# DEALS OF THE YEAR 2001

JOANNA PARKER PROVIDES MEMBERS AND READERS WITH AN AIDE MEMOIRE OF SOME OF THE LEADING CORPORATE DEBT AND EQUITY DEALS DONE SINCE OCTOBER LAST YEAR. YOUR VOTES MUST BE IN BY MONDAY 22 OCTOBER.

Once again *The Treasurer* is building up to its *Deals of the Year* feature with extensive research into the hundreds of corporate debt and equity financing deals that have closed during the year from 1 October 2000 to 30 September 2001. The task is to identify the eight transactions carried out in that period which, from the corporate treasurer's point of view, are most noteworthy. These deals will be featured in the December issue of *The Treasurer*.

The selection criteria reward deals that demonstrate sound treasury management, efficient pricing, optimal or innovative structuring and relative success in prevailing market conditions. But what does this mean: when is a deal a Deal of the Year? Are we looking for the biggest, the cheapest, the loudest, the most aggressive, the most prudent, the most complex, the simplest…? The answer is "not necessarily" but the deals must demonstrate qualities that stand out and make UK treasurers take note. It has been said before that selection is more of an art than a science.

Although we have split up the deals for the purposes of this review, the final selection will not be categorised – the panel will look to achieve a balanced selection, but there is no compulsion to include one of every type of deal.

A panel of members of the Association has had the annual struggle with these questions and arrived at a shortlist of 31 deals garnered from their collective market knowledge and research, members' nominations and completed the circle with a couple of hundred nominations from banks.

Brief profiles of these 31 shortlisted deals follow over the next few pages. We hope the review will provide interesting reading and a sound basis for voting but equally should prompt further nominations. Most of us know the publicised deals are not necessarily the best as the interests of bank publicity machines and consequent press coverage do not always coincide with corporate perspectives. Many treasurers positively shun publicity too. We should also flag that more than half the shortlist are from overseas or European issuers and, while they are increasingly relevant for UK treasurers, there should perhaps be a greater number of nominations for UK transactions. Please help us out and ensure we don't overlook any meritorious deals by nominating them when you vote.

## MARKET BACKGROUND

The extended bull run in equity markets has finally come to an end with many worldwide markets falling to their three year lows due to the combined effects of poorer economic data, a significant correction in TMT stocks and latterly the outrage in America. Despite interest rate cuts around the world equity markets have continued to fall, and in some cases collapsed - Japan is at a 17 year low.

Foreseeing a significant slowdown the Fed acted aggressively, cutting rates seven times in 2001 reducing the Fed Funds rate to 3.5%. In the UK interest rates started out at 6% in October 2000 and after four cuts base rates are back down to 5%. The European Central Bank has however been slower to act just cutting the repo rate by 50bp to 4.25% while Japanese rates approximate zero.

As a result bond markets have remained firm and yields have dropped. In many markets short-term bonds are now below base rates reflecting the worsening economic outlook and implying further interest rate cuts to come. The only certainty is that there is no certainty.

## THE SHORTLIST

**EQUITIES.** Against the market background outlined above, it is not hard to see why equity markets have not been the funding source of choice for most corporates or their sponsors and have certainly not been for the faint hearted.

Despite telecoms being distinctly out of favour, BT stoically swallowed its medicine, reverting to the equity markets with a deep discount landmark £5.9bn rights issue, the largest UK equity offering and largest rights issue in history. 90% of the rights were taken up and the remaining rump was two times oversubscribed.

### EQUITIES

- **British Telecom**
  May 2001
  GBP5.9bn 3 for 10 Rights Issue at GBP4.30 (47% discount)
  Merrill Lynch
- **Deutsche Boerse**
  February 2001
  EUR1.1bn IPO at EUR355 per share
  Deutsche Bank
- **Kraft**
  May 2001
  USD8.7bn IPO at USD31 per share
  CSFB
- **Michael Page**
  March 2001
  GBP617m IPO at GBP1.75 per share
  CSFB
- **TNT Post Groep**
  March 2001
  EUR906m secondary equity offering at EUR22.5 per share
  ABN AMRO, Morgan Stanley

