

## capital markets

### SECURITISATION

LEADING UK PUB RETAILER GREENE KING CLOSED AN INNOVATIVE SECURITISATION THAT ALLOWS IT OPERATIONAL FLEXIBILITY WHILE REDUCING ITS FUNDING COSTS. **MALCOLM JACKSON**, THE ROYAL BANK OF SCOTLAND, AND **MURAD KHALED**, BNP PARIBAS, EXPLAIN THE DEAL.

**H**aving decided upon the key structural aspects of the securitisation, inter alia, leverage, tranching and covenant package, Greene King turned to BNP Paribas and RBS, its chosen joint lead-managers, to devise and execute a marketing and placement strategy.

**MARKETING STRATEGY** While it is fair to say that investors have become increasingly comfortable with pub estates as a securitisable asset class, as well as the broad structure of transactions in the sector, both lead managers felt that in the case of Greene King there were a number of key differentiating factors, which warranted an intensive roadshow campaign, designed to achieve maximum physical investor coverage.

First and foremost, as a debut issuer, Greene King had a very strong credit story to tell, underpinned by a strong management track record, high quality freehold assets and lease arrangements as well as broad product 'tie-in' agreements. Secondly, the transaction offered a number of structural enhancements over existing pub

transactions, most notably for being the first to combine substantial revenues of both managed and tenanted properties. And finally, given the range and profile of the potential risks and challenges facing the industry, both lead managers felt that an open approach with investors would enhance momentum. Key issues identified were the potential ban on smoking in public places proposed by the government, changes to the current licensing regime (opening hours), further competition inquiries into tie-ins and general beer consumption trends (such as on-trade versus off-trade).

Based on this advice and with the Rating Agencies finalising pre-sale reports, Greene King committed Tim Bridge, Chief Executive, and Michael Shallow, Finance Director, to a dual-team, five-day



# Brewing up a



# deal

## Executive summary

- Greene King plc is a managed and tenanted pub operator and brewer with a portfolio of approximately 2,100 pubs and brands including Greene King IPA, Old Speckled Hen and Abbots Ale.
- The company completed a £600m securitisation deal which enables it to diversify its funding sources through the securitisation of 904 managed and tenanted pubs. The inclusion of tenanted, leased and managed houses provides investors with a diverse mix of asset collateral.
- This is the only securitisation of both tenanted and managed pubs and introduces new levels of flexibility into a securitisation structure.

## The finance director's perspective

Michael Shallow has been finance director of Greene King for 14 years. In that time he has witnessed significant change in the pub and brewing industry. Part of that change has been driven by Greene King and Shallow himself. The company has made a series of acquisitions. In June 2002 Greene King announced the acquisition of Morrells of Oxford for a cash consideration of £67m including debt of £30.4m. The latest deal was the £654m acquisition of the Laurel Pub Company.

Shallow said: "The £654m acquisition was done entirely for cash. Clearly in parallel with evaluating the acquisition, it was equally important to work out the funding strategy. We evaluated all the alternatives and determined the securitisation was the right step to take.

"We worked with our key banks, Lloyds TSB, RBS and BNP Paribas. Crucial for us was the flexibility within the debt structure that was on offer and the way we could leverage benefit from our underlying cashflows."

Commenting on the deal, Shallow said: "This has been a successful innovative financing exercise, achieved at attractive interest rates for Greene King. Going forward the strength and efficiency of our capital structure gives us the flexibility to continue to invest in the business, to maintain flexibility in our pub estate and enhance shareholder income."

Shallow said he was "delighted with the result". Partly the deal went well, as he acknowledges, because the markets were in the company's favour. Still who wouldn't be pleased with a deal that saves them £6m a year on previous borrowing arrangements?

Shallow, who has been FD since 1991, is calling time gentlemen please on Greene King, leaving to seek new challenges at the end of December allowing him to see through the final results process for 2005. As for the future of the company, Shallow said: "I think we will continue with our previous strategy of running a quality business focusing on organic growth, combined with selective acquisitions. We will add genuine value to our shareholders by taking measured risks."

