Keeping the banks onside

THE GROUP TREASURER OF MISYS TALKS TO THE TREASURER MAGAZINE ABOUT HOW THE BUSINESS MAINTAINED STRONG RELATIONSHIPS WITH ITS BANKS DURING A TURBULENT PERIOD.

In 2006, a surprise profit warning from FTSE 250 software supplier Misys triggered a venture capital-backed management buy-out bid by its chairman and co-founder Kevin Lomax. The bid ultimately proved unsuccessful, Lomax stepped down, and new CEO Mike Lawrie brought in new investors including major shareholder Value Act Capital of the US. Lawrie swiftly embarked on a turnaround plan that included a shake-up of non-performing businesses and senior management, and the transformation of Misys from a software seller to a solutions and services provider.

In March 2008, Misys merged its $360m US healthcare business with software supplier Allscripts to form a new entity, Misys-Allscripts. "It was a good strategic fit for the group, which was looking to add innovative clinical solutions to its offerings for physicians," says Misys group treasurer Joanna Hawkes.

The deal gave Misys a 54% stake in the venture, in exchange for a share purchase of $330m to be mostly funded by a $305m facility from investment bank Lehman, scheduled for utilisation the following September. Having worked successfully with Lloyd's Bank over two decades, Misys had transferred to the US bank.

Hawkes admits that the group should have been more mindful of its bank relationships. Two weeks ahead of the scheduled completion date for the merger creating Misys-Allscripts, Lehman collapsed. Misys was faced with having to assemble emergency market refinancing very swiftly in a virtually closed market in order to complete the transaction. A $150m bridge facility was arranged through HSBC, RBS and the Bank of Ireland, but this had to be supplemented by a subordinated loan facility from Value Act Capital. As the latter carried an escalating margin, the aim was to refinance at the earliest possible opportunity. Around this time, Misys replaced its CFO and shortly afterwards the treasurer also resigned.

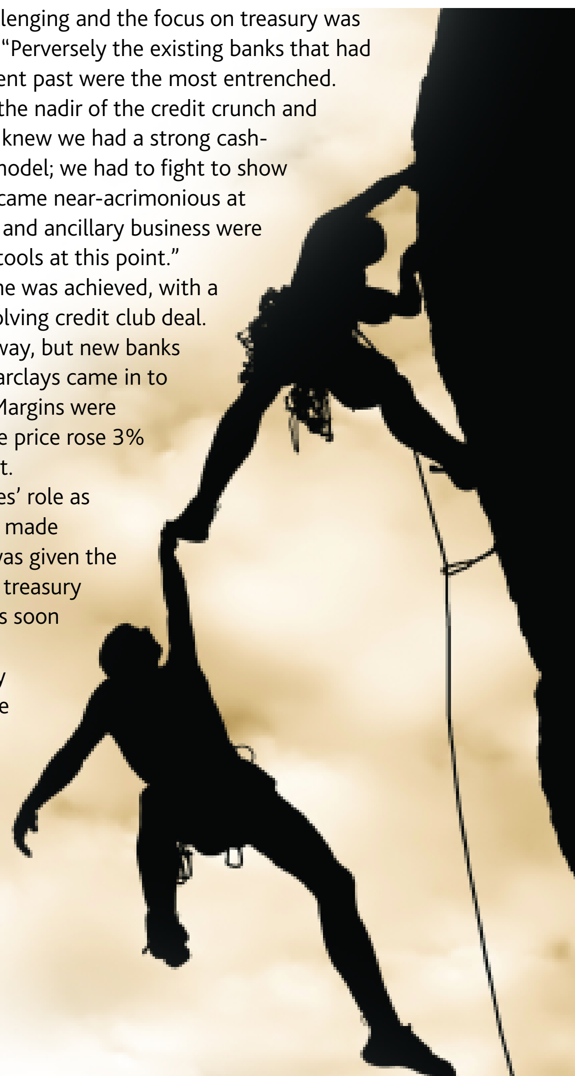
This was the environment Hawkes found herself in when she joined Misys as an interim treasury consultant in March 2009. Her prime task was to refinance within the six-week period ahead of the 31 May year-end so Misys could reduce the escalating costs and demonstrate to the market it had the required liquidity to continue to do business.

"This was very challenging and the focus on treasury was acute," says Hawkes. "Perversely the existing banks that had lived through our recent past were the most entrenched. This was still around the nadir of the credit crunch and capital was tight. We knew we had a strong cash-generative business model; we had to fight to show this. Negotiations became near-acrimonious at times. Future growth and ancillary business were our best negotiating tools at this point."

The 31 May deadline was achieved, with a £210m term and revolving credit club deal. Bank of Ireland fell away, but new banks KfW, Yorkshire and Barclays came in to join HSBC and RBS. Margins were reduced and the share price rose 3% on the announcement.

In July 2009 Hawkes' role as interim treasurer was made permanent and she was given the job of revitalising the treasury function. Her role was soon extended to include providing the treasury support needed to see the business through of a series of large and complex M&A transactions.

