European loans above £750m category winner

IBERDROLA

PLENTY OF CHOICE

SPANISH ENERGY GROUP IBERDROLA FACED A DIFFICULT CHALLENGE WHEN IT TRIED TO REFINANCE A €1BN FACILITY, SO IT OFFERED ITS BANKS MENU-STYLE OPTIONS

Iberdrola director of finance and treasury Jesús Martínez Perez: "Our philosophy is we work with the banks"

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With the euro crisis, one of the critical risks faced by lenders was the 'redenomination risk' that they might lend euros, say, but later be repaid after a euro break-up in a devaluing national currency, such as new drachmas or pesetas. Keen to refinance and reduce a €1.2bn facility, Iberdrola conducted what one banker described as a "thoughtful" pre-screening process to get a good understanding of what the critical needs were for lenders. What emerged was that different lenders had very different needs.

Jesús Martínez Perez, director of finance and treasury, had not seen such divergent interests before. It would have been easy to conclude that it's not possible to please everyone, and to proceed with the refinancing using a smaller banking group. And that probably would have been possible. But it ran contrary to Iberdrola's preferred working relationship with its core banks.

"We had the possibility to close the transaction with fewer banks or to try to be flexible and try to include all our core banks," says Martínez Perez. "Our philosophy is we work with the banks."

The solution, then, was to offer lenders a menu. Two issues stood out: the governing law for the lending and the type of facility. Each lender could decide whether to opt for an English law contract or Spanish law.

There was no clause in the documentation that dealt specifically with what would happen if the euro broke up. "We didn't have any position as to whether it was better to use Spanish or English law," Martínez Perez says. But most banks assumed that English law would protect them better in the worst-case scenario.

Lenders could choose to join the €536m three-year term loan, or the €464m five-year RCF. Ultimately, 70% of loan providers and 80% of credit line providers opted to be covered by English law.

Not only did this deal structure mean that Iberdrola had almost all the banks it wanted to include, it also meant that it paid a lot less than it might have had to do. There is no doubt that Iberdrola, though itself an investment-grade asset, is being "penalised because we are a Spanish company, even though we have 45% [of revenue] outside of Spain," Martínez Perez argues. But, as one banker spells out, Iberdrola's menu-driven financing structure "notably increased appetite and enabled competitive pricing when compared with similar transactions".

Deal highlights

Issuer:
Iberdrola
Amount:
€1bn syndicated facility
Structure:
€536m three-year term loan; €464m five-year RCF
Rating (at time of deal):
Baa1 (Moody's); BBB+ (Standard & Poor's); BBB+ (Fitch)

What the judges said

"An investment-grade Spanish corporate offered a novel option to attract international lenders. Well researched and executed."

Highly commended

SCHAEFFLER

Schaeffler's €8bn refinancing package was one of the largest transactions of its type last year, and helped this German engineering company diversify its funding sources. A mix of around €5bn (equivalent) in term loans (euros and dollars, three to five years), a €1bn RCF (three years) and a €2bn bridge to bond improved Schaeffler's balance sheet structure, pushed out tenors and introduced the privately owned company to the capital markets. Banks were attracted to the deal, with the banking group doubling to eight banks, before later being joined by another three. Schaeffler's management team conducted an extensive marketing effort on both sides of the Atlantic to ensure the success of this deal.