Deals of the year 2005

CHAIRMAN OF THE PANEL **MATTHEW HURN** INTRODUCES THE CATEGORIES AND THE NOMINATIONS FOR THIS YEAR'S DEALS OF THE YEAR.

DEALS OF THE YEAR 2005

Welcome to the eighth year of Deals of the Year Awards. I have been lucky enough to chair this year's panel assisted by fellow practitioners and advisors who between them have many years and billions of pounds of refinancing behind them.

Over the past few months, the panel has been busy reviewing all of the deals nominated to prepare a shortlist for you to vote on.

Deals were considered in each of the following categories:

- Equity and equity-linked;
- High-yield bonds;
- Investment-grade bonds;
- Loans;
- Mid-market financing;
- Securitisation and structured finance; and
- Trends: hybrids.

And were reviewed and judged based on the following criteria from a corporate treasury perspective:

- Sound treasury management;
- Efficient pricing;
- Optimal or innovative structure; and
- Relative success in prevailing market conditions.

You will find all the shortlisted deals below together with a brief summary of the deal features presented by one of the panel members, plus a recap of the economic background.

For me, apart from the significantly higher number of nominations, there were two key features this year.

First, the margins on loans continued to fall as the supply of money far outweighed the demand. Many treasurers took the opportunity to reprice their facilities and in many cases reduced the number of banks involved, getting each one to subscribe for larger participations on the promise of greater auxiliary business. Nowhere was this more evident than in the Nestlé deal where €2bn was raised on a revolving facility at 7.5bp! Read the details on p48.

It was also evident that a number of corporates chose to leverage their banking relationships and self-arranged their facilities, doing away with the need for traditional syndications. It will be interesting to see whether this is a trend that continues for the next few years.

The other big feature of the year was the emergence of the hybrid bond market, as reflected in our separate Trends category this year. While all of the issuers to date have been European utilities or corporates, a lot of UK companies have been watching the emergence with interest.

Based on the increased number of nominated deals it is evident that many of you have had a busy year. As the year closes, UK plc seems to be as busy as ever, with merger and acquisition activity picking up and many significant deals being announced, all of which I am sure will feature prominently in next year's awards.

Finally, I would like to thank all of those who nominated a deal, and also my fellow panel members who have worked so hard in preparing this year's shortlist.

Matthew Hurn, AMCT, is Group Treasurer at DSG international plc.

Equity and Equity-linked

BOB WILLIAMS INTRODUCES THE SHORTLIST FOR THE EQUITY AND EQUITY-LINKED CATEGORY.

The panel considered the following issues should be included in the shortlist:

- **BAE Systems/Saab** This €187m equity offering helped finance BAE's strategy into the US defence market. The structure enabled BAE to maintain equal economic and voting rights, but also changed the profile of Saab's shareholder base.

- **Deutsche Telekom/MTS** This €1.73bn equity offering was the largest ever Russian equity offering and largest ever international placement from the Central Eastern Europe, Middle East and Africa (CEEMEA) region. It was achieved in a testing market of back tax claims against other Russian telecoms companies.

- **Lonza** The issue of a CHF430m convertible bond completed the refinancing of 2006 bond and convertible bond maturities. It enabled further reduction of average financing cost, maintained flexibility and the potential conversion would strengthen its balance sheet.

- **Neste Oil** This was an innovative offering structure, with 80% being spun off by its parent and 15% (€576m) being sold by means of an Initial Public Offering (IPO). It reduced the Finnish government stake from 60% to 50%, thereby creating new shareholders in the company.

- **RHJ International** This $952m IPO was upsized due to investor interest. The issue tapped 144a/Reg S markets. RHJ is a publicly listed company, so this structure is expected to deliver competitive advantage over other private equity funds.

- **Vivendi/Veolia** This €997m placement was part of Vivendi's restructuring of its stake in Veolia. A borrowing/hedging structure resolved an underlying warrant issue and allowed earlier placement that picked up on Veolia's share price momentum.

Bob Williams, FCCA MCT, is Group Treasurer at Allied Domecq.

High-yield Bonds

PAUL WATTERS INTRODUCES THE SHORTLIST FOR THE HIGH-YIELD BONDS CATEGORY.

The European high-yield market performed relatively well, returning around 10% in the year under review, although it was not without volatility. The market was extremely strong during the first quarter and, with yields falling to cyclical lows, a relatively high proportion of weaker rated issuers tapped the market. The issue of deeply subordinated payment-in-kind notes was a particularly novel feature of the market at that time. The sharp sell-off in April and May restored some balance to the market as investors became somewhat more discriminating.

