Investment-Grade Bonds

Overall Winner of Deals of the Year (2003-04)

Sweet taste of sucess for

Cadbury Schweppes achieved the sweet taste of success in the capital markets in 2004 with orders exceeding €2.5bn for its €1.2bn bond issue. Despite its mid-BBB rating, the company achieved pricing akin to that of single A-rated issuer. For these reasons its deal was not only voted the best Investment Grade Bond of the Year, but Overall Winner in *The Treasurer*'s Deals of the Year Awards (2004).

Cadbury Schweppes' €1.2bn fixed and floating rate bond issue in June 2004 secured the confidence of *The Treasurer*'s voters and impressed the Deals of the Year judging panel as a mainstream financing that was well executed and very favourably priced for the issuer. The deal was heralded for its good investor interest – the final issue being more than two times over-subscribed – and tight pricing. This was achieved in spite of Cadbury's downgrade to BBB following an acquisition two years ago, which saw Cadbury increase its debt to over 50% of its market capitalisation.

The deal was also noted for successfully diversifying Cadbury's investor base across Europe in what was the company's first entry into the euro-denominated bond markets.

Successful refinancing

Cadbury Schweppes, a world leader in the manufacture, marketing and distribution of branded beverages and confectionery products, launched its €1.2bn deal on 21st June 2004 to refinance part of the US$6.1bn bank facility it took on in 2002 when purchasing Adams, a global gum and sugar confectionery producer.

The offering represented its first issue in the debt capital markets since 2003 when it launched bonds of £400m and US$2bn to refinance the same bank loan.

There were a number of important reasons behind Cadbury's decision to tap the euro-denominated market in 2004. Aside from needing euros, the company wanted to grow and diversify its investor base away from the UK and US. Despite having significant operations in France, Spain, Germany, Russia and Poland, it does not have the same equity following there as it does in the UK and US, so it recognised the importance of promoting the Cadbury name across Europe.

To ensure that the deal went smoothly, Cadbury's finance team embarked on two, two-day roadshows one week before the issue – one to meet investors in London and Paris, the other to Frankfurt, Munich, Zurich and Amsterdam. The travelling roadshow, which gave twenty investor briefings, was the first-ever European debt roadshow by the company. Altogether, over 100 investors were briefed in the six cities before the deal's launch.

"We did the roadshows because we are not well-known among euro investors as we have never issued in that currency before. This was a new investor base and we needed to educate them." says Tim Owen, Cadbury's Director of Treasury. "However, they did all seem very well-informed when we got to them...many of the investors had clearly conducted substantial research into the company in preparation for our visit."

Demand upsizes the issue

Initially, Cadbury had planned a five-year, €500m fixed-rate bond and a three-year, €300m FRN. However, the success of the roadshow generated very positive investor demand – orders for each tranche reached €1bn by 3pm on the day of the launch – so it decided to upsize both tranches to €600m.

"Prior to the issue our banks had advised us that there was strong demand for euro-denominated FRNs with short maturities, and for longer maturities there was more interest for fixed rate notes." explains Owen. "Also, three and five-year issues filled gaps in the maturity profile of our debt which is now very evenly distributed."

And Terry Bird, Group Financing Manager at Cadbury, adds: "The FRN market developed quite substantially in 2004. This is where the demand was and we decided to go this way.

"Our issue triggered a lot of interest in the FRN market and other issuers followed us into it. Both tranches were increased to €600m to reflect the evenly balanced demand for fixed and floating rate notes."

Dominic Kerr, Director of Debt Finance & Advisory at HSBC, one of the four joint bookrunners on the deal, alongside ABN AMRO, BNP Paribas and Dresdner Kleinwort Wasserstein, described the issue as 'trend-setting', with other companies following suit and launching FRNs to meet similar investor demand, based on expectations of rising interest rates.

Principal terms

Amount €600m of 4.25% fixed rate notes and €600m FRN
Spreads mid swaps +52bps and Euribor +34bps respectively
Maturity June 2009 and June 2007 respectively
Bookrunners ABN AMRO, BNP Paribas, Dresdner Kleinwort Wasserstein, HSBC

Cadbury

"The biggest surprise was how the FRN went – it ended up being the same size as the fixed-rate tranche," he said. "If anything, the FRN was the more subscribed."

He adds that strong investor interest in the debt also stemmed from the fact that Cadbury is a new name and 'has novelty value' in the euromarkets. "From a credit rating perspective, it is also regarded as having a higher credit rating than mid-BBB.

Tight pricing achieved

The strong demand for both issues also impacted on the pricing achieved by Cadbury, with the spread on the three-year FRN tightened to Euribor +34bps (from initial price-talk of the high 30s) and the five-year tranche tightened to mid swaps +52bps (from initial price-talk of the low to mid-50s).

"Although we have a mid-BBB rating, we got pricing akin to a single A issuer," adds Owen. "This reflects the historic strength and consistency of our performance."

He adds that the tighter pricing reflected the fact that Cadbury is generating stronger cashflows now that the initial stages of integrating Adams into its business are complete, and that these cashflows can be used to pay down debt – a message presented to investors. Better cashflow also improves credit ratios, and investors were buoyed on by predictions that the company's credit ratings are likely to be upgraded in the future.

Diversified investor base

The euro debut also secured the broad geographical distribution that Cadbury was looking for. Investment in the fixed rate tranche was led by investment funds (43%), followed by insurance companies and pension funds (19%); 33% of the allocation went to banks, ultimately destined for retail. This issue proved most popular in UK/Ireland (29%), followed by Germany (21%) and Scandinavia (13%).

The FRN, meanwhile, was placed predominantly with banks (63%), funds (28%) and insurance/pension funds (7%). The French were major buyers (25% of the issue), followed by the UK/Ireland (24%), Southern Europe (23%) and Germany (11%).

Speaking at *The Treasurer*'s Deals of the Year Awards Lunch in January, on receipt of his award, Cadbury's Tim Owen commented: "We are delighted to have won this award. We have won other awards in the past but never the ACT's Deals of the Year. We have always wanted to win this; it is the most prestigious award."

Highly-commended MARKS & SPENCER

Marks & Spencer was praised by *The Treasurer*'s Deals of the Year Judging Panel for becoming the first UK company to turn to the capital markets explicitly to raise funds for pension deficit funding.

Its £400m bond issue, due 2014, was more than four times oversubscribed, a reflection of investors' good reception of the pension fund deficit story. The issue was priced at the revised end of the price talk range – tightening up to Gilts +93bps from initial price talk of Gilts +95/100.

Investor targeting commenced with initial announcements of the pension deficit (£585m), adoption of the FRS 17 accounting standard and the planned £400m issue, followed by a full UK roadshow. Pre-marketing generated a high-quality book in excess of £1.75bn. The issue was distributed across the UK (91.6%), Europe (7.2%) and US (0.7%).

The equity markets also responded very favourably to Marks & Spencer on the day of the bond issue. Its share price rose 2% within two hours of the market opening, ending the day 2.1% above the previous day's close.

"The £400m bond tax-efficiently replaced an off-balance sheet pension deficit liability with a direct obligation of the sponsoring company," said Sue Harris, Group Treasurer at Marks & Spencer.

HSBC and Morgan Stanley were joint lead managers on the deal.