### CONVERTIBLES/EXCHANGEABLES

- **EnBW**
  May 2001
  EUR490m pre-qualifying public offer (QPO) Convertible Bond
  Coupon 3%, YTM 5.14%, Premium 19%
  Deutsche Bank
- **France Telecom**
  February 2001
  EUR3.1bn Exchangeable Bond (into Orange shares)
  Coupon 2.5%, YTM 2.5%, Premium 27%
  Morgan Stanley, Société Générale
- **Telecom Italia**
  January 2001
  EUR2bn Exchangeable Bond (into Telecom Italia or SEAT – Telecom Italia can substitute any other shares apart from theirs or SEAT)
  Coupon 1%, YTM 4.25%, Premium 27%
  JPMorgan
- **Tyco International**
  February 2001
  USD3.45bn Convertible Bond
  Coupon 0%, YTM 1.5%, Premium 36%
  Merrill Lynch

The successful issue was fundamental to BT's debt reduction strategy.

Deutsche Boerse also had an uphill battle after the failed merger with the London Stock Exchange (LSE) and aborted IPO attempt in 2000. However they maintained their resolve and achieved an enormous oversubscription for their €1.1bn IPO proving that unique deals can get away in any environment.

In March the Dutch government took an opportunity to tap demand for companies with predictable earnings straight after TNT Post Groep announced strong year end results (EPS up 20%). It managed to issue €906m of shares in an accelerated market offering despite the AEX and DJIA dropping 4.3% and 5.8% respectively since launch.

Across the Atlantic, Kraft undertook a very gutsy transaction launching the US's second largest IPO and overcoming negative market sentiment and fielding questions on their tobacco litigation liabilities during their 41 city road show. The spin-off of Philip Morris' 14% shareholding at $31 per share yielded an impressive $8.7bn without giving away big first day gains.

And as to courage, Michael Page, the professional recruitment company returned to the LSE after a 10 year absence to be greeted by appalling market conditions. Comparable companies valuations fell 25% during the roadshow and 25 other American IPO's were pulled after Michael Page was priced. The sizeable £617m issue did well to get away at all let alone at a valuation in excess of its parent company, Spherion.

**CONVERTIBLES/EXCHANGEABLES.** France Telecom introduced Europe to the 'going public bond' when it issued €3.1bn bonds exchangeable into Orange shares simultaneously with the Orange IPO. The bond issue was launched in the final week of the share offering lifting the equity transaction to full subscription. The high bond floor cleverly avoided investor overlap.

In February, Telecom Italia found capacity in the crowded telecoms market with its innovative €2bn bond exchangeable into any combination of Telecom Italia Mobile shares, Seat shares, cash equivalents or other stock worth 105.3% at the discretion of the issuer. The structure enhanced the conversion premium and enables Telecom Italia to retain control over its investment holdings.

Still on the mainland, the German utility company EnBW, issued an €490m bond that will become a convertible on a future qualifying public offer ('QPO') scheduled to take place in 2002 after capital gains tax changes become effective. In a complex transaction the 'not going public yet' bond successfully addressed some of the shortcomings in its predecessors and set new precedents both in the 19% premium achieved and a target investor base that should not compete with the QPO.

The largest convertible in history was placed overnight yielding $3.45bn enabling US Tyco International to finance its acquisition of Lucent Power Systems. $5bn zero coupon bonds were issued with a series of puts and a seven year non call period reducing the yield to maturity and increasing the conversion premium respectively. The pioneering bond is not convertible initially as it is contingent on the stock price exceeding 110% of the accreted conversion price thus benefiting EPS in the short term. This innovation has been widely copied and is claimed to have been the driving force behind the resurgence in US convertibles this year.

**BONDS.** Euro-denominated bonds were again the main theme and the achievements of our European counterparts have increasing relevance for UK treasurers. Unsurprisingly many continental deals

## BONDS

- **Électricité de France**
  July 2001
  GBP650m Eurobond (AA)
  GBP650m 5.875% for 30 yrs (Gilt+85bp)
  UBS Warburg

- **Fiat**
  May 2001
  EUR3bn Eurobond (Baa2)
  EUR1.7bn 5.75% for 5 yrs (swaps + 105bp)
  EUR1.3bn 6.75% for 10 yrs (swaps + 145bp)
  Caboto, Deutsche Bank, JPMorgan

