In a difficult place

AS WE START TO LOOK FOR WORTHY WINNERS OF THIS YEAR'S DEALS OF THE YEAR AWARDS, SPONSORED BY LLOYDS TSB, **PETER WILLIAMS** REPORTS ON THE STATE OF THE MARKETS THAT ALL CORPORATES HAVE BEEN CONTENDING WITH.

Whatever else you might say about 2008, it will live long in the memory. The financial and banking crisis, bad enough on its own, joined forces with a gathering recession in the real economy to create – to borrow a favourite phrase of the pension industry – the perfect storm.

DEBT MARKETS The out-turn for the final quarter of 2008 remains to be seen, but the first three quarters of the year already paint a compelling picture. According to financial information company Dealogic, global debt capital market volumes were down 29% compared with the first nine months of 2007, while the high-yield market fell 51% in the same period. Global debt capital markets totalled $3.6 trillion, and 14,922 deals were completed. Following the record volume of the second quarter of 2008, corporate investment-grade issuance plummeted 58% in the third quarter to $343.9bn.

In Europe, the Middle East and Africa, debt capital market volume was $1.46 trillion for the first nine months of 2008, a decrease of 21% on the $1.84 trillion for the first nine months of 2007. The slowdown became more pronounced, with the September volume of $93.3bn down 14% from August's $108.3bn, pushing overall third-quarter volume down 55% to $315.7bn from $706.2bn in the second quarter of 2008 and down 14% on the third quarter of 2007.

SYNDICATED LOANS Syndicated loans also took a knock in 2008, according to figures from information company Thomson Reuters. Global syndicated lending was $1.3 trillion in the first half of 2008, representing a 46.6% decrease from the same period in 2007 when global volume was $2.4 trillion. Facilitated by low interest rates, lending activity was led by borrower refinancing, which accounted for 27.5% of syndicated lending volume in the first half of 2008. Global M&A was the next largest use of proceeds, with acquisition financing (including leveraged buy-outs) comprising 20.9% of overall activity in the year to date period.

EQUITY CAPITAL With continued uncertainty across the global equity capital markets, global equity and equity-related underwriting volume in the first half of 2008 fell to $283.2bn, the lowest level since the first half of 2005 when volume was $220.8bn. According to the equity capital markets review by Thomson Reuters, US issuers led the activity bringing to market $139.6bn, followed by Europe with $50.7bn and Asia with $45.2bn of issuance. Major US stock exchanges Nasdaq and NYSE facilitated the distribution of 37% of initial public offerings (IPOs) in the first quarter, representing a shift from last year when the two exchanges hosted only 18% of global IPOs by volume.

Many issuers and underwriters, reluctant to bring issues to market in such an uncertain financial environment, have withdrawn or postponed planned IPOs in the first half of 2008. Globally, 96 issues, accounting for $31.7bn in proceeds, were held from market in the first half of 2008, a drastic change from 41 issues totalling $6.0bn in the same period of 2007. Conversely, new issues have declined sharply in this period from 729 in the first half of 2007 to just 285 so far this year.

Year to date volume in the global equity capital markets was driven by follow-on offerings, which totalled $128.8bn and accounted for 45.5% of issuance for the year, down 36.6% from $203.2bn in the first half of 2007. The volume of global IPOs reached $69.7bn compared with $134.8bn last year to date, a 48.3% fall. Convertible offerings totalled $84.7bn, 15.8% lower than last year to date.

Executive summary

- The financial and banking crisis will not be forgotten any time soon and the uncertainty looks set to continue. Across the global debt and equity markets the gloom was reflected in lower volumes and decreased activity.

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Sources: Dealogic and Thomson Reuters

2008 pick of the crop

PETER WILLIAMS LOOKS BACK AT SOME OF THE DEALS THAT MADE IT INTO THE PAGES OF THE TREASURER MAGAZINE IN 2008.

As last year's Deals of the Year were being handed out, the takeovers by trade buyers, private equity and initial public offerings were still flowing. The Jan/Feb 2008 issue of The Treasurer analysed the £572m takeover by Carillion of Alfred McAlpine. The deal showed that, with a bit of negotiation, in volatile times deals could still be done. The shares and cash acquisition came after three separate offers from Carillion and was settled at below the original price. A sign of things to come?

