Diageo brings cheer to market

The Guinness and Smirnoff drinks giant **Diageo** provided a long-awaited pick-me-up for the slumbering corporate debt market, raising $1bn via a five-year dollar-denominated bond. The issue, due January 2014, will be paying a coupon of 7.375% above what Diageo would ordinarily expect to pay in less credit-constrained times.

"We have a policy of smoothing out our debt-finance maturities and the proceeds of this bond will be used to service current cashflow requirements," said a Diageo treasury spokesman.

Banc of America Securities, Credit Suisse, Goldman Sachs and HSBC were joint book-running managers on the issue.

A new term has entered the mergers and acquisitions lexicon, with the contingent value right (CVR). Never before used in Europe but the brainchild of some smart Parisian bankers, the CVR is being credited with breaking the deadlock to deliver the £12.5bn takeover of the UK's single largest electricity generator British Energy by French group **EDF**.

An original offer from state-controlled EDF for nuclear power company British Energy foundered in summer when two major institutional shareholders speaking for around a quarter of BE's shares held out for better terms.

With autumn in the air EDF came back with an improved offer – and the CVR, with the potential to deliver BE's shareholders an even better deal over time.

The terms of the EDF offer recommended by the BE board were 774p a share in cash, a 35% premium to where BE's shares were last spring when it first announced it was looking at options, including an outright takeover of the company.

However, the EDF offer also included a partial alternative for BE shareholders: 700p a share in cash plus one Nuclear Power note for every BE share. The Nuclear Power note is the CVR, an instrument to be traded on the junior Plus Market bourse in London.

The note is structured to make an annual payment calculated on a formula using the power output of BE's eight nuclear power stations and the fluctuating power price referenced to a base level of output from the plants and the electricity price at the beginning of a 10-year period.

It is effectively a bet for those taking up the right that BE's generation will be strong and that the electricity price will remain high.

BE's finance director Stephen Billingham said if the highest levels were achieved in all 10 years of the term of the Nuclear Power note it could be worth as much as 575p a share to shareholders over the decade, on top of the 700p a share taken in cash.

But Billingham warned: "The output of the BE fleet and market power prices have been highly volatile in recent years. There is no certainty the base levels will be achieved in any year or on a cumulative basis. Both of these must be satisfied for a payment to occur in the year concerned."

He also warned that trading in the instrument could suffer from poor liquidity.

EDF which is executing the deal through a vehicle called Lake Acquisitions was advised by its corporate broker Merrill Lynch in Paris and London. BNP Paribas acted as joint financial adviser.

Barclays is in charge of issuing the Nuclear Power note. Rothschild was lead financial adviser to BE, with Gleacher Shacklock acting as its Rule 3 independent adviser. JPMorgan Cazenove and Citi acted as joint corporate brokers.

The debt markets remained for the most part closed and there was very little action in the M&A or new equity issues markets either. What excited some investors was the prospect of the long-awaited consolidation of the legion of listed independent oil and gas exploration and production companies. Many analysts believe some of the explorers will merge with each other, but so far the indies have fallen to majors.

The AIM and Toronto-listed **First Calgary Petroleums** became the third sizable London indie in nine months to fall, accepting a Can$923m offer from Italian giant Eni, valuing First Calgary's shares at Can$3.60 a share in cash, a 52% premium on the share price. The deal also included a cash buyout at 108% of par of First Calgary bondholders. First Calgary is very active in Algeria where Eni has significant gas interests.

The deal follows the £1.7bn acquisition by Eni of Burren Energy, with which it shared interests in Congo. Imperial Energy, another London indie operating in Russia, was recently taken over by state-controlled Indian giant ONGC.

First Calgary was advised on the deal by JPMorgan Cazenove and its nominated adviser Ambrian Partners.

Eni was advised on the deal by Deutsche Bank.

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TOP THREE GLOBAL DEALS 1-15 OCTOBER 2008, INVESTMENT-GRADE CORPORATE BONDS

PRICING DATE	ISSUER PARENT	ISSUER	DEAL VALUE (PROCEEDS)	TRANCHE VALUE (PROCEEDS)	DEAL NATIONALITY	DEAL TYPE	BOOKRUNNER PARENT	MATURITY DATE
10 October	IBM	IBM	$3,978m	$1,395m	US	Investment-grade corporate bond	Barclays Capital, Banc of America, Credit Suisse, Deutsche Bank	15/10/2013
1 October	HBOS plc	Bank of Scotland plc	$3,597m	$3,597m	UK	Investment-grade corporate bond	Bank of Scotland	27/07/2015
15 October	China Ministry of Railways	China Ministry of Railways	$2,928m	$2,196m	China	Investment-grade corporate bond	China Development Bank, China Merchants Securities, Ping An Securities, China Galaxy Securities, Guosen Securities, UBS	16/10/2023

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