Overall winner

Sparking up the small investor

National Grid

AS IN THE PREVIOUS YEAR'S DEALS OF THE YEAR AWARDS, AN ENERGY COMPANY LED THE WAY IN BREAKING NEW GROUND WITH CONSUMMATE SUCCESS. NATIONAL GRID'S FIRST RETAIL BOND ASTUTELY PLAYED TO INVESTORS' CONCERNS OVER PERSISTENTLY HIGH INFLATION AND OPENED UP A NEW INVESTOR BASE THAT OTHERS ARE LIKELY TO FOLLOW.

nationalgrid

PRINCIPAL TERMS

National Grid raised £260m in September 2011 by launching a retail bond. The 10-year bond attracted such strong demand that the order book was briefly reopened twice, raising a further £22.5m.

Barclays Capital was the bookrunner and Evolution Securities acted as market maker on the ORB market.

National Grid's first retail bond caught the imagination of the general public in a year when many were looking for any investment that might keep pace with inflation. Initially offered in September, the 10-year sterling-denominated bond, the largest of its kind in four years, was reopened twice more in response to popular demand.

At a time when several once impregnable organisations look decidedly vulnerable, much of the appeal of the group's offering was summed up by one analyst, who said of the energy utility: "It is difficult to envisage such a company going bust."

A common misconception in the popular press is that the bond is paying each year 1.25% PLUS inflation as defined by the retail prices index (RPI). This is not the case: as the company makes clear, it is paying interest semi-annually at 1.25% (annual gross rate) adjusted to take account of changes in RPI from the base point of February 2011. If inflation increases from that point, investors will be compensated with slightly more than a simple 1.25% reward, and if inflation falls the opposite will happen.

National Grid shrewdly structured its offering to give it mass appeal. It was promoted as an RPI-linked corporate bond. Investors could buy into it via six retail brokers in denominations of just £100, in sharp contrast to previous inflation-linked corporate bonds, which have routinely been limited to institutions and fund managers in chunks no smaller than £50,000.

The group also timed its offering very carefully. Savers had flocked over the summer to National Savings' index-linked certificates, which were offering RPI plus 0.5 percentage points with no risk to capital. However, these were withdrawn in early September as were other inflation-linked savings products, leaving few remaining options.

As a result, National Grid's offering attracted more than 10,000 private investors in little more than a couple of weeks and raised £260m which, as the group's global tax and treasury director Malcolm Cooper admitted, was significantly more than anticipated.

The amount was a record for a bond issued on the London Stock Exchange's orderbook for retail bonds (ORB) since its introduction early in 2010 and the proceeds were earmarked for the power utility's hefty £3bn annual maintenance bill.

As Adrian Bell of Evolution Securities, joint lead manager for the bond along with Barclays Capital, noted: "This issue clearly demonstrates that, in contrast to the UK wholesale markets, retail investors remain enthusiastic buyers of corporate bonds on attractive terms, despite the unsettled state of the broader financial markets."

It was this success in tapping a whole new investor base that particularly impressed the DoTY judging panel, who variously described the offering as "a game changer" and "the one with the wow factor", and pointed to its size as distinguishing it from the similar but much smaller offerings of recent years.

"What National Grid has done is to open up a potentially huge investor base, which other treasurers may follow going forward," said one of the judges. Another noted: "There is a massive backlog of applications on the back of National Grid's breakthrough – it's exactly what the markets have been crying out for for years."

Andrew Kluth, assistant treasurer at National Grid, said: "We are delighted by the success of the National Grid retail bond, which is the largest and first corporate RPI-linked retail bond. This deal has helped us to establish a new investor base, which will increase the diversity of our funding sources.

"Moreover it was all achieved without having to pay a significant premium to our existing bonds, unlike in the institutional market at the time."

Highly commended

BAE Systems

The group's Yankee bond, completed in early October, impressed for a number of reasons, not least its speed in putting the supporting 144A documentation together in only three weeks. Our judging panel deemed the deal "a genuine piece of opportunistic financing with impressive execution". It also took place at a time when the debt markets had all but ground to a halt due to high levels of volatility in the public markets.

