Overall winner

Aligning the stars

Rexam

THE WINNER OF THE CORPORATE STRUCTURED FINANCE AWARD AND OVERALL WINNER OF THE DEALS OF THE YEAR AWARD 2007 IS BEVERAGE CAN AND PACKAGING MANUFACTURER **REXAM**. ITS LANDMARK DEAL IN THE EUROPEAN CORPORATE BOND MARKET MARKED THE VERY FIRST HYBRID FROM A UK CORPORATE.

PRINCIPAL TERMS
Amount: €750m 60-year 6.75% hybrid priced at euro-mid swaps plus 190bps.
Structuring banks and bookrunners: Citi and Barclays Capital.

This was an acquisition and ratings-driven deal, with Rexam entering the market at a good time. It's the deal that any treasurer would want to do. It was classic textbook stuff – except there was no textbook.

Packaging group Rexam made the headlines in June, when it completed a €750m hybrid bond deal that marked the European corporate bond market's first hybrid security to be sold by a British company.

While Rexam is the first UK corporate to embrace the concept, hybrid bonds first appeared more than three years ago and had been enthusiastically promoted in Europe by investment banks and ratings agencies.

The rationale for the transaction was to refinance the $1.825bn strategic acquisition of Owen-Illinois's plastics division. The financing package, which included the issuance of hybrids, an equity placing and senior bank debt, was designed to preserve Rexam's investment-grade ratings post-acquisition. Without the hybrid Rexam would have issued either more senior debt, resulting in a ratings downgrade below investment grade, or further equity, which would have diluted earnings per share.

In nominating the deal, Graham Buckland, Director for Investment Banking at Barclays Capital, wrote: "The transaction was the first issue of hybrid securities by a UK corporate since the ratings agencies published their methodologies for the instruments. The deal was structured to provide Rexam with flexibility while containing several creditor protections. By establishing a template for an issue of hybrid by a UK-domiciled corporate, Rexam has allowed other UK corporates to have more choice in the financing of instruments, whether for M&A situations or more general funding."

The hybrid demonstrated how integral financing structure is to an acquisition. Rexam had to investigate the tax consequences of the proposed transaction, the ratings implications and how it would be perceived in the equity market. Extensive due diligence made sure that the hybrid would protect the interests of Rexam's existing stakeholders, including senior creditors and shareholders.

Speaking at the ACT's hybrid breakfast symposium in September, Jon Drown, Director of Group Treasury at Rexam, said Rexam saw a funding package including a hybrid as appealing to shareholders, debt holders and management: "For shareholders, there was limited dilution from a smaller equity issue, the maintenance of investment-grade rating and a demonstration of access to alternative funding sources. For debt holders, it maintained investment-grade rating and offered an attractive debt instrument. And management was attracted by the cost-effective funding mix."

Speaking at the same meeting, Debbie Keat, Hybrid Specialist at Citi's Global New Products Group, said hybrid capital was a delicate balance between ratings agency requirements, accounting and tax considerations, and marketability. The ratings agencies assign equity credit by assessing how closely hybrid securities resemble equity in terms of permanence, periodic payment flexibility and subordination.

In structuring the hybrid, the key points were flexibility, the tax treatment and attracting investors. Rexam wanted protection from changes in treatment from tax authorities, ratings agencies and accounting standard setters, plus an any-time ability to exit the hybrid. It completed the transaction in under two weeks from announcement.

Looking back, Drown suggested that the stars had to be in alignment for a successful hybrid. This alignment includes an event (such as a share buyback or M&A), a strong desire to maintain current ratings, a senior management open to innovation and benign market conditions. It is also clear that Rexam's hybrid is a star deal.

Highly commended

Voestalpine

The interest aroused by hybrid bonds in Europe in 2007 is underlined by the fact that the highly commended prize in corporate structured finance was another hybrid deal, this time by European steel giant Voestalpine to refinance its acquisition of BoehlerUddeholm.

The transaction – a €1bn subordinated hybrid bond in October 2007 for an indefinite term with a first call date of seven years – was the largest unrated corporate hybrid security in the world and the largest corporate bond issued by an Austrian corporate. It was also the first hybrid got away after the summer credit market deterioration by bookrunners UBS Investment Bank, Dresdner Kleinwort and Erste Bank.

In nominating the deal, Tilo Kraus, Director of UBS Investment Bank, wrote: "The hybrid bond helped Voestalpine to further bolster its capital structure and the successful debut enhances the company's profile in the international capital markets with respect to future capital market financings."

The bond was priced at the lower end of the initial price guidance, highlighting the high quality of the order book and the interest in Voestalpine against the backdrop of investor restrictions for unrated bond transactions.

The security was distributed to a wide range of long-term investors with a geographical emphasis on the UK and Austria. The timing of the hybrid bond proved the right strategy for subsequent market movements where the transaction, which included a three-day roadshow, was executed in the only possible market scenario after the summer break.

In nominating the deal Sven Streiter, Head of High Grade Corporate DCM, Germany, Austria, Switzerland, Dresdner Kleinwort, said: "The hybrid transaction allowed Voestalpine to minimise the credit impact of the BoehlerUddeholm acquisition while not diluting shareholders."

The hybrid provided Voestalpine with tax-deductible, non-dilutive IFRS equity and the successful debut bond should help the company when it wants to return to the international capital markets.

Voestalpine Group Treasurer Brigitte Wimmer said: "We are pleased with this deal, especially in the light of the current situation. Our first aim was to get liquidity for the BoehlerUddeholm acquisition. The second was not to have a dilution in the shareholder structure. Our employees amount to 10.7% of our shareholders and we did not want that figure to fall below 10%. We wanted the funds to qualify as equity under IFRS and because we have earnings it is good that the coupon is tax-deductible.

"We had a good treasury team and we worked well with our banks. And of course we had good timing; if you look at the charts now, it was a good time to do the deal."