DEALS OF THE YEAR

Denise Bedell examines the year's deals that defined their respective markets and opened the way for other corporates to show their skill.

In a year that saw many natural disasters but fewer than usual man-made ones, and when few corporate scandals dominated the headlines and the global economy began to look up, markets that saw enormous flux in 2002 began to stabilise. Steady deal flow characterised the bond markets for investment-grade issuers, and both sterling and euro issues showed their attraction. Most other markets improved. Equity-linked issuance soared, as companies took advantage of low interest rates and the promise of a future recovery in equity to pull in investors hungry for new paper to fill the void created by the lagging equity markets.

High-yield also made a comeback, with a number of landmark transactions not only resurrecting the market but also stretching the boundaries of the past. Even equity finally began to pick up as the year progressed, and a number of the deals that made the shortlist aided in reopening the long-suffering market.

Securitisation deals pushed the envelope too, with new asset classes lining up for recognition and approval from both new and old investors.

While landmark transactions certainly made their presence known, the tried and true transactions – those superior deals for known names that launched at a tight price to a solid response and provided the company with just what it needed, but with few whistles and bells to mark them from the pack – also deserve recognition. And the finance directors and treasurers who managed to get the deal done while facing fraught conditions – either through tough market circumstances or tough times for the company itself – deserve a round of applause, and their place on the shortlist.

The deals that made the shortlist were selected from hundreds of nominees by our expert panel comprising five corporate treasurers and three advisers. The deals are a mixed bunch of those mentioned above, along with a few that stood out for their individual unique features and market-changing results. What do they have in common? They are all strong corporate transactions that will have an impact on the future of their respective company.

CRITERIA AND VOTING

The Treasurer's Deals of the Year feature examines deals in the corporate equity and debt markets that closed during the period 1 October 2002-30 September 2003. Deals are evaluated, from a corporate perspective, on the following criteria: demonstrating sound treasury management; efficient pricing; optimal or innovative structuring; and relative success in prevailing market conditions.

For the first time, the winning deals will be selected in each of the six categories which follow. ACT members and readers of *The Treasurer* will vote for their favourites, and the Panel will decide winners based on the criteria outlined above, and the number of votes received for each deal. Voting should be on the form enclosed with this edition or at the ACT's Annual Dinner, or online at www.treasurers.org/thetreasurer/.

Winners will be announced in the January/February issue of *The Treasurer*, together with a full and detailed analysis of the winning deals.

BEATING THE BEAR

EQUITY

The worst appears to be over. The bear market sentiment that has had a strangle-hold on equity markets since the bursting of the high-tech bubble is losing its power. Institutional investors, pension funds and hedge funds are once again looking to increase the equity presence in their portfolios, and many are even moving away from tried and true blue chips to test the waters for higher returns from young companies and tech stocks. But also, and more surprisingly, the surge of retail investors that got caught up in the internet boom – and saw the worst damage when it went bust – are once again dabbling in the market.

After a disappointing start to the year, with many equity issues postponed or scrapped altogether, the second half of the year saw a surge in the market. In fact, many of the deals that were put off in the first quarter showed up in the third quarter, as market sentiment turned and equity investors came out of hibernation to take a look at what was on offer.

But even the first half saw some gems go to market. The deals that managed to be completed showed, more than anything, the determination of the corporate treasurers and finance directors themselves. Getting a deal done at all in tough market conditions is just as much of an accomplishment as completing an outstanding benchmark transaction when investors are keen for what you are offering. The transactions that have made our shortlist include some of each – tough deals done in a closed market and benchmark deals that open the door for others to follow.

BENFIELD

JUNE 2003, £157M IPO OF PRIMARY AND SECONDARY SHARES

62.79m shares at 250p

Benfield Group is a UK-based reinsurer and risk advisory company. The IPO established a market for Benfield shares and was used for debt reduction. Shares traded up 12% on launch day.

Philip Shepherd, Group Treasurer "This represented the largest IPO on the London Stock Exchange for 12 months, reopening the UK IPO market, despite a backdrop of market uncertainty and volatility. It was competitively priced and met a fantastic reception from investors, and met the group's financing requirements in that it removed group net debt, allowing additional flexibility for future growth."

MERRILL LYNCH, MORGAN STANLEY

NORTHUMBRIAN WATER

MAY 2003, £389M IPO

389m shares at 100p

Northumbrian Water Group is a UK-based water supply, waste disposal and environmental consulting company. The IPO relaunched Northumbrian Water onto the public equity markets as part of buyout from French owner Suez by consortium Aquavit. The deal opened the market for regulated utilities to access equity markets.

