


Laying a firm foundation

Deals of the Year 2000	
HEIDELBERGER ZEMENT	7 February
TYPE OF DEAL:	Fixed rate bond
SIZE:	€1bn
MATURITY:	2007
JOINT LEAD MANAGERS:	Deutsche Bank, Dresdner Kleinwort Benson, ING Barings BBL
 HEIDELBERGER ZEMENT	

For a triple-B rated European corporate to launch a longer-dated bond was almost unheard of a couple of years ago. Yet Heidelberg Zement's €1bn seven-year offering launched in February was a resounding success and highlighted how the European credit markets had deepened to offer opportunities to a far wider audience of borrowers.

after the Christmas break," remembers Christian Kamman, Group Treasurer of Heidelberg Zement. "Retrospectively, this decision paid off, as the back-log of issuers increased due to the telecoms activity, which did not help spreads."

The strength of the offering and the depth of investor demand became apparent when the deal succeeded, despite being launched on the same day as the seven-year bond of another triple-B rated German company, FlowTex Technologie, was withdrawn from the market. FlowTex, a drilling equipment company, faced allegations of fraud and two of its top executives were under arrest. YOet, Heidelberg Zement was able to brush off any market jitters to launch an oversubscribed issue.

The importance of marketing

Part of the success of the transaction stemmed from an intensive roadshow, where four of the company's top directors covered London, Helsinki, Milan, Madrid, Frankfurt, Paris, Amsterdam

years to cover Scandinavia, the Baltic States, the UK and Africa. It also recently entered the North American market.

Scancem, acquired at a cost of €2.4bn, was initially financed by a capital increase against cash contributions of €373m and a syndicated loan of €2.2bn. However, Heidelberg Zement wanted in part to re-finance the transaction through the debt capital markets.

A simple formula to issue bonds

Heidelberg Zement chose to issue a bond off its E-MTN (euro medium term note) programme, because this was simple both from a transaction and a documentation point of view. The offering was Heidelberg Zement's first issue as a rated borrower, and the final piece of the puzzle slotted into place when the company received its credit ratings from Moody's Investors Services and Standard and Poor's in January. A Baa1 and BBB+ rating from the respective agencies cleared the way for the funding process to begin. Kamman

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"The deal opened treasurers' minds to what was possible," says John Winter, Head of Debt Capital Markets, Europe and Asia at Deutsche Bank, one of the three joint lead managers. "It made people think 'maybe my company could do this deal'."

The deal was also noteworthy for raising such a considerable amount. "At the time, it was the largest ever corporate BBB-rated euro issue," comments Hope Pascucci, Head of European Credit Syndicate at Deutsche Bank. Despite the size of the offering, Heidelberg Zement was able to issue the bond at the tighter end of the indicated spread range at 96bp (basis points) over the January 2007 Bund.

Beating the new year issuing rush

The building materials company was fortunate in the timing of its issue. "We were generally keen to start as early as possible with the long queue of issuers

and Brussels in the space of just 14 days. The roadshow proved instrumental to the transaction.

"In the post-mortem of who we saw and who ordered, we found there was a close correlation," says Kamman. The roadshow was particularly important because the name was new to many investors and the intended issue would precede the firm's year-end financials.

"Heidelberg Zement is not exactly a household name outside Germany, as we operate under local brands in other countries," says Kamman.

Financing an acquisitive strategy

The 127-year old group needed to raise the debt to finance the acquisition of Scancem, the Scandinavian building materials group. The financing would also cover the buy out of minority shareholders in CBR, Heidelberg Zement's Belgian subsidiary. The company had expanded rapidly in recent

recalls the process as "quite agreeable".

"The main lesson is to be frank in terms of what you are up to and what you are planning to do, and to address all their questions," says Kamman, who also recommends using an adviser in the credit ratings process. ■

Christian Kamman, Group Treasurer of Heidelberg Zement, gave the following suggestions for a successful corporate bond issue:

"It is important to consult widely and to take in a lot of different opinions from different banks – opinions regarding placement, pricing and preferred maturity." He was surprised at how such opinions varied from bank to bank and stressed that the end decision laid firmly with the company itself. ■