Winner

Sparking up the small investor

National Grid

nationalgrid

AS IN THE PREVIOUS YEAR'S DEALS OF THE YEAR AWARDS, AN ENERGY COMPANY LED THE WAY IN BREAKING NEW GROUND WITH CONSUMMATE SUCCESS. NATIONAL GRID'S FIRST RETAIL BOND ASTUTELY PLAYED TO INVESTORS' CONCERNS OVER PERSISTENTLY HIGH INFLATION AND OPENED UP A NEW INVESTOR BASE THAT OTHERS ARE LIKELY TO FOLLOW.

PRINCIPAL TERMS

National Grid raised £260m in September 2011 by launching a retail bond. The 10-year bond attracted such strong demand that the order book was briefly reopened twice, raising a further £22.5m. Barclays Capital was the bookrunner and Evolution Securities acted as market maker on the ORB market.

National Grid's first retail bond caught the imagination of the general public in a year when many were looking for any investment that might keep pace with inflation. Initially offered in September, the 10-year sterling-denominated bond, the largest of its kind in four years, was reopened twice more in response to popular demand.

At a time when several once impregnable organisations look decidedly vulnerable, much of the appeal of the group's offering was summed up by one analyst, who said of the energy utility: "It is difficult to envisage such a company going bust."

A common misconception in the popular press is that the bond is paying each year 1.25% PLUS inflation as defined by the retail prices index (RPI). This is not the case: as the company makes clear, it is paying interest semi-annually at 1.25% (annual gross rate) adjusted to take account of changes in RPI from the base point of February 2011. If inflation increases from that point, investors will be compensated with slightly more than a simple 1.25% reward, and if inflation falls the opposite will happen.

National Grid shrewdly structured its offering to give it mass appeal. It was promoted as an RPI-linked corporate bond. Investors could buy into it via six retail brokers in denominations of just £100, in sharp contrast to previous inflation-linked corporate bonds, which have routinely been limited to institutions and fund managers in chunks no smaller than £50,000.

The group also timed its offering very carefully. Savers had flocked over the summer to National Savings' index-linked certificates, which were offering RPI plus 0.5 percentage points with no risk to capital. However, these were withdrawn in early September as were other inflation-linked savings products, leaving few remaining options.

As a result, National Grid's offering attracted more than 10,000 private investors in little more than a couple of weeks and raised £260m which, as the group's global tax and treasury director Malcolm Cooper admitted, was significantly more than anticipated.

The amount was a record for a bond issued on the London Stock Exchange's orderbook for retail bonds (ORB) since its introduction early in 2010 and the proceeds were earmarked for the power utility's hefty £3bn annual maintenance bill.

As Adrian Bell of Evolution Securities, joint lead manager for the bond along with Barclays Capital, noted: "This issue clearly demonstrates that, in contrast to the UK wholesale markets, retail investors remain enthusiastic buyers of corporate bonds on attractive terms, despite the unsettled state of the broader financial markets."

It was this success in tapping a whole new investor base that particularly impressed the DoTY judging panel, who variously described the offering as "a game changer" and "the one with the wow factor", and pointed to its size as distinguishing it from the similar but much smaller offerings of recent years.

"What National Grid has done is to open up a potentially huge investor base, which other treasurers may follow going forward," said one of the judges. Another noted: "There is a massive backlog of applications on the back of National Grid's breakthrough – it's exactly what the markets have been crying out for for years."

Andrew Kluth, assistant treasurer at National Grid, said: "We are delighted by the success of the National Grid retail bond, which is the largest and first corporate RPI-linked retail bond. This deal has helped us to establish a new investor base, which will increase the diversity of our funding sources.

"Moreover it was all achieved without having to pay a significant premium to our existing bonds, unlike in the institutional market at the time."