David Martin, Group Treasury Manager "The most unique aspect of the transaction was that the initial equity investors had to commit to invest without having a prospectus or the opportunity to meet management. The potential for a secure, stable dividend yield, and the group's track record, gave investors confidence in the deal."

COLLINS STEWART

MARCH 2003, €15BN GLOBAL RIGHTS ISSUE

One-for-one warrants at €14.50, 20% discount to share price

Launched two trading days after start of hostilities in Iraq, France Telecom's rights issue helped the French telco regain financial flexibility, reduce interest charges, further improve access to financing, and paved the way for a rating improvement.

Michel Poirier, Group Treasurer "France Telecom's capital increase was successfully completed against the backdrop of heightened geopolitical tensions globally surrounding Iraq. The syndicate selection process included a groundbreaking auction to optimise pricing and underwriting commitments, which resulted in underwriting commitments in excess of €30bn in under 24 hours and an underwritten price per share of €14.50 – a slim 17% discount to the theoretical exprice."

ABN AMRO ROTHSCHILD, BNP PARIBAS, CREDIT AGRICOLE, CREDIT LYONNAIS, DEUTSCHE BANK, GOLDMAN SACHS, MERRILL LYNCH, MORGAN STANLEY

MAY 2003, £67.7M SECONDARY SALE

16.7m shares at 404p

Intertek is a UK-based testing, inspection and certification company. Venture capital fund Charterhouse placed its remaining stake in Intertek in the market after the IPO in 2002. The deal showed investor interest in smaller names and the returning strength of the equity markets.

The Intertek transaction saw high demand and just over 10 investors participated, mostly from the UK. Shares were up over 5% on the day and almost 10% from launch price a week after the sale.

CAZENOVE

SEPTEMBER 2003, £960M RIGHTS ISSUE

1.4bn shares at 70p

Royal & SunAlliance is a multinational insurer out of the UK. The rights issue will bolster reserves and provide financial flexibility. The group is undergoing serious restructuring and the deal was a final step in bringing RSA back to a solid financial footing.

The deal was completed amid negative market sentiment. It deal was well-received considering the industry and the difficulties RSA has faced in the past, as it removes a lot of risk from the RSA profile and gives the group stronger financial grounding.

CAZENOVE, GOLDMAN SACHS, MERRILL LYNCH

JULY 2003, £1.31BN IPO INCLUDING GREENSHOE

400m shares at 285p + 60m Greenshoe

Yell Group is a UK directories business. The IPO is a partial exit for private equity owners Apax Partners and Hicks Muse Tate & Furst. The deal was postponed from last year due to poor market conditions. It was upped from £1.02bn including Greenshoe on high demand.

David Scriven, Group Treasurer "Yell's new facility is a huge success and was key to completing the IPO ahead of the summer holidays. We negotiated and agreed complex commitments on good commercial terms to a tight timescale. It provides all the flexibility we need to pursue our strategy, creates an attractive capital structure for our equity investors and has attracted a really strong bank group."

GOLDMAN SACHS, MERRILL LYNCH

INVASION OF INNOVATION

EQUITY-LINKED BONDS

While equity markets began a slow route to recovery, the past year saw a flood of equity-linked transactions, with even the slow summer months filled to capacity with new issues. Relatively high volatility, low interest rates and little issuance in late 2002 meant investors were keen and conditions were picture-perfect for cheap funding with the hybrid product. And issuers were not sluggish in taking advantage of those conditions. In fact, volume of issuance in the equity-linked markets could beat all records this year, with a few companies even choosing to making their first dip into the capital markets through a convertible issue – surprisingly before even issuing straight debt.

With ideal conditions for equity-linked issuance, the size of deals also increased, with a number of record-breakers coming to market – including an exchangeable bond that broke not only European size records, but also global records.

With so much choice, selecting only six deals for the shortlist was no easy task. But those that did make the list certainly shine, with market-changing structures the name of the game. The list includes innovative transactions such as a rare privatisation-related exchangeable – which could set the stage for further state-related equity-linked issuance within Europe – and the first-ever negative yield convertible, where investors effectively pay the issuer for the bond for the chance to buy equity down the road.

Other innovations to feature heavily in the line-up were those in the structure itself, with one group issuing the first European corporate perpetual convertible bond (CB) and another using the CB structure to avoid pre-emption rights while issuing a significant portion of share capital. It was certainly the year of the equity-linked issue.

JULY 2003, €550M CONVERTIBLE BOND

5 year, coupon 1.375%, 45% conversion premium

3i Group is a UK-based venture capital and private equity company. The convertible will refinance existing debt and be used to fund continued investment. It took advantage of low interest rates to reduce borrowing costs.