The following transactions were selected by the panel for inclusion in the shortlist:

- **Cablecom** This transaction of CHF1.285bn senior secured notes due 2010 and 2012 refinanced bank debt with first lien, floating rate, secured notes for the first time in Europe. This gave high-yield investors significant benefits in terms of seniority and security. S&P assigned a single B issue rating as well as a '3' recovery rating (denoting meaningful 50-80% recovery prospects in the event of a default). The refinancing gave the company additional financial flexibility to grow its business as all contractual amortisation was removed and financial covenants reverted back to typical covenants incurring high yield.

- **Rémy Cointreau** In the first week of January 2005 Rémy launched €200m senior notes due 2012 to partly prefund a 2006-convertible bond redemption. This was a very well-timed and well-executed transaction for a 'BB-' (S&P) rated company. The book was 10 times oversubscribed and enabled the coupon to be set at 5.2%, well below guidance at 5.375% and a record low for a callable high-yield issue in Europe. It rose to a small premium on breaking into the secondary market.

Paul Watters is Head of Loan and High Yield Ratings, Europe, at Standard & Poor's Credit Market Services.

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Investment-grade Bonds

KARL FENLON INTRODUCES THE SHORTLIST FOR THE INVESTMENT-GRADE BONDS CATEGORY.

Eligible deals for the investment-grade bond of the year were those for companies with a European listing which closed between 1 October 2004 and 20 September 2005. Over the past 12 months we have seen the markets reacting positively to the effects of global economic stability, which, combined with a significant reduction in corporate supply, has fostered a highly favourable climate for issuers. Technical innovation continues to drive structural market changes, with the proliferation of instruments leading to the acceptance by investors of a more complex market.

The panel was pleased to receive a wide range of submissions covering the dollar, euro and sterling markets. As with other categories, the panel wasn't necessarily looking for the largest or best-priced deals but those that showed original thinking or were integral to a wider corporate event. The shortlist is as follows:

- **Anglian Water** Through Freshwater Finance plc, the utility used a structured finance solution to raise £402m of AAA, 30-year index-linked funding at an all-in cost below a straight index-linked bond. Despite the complexity, the deal qualified for hedge accounting under IAS.

- **BAE Systems Holdings Inc** The company raised $1.75bn in maturities up to 10 years to refinance the $4.2bn acquisition of United Defense Industries. The equity market's appreciation of the strength of the US defence market was repeated in the bond market and the use of a US issuer saw the bonds priced inside the parent company's existing issue.

- **Deutsche Telekom International Finance NV** A €3bn dual-tranche deal was the company's first jumbo Eurobond since 2002 and clearly demonstrated the change in the company over the last three years. Issued in January when the group was prefunded for the year, the deal paid little or no new-issue premium: the spread was 84% below the 2002 issue.

- **Diageo Capital plc** The company issued a $750m bond against the backdrop of continuing consolidation in the sector, typified by the Pernod Ricard offer for Allied Domecq. To allow for quick execution, the group issued a press release affirming its stance on capital structure and ratings in advance of the issue. The deal was announced and priced within six hours.

- **Slough Estates plc** A dual-tranche issue and an exchange offer was used to consolidate five existing securities. In the process of simplifying its capital structure, the group updated its documentation and reduced its interest cost while significantly extending the life of its debt.

Karl Fenlon, ACMA MCT, is Group Treasurer at Hanson plc.

Loans

SIMON COLLINS INTRODUCES THE SHORTLIST FOR THE LOANS CATEGORY.

Can you have too much of a good thing? Not if the thing in question is liquidity and you are a treasurer! European loan volumes for the 12 months to June finally broke exceeded $1 trillion fuelled by corporate refinancing activity, leveraged deals and a welcome return to some corporate M&A financing.

With so much money around, the precious commodity remained the borrowers! So pricing could only go one way, illustrated by deals such as Carrefour's €1.5bn at 11.5bp, itself an opportunistic refinancing of a very recent deal, and Nestlé's €2.5bn at 7.5bp. Interestingly, in both cases seven-year maturities have returned to the scene – more with a bang than a whimper. Is this pricing sustainable for banks? Surely not in isolation, and secondary market spreads tell us that fees on M&A transactions or capital market issuance are subsidising loan books.

Most of us remember a time before market flex. It quickly became ubiquitous, but in a nice illustration of the symmetry of market cycles we have seen reverse flex emerge during the year. Examples include Yellow Brick Road (spread down by 50bp) and Pets at Home (25bp).

So if seven years is the new five years, and five or six times EBITDA is the new three times, is the outlook rose-tinted? Liquidity seems unthreatened, with increasing hedge fund and institutional participation adding more capacity to the market. With it, however, comes the potential for over-exuberant participants to be wounded, and that eventually will rebound on borrowers. Maybe for treasurers the message is buy now while stocks last.