Private equity still stalked the land with both testing and inspections group Inspicio and oil rig group Abbot falling prey, while in the bond market global drink giant Diageo still managed to find investors with a thirst for $2bn after reopening an autumn bond offer.

The March issue carried pictures of the glittering Deals ceremony while reporter Bob Lea revealed that investors were looking elsewhere as Europe slumbered. As the tumbleweed blew through the European bond market it was the Middle East that provided the action with the National Bank of Abu Dhabi knocked over in the rush for $2bn of 10-year floating-rate subordinated convertible bonds.

The World Bank also entered the market with its first benchmark sterling-denominated bond in seven years. The £350m two-year bond, paying a coupon of 4.5%, had been issued, said the bank, in response to particularly high levels of demand.

At the start of 2008 City analysts were claiming the credit crunch would see a return of the rights issue as companies turned to shareholders to shore up balance sheets. One company which fulfilled that prediction was Paragon, the British buy-to-let mortgage firm, which launched a 25 for 1 rights issue to raise £287m.

Well you can't get it right all the time can you? Ever optimistic, The Treasurer in April suggested that the markets were spying the first green shoots of returning liquidity. The evidence? Big defensive stocks with solid investment-grade pedigrees were testing whether a thaw was under way. Tobacco giant BAT raised more than £1.5bn from the bond market just days after splashing out $4bn on buying Danish tobacco company Skandinavisk, and then looked east to spend $1.7bn on Turkish company Tekel. Midlands water utility Severn Trent tapped the Eurobond market for €750m, part of a €3.5bn medium-term note programme, while GlaxoSmithKline followed BAT into the bond market with a long-dated 31-year £700m offer paying a coupon of 6.375%.

In May, while treasurers headed to Edinburgh for the ACT's annual conference, Inma Bank headed to London with Saudi Arabia's largest ever initial public offering and the second biggest in the Gulf region. The $2.8bn floatation cemented the position of Inma Bank as one of the most powerful Islamic institutions operating under sharia law in the world, and second only in size to the country's Al Rajhi Bank.

Elsewhere the most notable activity in the debt market was Thames Water, Britain's largest water company, which launched a 50-year £400m sterling bond paying a coupon of 7.241%. Call and put options in 2018 effectively make it 10-year paper, with Thames having the opportunity to call the bond and then reprice a 40-year bond.

BY MID-SUMMER THOSE PREDICTIONS OF RIGHTS ISSUES MADE EARLIER IN THE YEAR SEEMED TO BE ON THE MONEY.

Summer may have been a wash-out weather-wise but the market provided a little ray of sunshine. New World Resources, a mining concern covering the Czech Republic and Southern Poland, and Mexican silver miner Fresnillo both debuted on the London stock market, confirming its status as the world's most important bourse for mining and commodity companies. In the bond market, 3i raised thoughts that convertible bonds may be coming back into fashion with its £425m of unsecured convertibles paying between 3.625% and 4.125%, due in 2011, while electricity generator International Power also raised €500m of convertibles due in 2015.

By mid-summer those predictions of rights issues made earlier in the year seemed to be on the money. The £4.9bn one for two rights issues from Imperial Tobacco – required to refinance its £11bn acquisition of Gauloises and Gitanes cigarette group Altidis – received over 97% acceptance, but that was dwarfed by the RBS £12bn rights issue designed to meet its self-imposed capital adequacy rules. The RBS issue was Britain's biggest ever and twice the size of previous record holder BT. The £4bn HBOS rights issue looked positively modest in comparison.

The September issue reported that the world's biggest retailer Wal-Mart had prised open the credit markets in Japan by selling Y100bn ($930m) of samuri bonds. The largest ever non-financial issue in the year, it also underlined the trend for foreign multinationals to tap the Japanese investment community.

Going east for a deal looked sensible as a damp summer turned to a crisis-torn autumn. In October The Treasurer reported that the main feature of the debt markets was the definite end to cheap money, at least for now, as they vainly tried to shake off the clutches of the credit crunch. Tesco kept raising funds, though, with The Treasurer reporting a two-part Eurobond raising €3bn in total: a €1.5bn four-year bond, with the other €1.5bn set to mature in 2016.

