A sweet bond offering

Deals of the Year 2000

CADBURY SCHWEPPES	3 May
TYPE OF DEAL:	Fixed rate bond
SIZE:	$300m
MATURITY:	2005
JOINT LEAD MANAGERS:	Deutsche Bank, JP Morgan Securities

Food and drinks group Cadbury Schweppes saw its first bond issue for four years sell out. "It was a reminder of the power of the retail bid in the market," says John Winter, Head of Debt Capital Markets Europe and Asia at Deutsche Bank, which was joint lead manager with JP Morgan. The achievement was greater still as similarly-rated Household Finance had issued in the five year maturity a day earlier, but at a spread of 37bp (basis points) wider than Cadbury and despite a more liquid offering.

An inaugural bond

The deal was originally planned as a $200m transaction, but strong investor demand prompted the firm to increase its size to $300m. Although Cadbury had issued a series of bonds in 1995 and 1996, this latest deal was the inaugural issue from its £1.5bn E-MTN (euro medium term note) programme.

"The E-MTN programme had been in place for nearly one year and was coming up for renewal shortly afterwards," says Terry Bird, Group Treasury Manager at Cadbury Schweppes. Although the renewal would not have hindered an issue, a new offering circular may have caused some delays.

A May 3 launch date ensured the funding was in place ahead of both the renewal and the firm's borrowing peak during the summer months. The bond was a refinancing of an earlier US dollar issue that had matured the previous autumn, but with a 'funding lull' in the winter months, Cadbury Schweppes had delayed issuing until the spring.

Tim Owen, Director of Treasury at Cadbury Schweppes, and Bird monitored the markets for about two months before the conditions became suitable to issue. "There was no key single reason [why the markets were difficult]. A combination of factors led to nervousness in the market," adds Bird.

Finding demand in a quiet market

Many banks had deemed the eurodollar market dead, having yielded to the depth and demand of the euro-denominated eurobond market, says Winter. But Cadbury's deal proved there are borrowers that can tap into the more difficult markets. "The eurodollar market is still a viable source of funding for the right name. It will remain a market that household names can tap into and to create price tension between the US and European markets," he says.

Owen and Bird attribute the deal's success to the retail appeal of the Cadbury Schweppes brand. "We got exactly what we wanted in difficult market conditions," says Owen. The secondary market performance of the transaction has been good. "Most of the paper has been locked away, but when it has traded the pricing has been tight," adds Bird.

The bond was primarily placed with retail accounts and offshore funds in the UK, Switzerland and Benelux regions.

Choosing the right bookrunner

Cadbury Schweppes chose its two key relationship banks as bookrunners for the deal. Deutsche Bank had arranged the firm's E-MTN programme and "had done a good job" as a lead manager on Cadbury's previous entry into the debt capital markets in 1995. Although it had not used JP Morgan to issue bonds in the past, Owen was confident of its abilities. "A Continental European and a North American house seemed a good combination," says Owen. "Of our key relationship banks, they were natural contenders for a retail-targeted deal." Owen was also keen to give the banks ancillary business in recognition of their commitment of credit facilities. "We recognise that providing committed standby finance is not a hugely profitable activity for the bank. We see it as a two-way partnership".

But Cadbury Schweppes has an edge over the banks competing for the business by not awarding a mandate in advance of agreeing pricing. "If you set a price target, you can get three potential lead managers working hard to meet your target," says Owen, although he said this process may not be feasible for a larger transaction.

Tim Owen, Director of Treasury at Cadbury Schweppes, gave the following pointers for a retail-targeted bond issue.

- Have a clear idea what you want to get and what is acceptable or not in terms of pricing.
- Be prepared to be flexible.
- Be prepared to wait for the market to come back to your target level.

FIGURE 1