A winning defence strategy

Deals of the Year 2000	
BLUE CIRCLE	17 May
TYPE OF DEAL:	Revolving credit and term loan
SIZE:	£1.6bn loan
MATURITY:	Four tranches: 364-day, three years, and two five year tranches
ARRANGERS:	Greenwich NatWest and WestLB

Faced with a £3.4bn hostile takeover bid from Lafarge, Blue Circle responded promptly by rejecting the approach and offered to return £800m to its shareholders. The building materials group raised the stakes further against its French competitor by promising £116m in annual cost savings by 2003.

To finance the defence strategy, Blue Circle embarked on the negotiation of a £1.6bn loan facility at painfully short notice.

The race against time

"From first approaching the arranging banks [Greenwich NatWest/RBS and WestLB] to signing took one week," says Alan Hopkins, Group Treasurer at Blue Circle. "Time was a key factor, but dealing with two relationship banks, which knew the company well, helped." Blue Circle also sought guidance from Lazards, which acted as the company's adviser throughout the event.

Although Hopkins did not see the prevailing market as adverse, conditions were far from ideal for issuing debt. The climate had deteriorated significantly since the company's previous entry into the syndicated loan market some 18 months earlier. The purpose for the proceeds of the financing presented a second challenge as lending banks tend to be reluctant to finance the return of capital to shareholders.

"The banks wanted a deal that was saleable to the other banks in the underwriting group," says Hopkins, who negotiated the terms and details of the transaction late into the evening and early hours during the week when the deal was structured.

Structuring the loan

The facility was divided into four tranches. The first was a £400m short-dated tranche of one year, with an option to extend to 18 months. This part of the financing was destined to pay for the share buy-back.

Blue Circle had committed to disposing of non-core assets, and the first tranche was deliberately short in term pending cash inflow from these disposals.

The second and third tranches raised £300m and £500m respectively in the three and five-year maturities, which could be drawn down and repaid to meet general corporate and refinancing requirements. The final tranche was a second £400m facility to meet a further share buy-back commitment.

The deal was priced out-of-the-box at 125bp (basis points) above Libor, which had the ability to ratchet according to a debt-to-Ebitda grid. The original margin was paid on a ratio of three times, but if net debt fell, the margin adjusted down in 25bp increments, with a floor of 50bp when the ratio reached 1.5 times.

A successful conclusion

Despite the time constraints, the deal was hugely oversubscribed and Blue Circle was able to successfully fend off Lafarge's unwanted attentions. A merger between the two would have created the world's largest cement aggregates group. But Blue Circle maintained that the offer would have significantly undervalued the group. Clearly, the market and the organisation's shareholders agreed.

Lafarge was particularly interested in a merger on account of Blue Circle's stronghold in the Far East and Chilean markets, where it had made substantial investments over the previous few years.

Nominees for Blue Circle as a deal of the year particularly commended the company for the speed and efficiency with which it was able to stage a defence strategy and then to implement this strategy through to the funding in such a short period of time. Although Hopkins stressed that this was a transaction he hoped not to have to repeat, the agility to defuse such a difficult situation can only stand as an example to firms faced with a similar situation. ■

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Alan Hopkins, Group Treasurer at Blue Circle, highlights a number of tips for corporates needing to raise funding under sharp time constraints:

- It is important to have relationships with banks that know your company well. The two arranging banks did know Blue Circle well and were able to move fast on the credit approvals.
- You need to have a good appreciation of what is possible in negotiating a facility such as this, which is different from negotiating normal bank financing. You need to know the terms you would like, but also what you can actually obtain.
- It is important to have good advisers who have been through the process before. Arranging banks have to protect their own interests and they are as helpful as they can, but it is useful to have a neutral adviser as a sounding board. ■