**Peter Williams**

**Table 1.** Pricing of securitisation deal

Tranche	Size	Format	Exp Mty	Initial	Revised	Final
A1	£150m	FRN	Mar-12	L+40-45	L+38-40	£570m@L+38
A2	£320m	Fixed	Dec-21	G+60-65	G+58-60	£380m@G+59
B	£130m	Fixed	Mar-20	G+105a	G+98-100	£850m@G+98

roadshow, visiting London, Dublin, Edinburgh and Glasgow in mid-February. This was indicative of their commitment to a successful debut transaction and its strategic importance.

Perhaps unsurprisingly, offered the opportunity to meet two of the senior board members of Greene King, investor take-up of one-on-one and group meetings was outstanding. Indeed the demand was such that an extra day of meetings was arranged and promptly filled in London.

By effectively doubling-up with two teams, the lead-managers were able to schedule the equivalent of seven days of meetings in London, one day in Dublin and a half a day each in Edinburgh and Glasgow. Between them the Chief Executive (Team 1) and Finance Director (Team 2) were able to meet with thirty-six investors one-on-one and over thirty investors in group format.

**MARKET RECEPTION** Almost immediately, feedback from investor meetings and group presentations was very encouraging. Investors were impressed with management’s knowledge of and focus upon the core business of managing tenants and pubs (as opposed to pure financial engineering), strategic awareness of overall sector dynamics and a proven track-record of acquisition selection and integration.

Importantly, it was also evident from post-meeting feedback that Tim Bridge and Michael Shallow were proving highly effective at communicating the key benefits of the unique transaction structure as well as the credit-positive characteristics that the estate offered.

While several investors had expressed a preference for tenanted estates at the outset, following one-on-one and group meetings, almost all demonstrated a greater appreciation for the higher degree of flexibility afforded by combining managed and tenanted formats, coupled with the scope to convert between the two.

Perhaps owing to the favourable findings of the House of Commons Trade and Industry Select Committee (Pub companies, 17 December 2004), the much talked about headline industry risks and

challenges were not as much of a focal point for investors as was initially expected. In any case, Greene King management was proactive in conveying the intrinsic (e.g. asset quality/characteristics) and strategic (e.g. broad product ties including wines and spirits) protection that the company will enjoy from such industry risks and challenges in the near future.

Like the credit, the proposed covenant and capital structure of the transaction was well positioned and equally well received by investors. Indeed, the key debt service covenant, Free Cash Flow Debt Service Cover Ratio was set at 1.1 times, in line with transactions by Mitchells & Butlers and Unique Pubs.

**PRICE TALK, BOOKBUILDING AND PRICING** In light of the considerable positive momentum generated by Greene King management during the roadshow, the lead managers were in a position to release price talk the day after its conclusion, on Friday 25 February. Despite the accelerated timetable, over £900m of orders were placed even before any guidance was communicated. Within three hours of price guidance, the A1 and B tranches were four to five times oversubscribed with the A2 ending the day 2.5 times covered.

The tremendous response from investors allowed for a tightening of price talk on the following Monday, February 28 with final pricing the next day, coming within or at the tight end of revised guidance (see *Table 1*).

With pub sector spreads at their tightest levels in 18 months, Greene King managed to price both A1 and A2 tranches better than the Unique Pubs tap in February 2005, with the B tranche pricing through G+100bp, the first time ever for a pub securitisation.

UK-based investors led demand across all tranches, with participation from Europe as little as 3% (B) rising to 20% (A1). As expected, banks took the lion’s share of the A1 FRN tranche, with funds dominating the two fixed-rate pieces.

**THE OUTCOME** Having expended a lot of effort and performed exceedingly well during the marketing phases of the transaction, Greene King has managed not only to firmly establish its credit as a core benchmark in the pub sector, but has done so while introducing an innovative structure into the market – one which affords greater flexibility and more accurately reflects the company’s geographic and operational profile than a traditional approach would have allowed.

**INVESTORS WERE IMPRESSED WITH MANAGEMENT’S KNOWLEDGE OF THE CORE BUSINESS OF MANAGING TENANTS AND PUBS, STRATEGIC AWARENESS OF OVERALL SECTOR DYNAMICS AND A PROVEN TRACK-RECORD OF ACQUISITION.**

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