SHORTLISTED LOANS

Greene King Finance plc	£1.65bn acquisition financing;
Holcim Ltd	£1.6bn acquisition facility;
Informa	£1.25bn acquisition facility;
Land Securities plc	£2bn revolving credit refinancing;
Nestlé	€3.2bn revolving credit facility;
Pernod Ricard	€9.3bn acquisition facility; and
Volkswagen	€12.5bn facility.

Simon Collins is Chief Executive Officer of Corporate Finance at KPMG LLP.

Mid-market Financing

IAN FITZGERALD INTRODUCES THE SHORTLIST FOR THE MID-MARKET FINANCING CATEGORY.

Mid-market financing is a new category for 2005, reflecting the increasing percentage of the overall loans market that mid-market deals have represented this year.

With continuing record volumes and pricing compression seen in the investment-grade markets this year, there has been an increased segmentation and focus by lenders on mid-market borrowers.

This increase, in addition to strong private equity investment, has served to continue the impressive levels of mid-market activity seen in 2004.

There remains high demand for assets from the mid-market, and it is expected that the positive view of the sector taken by an increasing number of banks will continue.

The panel therefore felt it important this year to recognise this important segment with an individual category for mid-market deals.

The nominations and final shortlist are:

- **Alliance Medical** September 2005, £230m senior and mezzanine debt refinancing;
- **Melrose plc** July 2005, £230m acquisition facility for McKechnie and Dynacast; and
- **SportingBet plc** April 2005 £90m acquisition financing for Paradise Poker.

Ian Fitzgerald is Director and Head of Syndication and Distribution at Lloyds TSB.

Securitisation and Structured Finance

ANDREW VAUGHAN INTRODUCES THE SHORTLIST FOR THE SECURITISATION AND STRUCTURED FINANCE CATEGORY.

The markets for securitisation and structured finance again enjoyed a strong period characterised by increasing structural innovation and strong investor demand.

The following transactions were selected by the panel for inclusion in the shortlist:

- **BBC** This transaction, undertaken by White City Property Finance, provided the BBC with a substantial reduction in its cost of occupation of properties at its Media Village complex at the White City in London. The issue was innovatively structured, utilising capacity from self-invested personal pension funds and limited price index hedging. It was priced at near to historical 30-year-low levels, despite testing market conditions as investors became more risk-averse due to general credit spread widening.

- **Iberia Aereas de Espana** This transaction, which closed on Christmas Eve 2004, was completed to a tight timetable in order to finance the purchase of 20 new Airbus A320 aircraft by the end of calendar year 2004. The deal saw strong demand from investors throughout Europe despite the absence of a monoline wrap – the first time in Europe since the 9/11 New York terror attacks.

- **Transform Schools** This deal provided funding to a joint venture between UK groups Balfour Beatty and Innisfree to finance 21 new schools in North Lanarkshire, Scotland. The securitisation benefited from a monoline wrap and innovation through the incorporation of limited price index hedging, with inflation costs capped between 0% and 5%.

- **Wolverhampton & Dudley Breweries plc** This securitisation of a mixed portfolio of managed and tenanted pubs demonstrated excellent leverage levels and maintenance of operational flexibility. The deal was characterised by the effective way in which six classes of existing debenture stock were redeemed or exchanged for new securitisation notes. This was achieved through a proactive and focused approach to management of the existing investor base.

Andrew Vaughan, MCT, is Group Treasurer at Mitchells & Butlers plc.

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Trends: Hybrids

FRANCIS BURKITT INTRODUCES THE SHORTLIST FOR THE TRENDS: HYBRIDS CATEGORY.

It is probably fair to say that hybrid bonds represent the most important new development in financing techniques for companies that we have seen for a number of years. The big question is: are they here to stay, or will they be a flash in the pan? Opinions seem divided, especially in the UK where we await the first issue from a UK corporate. Proponents argue that hybrids should be an everyday part of a company's capital structure, and that, say, within five years, about a fifth of companies might have issued some; they point to the ever-increasing number of companies choosing to use securitisation as an example of how new financing techniques can become mainstream after a few years.

The detractors say hybrids are suitable or appropriate in only very limited circumstances, and are likely to be rarely used by most companies. Historians say that they are akin to preference shares, which were a mainstay of UK companies' balance sheets for many years. People active in the financial institutions sector point out that they have been using hybrid capital for many years, so it is natural for the product to move across to the corporate sector. We shall see.

In the meantime, the five issues on our shortlist were all well-received by the market, and were notable for heralding the development of this market. They all had their own individual drivers for issuance and structural terms and conditions, and you are invited to judge between them.

- **Bayer** €1.3bn 10-year, non-call 10;
- **Casino** €500m undated, deeply subordinated CMS FRNs;
- **DONG** €1.1bn senior and hybrid bond, non-call 10;
- **Südzucker** €500m perpetual non-call 10; and
- **Vattenfall** €1bn perpetual non-call 10.

