Winner

Healthy moves

Merck

MERCK'S BOND REQUIRED ANY NUMBER OF MOVING PARTS TO BE CO-ORDINATED, INCLUDING A RATINGS ADVISORY PROCESS CREATING A TWO, FIVE AND 10-YEAR YIELD CURVE, AND AN M&A CALL FEATURE AGAINST THE BRIDGE.

PRINCIPAL TERMS
€3.2bn high-grade Eurobond across three tranches: €500m 2.125% two-year; €1.35bn 3.375% five-year; and €1.35bn 4.5%10-year.
Joint bookrunners and global co-ordinators: Bank of America, BNP Paribas and Commerzbank.

In 2010 healthcare company Merck issued its award-winning Eurobonds partly to fund the $7bn acquisition of biopharmaceutical manufacturer Millipore. The broader objectives were particularly wide-ranging – an extensive ratings advisory mandate, the refinancing of a €4.2bn acquisition facility, and a large FX hedge executed with no market disturbance – and single this out a landmark deal. Merck could not be entirely sure its acquisition would go through until all the transactions closed.

In executing the bond deal Merck successfully termed out its bank debt, relieving its core banks of significant hold loans, and syndicated the risk to over 1,000 debt investors. The swift takeout avoided pricing setups in the loan margin and incremental fee payments.

The rapid access to the market and the inclusion of an M&A call allowed Merck to refinance its acquisition bridge before it was utilised, saving the company a large portion of the associated fees.

Rando Bruns, head of treasury at Merck, says: "The Merck bond marks the largest euro investment-grade corporate deal in 2010. The deal enabled Merck to build a sound debt maturity profile and to address different investor groups. Being the cornerstone in financing the acquisition of Millipore, the deal made it possible to cancel a bridge loan put in place for the acquisition financing and released Merck from short-term dependency on banks."

Highly commended

Shanks

Waste management company Shanks became the first UK corporate to offer a bond targeted at the retail and private banking investor base in Belgium and Luxembourg, where the company operates.

The retail bond, which raised €100m at 5% for five years, provided flexible longer-term funding in the currency Shanks requires. The price was competitive and set before the launch of the transaction.

Bob Cartwright, Shanks group treasurer, says: "The key objectives of Shanks' refinancing are to extend maturity, diversify the sources of funds and obtain maximum flexibility for the group's development, all at a competitive cost. The retail bond was the key first step in this process. The issue achieved a five-year maturity from diversified individual investors rather than financial institutions, 'covenant lite' and with a competitive coupon of 5%."

Special commendations

Circle Anglia and Hyde

The DOTY panel also wishes to make special commendations for bonds issued by housing associations Circle Anglia and Hyde Housing, which demonstrated innovative features and flexible treasury management.

In 2010 Hyde decided to obtain a Moody's credit rating and access the debt capital markets to launch an inaugural £250m secured bond maturing in 2040. Hyde had £1.3bn of committed bank facilities but wanted to diversify its source of funding. The bond was hailed by the government as a model of financial innovation in the sector.

And Circle Anglia raised £124m at a yield of 5.39% following a tap issue to its £275m 2038 fixed-rate bond. The issue was brought to UK institutional investors without an investment bank managing the process. The company achieved an outstanding result in pricing terms with a margin of 110bps over gilts despite challenging market conditions, in particular investors digesting the implications of the Comprehensive Spending Review on the housing sector.