Winner

DIY cure

Roche

PRINCIPAL TERMS
$16.5bn bond in six tranches.
Bookrunners: JP Morgan, Citi, Bank of America Merrill Lynch.

REALISING THAT THE BANKS IN A HUGELY VOLATILE MARKET SIMPLY COULD NOT PUT TOGETHER A BRIDGE LOAN ON THE SCALE REQUIRED, ROCHE DECIDED TO GO DIRECTLY TO THE CAPITAL MARKETS ITSELF TO ARRANGE A $16.5BN BOND.

The pharmaceuticals sector continues to be marked by significant consolidation and the opening weeks of 2009 were enlivened by the culmination of Swiss drugmaker Roche's efforts to buy out the minority shareholders of long-time partner Genentech. Roche had initially acquired a majority stake of 60% in the US biotechnology group back in 1990.

After briefly going hostile in January with a $42bn bid, only weeks later Roche agreed a friendly deal to buy the 44% of Genentech it did not already own, by adding an extra $2 to an already sweetened offer of $93 per share and upping the deal's value to $46.8bn, the largest deal in Swiss history.

The acquisition brings Genentech's cancer treatments into the Roche portfolio, alongside the Swiss pharma giant's well-known Tamiflu anti-flu drug and tranquiliser Valium. The move also promises to generate annual cost savings of between $750m and $850m.

The first step in financing the acquisition was a $16.5bn bond. Arranged via tranches of $3bn for one year, $1.25bn for two years, $2.5bn for three years, $2.75bn for five years, $4.5bn for 10 years and $2.5bn for 30 years, it marked the largest-ever US dollar funding for an "unusual" financing at a time when market conditions were still very volatile.

The 144a bond deal was led by JP Morgan, with Citi and Bank of America Merrill Lynch also active. Passive participants included Santander, Barclays, BNPP, Credit Suisse, Deutsche Bank, Mitsubishi, Morgan Stanley, UBS and UniCredit.

Roche group treasurer Andreas Knierzinger says: "The offering marked the turning point in our efforts to acquire the outstanding minorities of Genentech. After months of negotiations to secure a bridge loan, we realised banks were simply not in a position to lend meaningful amounts. Directly accessing the debt capital markets was the only way to go. After encouraging feedback from a couple of key funds, we therefore decided to go out to the market ourselves."

Highly commended

Lufthansa

Europe's leading airlines were among several involved in capital-raising initiatives over the summer as the credit crisis bit into the industry's revenues and fuel costs again edged higher. Germany's flagship carrier launched two bond issues during the year. The second, completed at the start of July, was a €750m senior unsecured seven-year bond with a coupon of 6.5%. The proceeds helped the company to fund the acquisitions of BMI and Austrian Airlines as well as a planned €8bn spend on new aircraft and further acquisitions by mid-2012.

Lufthansa reported that demand was so buoyant that the bond was oversubscribed sevenfold. Investor distribution was very broad, with those in Germany, Italy and Switzerland particularly enthusiastic, despite the airline having issued a profit warning in June. This demand gave the group the ability to tighten the price guidance from an initial mid-swaps+350bp to +330bp and also made a longer-dated transaction a feasible option.

The bond was floated under the Lufthansa debt issuance programme and listed on the Luxembourg stock exchange. No financial covenants or coupon setup were needed, despite the group's low BBB rating.

Lufthansa's head of corporate finance, Markus Ott, says: "The scale of the transaction as well as the negotiated terms reflect the confidence placed in Lufthansa by retail and institutional investors. In particular, the strong domestic retail bid made this transaction an enormous success and a veritable benchmark. At the end, the order book showed €5bn with bids from more than 420 accounts."