Winner

Just in time

Fresenius

IN THE LAST MAJOR EQUITY-LINKED TRANSACTION TO MAKE IT AWAY SUCCESSFULLY LAST YEAR, HEALTHCARE COMPANY FRESENIUS SAW A WINDOW OF OPPORTUNITY IN THE CAPITAL MARKETS AND TOOK IT WITH APLOMB.

FRESENIUS

PRINCIPAL TERMS

- **$554m three-year mandatorily exchangeable bond. The bond carries a coupon of 5⅝%.**

Bookrunners: Credit Suisse, Deutsche Bank, Dresdner Kleinwort and JPMorgan.

In summer 2008 the German-based healthcare company Fresenius accessed the convertible market to raise part of the funding to acquire APP Pharmaceuticals. It was the last major equity-linked transaction in the market in 2008 and the only mandatory security in Europe during the year.

Stephan Sturm, chief financial officer at Fresenius, said: "The exchangeable bond kicked off a sequence of transactions to deal with an overall financing requirement of $4.8bn. We picked this as the first component because I am a strong believer that you need to get your equity in place before you deal with the debt instruments, and this was quasi-equity. We weren't entirely happy about the coupon/premium combination, but in hindsight it was a phenomenally successful transaction. The bond traded well, facilitating a nicely oversubscribed equity issue and a substantially upsized syndicated loan.

"It may be some time before there is another convertible transaction of similar size. The activity in this asset class was largely driven by hedge funds and there are only a few remaining with meaningful appetite for this kind of product. I am glad we did it when we did. My golden rule of capital markets is: if you have a window, use it. And we used it just in time."

On redemption, the bonds will be mandatorily exchangeable into ordinary shares of Fresenius Medical Care. The bonds have a maturity of three years. On maturity a maximum of 16.8 million and a minimum of 14.24 million shares will be deliverable, representing 5.66% and 4.8% respectively of Fresenius Medical Care total subscribed capital.

The transaction was accompanied by a simultaneous placement of Fresenius Medical Care shares to minimise the negative share price effect resulting from the investors hedging their long bond position by short-selling Fresenius Medical Care.

Highly commended

International Power

Power generation company International Power issued a €700m convertible bond in June 2008 with a maturity in 2015. The company was the first issuer and one of two rated high-yield issuers to access the equity-linked market in 2008 achieving a successful pricing with books covered multiple times and an upsized offering in challenging market conditions.

Peter Barlow, director of finance at International Power, said: "International Power's €700m convertible bond was launched during a sweet spot in the market when volatility was reasonably high, before sub-investment grade credit spreads started to blow out and before the slide in equity prices. It was enthusiastically received by the market and was increased in size during launch.

"This continued International Power's tapping of this market in previous years where investors have been keen to support International Power and have generally been well rewarded before this year's unfortunate events. International Power continues to see this market as an attractive funding source and will continue to use it when conditions allow. This market (in normal times) allows for low interest rate funding – which is to the advantage of the borrower – to be allied with an opportunity for the investor to share in the growth of the share price of the company."

The transaction re-opened the European convertible market, albeit for a brief period. It successfully took advantage of a window of opportunity to raise financing ahead of the de facto shutting down of the European high-yield and convertible markets.

Joint bookrunners were Deutsche Bank and Morgan Stanley.