

Fuelling a world-class telecoms network

Deals of the Year 2000	
VODAFONE	23 March
TYPE OF DEAL:	Revolving Credit
SIZE:	€30bn
MATURITY:	2001/2003
ARRANGERS:	11 arrangers (see page 39 for full list)
	

Raising record-breaking finance in the syndicated loan market proved to be child's play for the Vodafone Group. The telecoms giant successfully signed for a €30bn senior credit facility, at the time the largest-ever funding raised in the syndicated loan, in maturities of one and three years with 11 of its core bank relationship acting as arrangers.

The deal allowed the group's business strategy to be implemented. The success of Vodafone's deal can be attributed to the company's good track record in fulfilling its promises, as well as the high profile of the acquisition, which had prompted the funding requirement.

Raising the money for the Mannesmann acquisition

The syndicated financing was raised to support the successful €180bn acquisition of German rival Mannesmann AG, broadening the company's reach further. Earlier talks of co-operation came to an abrupt end when Mannesmann bid for Vodafone's UK competitor, Orange, in November 1999.

Vodafone quickly raised the stakes by bidding for the whole Mannesmann group.

The facility was arranged during December 1999, because Vodafone had to prove its ability to raise the required €30bn funding in its offer document to Mannesmann shareholders. Despite the sheer scale of the proposed loan, the underwriting phase

unearthed a commitment of three times that amount, indicating an unparalleled level of interest and support for a loan transaction. The timely affirmation of the firm's A2 credit rating by Moody's Investors Services gave the underwriting group yet another reason to invest in the deal.

However, the €30bn loan facility was soon scaled down to €17bn, before finally being signed off in March. A \$5.25bn global bond issued on 7 February had reduced the overall borrowing requirement to €25bn, while a more detailed analysis of Mannesmann's outstanding debts and the imminent closing of the joint venture with Bell Atlantic in the US, lowered the funding requirement to €17bn, so saving on arrangement fees.

Vodafone has established its position as a world leader in its field and not only boasts the position as the most heavily-weighted stock on the FTSE 100 index, but is also the world's largest telecoms company in terms of proportionate customers. Its broad business and geographical scope meant Vodafone had good relationships with a large number of international banks, ensuring a maximum take-up among banks during the underwriting phase. A final count of 57 banks participated in the facility.

The importance of a maintaining a good track record

The syndicated loan financing a year earlier for the AirTouch acquisition had been well received and had contributed to investors' positive response when the company returned to the market. Although the previous facility had amounted to less than half of the new funding, the structuring of the finance for Mannesmann followed the same model and involved some of the same key banks that had participated in the AirTouch deal.

On 23 March the deal closed with two 364-day tranches, subject to six and 12-month term out options, and a three-year revolving credit facility.

The process of raising the financing for the syndicated loan facility passed without any problems, but accounting implications meant that raising funds

in the US market proved more problematic. The SEC's requirements to account for an enlarged group meant Vodafone had to issue into the US market through the 144a route (with registration rights), which caused some complications to the bond. However, Vodafone was keen to pre-fund as much as possible and, on the back of US interest in the Mannesmann acquisition, successfully raised \$5.25bn three days after agreement was reached on the Mannesmann acquisition.

The first mover advantage

The deal was finalised ahead of the UK's third generation (3G) mobile phone UMTS auction, which eventually raised a total of £22.5bn.

Vodafone was fully aware that the telecoms sector would soon be facing substantial financing requirements during the year and were keen to raise the funding as early as possible and in advance of German and Italian UMTS auctions.

Consequently, in May Vodafone raised a further \$3.75bn in the US market in short-dated notes. Reaching the market ahead of its competitors was important, as funding conditions for the telecoms sector have since been difficult and are likely to remain so for the short term. ■

Some tips for other companies looking at entering the syndicated loan market:

- It is important to get the rating agencies on board, and to have an honest and regular dialogue with them.
- The 'first mover' has an advantage over the competition.
- Deliver on plans. Both investors and ratings agencies will be paying close attention to how well a company adheres to its business and funding plans. Having a proven strategy raises confidence. ■