Ringing in a new standard

Deals of the Year 2000	
DEUTSCHE TELEKOM	28 June
TYPE OF DEAL:	Multi-currency bond
SIZE:	$14.6bn
MATURITY:	2005 to 2030
BOOKRUNNERS:	Deutsche Bank, Goldman Sachs, Morgan Stanley, Dean Witter

Few issuers can boast seven superlatives when referring to their latest bond issue. Deutsche Telekom can. It was the largest global bond, the largest corporate bond, first simultaneous four-currency offering, largest non-government bond, biggest European corporate yen bond, largest US dollar corporate bond and biggest fixed rate sterling corporate bond.

> "The deal is looking increasingly smart as time goes on and spreads widen"

The $14.6bn four-currency bond was launched simultaneously across all time zones on 28 June. The issue included three tranches of US dollars in five, 10 and 30-year maturities; two tranches each of euro-denominated paper in the five and 10 years; sterling in a five and 30 year maturity; and Japanese yen was raised in a single tranche in the five-year period.

"Deutsche Telekom had a strong view on market spreads and were negative on corporate spreads, so it accelerated its funding programme into one deal," says John Winter, Head of European Debt Capital Markets at Deutsche Bank. "The deal is looking increasingly smart as time goes on and spreads widen," says Winter, who pointed out that the bond had initially confounded some market participants.

A front-loaded issuance strategy

Deutsche Telekom took the initiative to scoop investor demand ahead of its competitors. At the time, the company was not able to draw on its commercial paper (CP) programme or syndicated loan facility, which have since been established.

The capital markets presented the most viable option and Deutsche Telekom moved early to raise the totality of its debt requirements, rather than spreading the issue over a period of time.

"The deal allowed us to do only one documentation in the global format. We wanted to raise a bigger amount, so we didn't have to go back to the market twice," explained Yorck von Reuter, Head of Capital Markets at Deutsche Telekom.

Even at a hefty $14.6bn equivalent size, the bond was oversubscribed with an orderbook of $23bn. The deal had almost tripled from the initial planned issuance of $5bn. Even so, the lead managers, Deutsche Bank, Goldman Sachs and Morgan Stanley Dean Witter, were able to price all tranches at the lower end of the indicated spread ranges.

The multi-currency bond traded inside the spreads for the rest of the launch week and pre-empted the general worsening in market conditions, which caused spreads to widen shortly after.

A high borrowing requirement from the telecoms sector

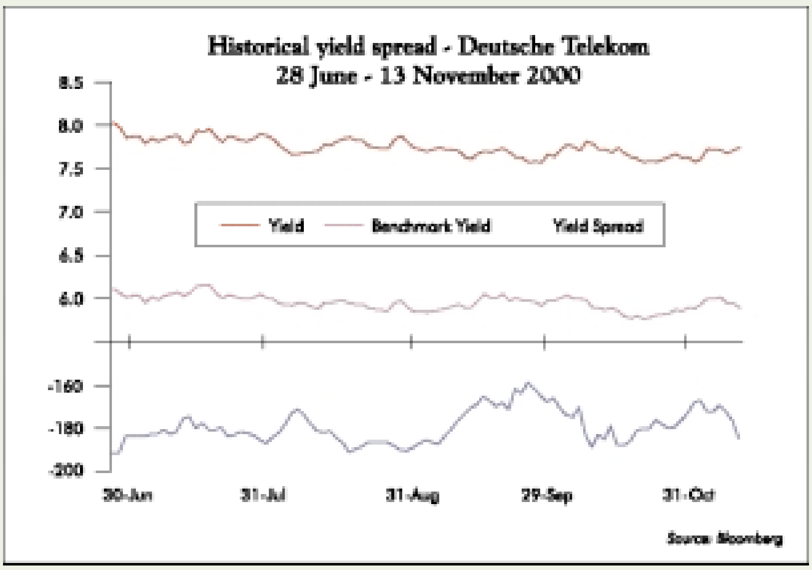
Deutsche Telekom had timed the deal exceptionally well. A host of other telecoms companies were waiting in the sidelines to raise funds for the costly third generation (3G) UMTS mobile auction across Europe.