- **France Telecom**
  March 2001
  USD16.4 bn Eurobond A3/A-
  USD2.5bn 8.5% 30 yr notes (T+308bp)
  USD3.5bn 7.75% 10 yr notes (T+283bp)
  GBP600m 7.5% 10 yr notes (Gilt+275bp)
  EUR3.5bn 6.75% 7 yr notes (T+175bp)
  USD2.0bn 7.2% 5 yr notes (T+253bp)
  EUR3.5bn 5.75% 3 yr notes (swaps+120bp)
  USD1bn FRN 2 yr notes (Libor+125bp)
  CSFB, BNP Paribas, Morgan Stanley, SSSB

- **National Grid**
  July 2001
  GBP600m Eurobond (A+)
  GBP360m 6.5% for 27 yrs (Gilt+145bp)
  GBP200m 3.806% for 19 yrs, RPI-linked (Gilt+145bp)
  GBP40m 3.589% for 29 yrs, limited RPI-linked (Gilt+145 bp)
  Morgan Stanley, Royal Bank of Scotland

- **Robert Bosch**
  July 2001
  EUR1.5bn Bond (AA-)
  EUR1.5bn 5.25% for 5 yrs (swaps+34bp)
  JPMorgan

- **Royal Ahold**
  April 2001
  EUR1.2bn Eurobond (BBB+)
  EUR1.2bn 5.875% for 7 yrs (swaps+83bp)
  Goldman Sachs

- **TXU Europe**
  November 2000
  EUR500m Eurobond (BBB+)
  7% for 5 years (LIBOR+146bp) reduced to sub-LIBOR after premium on embedded option is incorporated
  Morgan Stanley

- **WPP**
  July 2001
  EUR1bn Eurobond (A-)
  EUR650m 6% for 7 yrs (swaps+87bp)
  EUR350m 5.125% for 3 yrs (swaps+60bp)
  Merrill Lynch, Schroder Salomon Smith Barney

were brought to our attention in what was a very hot market for most of the year especially in BBB credits.

Royal Ahold, the Dutch food retailer, was one such triple B beneficiary finding plenty of appetite in seven years thereby extending its maturity profile with a €1.2bn Eurobond cheaper than could have been issued in the US market. Demand was so strong that the issue was reopened six weeks later with a further €300m.

Fiat successfully issued a €3bn bond in two tranches and defied their detractors by getting a ten year tranche away worth €1.3bn. In the face of a two notch downgrading to Baa2 they convinced investors of the positive spin to their credit story and achieved high quality international allocation at tight prices.

Robert Bosch, the German engineering and electronics group sounded out the market and tapped the fat end of the maturity curve with their five year €1.5bn inaugural bond. Benefiting from widespread name recognition and a recent AA- credit rating, the private company overcame concerns about their reporting transparency and ownership to issue at 34bp over swaps slightly over the better rated Siemens.

Despite congestion in a negative telecoms sector France Telecom doubled their proposed issue size and completed the largest bond underwriting in history at $16.4bn equivalent. The seven tranches, 55% in dollars, 40% euro's and the balance in sterling was pitched to achieve extensive geographic distribution and a massively expanded stakeholder base at the tight end of the price talk.

Using a highly innovative structure TXU Europe, the UK subsidiary of Texas Utilities took advantage of the value provided by the long end of the sterling market via a debut €500m 5 year issue in the euro market which achieved investor diversification and strategic objectives. The all-in funding cost was sub-LIBOR after realising value through an embedded option in the structure allowing the underlying £301m security to be extended for a further 30 years.

Another utility took advantage of the cheap long sterling rates to sell £650m, the largest ever 30 year corporate sterling bond. The private Électricité de France, owner of London Electricity exceeded their expectations both on price and size even though the deal was launched in the midst of a hostile bid for Montedison. With 85% sold to the UK investment community they have broadened the platform from which they hope to spring their IPO in the next few years.

Not only did the UK's National Grid tap the long end of the sterling curve but did so with two index linked tranches which neatly aligned their regulated revenue growth with debt service obligations. These two tranches totalling £240m were a coup, being the first index-linked sterling bonds issued by a single A issuer, and brought the total issue to the desired £600m at tight pricing.

