Sage words for debt market

JULIA BERRIS TALKS TO ANDREW GRIFFITH, DIRECTOR OF TAX, TREASURY AND MERGERS AND ACQUISITIONS AT SERIAL ACQUIRER SAGE, ON RELATIONSHIP-DRIVEN FINANCING.

Software company and serial acquirer Sage has made the headlines many times over the years with multiple high-profile deals. Its most recent acquisition – of US healthcare company Emdeon Practice Services – was big news in the summer, but in some ways it was business as usual.

In total Sage has made 27 major acquisitions since 1991 in Europe, the US, the UK and in emerging markets such as Malaysia and Africa.

As Director of Tax, Treasury and Mergers and Acquisitions (M&A) at Sage, Andrew Griffith was instrumental in structuring the latest loan transaction, a £650m deal finalised on 2 August.

He says: "We have agreed three facilities in the 2000s and this one is the largest yet. It relates particularly to credit card processing company Verus, which was completed earlier in the year and which we needed extra finance for. We decided to renew our bank facilities and raise some additional capital."

The loan will also contribute to the financing of the latest acquisition of Emdeon, although Griffith said it was not designed specifically for that purpose.

The syndication was oversubscribed, with strong appetite from the market for the high quality of credit.

The mandated lead arrangers were Barclays and RBS; bookrunners were BNP Paribas and Lloyds TSB. The lead arrangers were Bank of America, BBVA, Fortis, Handelsbanken, HSBC and ING.

The tenor is five years with initial margin Libor+45bp linked to net debt/EBITDA (earnings before interest, tax, depreciation and amortisation).

The syndication was oversubscribed and the banks were offered tickets of £50m and £35m for fees of 15bp and 12.5bp.

Griffith says: "The process of the transaction was very smooth. From Sage's point of view it is a fairly well-trodden path. We have good relationships with the banks and we have a good credit story, so the market is very receptive. Using the bank market really does suit this company very well."

Sage has grown from a UK-based company to a global success via acquisition as well as organic growth. The company has focused on buying strong companies in key territories and applying its own business model to incorporate the purchase into its empire.

Griffith says: "Since the early 2000s we have funded acquisitions by debt. We have looked at a number of different sources of debt but the bank market is by far the best for us in terms of flexibility and cost efficiency."

As with all of Sage's loan transactions, Griffith had to ensure that the deal had enough flexibility to satisfy the company's appetite for acquisition.

He says: "We wanted to make sure we had a number of key clauses included that covered acquisition. One obviously relates to restrictions. We are restricted on class I acquisitions but other than that we have complete flexibility.

"We can also include acquired EBITDA. This is a big win for us. We negotiated a clause that enables us to go three times above our EBITDA covenant for a short period as long as we come back down after a certain time."

As well as ensuring that the bank presentations did not clash with any key games during the World Cup, Sage spent time considering which particular banks would be suitable for this transaction.

Griffith says: "One of the challenges was to have a syndicate which mirrors the shape of the business. We were careful who we went out to. We considered very carefully who we would be able to give ancillary business to and who would be able to give us good services."

Syndicated loans have changed since Sage's first transaction of this type in the early 2000s. Griffith says banks have become more demanding and there are higher return stipulations.

He says: "The returns that banks are looking for are significantly higher than the return the market is looking for. When they don't have visibility on enough ancillary business, they choose not to participate."

For Sage, the key to success is good relationship banking. For a company that frequently uses the banking market, having regular contact and keeping the banks on side is a great benefit.

Griffith says: "We are not ultra-aggressive. We have a very good deal in line with the market in terms of margin. We try to make sure that we are not right at the bottom of the pricing or to get too close to the more complicated terms for the banks. I know some companies take a different view. We have this approach because the key thing is that we continue to have good relationships with the banks and keep them as long-term business partners."

Griffith argues that while a degree of scepticism about software companies still exists, Sage does not suffer because of the success it has had with building lasting relationships with its core banks.

These banks are very familiar with how Sage works and have a good understanding of its credit story. This makes life in the long run much easier for the treasury team.

Griffith says: "It is important to build good relationships with banks as the company grows. If there is ever an issue, then you have banks which know you and will support you. If you are casual about your financing relationships, then it will mean that you may not get such good support.

"If we ever need to waive a covenant for whatever reason, we feel that we would be able to talk to the banks and have the potential opportunity to do this."

As Sage continues its acquisition path in a variety of global territories, the company aims to remain a UK software success story.

Griffith says: "As Sage grows, we will also look at different sources of financing, and at some point there will be some non-relationship driven financing.

"We would still turn to our core banks to draw on their expertise. We see relationship-driven financing as a very good course for us."

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