The first was the strategic merger of Misys-Allscripts with Eclypsis, coupled with the sale by



Misys of the bulk of its majority ownership. Misys-Allscripts was performing well and market value was rising, but the value was not fully reflected in the Misys share price. The intent was to crystallise this value and return over $1bn in cash to shareholders and to refocus the core business.

This immensely complex process involved the co-ordination of three separate boards and a major corporate restructuring of Misys. It required $720m of new credit facilities at Misys-Allscripts and a further open market sale of Misys-Allscripts stock for around $500m. The deal was announced in June 2010 and was conditional on the Misys-Allscripts share price remaining above $16.50 for the stock placing.

"It was difficult," says Hawkes. "The share price was very volatile. There was an unusually high degree of execution risk."

She adds that the treasurer's role was to ensure that the viability of the deal was never at risk at any time as a result of funding or hedging issues. Consistently good dialogue with banks and regular meetings with Misys working group and advisers were key.

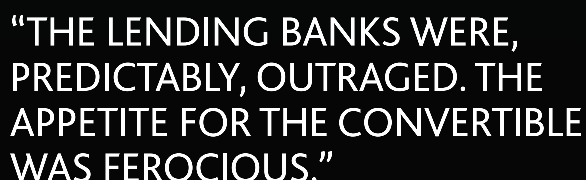
The company's banks needed to get comfortable quickly with lending to a significantly downsized organisation and losing substantial security. They were reassured by the consistent performance and good financial discipline of Misys.

Hawkes says: "With the related M&A work, the funding needs in Allscripts and massive currency exposure, the potential pickings were pretty clear and we weren't planning to pay waiver fees for consent."

Misys hedged the transaction with a $1.3bn purchase of long-dated off-market dollar puts, which generated a net £12m profit. Over $3.9bn of options and foreign exchange (FX) were traded, which for a company with has a typical daily settlement limit of around £20m was considerable. "The £23m option premium alone was seriously impacting my core liquidity forecasts," recalls Hawkes.

The deal successfully concluded in August 2010. The £670m capital return was offered to shareholders by way of a tender offer in December, with £525m bid. A further B share scheme announced in January saw the remaining £145m returned to shareholders pro rata.

In October 2010 Misys bid €435m to acquire Irish company Sophis. "We didn't expect it to happen quite so hard on the heels of the Allscripts disposal, and as the board was strongly committed to delivering on its commitment to return cash that it had promised, new funding had to be swiftly arranged," explains Hawkes.



"This meant mobilising the banks again very quickly. Particularly it meant focusing our finance teams on the need for a robust credit-proof consolidated model. As the banks knew us, we dispensed with the presentational-style roadshow approach and relied on one-to-ones, frequent email and phone calls, and spent the time on the Q&A and explaining the target and the numbers. There was good teamwork at Misys. The banks understood our business well and we were able to show them that Sophis was a profitable business with a good strategic fit. It was the amounts and timing that were challenging.

"It was bizarre to be discussing these large debt needs and at the same time having to manage a £700m investment portfolio that was causing our bank counterparty exposure limits to be hit."

The funding was supplemented with a £100m convertible bond issue because of the low coupon, and light covenants and reduced future dependency on bank capital.

Corporate broker JP Morgan supported Misys on all the equity transactions and the board was keen for it to act on the convert as well to ensure smooth delivery of the multiple deal elements. "The lending banks were, predictably, outraged," says Hawkes. "The appetite for the convertible was ferocious."

It was decided to bring in the lenders (HSBC, RBS and Barclays) as joint bookrunners on the convert and use it to leverage debt capacity, margin and, crucially, ratio to EBITDA on the core debt. Consequently overall fees were pushed down.

"It did get a little hairy on close," admits Hawkes. "Final signatures were being delivered by the banks after 5pm on the bid date."

The committed funding package was delivered in four weeks with a committed £180m revolver and £100m term loan in addition to the £100m convert. Margins and terms were improved further. HSBC acted successfully as new-time agent and increased its lending. Yorkshire Bank increased its exposure and Bank of Ireland rejoined. Other banks, including Lloyds, were positioned with a view to come in in the future.

Hawkes says the banks have generally been "very supportive" over a period of great activity and change. "A lot of that is to do with the fact that we have been open with them and kept them involved in our plans and in understanding our business."

And what have been the lessons learned from this flurry of activity?

"Anticipate," replies Hawkes. "Manage your internal teams. Be clear with the banks on your priorities. Get yourself into a position that gives you a negotiating strategy and use it. Reward ancillary as you have committed and be seen to do so.

"In club deals such as ours I try to negotiate key terms individually with banks individually at the outset. This can cost time but ultimately gets you a better deal. It seems crazy to pitch yourself against a captive pack with a collective interest. If five banks all turn up on your door in one day to pitch aggressively on a convert, they simply cannot quote a 'market practice' fee mentality at you – you have to challenge that.

"I don't know if I see margins getting much higher, but I'm not certain there will be much liquidity about. That thought largely influenced our choice of a convertible as a diversified funding source for Sophis. It was prudent to position ourselves so that the group wasn't as dependent on bank debt."