Francis Burkitt is Managing Director, Corporate Finance at JPMorgan Cazenove.

Shortlist

Equity and Equity-linked

BAE SYSTEMS

€187m accelerated bookbuild/Saab

Following changes to a 50/50 joint venture project between BAE Systems and Saab, BAE sought to reduce its stake in Saab through a placement of 14% to around 20%.

The transaction was launched two trading days after Saab published its 2004 financial results and was accompanied by a roadshow in Europe and the US.

BAE was able to take advantage of a strong performance in the share price, which climbed 25% in the five months to the bookbuild.

David Brent, Group Treasurer of BAE Systems plc, said: "The placing was completed in an efficient manner without undue disruption in a more than acceptable timeframe. The process achieved all the company's expectations."

ABN AMRO Rothschild

Deutsche Telekom/ Mobile Telesystems

$1.729bn accelerated equity offering

Deutsche Telekom cut its holding in Russian mobile telecoms company Mobile Telesystems in what was the largest ever Russian equity offering.

The bookrunners took advantage of the existing, but illiquid, London global depository receipt listing to create a new pool of liquidity for investors and allow Deutsche Telekom to exit at the earliest opportunity.

The book closed in under two days, more than two and a half times oversubscribed, which amounted to $4.3bn of demand.

Initially, Deutsche Telekom planned to divest a 12% stake in Mobile Telesystems, but the telecoms operator decided on a higher stake due to strong demand for the shares.

Citigroup, UBS

Lonza

CHF430m convertible bond

With a significant amount of debt expiring in the same year – CHF675m in 2006 – Lonza wanted to refinance in advance to avoid any subsequent pressurising and to exploit a low interest rate environment.

It therefore issued a four-year convertible bond. The deal was five times oversubscribed and the issue amount was increased from CHF330m to CHF430m.

Markus Scheuber, Head of Treasury at Lonza Group AG, said: "This very successful transaction enabled Lonza to refinance a big part of the long-term debt due in 2006 at attractive conditions. From the decision to launch a convertible bond till the launch of the transaction in the market just took around two month, and was done by a very small team within Lonza."

CSFB, Deutsche Bank

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Shortlist

Equity and Equity-linked

NESTE OIL

€576m initial public offering

Neste Oil demerged from its parent Fortum Corporation, completing the largest IPO in the Nordic area for 2005.

An innovative structure saw 85% of the company spun off by the parent and 15% sold via the IPO. It was the first European IPO to raise its bookbuilding price for five years.

The transaction was more than 20 times oversubscribed and priced at the upper end of the revised price range. The share price rose 7% in initial trading.

The full separation was achieved in a tax- and cost-efficient manner while providing some cash to Fortum. The spin-off and the 15% IPO reduced the government stake from 60% to 50%, taking away what otherwise would have been an overhang.

ABN AMRO Rothschild, Merrill Lynch, Morgan Stanley, Nordea

RHJ INTERNATIONAL

$952m initial public offering

As a private equity fund, RHJ International had an outstanding track record including deals on the Shinsei Bank and Japan Telecom.

The IPO was both a private placement and a direct listing. The IPO element consisted of an initial offering of 12.5 million shares at a range of €17.25-€19.25, which was upsized to 25 million shares in the same range due to strong investor interest.

As a publicly listed company on the Euronext Brussels exchange, RHJ expected to have considerable competitive advantage over the other private equity funds, including a long-term planning horizon, liquidity for investors and alignment of shareholder interest with management. The other key was the company's strategic access to Japan.

Goldman Sachs, Morgan Stanley

VEOLIA Environnement

€997m disposal of stake

This complicated transaction combined a major accelerated bookbuild as an over-the-counter derivative and a private placement.

The placement of 10% of Veolia's share capital was part of the restructuring of Vivendi Universal's 20.4% remaining stake in the company. The deal also involved a direct sale of 3% of Veolia's capital to SG CIB, as part of its hedging of a derivative transaction concluded with Vivendi. Vivendi borrowed the shares sold through the accelerated bookbuild.

Veolia's share price rose 14.6% during the preceding three months, with the deal enabling Veolia to remove the overhang effect caused by the residual Vivendi stake and increase the liquidity of its stock.

Deutsche Bank, Lazard-Ixis, Société Générale

High-yield Bonds

cablecom

CHF1.285bn senior secured notes

Having successfully emerged from a financial restructuring and subsequently outperformed the bank plan consistently, Swiss cable operator Cablecom decided to seek a more flexible capital structure.

Early in 2004 it announced a refinancing of existing bank debt via dual-tranched, multi-currency senior secured notes. This novel structure offered first-time refinancing of entire senior facilities with first-lien secured notes in a non-distressed situation.