Alan Walker, Group Treasurer "Timing and speed was essential in ensuring a successful transaction. We achieved the lowest coupon and yield ever by a UK issuer at 1.375% and one of the highest ever conversion premiums at 45%. The coupon represented very attractive financing compared with the cost of 3i's other borrowings."

BARCLAYS CAPITAL, DRESDNER KLEINWORT WASSERSTEIN, MERRILL LYNCH

SEPTEMBER 2003, €5BN EXCHANGEABLE BOND (INTO DEUTSCHE TELECOM SHARES)

5 year, coupon 0.750%, 38% conversion premium

The deal continued the privatisation of Deutsche Telekom – the partially state-owned German telecommunications company – without significantly disrupting the share price, and allowed KfW to sell part of its stake at a rate higher than Telekom's IPO price.

Bookrunner Comment "The exchangeable allowed KfW to continue with the privatisation of Deutsche Telekom in a market where a large equity placing would have been challenging. From Deutsche Telekom's perspective, a large portion of the government overhang has been removed, with little impact on the share price. The considerable premium should also give equity investors' confidence in KfW's disposal intentions."

DEUTSCHE BANK, JPMORGAN

JUNE 2003, £258M CONVERTIBLE BOND

7 year, coupon 4.0%, 48% conversion premium

Cable & Wireless is a UK-based global telecommunications company. Part of a restructuring effort, the deal was highly oversubscribed and strengthened the group balance sheet.

Joe O'Neill, Group Treasurer "C&W's convertible achieved the highest conversion premium ever in the UK equity-linked market [48%], combined with seven-year funding at only 4% [swaps flat at launch]. Following launch, the company enjoyed a 'virtuous spiral' of improved financial flexibility; tighter spreads on bonds and CDS; and a positive market reception."

JPMORGAN

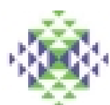
SEPTEMBER 2003, $243.34m CONVERTIBLE BOND

7 year, coupon 5.25%, 40% conversion premium

Music publishing and entertainment group EMI is in the midst of serious restructuring. The convertible is part of a broader refinancing and allowed the group to raise significant funds without taking into account pre-emption rights.

Duncan Bratchell, Senior Vice-President Tax & Treasury "It stood out by virtue of the high conversion premium [40%]; and the relatively large issue size [10% of share capital] – so we had to ensure there were no harmful effects on our share price. We successfully overcame negative circumstances of our credit downgrade and prepared for three financings [including a high-yield bond and bank facility] simultaneously."

BNP PARIBAS, HSBC, JPMORGAN



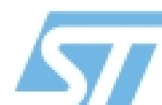
JUNE 2003, $700M PERPETUAL HYBRID CONVERTIBLE BOND

8 year, 4.0% coupon for first 8 years then unconditionally callable with a step-up to 3-month $ Libor plus 400bp, 25.2% conversion premium

ScottishPower is a UK-based international energy business. With half of its group operations in the US, the dollar denomination was attractive. This is the first-ever European perpetual CB and one of few corporate perpetual deals.

Adrian Coates, Group Treasurer "The CB was structured to provide prefinancing for planned capital expenditure and initiate US dollar financing at holding company level. Thus the perpetual subordinated structure was preferable to a conventional low coupon, limited life issue. It also benefited from a favourable combination of volatility, investor interest, interest rates and exchange rates."

UBS



JULY 2003, $1.4BN NEGATIVE YIELD CONVERTIBLE BOND

10 year, coupon 0%, 55% conversion premium
yield-to-maturity -0.5%

STMicroelectronics is a European semiconductor company with global operations. The deal ran in parallel with a €440m exchangeable from Finmeccanica into STM shares. The negative yield-to-maturity of -0.5% provided cheap funding for the group.

Bookrunner comment "This is only the second European convertible with a negative yield, and had a high conversion premium of 55%. Despite the placing of $1.7bn of STM equity-linked paper in the market in one day, the company's share price closed only 1.9% down from launch to pricing."

LEHMAN BROTHERS, UBS

REOPENING MARKETS

HIGH-YIELD BONDS

The high-yield market in Europe is once again open for business, and 2003 saw the first deals done in quite a while. This is great news for non-investment grade issuers and for those fallen angels now looking to get back on their feet.

With many financial institutions greatly reducing, or even cutting off, their balance sheet exposure to mid-grade corporates, these companies are increasingly turning to the capital markets for funding. Weak equity markets offer little for those without the clout of a blue chip. But over the past year options in the debt markets have become a bit more numerous, with investors once again opening their portfolios to higher-risk exposures and looking to good-quality, lower-rated companies to expand risk curves and improve suffering returns.

