Winner

Rebuilt to last

Barratt Developments

BY RESTRUCTURING LOANS AND RAISING EQUITY, BARRATT FORCED ITS NET DEBT BACK INTO THE COMFORT ZONE.

PRINCIPAL TERMS
Term loans of £484m and £750m, new £400m revolver and extension of existing £400m revolver. Bookrunners: RBS, Barclays, HSBC, Lloyds TSB.

Against the backdrop of a rocky housing market, homebuilder Barratt amended and extended its core banking facilities to ease the pressure on its working capital in conjunction with a successful equity rights issue.

Focusing on conserving cash and reducing debt, Barratt succeeded in amending all its bank facilities and private placement notes with a heavily negotiated, bespoke and well-structured covenant package in return for debt prepayment. It demonstrated sound treasury management without any significant increase in finance costs, reshaping Barratt's financial profile to take advantage of an improving housing market. It satisfied the needs of Barratt's principal creditors – both banks and noteholders – and kept shareholders happy.

At the time the group admitted that its £721m cash call had rescued it from a point of no return. Barratt had borrowed £1,234m to acquire housebuilder Wilson Bowden in 2007 and repayment was falling due. Its negotiation of two term loans to repay the legacy acquisition facility was measurably helped by its launch of a rights issue to repay the term loans. On completion of the rights issue, the £484m loan would be reduced to £291m, the £750m term loan to £450m, and the two revolvers to £350m each.

With net debt tumbling as a result from £1.3bn to £708m, the company was able to develop sites that it would otherwise have been too constrained to open. The deal made it into the pages of The Treasurer, with group treasurer Bob Williams saying it had enabled the company to pay down debt and cancel facilities, so strengthening the balance sheet and substantially reducing gearing. On a proforma basis the balance sheet has moved from gearing at June 2009 of 89% (debt to net tangible assets) to a proforma of around 34%.

Highly commended

Wolseley

Like Barratt, building materials company Wolseley was caught in the savage construction downturn. A €1bn forward start provided welcome refinancing and liquidity to assist the equity story in a subsequent £1bn rights issue.

A four-year deal with a two-year extension was signed in March 2009 against a backdrop of speculation over a possible covenant breach. Established ahead of the rights issue, it eliminated the refinancing risk that equity investors would focus on.

Wolseley has since had its NAIC-2 investment-grade private placement restored. The deal highlights the importance of a correctly structured facility coupled with a market-cleaning price and a proactive borrower willing to engage with its banking group.

The facility comes into effect in August 2010 when the existing revolver matures, and expires in 2013. Mike Verrier, group treasurer of Wolseley, says: "This loan was a cornerstone in the financial restructuring of the group. It was groundbreaking in extending the maturity of forward start facilities to well over four years from the previous limit of three years and was the first forward start to allow for self-syndication. To complete this transaction in less than four weeks from inception was only possible because the strong banking relationships we had built up over many years and the ability and commitment of our five core banks – Barclays, BNP, Calyon, Lloyds and RBS – to work together in extremely difficult times to support us."

SPECIAL MENTION: CONNECT PLUS (M25)

This deal won a unique special mention from the judges. Connect Plus (M25) was appointed to design, build, finance and operate an M25 project. A key part of the private finance initiative (PFI) project funding was a £709m term loan facility and a £247m European Investment Bank guarantee facility. Signed in May 2009, the loan had a tenor of 27 years (close to the life of the PFI's 30-year M25 concession and providing certainty of funding) and the guarantee five and a half.

The financing demonstrated that liquidity existed for complex, long-term deals and helped bring confidence back to the UK loan markets.