Europe finds its bounce

AS THE DEALS OF THE YEAR AWARDS DRAW NEAR, **PETER WILLIAMS** LOOKS AT SOME OF THIS YEAR'S KEY DEALS AND PREVIOUS DOTY WINNERS. BUT FIRST, HOW THE EUROPEAN CAPITAL MARKETS HAVE BEEN FARING IN 2009.

A mixed picture emerges from the equity capital markets in Europe, the Middle East and Africa in the first nine months of 2009. Volume in the first nine months of this year totalled $191.4bn, down 4% on the $198.5bn recorded in the same period in 2008. Despite the overall fall in volumes, the value of transactions in the third quarter ($71.4bn) was 42% higher than Q3 2008 levels. Rights issues accounted for 54% of volumes in the period, down slightly compared with 60% in 2008 but still well up on the long-term average of 22%. The $102.5bn raised was the second-highest volume on record, behind the $119.2bn raised in the same period in 2008.

The initial public offerings (IPO) market remained stagnant in Q3, with a $640m deal from Saudi Arabia's Petrochem the largest issue in the period. At $2.9bn the total IPO value was the lowest total for the first nine months since 1992, and down 86% on the $20.3bn seen in the first nine months of 2008.

Convertible bond issuance continued to recover, with $11.2bn raised in Q3 2009 compared with $2.1bn raised in Q3 2008. The total of $25.1bn for the first nine months was 21% higher than the same period in 2008. The outstanding sector in the year to date is mining, which saw volumes reach $20.9bn, driven by a $12.3bn rights offering from the UK-listed portion of Rio Tinto. However, finance maintained its lead position, although the $58.9bn raised in the first three quarters of 2009 was well down on the $117.2bn raised between January and September 2008.

Table 1: EMEA equity ranking for first 3Qs of 2009

Issuer nationality	Value	Number of deals	Share of market
UK	$80,967m	397	42.3%
Switzerland	$17,395m	16	9.1%
France	$16,995m	54	8.9%
Germany	$12,344m	39	6.5%
Italy	$11,374m	10	5.9%
Spain	$6,798m	15	3.6%
Luxembourg	$5,706m	3	3.0%
Sweden	$5,275m	49	2.8%
Netherlands	$4,915m	13	2.6%
Greece	$4,483m	18	2.3%
Total market	$191,412m	834	

All data courtesy of Dealogic

DEBT MARKETS Debt markets appeared to exhibit no signs of uncertainty, with global debt capital volumes reaching $4.78 trillion in the first nine months of 2009, eclipsing a full-year 2008 volume of $4.44 trillion thanks to strong corporate bond volume of $2.39 trillion boosted by government-guaranteed issued debt.

Global corporate investment-grade bonds excluding finance totalled $1.6 trillion in the first nine months of the year, the first time that more than $1 trillion has been issued by non-financial corporate investment-grade issuers in a single year and already up 42% on the previous full-year record of $817.3bn set in 2008.

Debt capital market issuance in Europe continued to outpace that in the US, with $548bn compared with $457.8bn in Q3 2009, a trend which has prevailed over the last six quarters. For 2009 to date, debt capital market issuance in Europe, the Middle East and Africa hit a record $2.22 trillion, 48% up on the $1.50 trillion issued during the same period in 2008, with a Q3 volume of $561bn, up 73% compared with Q3 2008. European volumes reached $2.18 trillion, 20% ahead of the previous record high of $1.82 trillion reached during the comparable period in 2007.

And the European investment-grade market is also heading for a bumper year in 2009, having broken all previous full-year records to reach $1.07 trillion already. This astonishing activity was driven by a 135% increase in volume by non-financial issuers.

Big, busy and back

2009 HAS BEEN A TOUGH ONE IN THE FINANCIAL MARKETS, BUT SOME IMPRESSIVE CAPITAL MARKET DEALS HAVE STILL FEATURED IN THE PAGES OF THE TREASURER SO FAR THIS YEAR.

Even as The Treasurer was announcing the winners of the Deals of the Year Awards 2008, National Grid kicked off the new year by twice tapping the bond market. First it issued a 22-year bond to raise £350m in the sterling market and then the electricity and gas group went for a €500m five-year bond. Also in the equity markets that month another utility, Scottish & Southern Energy, caught the eye with a £479m placing, while housebuilder Bovis Homes announced the replacement of existing loans with a £220m syndicated facility to 2011.

This has been a year in which many treasurers and CFOs have taken a long hard look at their balance sheet. For example, in a deleveraging move, paper and packaging group Smurfit Kappa announced a €100m senior debt buyback programme. Still in the first quarter, mining company Xstrata underlined the need for cash with a £4.1bn two-for-one rights issues at a 66% discount to the share price the day before announcement. We then reported a host of rights issues, which we described as "a whirlwind four weeks of equity raising", in which a dozen major companies tapped shareholders for a cool £23bn in total. Companies mentioned were HSBC, Wolseley, Land Securities, British Land and Hammerson.

After the equity came the bonds. As treasurers were preparing for their annual conference, Siemens, Unilever, John Lewis Partnership and Holcim successfully went to the investment-grade bond market. The bond market had become so popular that even software giant Microsoft went ahead with its first ever transaction, a suitably modest offering of $3.75bn. At the time commentators were saying that the deal was a continuation of the flight to quality that had begun at the back end of 2008, with portfolios managers keen to invest an abundance of cash in the fixed-income rally.