WPP, the world's largest advertising firm capitalised on its rarity value with an €1bn Eurobond in July 2001 to refinance part of its acquisition of Young and Rubicam. Originally seeking €500m in seven year money a very thorough road show drummed up huge support for a shorter three year tranche as well.

**SECURITISATIONS.** Perhaps the most consistent feature of the capital markets has been the increasing popularity of the asset backed sector to tailor funding solutions, from whole business securitisations through to distressed debt repackaging.

Very effective for asset intensive industries, the Sutton and East Surrey Water £100m triple A bond established a benchmark for the UK water industry in March 2001 being the first to be wrapped by a monoline insurer after ringfencing the regulated assets. Hailed as a template for regulated utility assets, the 30 year index-linked structure achieved high gearing and tight pricing while its robust covenant package designed to limit regulatory risk and event risk worked with the company and regulation rather than against it.

Over in Wales, Dwr Cymru, the Welsh water authority picked up this template and moved it on another notch just two months later, stealing the Eurobond spotlight according to the *Wall Street Journal*. Half of the landmark £2bn (whole business) securitisation. was credit wrapped to achieve AAA funding but the real innovation was the removal of shareholder equity. The assets were bought by a not-for-profit company setting a very aggressive benchmark in financing efficiency.

## SECURITISATIONS

- **Alliance Unichem**
  August 2001
  GBP100m Securitisation
  GBP35m (AAA) for 5 yrs at 27bp
  GBP63m (AAA) for 5 yrs at 30bp
  GBP2m (A) for 5 years at 69bp
  BNP Paribas

- **Eurotunnel**
  February 2001
  EUR1.43bn Securitisation
  GBP232m and EUR365m (AAA) for 8 yrs at 55bp
  GBP200m and EUR103m (A-) for 8 yrs at 175bp
  EUR135m (BBB) for 8 yrs at 275bp
  EUR142m (BB-) for 8 yrs at 10.75%
  Dresdner Kleinwort Wasserstein, Merrill Lynch

- **Leonardo Synthetico**
  May 2001
  EUR174m Securitisation
  EUR56 m (AAA) for 18 yrs at Euribor+45bp
  EUR84m (AA) for 18 yrs at Euribor+75bp
  EUR34m (A) for 18 yrs at Euribor+115bp
  Merrill Lynch

- **Glas Dwr Cymru** (Welsh Water)
  May 2001
  GBP2bn Securitisation
  GBP350m (AAA) 6.015% Term for 27 yrs (Gilt+105bp)
  GBP100m (AAA) Term for 5 yrs at 37.5bp
  USD286.6m (AAA) Term for 7 yrs at 42bp
  GBP265m (AAA) 3.514% Term for 29 yrs (Gilt+110bp)
  GBP85m (AAA) 3.512% Term for 30 yrs (Gilt+110bp)
  GBP325m (A-) 6.9007% Term for 20 yrs (Gilt+180bp)
  GBP100m (A-) Term for 7 yrs at 130bp
  GBP100m (A-) 4.377% Term for 25 yrs (Gilt+190bp)
  GBP35m (A-) 4.375% Term for 26 yrs (Gilt+190bp)
  GBP125m (BBB) 8.174% for 10 yrs (Gilt+290bp)
  GBP125m (BBB) Term for 7 yrs at 250bp
  GBP100m (unrated) Term for 7 yrs at 550bp
  Citibank, Royal Bank of Scotland

- **Sutton and East Surrey Water**
  March 2001
  GBP100m Securitisation
  GBP100m (AAA) for 30 years at 2.874% (Gilt+95bp)
  Royal Bank of Scotland

Another well-wrapped deal was Eurotunnel's €1.43 bn February bond whose successful launch can be attributed to the credit enhancing which opened up a much needed universe of freshly educated investors for the beleaguered entity. The deal was unique and facilitated the off-balance sheet buyback of a third of its existing loans at a significant discount (£250m) and repackaging them into liquid, publicly traded bonds, mostly rated investment grade thus facilitating Eurotunnel's financial rehabilitation.

But securitisations are not all wet and the scope for capturing value from assets seems to know no bounds. Witness Alliance Unichem, the pharmaceuticals retailer and distributor who encircled government trade receivables from prescriptions to price off a triple A rating on 98% of their £100m note issue.