The market not only saw traditional high-yield issuers and fallen angels, both of which are represented on the shortlist, but also saw unique structures which could change the market going forward – including a hybrid deal involving both high-yield and mezzanine finance elements. The shortlist includes market openers, benchmark transactions in terms of size, those that simply gave a company the financial flexibility to reach growth goals without costing a fortune, market-changing structures and those completed against a backdrop of impossible conditions. It will be tough to pick a single winner when the time comes.

ARDAGH GLASS LIMITED

JULY 2003, €175M

Mature 2013, 491bp over bunds

Ardagh is a glass packaging company headquartered in the Channel Islands. The bond will be used to refinance and extend the tenor of existing debt. It was highly oversubscribed, is relatively tightly priced for the industry with a long maturity.

Paul Coulson, Chairman "The deal allowed us to refinance expensive mezzanine debt incurred when Ardagh Glass was demerged from Ardagh early in 2003 and refinance at a significant discount to book value a vendor note issued in 1999. We also reduced interest costs, reorganised the balance sheet for a more appropriate debt structure and booked a gain on existing debt of around €30m."

BNP PARIBAS, CITIGROUP

JULY 2003, £190M, €140M HYBRID MEZZANINE NOTES

Mature 2011, 776bp over gilts, 746bp over bunds respectively

The UK DIY retailer received flexible funding for growth through a unique structure that it is a hybrid of high-yield and mezzanine debt.

Bookrunner comment "Unique call provisions give the company unprecedented flexibility, as they have the chance to redeem the notes, given certain predefined conditions, at a very low premium. This was key to manage a future exit strategy without the usual high cost of repaying high-yield notes. It also achieved a milestone as the mezzanine structure set clear protocol on the relative intercreditor position of senior banks and subordinated noteholders, allowing both to invest together. This is a first for the European high-yield market."

ING, THE ROYAL BANK OF SCOTLAND

Eco-Bat Technologies Limited

JANUARY 2003, €165M

Mature 2013, 611bp over bunds

Eco-BAT is a lead product recycler. The Company required long term financing to fund an acquisition of around $75m. The bond provides financing with a long tenor for the group and included guarantees from subsidiaries which added to attractiveness for investors. It reopened the European high-yield market after a very difficult 2002 for investors.

Bookrunner comment “The deal funded an acquisition of around $75m. To avoid leaving investors with two small bonds (it had an existing bond of £65m) it offered to redeem any and all existing bonds so investors could re-invest in the new issue – which also lengthened the company's debt maturity profile. The result was ‘win-win’ for investors and the company.”

CITIGROUP, CREDIT SUISSE FIRST BOSTON

AUGUST 2003, €550M SENIOR, €285M AND $250 SENIOR SUBORDINATED

Mature 2013, 317bp over bunds, 417bp over bunds, 393bp over UST respectively

Incumbent Irish telecom eircom was bought by Valentia Telecommunications in 2001. The goal of the issue was to diversify funding sources away from existing all-bank debt to strengthen the financial risk profile of the company.

Gerry McGinnity, Head of Treasury “This was an outstanding success from the company’s perspective. The high-yield issue formed one half of a co-ordinated refinancing effort to improve our long-term capital structure, return capital to our shareholders and achieve a competitive cost of funding. All of these objectives were achieved and in the process we completed a groundbreaking high-yield transaction.”

BARCLAYS CAPITAL, CITIGROUP, MORGAN STANLEY

HEIDELBERGCEMENT

JUNE 2003, €700M SENIOR NOTES

Mature 2010, 330bp over bunds

HeidelbergCement is a cement and building materials producer out of Germany. The bond was part of a €2.6bn financing package, including a loan and rights issue. It was the largest single-tranche euro-denominated high-yield deal ever placed.

Company comment “This is an integral part of a strategic financial package which aims at enhancing the capital structure and maturity profile of HeidelbergCement to reduce further indebtedness and to increase the financial flexibility for further successful development. The financial package comprises a syndicated facility of €1.5bn, an equity rights issue of €404m and the €700m high-yield bond issue, which were all successfully placed in a few days.”

DEUTSCHE BANK, CITIGROUP,
THE ROYAL BANK OF SCOTLAND

RÉMY COINTREAU

JUNE 2003, €175M

Mature 2010, 319bp over bunds

French drinks group Remy Cointreau marketed the issue at €150m, but raised the deal to €175m on a €2.1bn book. It was the first time a new issue in the European high-yield market has priced below 7%.

Françoise Cambilargiu, Group Treasurer “Joining our forces and combining our talents we achieved the lowest yield ever executed for a high-yield euro transaction; an oversubscription of 13 times on the initial transaction size – attracting both high-yield and cross-over investors from 25 countries – and appropriate covenants to run our business which fall away when investment grade.”