A $1.25bn private placement in the US, the bond replaced debt maturing towards the end of 2011. It was put together in tranches – a five-year note of $350m paying 3.50% interest, a 10-year note of $500m paying 4.75% and a 30-year note of $400m paying 5.80% – and took advantage of Treasury yields at close to historic lows. The new financing lowered the group's weighted average cost of debt by 33bp and maintained its conservative gearing with new debt at record low coupons for its bond portfolio.

BAE Systems' group treasurer David Brent said: "In late August the company decided to take advantage of the low interest rate environment to access the US dollar bond market. From start to finish this was accomplished in circa four weeks, maximising market access windows and minimising rate risk. In large part, this was achieved through the skill, diligence and determination of the in-house team."

Special commendations

GDF Suez, Unilever

Bonds was a hard-fought category and the judging panel also gave special commendations to GDF Suez and Unilever. The former used its leverage as the world's largest utility to sell the first euro-denominated 100-year bond in March. Its €300m-worth of "century bonds" marked a new high in investors' demand for exceptionally long-dated debt and were issued at a very low coupon of 5.95%. As one of the judging panel observed: "It was an opportunistic deal, but 100 years is undeniably impressive."

Equally impressive was "the dim sum offering" – the first renminbi bond from a European multinational, issued in March by Unilever. The notes were issued in Hong Kong for institutional investors and at the time their RMB300m value was equivalent to around $45m or €33m. The judges noted that the 1.15% coupon was "amazingly low" and gave the group a new source of finance. The issue had to secure the approval of the Chinese authorities and was nine times oversubscribed.

Winner

Top tap

Hunting

HUNTING'S TRANSFORMATIONAL ACQUISITIONS DOUBLED THE SIZE OF THE ENERGY SERVICES GROUP, BUT A COMPLEX FINANCING DEAL HAD TO BE COMPLETED PROMPTLY JUST WHEN MARKET CONDITIONS WERE MOST CHALLENGING.

PRINCIPAL TERMS
A combination of £375m debt and £85m equity with a five-year tenor completed at the start of August clinched the acquisition of Titan Specialities.
Mandated leading arranger, bookrunner and underwriter: Barclays, RBS and Lloyds Banking Group, with LBG acting as agent.

In normal times, Hunting's string of acquisitions last year might not have attracted much attention. But these are anything but normal times and the energy services group's ability to successfully complete four transformational acquisitions during a period of great market volatility won the admiration of the judging panel for skill of execution against a turbulent backdrop.

With the oil market continuing to boom, Hunting spent around £570m to acquire a string of businesses in 2011, as part of what chief executive Dennis Proctor called "our strengthening portfolio in specialist manufacturing for complex conventional and unconventional oil and gas wells". The deals also expanded Hunting's presence in the fast-growing shale oil and gas drilling sector.

Financing for the deals included successfully placing over 13.1m new ordinary shares – nearly 10% of Hunting's existing issued ordinary share capital – in early August to raise £85.4m, coupled with a new five-year £375m multicurrency revolver agreed with its lenders.

These arrangements were completed just as Europe's sovereign debt crisis was accelerating and equity markets were heading sharply lower, yet the new term facility had to be quickly finalised to clinch the acquisition of Titan, by far the biggest deal of the four.

As one of the judging panel commented: "I liked the way the group lined up its ducks in order to beat off private equity before financing the deal. That it managed to do so during the difficult conditions that prevailed in August was doubly commendable."

Christopher Berris, Hunting's group treasurer, said: "The acquisition of Titan in September 2011 was the largest and most significant in Hunting's history. Knowing that the revolving credit facility to support this acquisition would be pivotal in its success made this an immensely satisfying process for the whole finance function. The team worked tirelessly to ensure the facility was underwritten, with documentation agreed and signed in just nine working days against a backdrop of increasing economic and market uncertainty."

Highly commended

Global Switch

Good timing and execution marked Global Switch's first visit to a public capital market last April. The datacentre provider completed its investment-grade bond offering for €600m – increased from an initial €500m – to pay off debts. The offering was six times oversubscribed and the company attributed its success to its "attractive business model, high-quality customers, robust cashflow and strong management team".

Global Switch cited its main aims as diversifying funding sources, repaying shareholder loans and facilitating growth plans. A couple of months later the company, owned by brothers David and Simon Reuben, announced a £1bn investment in expanding its Europe and Asia operations to other parts of the world, renewing speculation that Global Switch was about to seek a public listing.