Von Reuter conceded that many of the companies following in Deutsche Telekom's footsteps would have had a more difficult time issuing in the debt capital markets.

"Banks cannot take too much risk in the telecoms sector and many would have had a problem," says von Reuter, who believes these problems may persist into the new year, because telecoms firms will still have a considerable funding requirement.

Deutsche Telekom achieved its aim of lengthening its overall maturity profile.

FIGURE 1



Most of the company's outstanding capital market debt was raised ahead of its privatisation and was due to mature in the short term. Market conditions were solid at the time, allowing Deutsche Telekom to maintain most of its pricing targets, although a 25bp widening in the long end of the sterling curve forced the company to adjust its pricing in this maturity.

Listening to investor requirements

Winter attributed much of the success of the deal to the price discovery process and responding to market demand. The process had been exploratory and the final size of the deal was not obvious at the outset.

Since the trade, this price discovery and consultative process has increasingly become the norm in the debt capital markets, says Winter.

Deutsche Telekom also chose to follow the Pot system in syndicating the paper. The system is based on the US system of syndication and encourages transparency in the syndication process. It is beneficial to issuers in that the lead managers have full control of the allocations and the investor base. The investor base is transparent and the portions fixed. The secrecy, which has surrounded bond issuance in Europe, is finally beginning to lift to the benefit of the borrowers.

Although the SEC filing proved a lengthy process, once this was effective the deal was roadshowed, documented and launched in less than a month. The SEC shelf was at $15bn and Deutsche Telekom issued a $14.6bn equivalent, absorbing almost the entire shelf.

Deutsche Telekom was receptive to the idea of giving investors added assurance, in the light of the uncertainties surrounding the telecoms sector at the time of issuance.

A ratings-related coupon ensured that the coupons of the individual tranches would increase by 50bp if both US ratings agencies, Moody's Investors Services and Standard and Poor's, were to reduce their ratings to below A3/A. This additional margin would be cancelled if the ratings reverted to or above this level. ■

Yorck von Reuter gave the following suggestions for a successful jumbo issue:

- Maintain a good relationship with underwriting banks
- Give investors the opportunity to invest across various terms
- Issue an amount that is good for liquidity so that investors can trade the paper
- If you are looking to issue smaller amounts in the future, it is important to have established benchmark bonds. ■

Channelling energy into growth

Deals of the Year 2000

ENERGIS	7 February
TYPE OF DEAL:	High-yield bond
SIZE:	£300m
MATURITY:	2010
JOINT LEAD MANAGERS:	Dresdner Kleinwort Benson, Goldman Sachs

Telecoms group **ENERGIS** left many analysts dumbfounded when it successfully launched the largest ever high yield sterling corporate bond in February this year. The group defied the financial press, which claimed the market was restricted to a £150m offering, by doubling this size and increasing the 10-year offering from the intended £200m to £300m.

"It was simple in terms of the amount of effort, the demand [the orderbook topped £500m] and how well we could price the deal," says Mike Wilkinson, Group Treasurer of Energis. "With hindsight, you can say it was a great deal, but at the time there was always something that could change the market. It's a test of faith."

On the acquisition path

The timing of the deal proved a stroke of luck for Energis, when ratings agency Standard & Poor's increased the company's credit rating on the same day as the deal was launched. This allowed for a synchronised announcement of the deal and the new rating. The company believes strongly in maintaining a close relationship with the ratings agencies and consulted them as to the possible effects of the deal. It had held close talks with the agencies before announcing the acquisition of Dutch telecoms company **ENERTEL**.

The EnerTel deal, announced in November, cost about £335m and was financed by a £400m bridge facility from Energis' bankers, Dresdner Kleinwort Benson. The deal was due to settle in the middle of the January, at the height of the anticipated millennium bug jitters.