Christopher Winfrey, Senior Vice-President of Corporate Finance & Development, at Cablecom GmbH, said: "The transaction eliminated scheduled principal amortisation and lowered our overall interest cost to achieve significantly more operating flexibility to drive growth."

CSFB, Deutsche Bank, Goldman Sachs

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RÉMY COINTREAU

€200m senior 10-year notes

Rémy Cointreau's main aim was to anticipate the 2006 maturity of €321m of convertible bonds. After changing its term loan facility into a revolving facility, it used the proceeds of the notes to reduce debt and reload its bank debt capacity.

Investors' reaction exceeded expectations. The company sold €200m of 2012 bonds to yield 5.2%, after initially offering a €150m deal at a coupon of 5.375%. Rémy then renegotiated its bank debt facilities, lowering the spread on the new facilities to 67.5bp compared with 120bp pre-refinancing.

Françoise Cambilargiu, Group Treasurer of Rémy Cointreau, said: "We have proved how a company can use the high-yield market at different times to manage its transformation and support its development."

Bank of America, BNP Paribas

Investment-grade Bonds

anglianwater

£402m 30-year fixed-rate bonds

Anglian Water wanted to increase its exposure to inflation-linked debt because it is a perfect match for its regulatory assets, which are very long term and have a value explicitly linked to UK inflation.

Having raised £400m in the capital markets earlier in the year, Anglian knew some big players would have had to sell existing bond holdings to buy large amounts of any new inflation-linked bonds.

The utility did not want further exposure to synthetic inflation-linked debt because it did not obtain hedge accounting under IAS, and generated mark-to-market volatility.

Jane Pilcher, Treasurer at Anglian Water, said: "This extremely cost-effective solution enabled Anglian Water to raise a significant level of inflation-linked funding, at a historically low price and in an accounting-friendly manner."

HSBC

BAE SYSTEMS

$1.75bn 144 "A" issue

At the beginning of 2005, BAE Systems wanted to acquire United Defense Industries by rapidly refinancing its drawings on an acquisition facility. The facility was deliberately structured as a 12-month loan with a six-month term-out option, both to minimise cost and to facilitate the term-out in the bond market.

Ultimately, $1.75bn was drawn from the facility on completion on 24 June and the amount refinanced in the US 144 "A" market as soon as possible to avoid any potential general deterioration in the bond market.

David Brent, Group Treasurer of BAE Systems plc, said: "The $1.75bn bond issue was the final piece of the jigsaw. Its placement at the tight end of pricing guidance, with solid investors, within a day and half of announcement, met all our expectations."

Bank of America, Barclays, Citigroup, JPMorgan, UBS

Deutsche Telekom

€1.25bn in 3.75% five-year notes and €1.75bn in 4.00% 10-year notes

Deutsche Telekom focused on debt reduction in its first jumbo Eurobond issue since May 2002, which took advantage of strong demand from cash-rich investors early in the year.

It avoided competing supply, warranting full investor attention and benefit from the company's credit spreads close to the all-time tights, avoiding market risks and potential volatility caused by spiking.

Deutsche Telekom decided to opt for a dual-tranche issue in the most liquid parts of the curve, five-year and 10-year, to achieve the broadest investor following and the tightest new issue pricing.

Both bonds showed a strong secondary market performance and provided the telco with a platform for a number of tightly priced follow-up medium-term issues.

BNP Paribas, JPMorgan, UBS

DIAGEO

$750m five-year global SEC-registered bond

In April 2005, the treasury team at Diageo made the most of an attractive bond market and seized its chance.

To ensure market transparency, the company issued a press release laying out its policy on acquisitions and ratings. The next day, the Diageo team issued, upsized and priced a global bond, raising $750m at T+61 – the tight end of price guidance.

Charles Coase, Treasurer at Diageo, said: "This was a great first bond issue for me and a new treasury team against a background of volatile credit markets and significant change in our industry. We worked very hard to ensure our investors were fully informed about our corporate strategy and stance on rating, well supported by joint book-runners, Barclays Capital and JPMorgan Cazenove, and ratings agencies, and were rewarded with excellent size and attractive pricing."

Barclays, JPMorgan

sloughestates international

£328.1m exchange offer

In June 2005, Slough Estates completed an exchange offer for five of its sterling securities, buying back £50m of 2007, £31.85m of 2009, £100m of 2017 and £40m of 2019 issues.

By redeeming these relatively small, high-coupon bonds for two current-coupon and more liquid issues, Slough saved £11m a year in interest payments.

Trevor Mant, Group Treasurer at Slough Estates plc, said: "This debt management exercise offered a sensible, well-balanced transaction from which the investors and Slough Estates both benefited. Slough gained from the future improvement to earnings and the investors from effectively exiting the old bonds at market value and receiving higher-value and more liquid current-coupon bonds with better covenant protection."

