# Not every little helps

Supermarket giant **Tesco** has bucked the recent trend for change of control clauses in the corporate bond market and refused to concede to European investors' demands for takeover protection arrangements on its latest short-dated issue.

With corporate Britain in the middle of a mergers and acquisitions boom, change of control clauses on bond issues have been demanded by some fixed-interest investors to ensure they are not left short-changed in the event of a takeover.

However, in its recent four-tranche bond issue raising nearly £1.2bn, Tesco refused to include a takeover clause in its €500m, five-year, euro-denominated bonds.

Tesco Group Treasurer Nick Mourant explained: "We have a stated policy of not including protection in bonds with maturities of less than 10 years. Our view is that we think it is reasonable that investors can make up their own mind on the risks of a takeover in that period.

"We had a certain amount of push-back from European investors, notably in Germany and the Netherlands. They may not have been so familiar with the Tesco name and they asked us for a change of control clause. We refused, saying it is our policy and it is consistent with our last such issuance in November 2002."

The €500m bonds maturing 2011 with a coupon of 3.875% were priced at 22 basis points (bp) above midswaps.

They were sold alongside three tranches of sterling-denominated bonds, which all included takeover clauses: £350m bonds maturing in 2023 with a coupon of 5% priced at 80bp over gilts; 30-year inflation-linked bonds raising £175m with a coupon of 1.982% at 90bp over the equivalent gilts; and 36-year, £300m bonds with a coupon of 4.875% and 90bp over gilts.

Much of the long-dated paper was snapped up by insurance and pension funds which have been chasing such longer-maturing deals to match their liabilities. Mourant said the index-linked bond additionally gave Tesco what he called a partial economic hedge against any future movements in inflation.

The near-£1.2bn raised will go to refinancing up to £1.8bn of debt that matures over the next 18 months. Mourant said Tesco had no current additional funding need, but added: "We remain an opportunistic issuer."

The tranche mandates went to no fewer than five banks: Deutsche Bank as global co-ordinator, BNP Paribas, Citigroup, HSBC and RBS.

Cleaning and pest control support services conglomerate **Rentokil Initial** has raised its first money in the bond market since the inauguration of a medium-term note programme last December.

The business, popularly known as the royal ratcatcher, is going through a restructuring under the management team of Chairman Brian McGowan and Chief Executive Doug Flynn, and last year fended off a hostile takeover approach fronted by former ITV boss Sir Gerry Robinson. The company, which has a BBB credit rating, has issued £300m of 10-year bonds, paying a coupon of 5.75% priced at 133bp over gilts.

Colin Tyler, Rentokil Director of Treasury, said: "We were looking to lengthen the maturity of our debt. The issuance was fully subscribed and benefited from a change of control clause."

Tyler declined to comment on any further plans in the corporate bond market. The company currently has nearly £600m of bonds maturing within the next two and half years, a €500m euro-denominated bond with a coupon of 5.75% dated May 2007, and a £250m bond maturing in November 2008 carrying a 6.125% coupon.

The lead co-ordinators on the 2016 bonds are Barclays Capital, BNP Paribas and RBS.

**Laird Group,** the former diversified industrial group now concentrating on the technology and security markets, has raised £117m, net of expenses, in a rights issue to finance a recent string of acquisitions and put in place funding for future deals.

The four-for-17 rights issue was priced at 325p a share, a discount to the prevailing share price of around 26%. The issue funds four deals topping £74m, covers another £8m of upcoming deferred payments on previous deals and will see a further £8m being pumped into the group's manufacturing operations.

JPMorgan Cazenove was the bookrunner and broker with NM Rothschild acting as financial adviser and alongside JPMorgan as joint underwriter.

Robert Lea is City Correspondent of *The London Evening Standard*.

## INTERNATIONAL LOANS

| BORROWER | CREDIT DATE | DEAL TYPE | AMOUNT | TRANCHE MARGIN | MANDATED ARRANGER PARENT | TRANCHE FEE REMARKS |
|---|---|---|---|---|---|---|
| **E.ON AG** | 20 Feb 06 | Investment Grade | $25,438.83m | 22.5 | Citigroup, Deutsche Bank, HSBC, JPMorgan | Underwriting tickets of €2bn and €1.5bn are on offer, both with an underwriting fee of 10bp. |
| **E.ON AG** | 20 Feb 06 | Investment Grade | $12,720.01m | 27.5 | Citigroup, Deutsche Bank, HSBC, JPMorgan | Underwriting tickets of €2bn and €1.5bn are on offer, both with an underwriting fee of 10bp. |
| **HAMMERSON PLC** | 31 Mar 06 | Investment Grade | $574.01m | 37.5 | Barclays, BNP Paribas, Mitsubishi UFJ Financial Group, Commerzbank, DrKW, Fortis, HSBC, IXIS CIB, JPMorgan, Lloyds TSB Capital Markets, RBS, WestLB | |

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