Winner

Precision M&A

Babcock International

THIS £1BN TRANSACTION MARKED THE RE-OPENING OF UNDERWRITTEN MERGERS AND ACQUISITIONS FOR UK CORPORATES IN 2010. IN A DIFFICULT FINANCING ENVIRONMENT THE FLEXIBLE AND EFFICIENT STRUCTURE IS AN EXEMPLARY ACHIEVEMENT BY BABCOCK INTERNATIONAL.

PRINCIPAL TERMS
Fully underwritten bridge facility of up to £400m and backstop facilities of up to £600m. Mandated lead arranger, bookrunner and facility agent: Lloyds TSB Corporate Markets. Mandated lead arranger: JP Morgan.

With its £1.33bn acquisition of VT Group, engineering support services company Babcock found itself on the cusp of the FTSE 100, marking the re-opening of underwritten mergers and acquisitions for UK corporates. The finance team successfully arranged the appropriate funding structure to ensure a seamless execution of the transaction, within a tight timeframe, while positioning the group for future access to the capital markets. Babcock's treasury team showed professionalism, drive and pragmatism throughout the process.

The transaction created a leading UK-focused engineering support services group generating pro-forma revenues in excess of £3bn and boasting an order book of over £10bn. The combined group has increased scale and deep capability across the defence, nuclear and critical infrastructure segments. It will be able to leverage its increased importance and relevance to key customers to deliver enhanced services and efficiencies in a new age of austerity.

The deal was completed in a very difficult loan market, but its flexible structure provided an opportunity to raise a £1bn of underwritten financing in an environment of compressed liquidity and subdued volumes. Within that came an opportunity for the finance team to position itself to access the capital markets post-acquisition, demonstrating sound treasury management. Overall, in a difficult financing environment, the flexible and efficient financing structure is an exemplary achievement.

Franco Martinelli, Babcock's group financial controller, says: "The loan enabled us to acquire VT Group, which was a unique opportunity to merge two like-minded companies. With the deal, which was a plc take-out, we have targeted £50m of synergies. The key to completing the deal was the support and strength of our two banks, Lloyds TSB Corporate Markets and JP Morgan, which allowed us to proceed."

Highly commended
Virgin Media

Virgin Media was under intense pressure to refinance its debt, with £1.1bn falling due in 2010 and £1bn in 2011. After a successful senior secured notes offering resulted in partial debt paydown in January 2010, the company refinanced senior secured facilities totalling £1.925bn with new syndicated five-year facilities split between a £1bn term loan and £250m revolver, and a £675m loan maturing December 2015.

The total refinancing exercise extended Virgin Media's average debt maturity from four to nearly seven years, reducing scheduled repayments from £4.8bn by 2012 to £325m before 2013. The repayment profile of the company has seen a complete reversal, with a move to long-term bonds away from bank financing (25% short term and 75% long term).

Rick Martin, Virgin Media group director of treasury and investor relations, says: "The refinancing of our senior credit facility was the capstone on a three-year refinancing effort. Extending our average maturity to over six years, with no repayments greater than £200m until 2015, and at an attractive cost, it provides for excellent financial and operating flexibility. At the same time, it was important that we had previously deployed a wide range of debt instruments, often on short notice, as a rapid, flexible approach to the debt markets was essential across the last several years."