Barclays, Royal Bank of Scotland, UBS

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Shortlist

Loans

£1.65bn acquisition financing

To finance the acquisition of Laurel's pub estate and refinance existing debt, Greene King took out a debt package with a firm offer of a two-year bridging deal for the full amount and a five-year bank syndication to complement a planned securitisation.

Michael Shallow, Finance Director at Greene King plc, said: "At £654m, Laurel Neighbourhood was our largest acquisition yet. To beat off the competition, we had to raise money fast and we were keen to finance it wholly with debt.

"Lloyds TSB responded with skill and innovation, and thanks to the strength of our relationship and their understanding of our business, they were able to fund our £1.2bn bilateral bridging facility and support as lead bookrunner our £450m syndicated term-loan facility in record timescales."

Lloyds TSB

£1.6bn acquisition facility

Cement group Holcim Ltd's acquisition of Aggregate Industries plc represented the first major European financing in 2005. Due to UK takeover regulations, Holcim had to have funds in place before announcing the acquisition.

Historically, Holcim had relied on bilateral agreement for its ongoing financing needs. This deal was fully subscribed after a successful senior phase but the deal proceeded to general syndication to permit banks to join the deal on smaller tickets.

The MLA phase generated a 100% ratio, with 21 banks committing and 12 additional banks joining in general syndication, raising a total of £3.8bn.The loan was split equally between an £800m 364-day revolver with a one-year term-out option and an £800m three-year revolver.

Citigroup

£1.25bn acquisition facility

In July 2005 Informa completed the $1.4bn acquisition of IIR – a major competitor in commercial conferences – and subsequently changed its name from T&F Informa plc to Informa plc.

It structured the deal conservatively, delivering an expected net debt to EBITDA ratio below four times within six months. Debt was provided by Informa's existing banking syndicate, which was marginally expanded for the extra cash required.

Tony Foye, Finance Director of Informa plc, said: "As a trade buyer in a competitive auction process, we needed speed, certainty of funding and flexibility to mirror the dynamic nature of the transaction. It was also important to maintain the banking syndicate that has supported Informa so well and this structure allowed us to do so."

ABN AMRO

£2bn revolving credit refinancing

Having decided that its mix of secured and unsecured funding was not compatible with its strategic business objectives, Land Securities Group moved to redevelop its funding structure.

The company created a hybrid transaction with few operational restrictions at low levels of gearing (akin to unsecured debt) and more restrictions at higher gearing (akin to a CMBS securitisation).

The banking facility improved the group's credit ratings, substantially reducing the ongoing cost of debt. The increased business and financial flexibility achieved strategic objectives. An extensive and common covenant package for all investors simplified monitoring. Inter-creditor arrangements were also clearly defined, and there was more comprehensive and relevant investor reporting.

Barclays Capital, Citigroup, Lloyds TSB

€3.2bn revolving credit facility

With market conditions moving favourably for borrowers, Nestlé chose to refinance its existing €3.2bn backstop facilities. It successfully closed the syndication of its two revolving credit facilities with a new €2bn facility for Nestlé SA and a new €1.2bn facility for Nestlé Germany. Both were oversubscribed.

The €2bn facility has a seven-year tenor and is priced at 7.5bp over Euribor, with a commitment fee of 2bp. The €1.2bn facility has a maturity of five years with two extension options and costs 12.5bp over Euribor, with a commitment fee of 3bp.

Karim Derder, Group Treasurer at Nestlé SA, said: "The success of this very tightly priced deal confirms the value of our AAA rating. Such favourable conditions can only be obtained by ensuring that the very high value of the Nestlé name is maintained."

Citigroup, Deutsche Bank

€9.3bn acquisition facility

Pernod Ricard acquired Allied Domecq, generating the funds to absorb a target twice its size and minimising competition issues by partnering with US Fortune Brands. Fortune Brands provided 40% of the finance, new Pernod equity 20%, and a debt acquisition facility 40%. The loan financed the cash element of the bid.

Pricing used a margin ratchet based initially on the senior unsecured rating for the target during the first year, and a leverage grid thereafter. The deal raised over €17.6bn – an 89% oversubscription, with a 75% success ratio in terms of invited banks.

Olivier Guélaud, Group Treasurer at Pernod Ricard, said: "Currency mix, sustainable ratios, maturities and take-outs have been the drivers of a sophisticated structuring, alongside reasonable pricing."

BNP Paribas, JPMorgan, Morgan Stanley, Royal Bank of Scotland

DEALS OF THE YEAR 2005

Loans

VOLKSWAGEN AG

€12.5bn revolving credit facility

This multi-currency facility is Volkswagen's backbone banking facility and serves as CP-backstop and long-term liquidity reserve. It was a reduced facility size adjusting to the company's liquidity needs.

