

Showing its mettle

PETER WILLIAMS TALKS TO ARCELORMITTAL ABOUT HOW ITS TREASURY PULLED OFF A FINANCIAL MAKEOVER THAT HAS LEFT THE STEEL COMPANY IN PRIME CONDITION FOR THE ECONOMIC UPTURN.

led by group treasurer Thierry Royer and general manager for funding and investor relations Maureen Baker, ArcelorMittal's treasury has wrought a revolution in the financing of the business over the last year or so.

At the end of 2008 the world was facing harsh economic prospects and the credit markets were under strain. ArcelorMittal was heavily reliant on bank debt, with 67% of its financing requirement at that time being satisfied by the bank market. But all that bank debt would fall due in 2009 and 2010, which left the company facing a refinancing risk in 2009 and beyond. It was a risk that the ArcelorMittal treasury was determined to address.

Baker says: "We found ourselves in a situation at the end of 2008 where the world was facing difficult economic times and we were very reliant on bank debt. 67% of our debt was bank debt and while we didn't have a lot of bank debt coming due in 2009, we had a significant amount coming due in 2010. In 2008, looking ahead in the longer term we had a refinancing risk in 2010 but nevertheless it was not an easy for BBB cyclicals."

Although Baker and Royer say it was not an easy time for a BBB rated cyclical to re-engineer its mode of funding and reshape its balance sheet, the treasury team embarked on a hectic round of fundraising that has transformed the corporate's finances and placed it in a position to take advantage of a global economic recovery.

A SERIES OF TRANSACTIONS. The first step on the journey was a forward-start finalised at the end of March 2009. The treasury team count it as a huge success, with a tremendous response from the banks for a total of over \$6bn of forward-start facilities, which had an immediate and positive impact on the group's overall refinancing.

Forward-start deals had become a popular way for companies to ensure liquidity early in 2009, with borrowers locking in loans ahead of maturity in return for increased fees and margins.

For ArcelorMittal the forward-start was made up of two facilities executed at almost the same time: the first was used to refinance (at maturity) a \$4bn undrawn line of credit, and the second was used to refinance (at maturity) a \$3.2bn fully drawn facility due in the first half of 2010.

One-third of the \$4bn line of credit would fall due in 2010 and the rest in 2011. Unlike all of the other facilities the \$3.2bn had a fragmented bank group, an old and widely syndicated facility from Mittal before it merged with Arcelor.

Baker says: "We could have just focused on the \$3.2bn but we thought it was important to do the \$4bn first to show the support we had from our relationship banks. We had a lot of questions about why we did both, because we didn't need to, but we thought it was very important to demonstrate to these \$3.2bn banks that our core core relationship banks were there."

ArcelorMittal was one of the first companies in its sector to take advantage of the instrument. Its forward-starts had mandatory repayments, enabling the banks to quickly reduce their exposure, but the facilities also signalled that the banks were willing to take a bet on the group's ability to go to the capital markets and raise the significant sums that it needed, which was a win for the group and its banks.

From the group's perspective the forward-start facilities were a vote of confidence. Royer points out that the treasury team has always shared a philosophy of working as a close team, a characteristic noted by the banks they work with. Equally, they believe in maintaining strong bank relationships, which really paid off when they were needed.



The \$3.2bn forward-start has now been prepaid/cancelled. The company currently has two facilities; one is a club with approximately 10 banks and the other is a €5bn facility which has around 30 banks – those all-important relationship banks.

Baker says: "We asked the banks to reinstate the \$4bn without any mandatory prepayment clauses and they did. Bank relationships are strong."

FORWARD FROM THE FORWARD. In the early part of 2009 with the comfort of the forward-starts in place, ArcelorMittal set about reducing its reliance on bank debt. It targeted raising finance in the capital markets and embarked on a whirlwind of transforming transactions. All in all, the team raised a hefty \$12.5bn of financings.

Its first foray was a €1.25bn convertible bond issued on 1 April 2009. The transaction reopened the euro convertible bond market for non-financial corporates after a hiatus of around a year. Issuing a euro-denominated bond was partly a reflection of the group's strong French investor base.

