Winner

A landmark bond

Tesco

INVESTMENT-GRADE BONDS ARE OFTEN DESCRIBED AS THE BLUE RIBAND EVENT OF THE DEALS OF THE YEAR AND THIS YEAR'S WINNER WAS A CORKER. THIS £500M 50-YEAR BOND WILL DELIGHT BOTH THE TESCO TREASURY TEAM AND BOARD FOR MANY YEARS TO COME.

PRINCIPAL TERMS
Amount: £500m 50-year bond at a coupon of 5.2%.
Bookrunners: Barclays, Deutsche Bank and JPMorgan Cazenove.

Despite the extended duration of this bond – it was the longest ever corporate fixed-rate sterling deal – Tesco achieved one of its lowest ever bond yields with it. The deal followed on from the company's four-tranche transaction in 2006. The retailer views the bond as quasi-equity due to its ultra-long maturity and took advantage of the steep inversion of the sterling yield curve to lock in a low coupon.

In nominating the deal, Francois Bleines, Managing Director and Head of European Corporate Syndicate at Deutsche Bank, wrote: "This longest-bullet, benchmark corporate deal created a credit curve beyond the traditional maturities. Timing was impeccable. This is not a maturity that is always available and is much more time-sensitive than most. The ability of the company to move quickly to take advantage of market conditions was impressive."

Charlotte West of JPMorgan Cazenove added: "The intra-day execution was announced at 7.30am UK time, with the book going 'subject' two hours later; significant demand from investors generated an order book of over £2bn with over 100 orders."

As one national paper asked at the time: "Tesco's landmark bond invites the question: Who else would lenders trust to be in a position to pay up in 2057?"

Tesco Group Treasurer Nick Mourant said that the latest move by Tesco was part of a wider strategy involving other issuances: "In March 2006 we did a £350m bond due in 2023 at 5% and we also have a £300m due in 2042 at 4.875%. We regard the latest activity as more of the same from Tesco."

Mourant added: "It is not complicated to issue a long-dated bond but you do have to be sure that the demand is covered by 20 or so of the biggest institutions. We were confident beforehand that we had demand from them."

Highly commended

Enodis

Food equipment manufacturer Enodis was entirely bank debt-financed and this $250m bond – priced in July and completed in September – provided an extended debt maturity profile and diversified funding sources on competitive terms. Enodis completed the business while the market mostly creaked to a halt.

David Moseley, Director of Debt Capital Markets at Lloyds TSB, who nominated the deal, wrote: "The seven- and 10-year maturity structure was priced below the recently refinanced bank facility. In addition to substantially more covenant flexibility, it provided for wider flexibility in the event of a significant acquisition."

The transaction was launched in the midst of market turbulence. Enodis initially received board approval for a $200m transaction, but given the strong investor response and attractive pricing, the board approved an increase in the transaction.

Listed in London, Enodis is headquartered in Florida, and Group Treasurer Chris Tyson said: "Following the repayment of its 2002 high-yield bond, Enodis was heavily reliant on bank financing. The US private placement helped us to diversify our funding with quality institutional investors. Strong investor demand allowed us to raise long-term funding with both attractive pricing and the flexibility needed for us to pursue our strategic objectives. Despite the global credit crisis, which was deepening daily, the transaction was substantially oversubscribed and upsized to $250m."

The bookrunners were Banc of America Securities and Lloyds TSB, with Wachovia as joint agents.

Winner

Building success

Grainger

IN A SECTOR TRADITIONALLY REGARDED AS RISKY BY THE RATING AGENCIES, REAL ESTATE COMPANY GRAINGER WON THE EQUITY & EQUITY-LINKED AWARD FOR A CONVERTIBLE BONDS ISSUE THAT FINANCED GROWTH AND DIVERSIFIED FUNDING SOURCES ON EXCEPTIONALLY AFFORDABLE TERMS.

grainger plc

PRINCIPAL TERMS
Amount: £112m 3.625% seven-year convertible bonds, issued in May 2007.
Bookrunner: JPMorgan Cazenove.

At the time it issued its convertible bonds, Grainger had a market capitalisation of £600m, principally funded by a £1.5bn club bank facility secured through a floating charge provided by banks.

The unrated company, registered in the Channel Islands, wanted to raise £100m of additional debt to fund growth and diversify its sources of funding. It was also important to raise debt that ranked behind the banks' security to provide credit support for its lending. Another issue was to avoid the burden of a credit rating, partly because the sector in which the company operates has not been looked on favourably by the rating agencies in the past.

The company needed to ensure that it had a low cost of funds to take into account its business model of relatively low income (many of the rents it collects are controlled) but high capital gains (realised when the housing stock is sold).

In nominating the deal, Francis Burkitt, Managing Director of NM Rothschild, who was at bookrunner JPMorgan Cazenove at the time the deal was struck, wrote: "The company managed to raise the amount of debt it needed with an extremely low cost of funds of 1.4% post-tax, ranking behind its bank debt with no covenants. This involved issuing the shares at a 35% premium to the prevailing share price. The 'skid' [fall in share price on the day] was minimal – less than 1.5% – and recovered by the next day."

Corporate structure and risk management of debt financing is important to the company and the convertible bond significantly reduced its risk profile – longer maturity, no covenants and low cost of debt – positioning it well to ride out any downturn.

Andrew Cunningham, Grainger's Finance Director, said: "It was the first convertible in the UK real estate sector for some time and appetite was high. This led to keen pricing [3.625% coupon and conversion premium of 35%] and to very rapid execution."

Highly commended

SGL Carbon

Headquartered in Germany, SGL Carbon saw its convertible bond hailed as a success by investors and the banks in the deal. The manufacturer of carbon-based products completed in May the issuance of a €200m convertible bond to refinance an outstanding €270m high-yield bond due in 2012. The bond was raised at very low cost – 0.75% compared with 8.50% on the high-yield bond.

Tina Gregory, Director and Head of Equity-Linked at Dresdner Kleinwort, summed up the vibe around the deal when she wrote in nominating the deal: "To achieve a coupon as low as 0.75% for a €1.8bn market cap company with a Ba3/B+ rating is simply outstanding."

It was the lowest coupon achieved on a convertible in Europe in four years, and the bond traded at 100.7% in the immediate aftermarket, reflecting the tight and optimal pricing.

Britta Döttger, Head of Group Treasury at SGL, said: "Excellent market conditions enabled us to achieve a 0.75% coupon for a six-year term, which was 365bps below six-year swap rate despite effective structural subordination. The deal generated around €2.4bn of convertible demand within three hours. We saw minimum impact on the day of launch, with the share price down only 0.4% from close on the previous day and we have enjoyed a favourable share price performance since then."

The bookrunners were Dresdner Kleinwort and ABN AMRO Rothschild, with Dresdner Kleinwort and Landesbank Baden-Wurttemberg acting as joint lead managers.