIT margin in 2011

1,832
number of patent registrations in 2011

€10.7bn
group revenue in 2011

40
number of R&D centres worldwide

6,500
new jobs created in 2011

What the judges said

"In a strong list of entries, Schaeffler stands out. Two or three years ago, it wouldn't have been able to do this deal. It has done a lot of work to prepare for it."