The 7.25% bonds maturing in 2014 represented the largest euro-denominated bond transaction completed in five years and attracted high-quality investors. The price reflected ArcelorMittal's high credit default swap (CDS) price, at that level mostly because of technical issues, which explains the decision to go for a convertible rather than bond market. The treasury team say the convertible helped push the CDS down by 75bp, a move which was "not enough, but it helped".

But there were also wider implications. Baker says: "It was part of a number of steps to get us into the capital markets, to lengthen our debt maturity profile, to diversify away from bank debt and, importantly, to send some messages to investors. There was huge demand even during this difficult period."

At the time of the issue the Wall Street Journal, after noting the five-times oversubscription, wrote: "In the capital-intensive steelmaking business, the convertible bond reflects a cheap way to secure additional funding without significantly diluting shareholder stakes or paying hefty interest rates at a time when creditors are seeking high premiums to allay default fears."

In May ArcelorMittal issued \$3.2bn of stock in what proved another significant and successful step in strengthening the balance

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sheet. And by then ArcelorMittal had acquired a taste for convertible bonds. On the same day as the monster capital raising came a \$800m 5% convertible that closed on 6 May. The US dollar is the functional currency of the group and the dollar convertible diversified the investor

base, although European investors supported the issue.

It is the old argument for treasurers in the business of capital raising: how much of the work is about strategic planning and how much is about taking advantage of market conditions when they present themselves? The ArcelorMittal team say that the forward-start and the convertibles were part of a planned programme to manage refinancing risk by moving away from bank debt.

The next moves could be seen as more swift reaction to an opportunity. In the middle of May 2009 the group issued \$2.25bn of six-year and 10-year Yankee bonds, consisting of \$750m of 9% notes due 2015 and \$1.5bn of 9.85% notes due 2019. The overriding motivation was to access the right liquidity at the right price – one could add, with the right maturity profile. Yet while spreads are sometimes higher than treasurers may like, no sensible treasury team would put the company at risk by refusing to take the necessary steps in the hope that spreads were about to fall.

During the capital raising exercise the treasury team had the full support of senior management, who joined the funding and investor relationship team on the heavy schedule of roadshows and presentations. Time was spent in major US and European financial centres explaining the strategy. With the CDS price still high, investors wanted to hear directly from senior managers about the business.

The ink had hardly dried on the May Yankee deal when the treasury team were in the market again. By early June the group had completed on a €2.5bn Eurobond issue. The two series consisted of €1.5bn at 8.25% due 2013 and a further €1.0bn at 9.375% due 2016.

The final pieces of the jigsaw fell into place in the autumn of 2009. And it firmly underlined the group's move away from reliance on bank debt. In early October the treasury team completed the pricing of another Yankee bond – this time \$1bn at 7% for a mere 30 years, a first for ArcelorMittal and indeed for the sector. The final flourish completed right at the end of the year when most of us were still recovering from Christmas was a \$750m privately placed mandatory bond with a 17-month maturity.

It was a whirlwind journey and one in which the group can boast of a financial transformation. Perhaps this is best proved by the fact that the key forward-start and its associated \$3.2bn facility – which was the springboard for an extraordinarily hectic round of activity in 2009 – has been repaid/cancelled. The treasury team notes with pride that the revolver facilities are down to zero.

In 2008 the treasury team was set the task of reducing ArcelorMittal's debt by \$10bn. The target was surpassed and a treasury team has showed its mettle.

Box: All around the world

ArcelorMittal is the largest steel manufacturer in the world with a substantial presence in metals and mining. The group, the result of a merger in 2006 between Arcelor and Mittal Steel, is a global company with an operational presence in Europe, Asia, Africa and America.

Baker and Royer describe a multinational treasury team based in Paris with some other regional offices. The local teams report to the centre, which provides a high degree of authorisation. The treasury team is seen as a key function within the company, exercising strong central control.

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Next month Graham Buck explores the ArcelorMittal treasury department's approach to risk.