Olivetti loan mocks market concerns

The success of Olivetti's €22.5bn three-year jumbo loan has been phenomenal. Over €25bn had been raised even before the underwriting phase was wrapped up in March. Although the amount raised in just two weeks was in itself extraordinary, ranking as the highest amount ever raised for a European corporate, the composition of the underwriting group was also unprecedented.

Many of the underwriters – which were asked by the arranging quartet of Chase, Donaldson Lufkin & Jenrette, Lehman Bros and Mediobanca to underwrite €1bn for a 175bp upfront fee – are not traditional, big ticket underwriters in the Euroloan market and include at least one Japanese bank as well as Italian, French, UK, Canadian, German and US banks.

About 25 banks were approached at the underwriting phase and a 75% hit-rate was anticipated. So underwriters could have their allocations scaled down from the envisaged €1bn.

Such a result did fly in the face of concerns over market liquidity – an issue which has been at the forefront of many bankers' minds, given the rival jumbos that have all hit the market at the same time.

These include the originally mooted €10bn financing for Telecom Italia, Vodafone's $13bn deal, Mannesmann's €7.65bn deal and National Grid's $3.6bn deal.

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However, as long as pricing delivers suitable compensation, market liquidity remains very healthy indeed. Also, if the pricing and ancillary business lures are substantial enough, even habitually smaller ticket players can be persuaded to stump up significant amounts.

Somewhat overshadowed by Olivetti's success, Telecom Italia finally launched its defensive loan to underwriters in mid-March via arrangers Credit Suisse First Boston, JP Morgan and IMI. Proceeds were partly for the financing of Telecom Italia's merger with mobile arm Telecom Italia Mobile through a share swap offer and a share buy-back plan for up to 10% of the company's capital.

The loan originally emerged at €5bn, only half the anticipated €10bn, but in a surprise turn over the weekend of March 27, Telecom Italia (TI) altered its plans for the third time and opted to pay cash for the 40% stake in Telecom Italia Mobile (TIM) that it does not already own. Simultaneously it increased its €5bn loan four-fold to €20bn.

The original TI arrangers – Credit Suisse First Boston, IMI and JP Morgan – were re-mandated to arrange this latest incarnation of the financing, and underwrote €1bn apiece, instead of the initial €500m. The arrangers reported a very strong response from the banks they had approached to join as underwriters. Banks to have sided with Telecom Italia include Bank of Tokyo-Mitsubishi, CIBC, Dresdner Bank, HSBC, NatWest, Paribas and SG.

Confused

This change in strategy from the previous aim to acquire the stake through a share exchange – which required a relatively paltry €5bn loan and several bilateral lines – follows a chain of altered plans that had the loan market confused.

The €20bn 364-day revolving credit is rumoured to have a margin in the range of 80bp to 82.5bp over Euribor 'out of the box', with a commitment fee remaining at 20bp. The underwriting fee (effectively the kill fee), which was previously 25bp to underwrite €500m, is now believed to be 37.5bp and the underwritten ticket has been doubled to €1bn, with a further 50bp upfront fee rumoured for the final take.

Despite the strategy changes, the market's response to TI's increased loan – which together with a planned bond issue more than triples the company's debt from €9bn to €31bn – was extremely enthusiastic.

The initial rumours had pointed to a €20bn transaction, so bankers had prepared themselves for such a sum – together with higher pricing to match – and were in fact disappointed at the €5bn loan that first emerged. In addition, liquidity concerns that abounded when Olivetti's €22.5bn loan originally appeared have now been resolutely defied and market capacity is very much in evidence.

The appearance of a second blockbuster Italian loan has coincided with the phenomenal 90% hit-rate success of Olivetti's underwriting phase, during which a staggering €32bn was raised in commitments from 25 banks, including the arrangers Chase, DLJ, Lehman Bros and Mediobanca. IFR

AT&T rewards its banks

AT&T has chosen to reward relationship lenders with key roles in its forthcoming jumbo bond issue. Nearly all of the underwriters on what is widely anticipated to be the largest corporate bond offering in history have been long-time lenders to the telecommunications giant.

Originally launched at $5bn–$6bn, by late last week the deal was already believed to have grown to $8bn – easily surpassing the previous $6.1bn record for a corporate bond offering.

Joint bookrunners Salomon Smith Barney and Merrill Lynch have traditionally been very close to the telecommunications giant and Citibank, Salomon's affiliate company, is a long-time lender to AT&T.

The list of co-managers includes BNY Capital Markets, Chase Securities, Deutsche Bank, First Chicago Capital Markets, Lehman Brothers, JP Morgan and NationsBanc Montgomery Securities, all of whom have longstanding lending relationships with AT&T, its subsidiaries or its joint ventures. IFR