Despite two downgrades, pricing improved compared with 2002 as the company took advantage of favourable market rates.

The one-step syndication was targeted at core banks, second-tier relationship banks, and banks with niche and/or regional services.

The syndication process was extremely successful due to fair structure and pricing. Bookbuilding closed at €17.1bn. There was a 36.8% oversubscription of €4.6bn, which was used for reducing commitment.

The market was not pushed as Volkswagen opted for a 5+1+1 tenor rather than a seven-year tranche.

ABN AMRO, Calyon, Citigroup, Dresdner KW

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Mid-market Financing

Alliance Medical

£230m committed medium-term facilities

In early 2005 Alliance Medical decided to raise its second capital expenditure facility in as many years. The company also decided to reduce the overall cost of capital by recapitalising its balance sheet.

It secured a 100% capital expenditure facility and significantly reduced its cost of capital through the redemption of shareholder loan stock. At £230m, the facilities secured were at the top end of shareholder expectations.

Peter Jarman, Group Finance Director of Alliance Medical Limited, said: "We have a new, supportive banking group that understands our business and buys into our growth plans. We secured the facilities on excellent terms with a significant element to finance future growth."

Dresdner KW, Royal Bank of Scotland

MELROSE

£230m acquisition facility

Melrose plc acquired two businesses for £429m after raising bank facilities of £530m plus equity for its failed hostile bid for Novar.

It raised £230m debt facilities with Barclays and Lloyds, which were successfully syndicated to eight international banks, split between a £200m committed five-year facility and a £30m working capital facility. The balance of the acquisition came through issuing ordinary shares, taking Melrose from an AIM cash shell to a mid-size engineering plc which will float on the main market as soon as practicable.

Geoff Martin, Group Finance Director at Melrose plc, said: "Melrose plc acquired two international engineering businesses with good cash generation characteristics, strong market shares and a global presence."

Lloyds TSB, Barclays Capital

sportingbet Plc

£90m debut syndicated loan and acquisition financing

Sportingbet broke new ground as the first internet gaming concern to access the syndicated loan market. Its £90m financing was also pioneering in terms of addressing the structural and documentation issues required for a successful placement.

The company was seeking debut financing to fund the key strategic acquisition of online poker operator Paradise Poker.

Given the uniqueness of the financing and the lack of familiarity of potential lenders with the business and its dynamics, it was necessary to educate the market about the complex array of credit, business, legal and regulatory risk surrounding the transaction. Five months after financial close the syndication was completely oversubscribed.

Barclays Capital

Shortlist

Securitisation and Structured Finance

£365m commercial mortgage-backed securitisation

This deal took advantage of the cheap long-term rates available in the bond markets.

White City Property Finance issued £365m of notes securitising the revenue stream from the BBC's lease obligation. A nominal bond issue was arranged and an LPI hedge constructed to create an effective index-linked issue where the bond and rental cashflows matched. The customised LPI (with a 1.5% floor and a 4.2% cap) ensured a favourable cost of occupation at the BBC's Media Village at the White City.

Stephen Wheatcroft, BBC Group Treasurer, said: "This was a great deal for the BBC, generating a substantial cost saving and cashflow benefit. The structure is tax-efficient due to the SIPP structure employed, and attracted very fine pricing on the wrap and a margin below 50bp."

Barclays Capital

$333m equivalent Iberbond transaction

Iberbond 2004 continues Iberia's favouring of innovative solutions to finance its fleet expansion and standardisation programme.

The deal incorporated capital markets bonds, bank loans and tax-driven leases spanning a number of jurisdictions. Among the many innovative structural features are a committed subordinated liquidity facility to cover up to 36 months of interest.

The transaction enabled Iberia to spread the financing cost over 20 aircraft.

Jorge Otero Rodriguez, Head of Finance at Iberia Líneas Aéreas de España SA, said: "It is probably the most efficient structure created so far in aircraft finance. It is optimal in term of cost and diversification thanks to the combination of capital markets, mezzanine bank debt and Japanese equity.The deal was excellently timed in terms of rates, liquidity and spreads."

Morgan Stanley, Royal Bank of Scotland

£72.5m secured bonds

The funds will finance the design and construction of new school facilities for North Lanarkshire Council in Scotland. The project company will provide maintenance and limited non-educational support services under a 32-year agreement, which expires in 2037.

The project aims to provide educational facilities for school pupils as well as modern facilities for the wider community.

The debt consists of £72.5m index-linked guaranteed secured bonds due in 2036, and £70m in senior secured loans due in 2034 from the European Investment Bank. The AAA ratings on the debt reflects unconditional and irrevocable payment guarantee of scheduled interest and principal provided by XL Capital Assurance. The BBB- underlying rating on the bonds and loans reflect the credit risks.

