DEALS OF THE YEAR 2012 Awards

Corporate finance category winner

GKN

GROWTH ENGINE

A KEENLY PRICED ACQUISITION, WELL-RECEIVED BOND AND EQUITY ISSUES, AND SOME CLEVER FX RISK MANAGEMENT. IT ADDS UP TO A CORPORATE FINANCE DEAL THAT GKN CAN BE PROUD OF

GKN group treasurer Derek Butler: "We could have done more if we wanted, but we just didn't need it"

GKN may be better known for its high-tech automotive activities, yet aerospace brought in almost a quarter of the group's £6.1bn revenue in 2011. Last July, this division took a significant step forward with the £633m acquisition of Volvo's aero engine components business, which had sales of £600m.

As it was GKN's third major acquisition in the space of a year, the company was determined not to harm its credit rating. This was just one notch below investment grade and with a positive outlook with Standard & Poor's and Moody's. "We could have funded it all through debt, but we wanted to convince the rating agencies that we meant business," says group treasurer Derek Butler. "We went to them during the auction process to determine what would be the funding mix that would make sure we weren't downgraded."

The result was a placing of just under 5% of the equity to raise £140m, at a share price that was actually at a premium to the previous day's close.

In August, sterling and euro roadshows were announced, taking GKN to around 80 potential investors in London, Edinburgh, Amsterdam, Paris and Frankfurt. The company had aimed to raise £350m, but sterling investor interest was so great that orders came in for £2.8bn: the deal was upscaled to £450m and the pricing was tightened. "We could have done more if we wanted, but we just didn't need it," Butler says. As for the pricing, the 5.375% coupon was 50 basis points less than had been allowed for six months before when the board was looking at the proposal.

Volvo Aero's financial performance had been volatile in part because, even though it was a US-dollar business based in Sweden, there were no hedges in place. Knowing there would be a "99.9% probability" that the deal would be signed and completed, GKN went into the FX market and hedged most of the unit's 2013 and 2014 exposures, and some of its exposures out to 2018. With no regulatory or other hurdles anticipated, the company felt confident to completely hedge the consideration for the transaction, which resulted in a "significant gain" by the time the deal completed three months later, Butler says. "The transaction was eps-positive and the funding and the relationship banking worked well."

Deal highlights

Acquirer/issuer:
GKN
Acquisition:
Volvo Aero
Purchase price:
£633m
Structure:
£140m share placing and £450m bond
Rating:
Ba1 (Moody's)/BB+ (Standard & Poor's)/ BBB- (Fitch)
Interest rate:
5.375%
Tenor:
10 years

What the judges said

"It's a classically executed piece of corporate finance funding. This is exactly how it should be done."

Highly commended

LINDE

In a volatile equity market, Linde pulled off a €1.4bn equity private placement without pre-emptive rights for existing shareholders – the second-largest straight equity deal in Germany last year. The industrial gases group, capitalised at around €25bn, wanted to partly refinance its €3.7bn acquisition of US respiratory care company Lincare. The deal was executed on a very short timetable: it was announced after the market closed on 9 July as an accelerated book-build offering. By the time the markets opened the next day, strong support from UK and US investors, including some existing investors, had more than met the company's requirements. The deal was priced at a discount of just 5.3% to the previous day's close. The shares performed strongly in the immediate aftermarket.