And Leonardo Synthetico, the Italian aircraft financier which made the first public synthetic collateralised loan obligation transaction of aircraft financing and aviation industry loans worth $1bn relating to 153 aircraft from eight manufacturers in twenty countries. The new asset class raised €174m and was distinguished from the aircraft risk by a $35m credit default swap.

**LOANS.** Merger and acquisition financings have been the main driver in the syndicated loan markets in recent years and with gargantuan transactions mainly in the telecom's sector in 2000 (eg France Telecom's €30bn loan) many banks had filled their boots by November and closed shop well before the year end. But Christmas still came for Reed Elsevier even though it was on credit watch and expecting a downgrade to A- on the back of its acquisition of US publisher, Harcourt General. The jumbo $8.5bn acquisition financing was raised without resorting to general syndication which is a tribute to their well-managed banking relationships.

As if being in the tobacco industry wasn't troublesome enough, Gallaher, the UK's number one cigarette maker dragged their Moody's rating down to Baa3 after their competitive acquisition for Austrian Tabak in June. Well conceived margin ratchets in the €2bn and £900m acquisition facility pave the way for a return to their pre-acquisition margins once their credit rating and Ebitda ratios improve.

Enterprise Inns, the UK's 3rd largest pub landlord, could well have thought their May financing 'jumbo', being 71% greater than their prevailing market capitalisation. The £735m facility was structured in six tranches of amortising loans, revolving credit and bridge financing to provide unconditional yet flexible finance for two acquisitions a month apart and both subject to shareholder approval.

Demand for telecom financing outweighed the supply of capital in 2001, pushing up spreads and tightening covenants but a series of coupon ratchets for the German mobile phone operator, e-plus ensured a palatable transaction for both sides raising €2.25bn while other border-line investment grade telecoms failed to find sufficient support.

While, down at the yard, subtle structuring enabled building and plumbers merchant, Wolseley, to tap different sectors of the banking market. A cheaper five year deal went out to relationship banks who would be expected to provide the bulk of their ancillary business and bank debt over the medium term and a tradeable 364-day facility was designed for banks new to the credit. Both tranches were increased after syndication. Wolseley has since been admitted to the FTSE 100, in mid-September.

**LEVERAGED BUYOUTS.** Lower equity prices present opportunities for management buyouts (and ins) of themselves. With IPO's generally ruled out as divestment routes and diminished M&A activity encouraging more investment banks to meet their budgets through leveraged deals, it is no wonder that leveraged buyouts (LBO's) have taken off. *IFR* even hailed 2001 as the "year of the jumbo leveraged loan".

Germany's largest LBO was not all hot air from Messer Griesheim, a leading player in the $34bn industrial gases industry. The €1.65bn "fiendishly clever" profile of six tranches including seven, eight and nine year term facilities aside from the two year asset disposal facility and large revolvers, attracted an unprecedented demand from institutional investors. The flood gate of new investors brought about Europe's first downward flex of 25bp on the nine year tranche which may well change the basis of primary distribution in the European market, a welcome move for all European treasurers.

Yell's all new money senior debt facility at £1.45bn is Europe's largest leveraged deal yet. It was completed in July at a time when

## LOANS

- **Enterprise Inns**
  GBP735m Loan Facility
  GBP425m Term Loan for 5 yrs
  GBP250m 15 month plus term-out
  GBP60m 90 day bridge facility
  all at 187.5bp ratcheting with Ebitda
  Deutsche Bank

- **e-plus**
  April 2001
  EUR2.5bn Loan Facility
  EUR2.25bn Term Loan
  EUR250m Revolver
  both for 7 years at 185 bp at 6.5x
  Debt/EBITDA ratcheting down to 80bp at 3.5x
  Deutsche Bank

- **Gallaher**
  June 2001
  EUR2bn and GBP900m Loan Facility
  EUR700m Term Loan for 18 months
  EUR1.3bn Term Loan for 3 yrs
  GBP900m Revolving Credit for 5 yrs
  all at 110bp ratcheting down with credit rating and Ebitda to the floor of 60bp for credit rating >= BBB and Ebitda < 2.5x
  Barclays, Dresdner Kleinwort Wasserstein, Goldman Sachs, HSBC