BANK OF AMERICA, BNP PARIBAS

SEA OF CALM

INVESTMENT-GRADE BONDS

Despite closed equity markets, the mainstream corporate bond market remained a sea of calm, with investors showing strong demand for good names that it judged would ride out the economic cycle, and not being fazed by statistics about rising default percentages. The market was happy to try to pick winners, and did not knee-jerk closed as a result of the doomsayers.

With government bond yields and corporate spreads at record lows, there is still no sign that turn-of-the-millennium historic volumes will be repeated, but the supply-demand balance was in favour of corporates. The market saw lower-than-previous-years corporate issuance but strong demand from institutional investors favouring bonds over equity. And despite prophecies that the sterling market would be hit hard by a surge in the euro market, the pound remained very much a key currency for issuers. The sterling/euro multi-tranche mix is still very popular with corporates, as it gives broad access to different investor-bases and takes advantage of credit conditions in the two very distinct markets.

The deals that made our shortlist show strong companies with strong stories taking advantage of the demand created by a vacuum in the equity market. All were exceptional in their way, and met the needs of their respective company while taking advantage of the market conditions to improve funding profiles.

JUNE 2003, €1BN, £350M

Mature 2013, 145bp over mid-swaps, 175bp over gilts respectively

UK tobacco company BAT launched the two-tranche bond to refinance debt and extend maturities. These are the longest-dated issues from a tobacco-sector company in both the sterling and euro markets.

Steve Burton, Treasurer, Corporate Finance “After a two-year absence BAT launched this benchmark against a background of US litigation headlines, acquisition speculation and volatile rating environment. Success came through an exhaustive re-education process with investors, resulting in an oversubscribed, diverse and quality order book. This deal provided the platform to launch further transactions as BAT successfully bid for Italian tobacco monopoly, ETI.”

BNP PARIBAS, CITIGROUP, HSBC

AUGUST 2003, £600M DEBUT BOND

Mature 2026, 70bp over gilts

UK air traffic management company NATS, formed out of a PPP in 2001, launched its debut bond to refinance bank debt used for the initial acquisition of air traffic assets to form the company. The bond is part of a larger restructuring effort.

Nigel Fotherby, Finance Director “NATS (En Route) plc’s £600m bond issue was a major success because it evidenced the support of the capital market for the company's innovative regulatory and financial restructuring in March 2003, which addressed the severe impact on the company of 11 September 2001, followed later by the Iraq War and SARS.”

BARCLAYS CAPITAL

JULY 2003, £400M

Mature 2010, 88bp over gilts

UK drinks and confectionery company Cadbury Schweppes launched the bond to refinance bank debt. It was tightly priced and well-received in the market.

Terry Bird, Group Treasurer "This was Cadbury Schweppes' first bond transaction after a three-notch rating downgrade following the acquisition of the Adams confectionery business as an all debt-financed transaction. It had to work well in both placement and price as there was a bigger transaction riding on the back of it, a $2bn global deal completed in September 2003."

DRESDNER KLEINWORT WASSERSTEIN, HSBC, THE ROYAL BANK OF SCOTLAND

JUNE 2003, $13.55BN EQUIVALENT STRAIGHT DEBT

GM – $5.25bn equivalent, mature 2013-2033[*]
GM – €2.5bn equivalent, mature 2015-2023[+]
GM – £600m equivalent, mature 2015-2023[^]
GMAC – $1bn, mature 2006[§]
GMAC – €3bn equivalent, mature 2005-2007[#]

US auto group GM, along with its financing arm GMAC, raised almost $6bn more than planned in a market with negative sentiment towards auto issues.

Bookrunner comment "In spite of an often challenging environment for auto companies in the straight debt markets, GM raised $2.61bn above its announced goal and GMAC raised $1.44bn more than its goal. GM's four days of senior management-led roadshow in the US and Europe were key in alleviating investor concerns regarding large single-name credit exposures."

BANK OF AMERICA[§], BARCLAYS[^], BNP PARIBAS[+], CITIGROUP[*], DEUTSCHE BANK[+#], JPMORGAN[§], LEHMAN BROTHERS[#], MERRILL LYNCH[*^#], MORGAN STANLEY[*+§]

AUGUST 2003, $600M, $1.1BN, $300M

Mature 2008, 2013, 2033 respectively
113bp, 128bp, 148bp over Treasuries respectively

Multinational brewer SABMiller is the second largest global brewing company by volume. The three-tranche bond will be used partly to refinance debt. It was also a risk management exercise to take advantage of market interest to build out the maturity curve of existing SABMiller debt.