The markets kept working right up to the summer recess. Pharma companies took centre stage in the July/August issue, with Novartis launching a seven-year €1.5bn eurobond paying 4.25% on a spread of 95bp over midswap. It was joined by Pfizer, which launched a blockbuster €7bn to help cover the cost of acquiring healthcare company Wyeth for $68bn. Such was the activity in the bond market that we barely found space to mention BAE's €1bn deal. Other

THERE WAS NO REAL SIGN OF THE TRADITIONAL SUMMER BREAK. ONE DEBT ANALYST DESCRIBED THE MARKET AS ON FIRE.

multinationals showed equal keenness to tap the investment-grade market. Arcelor Mittal weighed in with a deal worth €1.5bn and then there was the small matter of Rio Tinto's $15.2bn rights issue.

Despite the bond activity reported in the first half of the year, the headline in the September issued summed up the sentiment of the bond market: "Bonds boom like never before." The analysts' take was that money was pouring into bonds as equities looked unpredictable and government bond yields were too low to appeal. Companies were also willing to pay a significant spread premium and the overall cost of borrowing was not perceived as overly excessive. Meanwhile treasurers and their colleagues were looking to raise their liquidity buffers and replace maturing bank loans.

By the summer the pharmas were back in the market, with Swiss giant Roche raising $15.8bn to help fund the acquisition of US biotech firm Genentech. Novartis also returned to the market, initially raising $5bn and then a further €1.5bn from a seven-year bond.

Even as thoughts were turning to this year's Deals of the Year, the markets kept going. There was no real sign of the traditional summer break and even the anniversary of the collapse of Lehman Brothers did not seem to cause much pause for thought. One debt analyst described the market as on fire. Carmakers featured in the early autumn, with both Fiat and BMW driving away with bond deals worth €1.25bn and €1.5bn respectively. We also noted the $750m of hybrid capital raised in Asia by British insurance giant Prudential: not one for this particular Deals of the Year, which focuses on Europe, but with Deals of the Year enjoying a successful debut in the Middle East, who knows what the future could hold?

Ultimate accolades

HOW SOME OF THE MOST RECENT DEALS OF THE YEAR AWARDS WINNERS EARNED THEIR GLORY.

Winning the recognition of your peers is always a treat. Those who receive the plaudits in the Deals of the Year (DOTY) Awards from fellow treasurers and bankers for the work they have done in securing funding or building an outstanding treasury team can be justifiably proud.

The overall winner of last year's DOTY Award was European brewer InBev for an outstanding transaction in the European loans category. The brewing giant acquired US rival Anheuser-Busch in an audacious $52bn hostile bid. A key plank in the success of its takeover were the $45bn syndicated senior facilities and $9.8bn subordinated equity bridge arranged by InBev.

Ricardo Rittes, vice president of treasury, risk management and global financial markets at InBev, said: "To structure such a large transaction in a restrictive environment, InBev had no choice but to select the best-prepared bank, which we expected to be able to lead the transaction towards a successful closing even during difficult times." Observers described the deal's successful syndication as defying the market downturn.

Investment-grade bonds are seen as the blue riband DOTY event

and last year FirstGroup took the palm with a £300m 10-year bond at a coupon of 8⅛% completed in September 2008 with the deal priced the week before the collapse of Lehman Brothers. A rare BBB corporate issue in 2008, the bond may have enjoyed good fortune in its timing, but it still took advantage of a window of opportunity. The bond was used to refinance a $1.5bn acquisition term loan due 2010.

Other winners last year included German-based healthcare company Fresenius for its $554m exchangeable bond, which was the last major equity-linked transaction in the market in 2008. Airport operator BAA won in the liability management category for an eye-catching deal to repay £4.5bn of senior acquisition facilities.

In the loans category, technology and controls company Invensys took the mid-market title for its £400m five-year revolving credit facility, while the UK large loans title was taken by the Co-operative for a £2.1bn five-year credit facility used to finance its £1.5bn takeover of supermarket chain Somerfield.

The Co-op impressed the judges again to be highly commended in the large corporate treasury team of the year, but was pipped to the top spot by Imperial Tobacco, which demonstrated how to multitask by having normal operations, a major acquisition and a sizable rights and bond issue all on the go.

The teams in the mid-market category were automotive retailer Inchcape, which was praised for its work on its banking arrangements, but another name to crop up again was Invensys, where the team stood out for its work on refinancing, a programme of disposals and the completion of a successful internal restructuring programme.

DEALS OF THE YEAR 2007 Venturing even further back in time reminds us how much markets can shape the sort of deals that treasurers work on. The overall winner of the 2007 Deals of the Year Awards was drinks can and packaging manufacturer Rexam. It pulled off a landmark deal in the European corporate bond market with the first ever hybrid from a UK corporate, a €750m 60-year 6.75% bond priced at euro-midswaps plus 190bp. Jon Drown, director of group treasury at Rexam, said the hybrid was designed to appeal to shareholders, debt holders and management.

It is fair to say the Rexam remains a stand-out deal. Equally outstanding was the investment-grade bond from supermarket giant Tesco in that year, which was described at the time as a corker: £500m over 50 years at 5.2%. As one national newspaper put it at the time: "Who else would lenders trust to be in a position to pay up in 2057?" Only another 48 years to go.

Real estate company Grainger won the equity award for a £112m 3.625% seven-year convertible bond issued in May 2007. The company raised the debt it needed with a low cost of funds of 1.4% post-tax, ranking behind its bank debt with no covenants. Those were the days.

The treasury team of the year made its debut appearance, with Tesco being highly commended and widely recognised as one of the top European treasury teams under the leadership of Nick Mourant. But the overall winner was Vodafone for a dynamic treasury department with a remit that extended across the global operation.

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