The company put a £225m bank facility in place and obtained an investment-grade credit rating of BBB from Fitch and Moody's before executing its bond in a highly volatile market.

The benchmark bond enabled a private company previously reliant on shareholder support to achieve an investment-grade credit rating in a sector dominated by sub-investment grade peers and to deliver liquidity, flexibility and certainty of funding.

Richard Rowson, chief financial officer at Global Switch, said: "Following our investment-grade credit rating from Moody's and Fitch, Global Switch launched an inaugural €600m bond in April 2011. We were delighted with the strong investor demand, which was substantially oversubscribed, giving a clear endorsement of our business model."

Winner

Buyback bonanza

E.ON

THE COMPANY'S REPURCHASE STRATEGY WAS AMBITIOUS IN ITS SCALE AND IMAGINATIVE IN STRUCTURE, YET ASSEMBLED AND COMPLETED WITH ADMIRABLE SPEED DESPITE PREVAILING TOUGH CONDITIONS.

PRINCIPAL TERMS

E.ON completed the largest debt buyback by a European corporate since the onset of the financial crisis last January by repurchasing €1.8bn in bonds ahead of schedule. The two-stage tender offer was spread across six series of short-dated notes with an aggregate face amount of €7.2bn.
Bank of America Merrill Lynch and RBS acted as joint dealer manager and joint structuring bank.

E.ON made good on its promise to reduce its debt load and derisk its balance sheet in 2011, by repurchasing bonds ahead of schedule with a total nominal value of more than €1.8bn. It represented the largest debt buyback by a European corporate issuer since the financial crisis broke more than three years ago.

In January the group made a two-step tender offer to bondholders for repurchases across a total of six short-dated note series maturing between October 2012 and January 2014 with a €7bn nominal value.

The first step involved E.ON buying back €1.15bn of three bonds. A week later it made a further buyback offer of €650m for three further bonds via an auction. This latter stage involved E.ON bonds with a total nominal value of €777m being tendered, of which the group accepted €656m. This took the total repurchase to €1.81bn.

The judges agreed that the scale of the deal and the difficult regulatory environment it was completed in deserved recognition. Both the group and its banks were seen as having got ahead of investors in the high degree of flexibility that marked the deal, which was further enhanced by a consistently strong flow if information and good transparency. E.ON also "accommodated an investor-friendly approach to retail investors, while optimising the balance between buyback volume and attractive price levels for the issuer".

Despite this, execution was relatively swift. E.ON announced its debt reduction plans in November 2010 and the buyback was carried out over a two-week period the following January.

Henryk Wuppermann, E.ON's vice president of corporate finance, said: "We aimed for a significant reduction in gross debt by targeting six bonds with total outstandings of around €7bn. Given limited visibility for German high-grade issuers, the transaction was split into two sequential steps, so we could actively influence the overall result even in the middle of the deal. This allowed us to achieve significant size as a result of the first any-and-all part, as well as intensified price tension in the second step, a modified Dutch auction."

Highly commended

SABMiller

The brewing group impressed with its foray into Latin America where its local company Bavaria became the first business to complete a corporate debt for debt exchange in the Colombian market. Reducing the level of priority debt and funding working capital were among the deal's intended purposes.

Although the execution itself was completed fairly swiftly, the structuring reflected a good deal of hard work by the treasury team, with between four and six months of extended negotiations against the backdrop of an extremely complex regulatory regime.

The $1.325bn bond and commercial paper programme to refinance Bavaria's existing $1.012bn bonds was launched at the end of March, with bondholders offered new securities in the form of bonds and commercial paper in exchange for their existing bonds. The acceptance rate was high, representing around 92.66% of the aggregate face amount of the existing bonds.

Malcolm Wyman, SABMiller's chief financial officer, said: "Bavaria's bonds represented our single largest amount of priority debt and this transaction results in a significant reduction in the overall level of structural subordination in the group." The judging panel praised the deal as "an excellent piece of housekeeping".

Anthony Buchanan, SABMiller's regional treasurer for the Americas and Europe, said: "This transaction enabled us to materially reduce the level of structural subordination within the group, which will be to the benefit of all senior lenders to SABMiller."