Paul Phillips, Deputy Treasurer "The transaction met with strong demand despite the volatile conditions at the time of the issue. Investors recognised the benefit of the company's scale, brand portfolio, strong market positions, geographical diversification and determination to maintain a strong and stable financial structure, which will serve as a foundation to potential further participation in industry consolidation."

BARCLAYS CAPITAL, CITIBANK, JPMORGAN

DECEMBER 2002, €750M, £350M, £50M, £200M

Mature 2010, 2019, 2025, 2033 respectively
42bp over mid-swaps 86bp, 95bp, 98bp over Gilts respectively

UK food retailer Tesco launched its multi-currency, multi-tranche deal to build its credit with European investors and the extend maturities on existing debt. It was oversubscribed on all tranches and was the longest-dated sterling paper in the retail sector.

Keith Richardson, Group Treasurer "It was a big issue in a market that sees many big issues, so you are never sure if you will get that take up. But with a target of £800m, we raised £1.1bn on strong demand, so we were quite pleased. Demand for the euro tranche was particularly satisfying as many did not know the Tesco story."

CITIGROUP, DEUTSCHE BANK, HSBC, THE ROYAL BANK OF SCOTLAND

SHOW ME THE BUSINESS

LOANS

Whether you cite new capital requirements under Basel II or margin pressures and demand for higher returns from investors, the fact of the matter is that banks across Europe are reassessing their relationships and becoming more frugal with their balance sheets. In addition, because of the depressed state of the global economy, corporate borrowing has, in general, been low. As a result, the bank debt market in 2002 was slow to say the least.

That has changed, however, in 2003, as a number of high-profile mergers introduced a raft of corporates looking for acquisition financing facilities. And the market was further buoyed by companies looking to refinance existing facilities for longer maturities. Thus, 2003 has seen a relatively healthy syndicated loan market with a number of benchmark issues once more expanding boundaries.

However, the basic make-up of the market has changed. Banks are looking for strong relationships before they will participate in corporate facilities, and want to see proof, not just promise, of ancillary business. This has led to smaller syndicates and larger required commitments from lenders.

All in all, it is a different market from that which existed even a few years ago. It now involves sophisticated corporates demanding more from their banks, and cautious lenders looking more closely at their bottom line.

This has made for an interesting year and the launch of a number of innovative transactions. The deals on the shortlist not only take into account the changing market, but also show the resolution of finance directors and treasurers to produce the best transactions they can and get the most out of their banking relationships.

ALLIED DOMECQ

JULY 2003 £1.1BN REVOLVING CREDIT FACILITY

Mature 2008, 50bp over libor, ratcheting in line with NET debt/EBITDA

Allied Domecq refinanced its existing £1bn revolving credit facility, due to mature in May 2004, with a £1.1bn 5yr committed facility. The drinks group's facility was well received in syndication and was increased from initial talk of £1bn on strong demand.

Robert Williams, Group Treasurer "The objective was to remove refinancing risk and consolidate other facilities and the banking group. These conditions were satisfied, particularly with the exclusion of a repeatable MAC clause, which has strengthened the liquidity position. Launched with 75% of the deal committed with MLA banks and documentation finalised, this sent a strong message, allowed a shorter period and optimised momentum."

BNP PARIBAS, CITIBANK, HSBC, ING, JPMORGAN

MARKS & SPENCER

AUGUST 2003, £1.25BN REVOLVING CREDIT FACILITY

Mature 2006, 20bp over Libor

This was the first foray into the syndication market for UK retailer Marks&Spencer. It will be used to provide backing for the launch of Marks&Spencer Financial Services. The deal was upped from £1bn on strong oversubscription, while still maintaining tight pricing.

Susan Lantz, Deputy Group Treasurer "We wanted to capitalise upon the 20% risk weighting applying to M&S Financial Services, which we believed would appeal to the over-stretched balance sheets of banks and offer us a price advantage over traditional corporate names. Attaching a parental guarantee gave banks the additional comfort of the M&S brand."

BNP PARIBAS, CITIBANK, DEUTSCHE BANK, HSBC, MORGAN STANLEY, ROYAL BANK OF SCOTLAND

DECEMBER 2002, €15BN CREDIT FACILITY

€10bn revolving credit facility: mature 364 day with one-year term-out option, 20bp over Euribor
€5bn revolving credit facility: mature 2007, 25bp over Euribor

German utility E.ON successfully launched the huge deal when credit problems plagued the energy sector globally. The group had commitments of €17bn, and closed the deal with tight pricing and no financial covenants attached.

Graham Wood, Senior Vice-President "E.ON was changing from a conglomerate to a pure energy business and was in a multi-billion dollar disposals and acquisitions programme. This had to be clearly explained, with no financial forecasts given to the banks. It faced a background of change in the energy sector, whilst still achieving some of the finest commercial loan pricing in the world."