Wilkinson recalls the hectic few days when the deal was announced on the same day as a £303m share placement, allowing Energis to cancel most of the bridge. But a funding gap of £30m for the EnerTel acquisition remained.

He explains: "We were inundated with offers for funding, but many banks do not realise how time-consuming it is to update the prospectus." But in the liquidity lull over the new year holiday period, the prospectus was updated and the company was ready to tap the markets. However, so was a host of other issuers, who had waited for the right side of 2000 to launch.

Getting the basics right

Energis used the time to confer with its two leads, Dresdner Kleinwort Benson and Goldman Sachs. Dresdner was chosen for its role as the arranger of the bridge facility, while Goldman was chosen for its excellent performance on Energis' previous high yield bond issued in June 1999. Coming to the market as a repeat issuer made an enormous difference to Energis.

"The first issue takes time," says Wilkinson, pointing to lengthy discussions with ratings agencies, a long due diligence process and two weeks of intensive roadshows. In comparison, the roadshow for the second transaction took just three days. The planning of these three days was crucial. Energis attended a high yield conference in Paris, organised by Goldman, where Wilkinson had access to more than 100 high yield investors.

Wilkinson believes this conference contributed partly to the impressive placement of the paper in Continental Europe. Twenty-two percent of the high yield notes were placed into this sector, roughly double the placement into the sector of the previous issue. Energis had successfully widened its investor base in Continental Europe, as well as in the US, which also saw increased demand.

The impact of market conditions

Energis was able to take advantage of the strength in demand for high yield telecoms paper in the first quarter of the year. Its share price had soared from about £25 at the start of the year to more than £33 at the time of pricing the issue. The economy also held a key to the success of the issue. Energis had to wait for the Federal Open Market Committee meeting in the US, which was debating whether or not to raise interest rates. A hike could have destabilised the market for Energis and affected the pricing. But rates were left unchanged, giving Energis the green light to launch its transaction.

The timing, execution and allocation of the offering worked together to create a highly successful issue. The markets, however, soon turned negative on both the high yield sector and TMT (technology, media and telecoms) shares. The summer months were plagued by negative market sentiment, making access to the markets difficult for companies in the sector. But as investors returned from their summer breaks in the last few weeks of August, sentiment swung back in favour of TMTs, with Nasdaq recouping some of its losses.

Opportunistic view of the market

Energis had become aware of a contingent need to fund its application for DSL lines at 1,100 out of the 5,000-odd local exchanges, and the opportunity to fully fund this commitment was too good to resist.

> The equity issue has helped to reduce Energis' debt-to-equity ratio and created ample room for it to tap the debt capital markets again, when the opportunity arises

"Energis is not bureaucratic. We can be quite nimble and wanted to issue as quickly as we could," says Wilkinson. A number of larger players were already eyeing the market, but Energis was able to launch a more than two times over-subscribed offering of £400m new shares.

At its previous annual general meeting, the company had evoked the pre-emptive rule regarding share issuance, which allows for share issuance up to 5% of outstanding shares without going the lengthy route of approaching all shareholders.

The equity issue has helped to reduce Energis' debt-to-equity ratio and created ample room for the company to tap the debt capital markets again, when the opportunity arises.

Energis, which specialises in broadband telecoms and internet services, started its operations in 1993, making it a longer serving member of the buoyant telecoms community than many of its rivals, to which Wilkinson attributes the company's success in raising finance in the capital markets. He says: "There have been many new entrants to the market since 1993, but Energis has proven to have a working strategy. It has gained credibility in its management by the decisions it has made."

Through the course of the year, Energis has increased its financial strength and flexibility and is well-positioned to exploit further growth opportunities in Continental Europe through a balanced funding programme. ■

Tips for a successful high-yield issue

- Choose your lead managers carefully.
- Be clear about what the funds are needed for.
- Be as flexible as possible to take advantage of opportunities.
- Coming to the market as a repeat issuer is much simpler than the first time.
- Time your deal to coincide with a high yield conference.

FIGURE 1