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Deals of the Year Awards 2008

DEALS OF THE YEAR AND TREASURY TEAM OF THE YEAR proudly supported by Lloyds TSB Corporate Markets
Nominations are open for the Deals of the Year Awards which The Treasurer magazine is once again delighted to be organising. The Awards celebrate the achievements of the corporate treasurer in successfully accessing the debt and equity markets on behalf of their company. In addition, the Treasury Team of the Year Awards recognise the all-round contributions of treasury teams to business success.

The Awards have been reclassified this year to reflect the dynamic nature of the corporate marketplace. In each category, all types of deal will be considered and judged on the basis of meeting the consistent criteria, rather than on the size of the deal.

This year sees the launch of a new award, the SME Corporate Treasury Team of the Year, to recognise the achievements of small and mid-size corporate treasury teams across all aspects of treasury: cash management, risk, and corporate finance and treasury operations. This complements the existing Corporate Treasury Team of the Year Award.

The Awards will be celebrated at the Deals of the Year Awards Dinner, an exclusive evening event for corporate treasurers to be held on Thursday 5 February 2009. The winners will be announced and be presented with their awards at the dinner.

Previous winners include Rexam, Cookson, Bayer, Grainger, NXP Semiconductors and Tesco.

THE DEALS OF THE YEAR AWARDS PANEL
The Deals of the Year Awards panel comprises a distinguished group of experts from across the spectrum of corporate finance and funding. The panel will give full consideration to all nominated deals and use the criteria below to select the winners of each category, plus an overall winner. It will also draw up the shortlist for the Corporate Treasury Team of the Year.

The members of the panel are:
Jonathan Slade, Diageo (Chair)
Francis Burkitt, NM Rothschild & Sons
Ian Fitzgerald, Lloyds TSB
Mary Finn, Burton Foods
Lesley Flowerdew, WS Atkins
Sean Hanafin, Citi
Peter Matza, ACT
Nick Mourant, Tesco
Neill Thomas, KPMG Corporate Finance
Paul Watters, Standard & Poor's
Graham Wood, formerly E.ON
Henryk Wuppermann, Bayer

AWARDS CATEGORIES
- Bonds, including high-yield bonds;
- Corporate Finance (hybrids, asset-backed, IPOs, convertibles and other equity);
- Liability Management (management/restructuring of existing debt facilities, with a potential element of new finance);
- Loans, UK and Continental Midmarket Corporates (deal size < £750m);
- Loans, UK Larger Corporates (deal size > £750m);
- Loans, Continental European Corporates (deal size > £750m);
  PLUS
- Overall Winner, selected from winners of the above categories;
  PLUS
- Treasury Team of the Year, market cap above £2bn; and
- SME Treasury Team of the Year, market cap under £2bn.

All nominations must be sent to the ACT by 12 November 2008 to be eligible. For private equity deals, leveraged buy-outs and other deals which involve several categories, the bank should nominate the deal for one category only.

CRITERIA AND THE SELECTION PROCESS
Deals will be considered from the corporate treasury perspective. The basic criterion is that they show excellence in corporate treasury, as demonstrated by any or all of the following:

- sound treasury management;
- efficient pricing;
- optimal or innovative structure; and/or
- relative success in prevailing market conditions.

The deal must involve a corporate with a UK or Continental European domicile in which the corporate treasury team played a significant role.

Only non-financial corporate deals are considered. Deals from organisations such as supranational, agencies, municipals and financial institutions will NOT be considered. Deals may be in any currency.

Only deals completed between 1 January 2008 and 31 December 2008 qualify for consideration.

Please note that the Panel reserves the right to consider a deal in a different category from the one for which it was nominated.

FOR THE TEAM OF THE YEAR
Taking into account the relative sizes of the company and treasury team, this would be the team which across all treasury disciplines – cash management, corporate finance and funding, governance and risk management – demonstrates all or any of the following:

- sound treasury management;
- strong technical knowledge and ability;
- innovation in technology and systems; and/or
- ability to build strong relationships with the company's bankers and advisers.

The concept of treasury team should also be taken widely; a team may consist of one or two people in the treasury department supported by a broader group who help perform the treasury function.

Nominations should be sent to Tolu Babatola by email, tolu.babatola@treasurers.org, or by post to Tolu Babatola, The Treasurer magazine, The Association of Corporate Treasurers, 51 Moorgate, London EC2R 6BH, UK.

See www.treasurers.org/awards for full details.