BARCLAYS CAPITAL, CITIBANK, DEUTSCHE BANK, DRESDNER KLEINWORT WASSERSTEIN, HSBC, JPMORGAN

DECEMBER 2002, £400M SYNDICATED MULTICURRENCY REVOLVING CREDIT AND GUARANTEE FACILITY

Mature 2008, 55bps to 80bps based on NET debt/EBITDA ratchet from 2.5 to 3.5 times

UK transportation company First Group launched the facility – originally planned at £350m – to follow up the group's debut sterling bond issue in 2002. The transaction replaces an existing revolver with longer-term borrowing.

Iain Lanaghan, Group Finance Director "We set five objectives: to increase maturity of borrowing headroom, achieve more flexible terms and conditions, reduce costs, reduce the number of banks, and reduce the number of bank facilities. In addition, underwriting costs were avoided and the number of financial covenants was reduced. Each of these objectives was achieved at a time when industry and competitor issues existed."

COMMERZBANK, DANSKE BANK, HSBC, THE ROYAL BANK OF SCOTLAND

Scottish & Newcastle

DECEMBER 2002, £1.5BN REVOLVING CREDIT FACILITY

Mature 2008, 45bp over Libor

The syndication markets had been quiet in 2002, so timing for the UK brewer's facility was critical. The deal saw large demand and both the bank group and price were reduced over its 2000 deal.

John Laurie, Group Treasury Director "The Group had been heavily acquisitive transforming itself since 2000. It was very encouraging to see the support from a long-standing group of banks. The timing turned out to be just right, and the deal extended the maturity profile of our debt, which was crucial, whilst also reducing the number of lending banks."

DANSKE BANK, HSBC, LLOYDS TSB, THE ROYAL BANK OF SCOTLAND

FEBRUARY 2003, £6BN THREE-TRANCHE DEMERGER FACILITIES

February 2003: £3bn credit facility, Six Continents
April 2003: £1.5bn multi-tranche facility, Mitchells & Butlers, mature 2004-08, 125bp over Libor
June 2003: $2.35bn multi-tranche credit facility, Intercontinental Hotels Group, mature 2004-08, 70bp-160bp over Libor

Management at the UK leisure group were committed to splitting the business into two separately quoted companies, which has since occurred. Without the right syndicated bank finance in place, that could not go ahead. The deal was a bridge facility supporting the separation of Intercontinental Hotels Group and Mitchells & Butlers pubs group.

Anthony Stern, Group Treasurer "War, SARS, international terrorism, a tough economic climate – most companies had to face the effects of these earlier this year – but how many of them were in the international leisure business, returning £700m to shareholders and fending off an unwelcome takeover bid all at the same time?"

BARCLAYS BANK, CITIGROUP, HSBC, JPMORGAN, THE ROYAL BANK OF SCOTLAND

REWARDING, BUT TOUGH

SECURITISATION

Securitisation is a broad descriptor, which includes everything from traditional mortgage-backed issues, to corporate asset-backed deals based on expected cashflows or revenues, to insurer-wrapped deals and beyond.

Many structures, such as long-standing mortgage-backed issues, offer ease of completion and a sophisticated investor-base. But one product which continues to be a highly-discussed but infrequently-used financing technique is that of corporate whole-business securitisation. This is primarily due to the time and effort required to structure such deals. Bankers complain of the difficulties in executing the risk for unusual asset classes and even in sectors that have seen a number of issues – such as water and pubs – each deal is unique in its structure and execution. The structure lost face with some investors after a few deals went wrong last year, stinging the banks that structured them and leaving bad feeling in the market.

However, as our shortlist shows, there is definitely a market for quality corporate issues with strong backing assets, and investors are getting involved in deals across a range of new structures and assets classes, including healthcare, funeral homes and base metals. There are significant benefits to getting such a deal done, not least unlocking the equity trapped in the assets themselves.

And even new investor classes – such as private equity – are dipping their feet in the market, which continues to be primarily driven by project finance transactions and acquisition finance.

With every new asset-class that comes to market, a whole new vista opens up which may or may not be explored. But it is, as ever, a slow-going process. For those who do manage to spend the months, or even years, necessary to complete a securitisation successfully, hearty congratulations are in order.

autostrade

MAY 2003, €1.025BN ABS OFFERING, £205M TAP$

Mature 2014, 45bp over Euribor, step-up to 90bp in 2004 and 180bp in 2005

DECEMBER 2002, €10.028BN BRIDGE FACILITY+

Italian conglomerate Edizione launched a two-part acquisition financing package for toll-road operator Autostrade, which included a massive bridge loan and an innovative MBIA-wrapped bond to partially refinance the bridge. The deal links debt to Autostrade's cashflows, gives tax benefits and lowers the group's WACC.