- **Reed Elsevier**
  December 2000
  USD8.5bn Loan Facility
  USD4bn 364 day plus term-out at 45bp for A, 50bp for A-, and 75bp for BBB
  USD2.5bn Revolver for 3 years at 50bp for A, 55bp for A-, and 75bp for BBB
  USD2bn 364 day Revolver at 45bp for A, 50bp for A-, and 75bp for BBB
  Deutsche Bank

- **Wolseley**
  August 2001
  USD800m Loan Facility
  USD300m 364 day at 37.5bp plus two 364 day term-out options at 45bp
  USD500m for 5 yrs at 40bp rising to 55bp with Ebitda grid
  Den Danske, Lloyds TSB

secondary market losses were running high taking yields up with them. Management were able to assuage investors concerns over regulation, US expansion and the high borrowing level (over six times Ebitda) to pull off the buyout from BT.

Rank sold its Butlins, Oasis, Haven and Warner units to Bourne Leisure creating one of the UK's top leisure businesses at the end of 2000. The substantial £642.5m senior debt facility together with an £80m mezzanine facility was well received despite being launched in lean conditions and on a 4.9 times Ebitda multiple. Not all banks take kindly to leisure assets and Bourne did well to play on its sound banking relationships and secure the millenium's largest sole leverage underwriting.

Many smaller but interesting transactions have come to the market but few as timely as Perkins Foods. Syndication for the £160m deal was due to close the day the Foot and Mouth crisis hit the news in January. Coming on the back of the BSE crisis, Perkins knew there was nothing for it except to come clean and provide daily bulletins about its implications. The syndication closed a few weeks later over-subscribed and the banks were scaled back as testament to Perkins' sound relationship management.

## LEVERAGED BUY-OUTS

- **Bourne Leisure**
  November 2000
  GBP642.5m LBO
  GBP312.5m Term Loan for 7 yrs at 225bp
  GBP130m Term Loan for 8 yrs at 275bp
  GBP130m Term Loan for 9 yrs at 325bp
  GBP70m Revolver for 7 yrs at 225bp
  Barclays

- **Messer Griesheim**
  May 2001
  EUR1.65bn (equivalent) LBO
  USD199m Senior Disposal for 2 yrs at 225bp
  EUR370m Amortisng Term for 7yrs at 225bp
  EUR170m+USD153m Term Loan for 8 yrs at 275bp
  EUR115m+USD162m Term Loan for 9 yrs at 350bp
  EUR260m Revolver for 7 yrs at 225bp
  EUR50m Revolver for 7 yrs at 225bp
  Goldman Sachs, Royal Bank of Scotland

- **Perkins Food**
  January 2001
  GBP160m LBO
  GBP90m for 7 yrs at 212.5bp
  GBP40m for 8 yrs at 275bp
  GBP30m for 7 yrs at 212.5bp
  Royal Bank of Scotland

- **Yell**
  July 2001
  GBP500m (equivalent) LBO
  USD200m for 10 yrs at 10.75% (swaps+562bp)
  GBP250m for 10 yrs at 10.75% (swaps+569bp)
  USD288m for 10 yrs at 0% (swaps+837bp)
  CIBC, Merrill Lynch

**VOTING.** Now is the time to vote. The voting form is bound into this edition and you are invited to vote for any of the shortlisted deals or to vote for some of your own nominations. Please help us by stating the reasons behind your preferences.

If you prefer, you may email your votes to Mike Henigan, Managing Editor, at mhenigan@treasurers.co.uk. If your voting form is missing, please let Mike know.

Once voting has taken place the Panel will reconsider the shortlist giving heavy weighting to the votes cast and any new nominations coming to light. The final eight 'Deals of the Year 2001' will be announced at the Annual Dinner at Grosvenor House on 14 November 2001 and will feature in the December issue of *The Treasurer*.

Awards would not be awards without a few acknowledgements and we would like to record our thanks to the many treasurers and bankers who have been most forthcoming in providing fodder for this shortlist. The selection panel is also indebted to *IFR* and www.ifrmagazine.com whose phenomenal search engine and deal archives empowered them to undertake such a far-reaching review.

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*Voting closes on Monday 22 October*