Royal Bank of Canada

£805m securitisation

Wolverhampton & Dudley Breweries had six debentures (nominal £245m, market value £278m) with maturities of varying lengths, restrictive borrowing covenants and at penal interest rates. The issuer could only redeem them at the prohibitive cost of paying the yield at the benchmark gilt.

A securitisation deal replaced not only debentures but also existing bank debt. The all-in cost was 5.33% and the cost of exchange and redemption of debentures was limited to £288m, only £10m above market value, a discount of £32m to full spens.

Andrew Winning, Director of Treasury and Risk at Wolverhampton & Dudley Breweries plc, said: "We achieved greater financial flexibility through a market-leading covenant package, at optimal leverage, with highly favourable pricing and to timetable."

Royal Bank of Scotland, Barclays Capital, HSBC

Trends: Hybrids

Bayer

€1.3bn hybrid bond issue

Bayer's July issue was the largest corporate bond issue of its type ever placed in Europe. High demand from investors exceeded expectations for this subordinated hybrid bond. The order book totalled over €5bn, so the issue volume was increased to €1.3bn and the book closed early. Interest on the new bond was fixed at 180bp above the 10-year swap rate and the coupon at 5%.

The bond will mainly be used to finance the repurchase of part of the 5.375% Bayer bond due in April 2007.

Henryk Wuppermann, Head of Capital Markets at Bayer, said: "The hybrid bond in combination with a simultaneous tender for a Eurobond was designed to improve Bayer's credit metrics. The bond received strong equity credits from S&P and Moody's, and is so far the largest corporate hybrid ever placed, with the lowest spread at issuance."

Deutsche Bank, JPMorgan

Groupe Casino

€600m undated CMS FRNs

French supermarket Casino issued a deeply subordinated perpetual bond which can be bought back in five years. It offers a yield of 7.5% in the first three years and then a yield premium of 100bp above the constant maturity swap – a floating interest rate that is reset at fixed intervals. It was the first time a corporate had issued using this structure.

Jacques Tierny, Casino's Executive Director and Managing Director of Administration and Finance, said: "This is a nice trade-off for Casino, which is looking for an after-tax balance sheet enhancer with high flexibility, and investors looking for stable high returns."

When Casino first brought the deal to the market, the market was not right for the product. The success of the reminted deal demonstrates the continued demand from retail investors for products linked to constant maturity swaps.

Bank of America, BNP Paribas

DONG

€1.1bn senior and hybrid bond

Following a number of acquisitions, Danish energy company Dong decided to increase equity by around €1.3bn. A number of asset sellers agreed to be paid in Dong shares, so the hybrid was also based on a value perspective. As debt it looks expensive, but Dong had decided to increase equity, and as equity the hybrid was attractive.

The hybrid did not dilute the existing ownership. As a debut issuer, the hybrid was launched together with a seven-year senior bond. The hybrid was over-subscribed almost three times.

Morten Buchgreitz, Head of Treasury & Risk Management at Dong A/S, said: "The large interest from the market ended with the issue upsizing from €500m to €1.1bn and total orders exceeding €3bn spread over more than 200 investors."

BNP Paribas, Deutsche Bank, Morgan Stanley, Nordea

Südzucker

€700m perpetual non-call 10

Sugar producer Südzucker placed a €500m hybrid benchmark that Südzucker can call at par after year 10. The coupon of 5.25% is fixed for the first 10 years.

It is the first corporate hybrid to achieve a 75% equity treatment by Moody's and full equity credit for rating purposes by S&P. This has materially strengthened the company's capital structure.

The order book included a wide range of institutional investors with a strong foothold in Germany and the UK. The successful introduction of hybrid securities in euros is an example of the risk appetite within the investment-grade market.

Dr Kirsch, Chief Financial Officer at Südzucker AG, said: "With this hybrid, we successfully broadened our funding sources and at the same time optimised the capital structure and cost of equity."

Deutsche Bank

Bayer's Henryk Wuppermann will be on the panel of an ACT breakfast meeting on hybrids, 8 December. Visit www.treasurers.org/events for more details.

Vattenfall

€1bn perpetual non-call 10

Vattenfall is entirely state-owned, so access to new equity capital is very limited and the Nordic electricity utility pays particular attention to the corporate hybrid capital market. Until recently, it had found corporate hybrid products lacking in terms of ratings transparency and of scale.

Earlier this year these two shortfalls disappeared and the company targeted a deal of benchmark size with a structure that would receive at least 50% equity credit.

The aim of the issue was to achieve the combined effect of lower total average cost of capital for the group in combination with an increase in debt capacity.

Klaus Aurich, Head of Investor Relations at Vattenfall AB, said: "With this deal, Vattenfall secured access to attractively priced capital that will increase its ability to pursue our growth strategy."

Citigroup, JPMorgan, Merrill Lynch