Bookrunner comment "The Toll Road Funding SPV is a direct pass through to a senior acquisition loan and long term facility made by a syndicate of banks to NewCo 28 in the acquisition of Autostrade. The loans are secured upon the shares that Newco 28 owns in Autostrade. The transaction marks a unique solution to efficiently use the public bond market as an investor source for a partial sell-down of a bridge loan position."

BARCLAYS$+, CREDIT LYONNAIS$, GOLDMAN SACHS$+, UBM$+, MEDIOBANCA$+

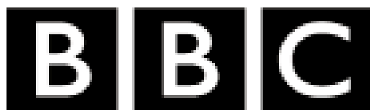
Glencore

APRIL 2003, $750M ASSET-BACKED CP PROGRAMME

This European benchmark deal for metals and mining group Glencore (through US SPV Arth Capital) is the first-ever base metals inventory securitisation. The transaction, which will be used to retire existing bank debt, is funded via a $750m ABCP programme, and further issues are expected through the conduit.

The deal is also unique in that the external liquidity support provided by a syndicate of banks only covers part ($450m) of the CP programme, while the rest is backed by base metal warrants approved by the London Metals Exchange.

DEUTSCHE BANK



JULY 2003, £813M SALE AND LEASEBACK FOR BROADCASTING HOUSE

Mature 2033, 52bp over Gilts

The BBC's inaugural debt capital markets issue was an MBIA-wrapped commercial mortgage-backed bond. The benchmark instrument was pre-hedged at 48-year lows, using derivative hedging to maximise capacity, and achieved a final yield of 52bp over gilts.

Stephen Wheatcroft, Group Treasurer "The BBC, a first-time issuer, launched Europe's largest single property-backed bond to rebuild Broadcasting House as the world's largest live broadcast centre. It was executed in just five months and structured outside of the Public Sector Net Credit Requirement."

MORGAN STANLEY, THE ROYAL BANK OF SCOTLAND

APRIL 2003, £210M WHOLE-BUSINESS SECURITISATION

£110m A-rated notes mature 2023, 175bp over Gilts
£100m BBB-rated notes mature 2023, 350bp over Gilts

UK funeral services company Dignity launched its asset-backed transaction (secured on 502 funeral homes and 21 crematoria) to refinance the MBO of Dignity by HSBC Private Equity in February 2002.

The deal was a defining transaction in a very tough market. As a prime candidate for whole-business securitisation, with very steady cashflows, it nonetheless faced investors shy to participate in corporate securitisations after getting burned in 2002.

It was a strong deal, successfully completed in challenging conditions, and paved the way for other deals to follow.

JPMORGAN

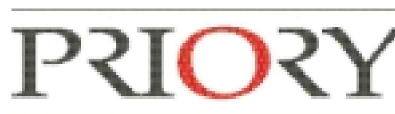
MARCH 2003, £1.03BN MULTI-TRANCHE FINANCING

Including index-linked and fixed-rate tranches, Mature 2032
Fixed-rate: 73bp over Gilts; Index-linked: 80bp over Gilts

The Metronet PPP transaction provides long-term funding to renovate the London Underground. It had elements of both PFI and corporate financing structure, and characteristics of a whole-business securitisation. It used monoline wraps and conservative structuring to overcome negative market sentiment towards transportation deals. Strong demand allowed spreads to tighten from initial talk.

Stephen Billingham, Group Finance Director "The large amount of funding and the length of it necessitated simultaneous financings from the syndicated bank market, the bond market [four credit-wrapped index-linked and fixed-rate bonds] and the European Investment Bank. All this against a background of a difficult market, an unfashionable sector and a very high political profile."

DEUTSCHE BANK, ROYAL BANK OF SCOTLAND, UBS WARBURG



AUGUST 2003, £207.5M MULTI-TRANCHE WHOLE BUSINESS SECURITISATION

Mature 2023-2033, 12bp-625bp over mid-swaps

The deal for Priory Healthcare in the UK refinances £255m of senior term and revolving facilities. The deal was originally talked about in 2000 when Priory was still part of Westminster Healthcare Group and was resurrected this year on buoyant investor interest in healthcare issues. The multi-tranche asset-backed deal was well-received and priced inside initial guidance.

Chai Patel, CEO "Together with a unique £55m capex facility, the whole-business securitisation provides the company with the most appropriate form of finance to fund its development plan. The transaction was groundbreaking not only because of its structure, but also because it provides low cost, secure long-term finance with flexibility for the company to pursue its organic and acquisition-led growth strategy."

THE ROYAL BANK OF SCOTLAND