



High-Yield Bonds

Invensys' seven-year high-yield bond issue in two tranches – a US\$550m issue and an €475m issue – was one of the three parts of a major recapitalisation. It was commended by *The Treasurer's* voters and its Deals of the Year panel for representing a successful transaction, despite being a complex and particularly large capital fundraising launched in difficult market conditions for the company.

The automation, controls and process solutions company launched a £2.7bn refinancing package, comprising equity, high-yield and bank debt in February 2004. The deal comprised £625m (net) of high-yield bonds, which started trading at 98 before reaching a peak over 104.

"Invensys refinanced all of its debt at the same time as this high-yield issue and tapped equity markets, institutional debt markets and bank markets all at once," says Group Treasurer Will Spinney. "It was a very large deal for a company of our size and the ability to achieve this size was due, in part, to

the depth and liquidity in this market."

And he continues: "Since the deal, we have changed our treasury structure to meet the compliance demands of our new debt and have minimised the impact on the business, thus allowing us to concentrate fully on developing the business, which is now free from short-term financing risks."

Need for major refinancing

Invensys faced significant refinancing needs in both 2004 and 2005, but deterioration in the company's performance, as a result of the general downturn in the economy, caused it to lose its investment grade status in February 2002. The company embarked on a programme of non-core disposals in 2002, which raised £1.8bn, and halved its indebtedness. However, as the process progressed, the scale of the remaining debt maturities due in June 2004, April 2005 and August 2005, coupled with the general economic climate, made this a less viable option.

"Towards the end of 2003, we reduced the market guidance on likely proceeds from our disposal programme," says Spinney. "But we faced very significant refinancings in mid-2004 and 2005, and we had told investors that we would be looking at other options to ensure that we had a fallback plan."

Invensys' investment bank – Morgan Stanley – then put forward a general refinancing package comprising equity, high-yield and bank debt. "It became a matter of deciding the best method of execution and timing," says Spinney. "At the start of January 2004, both the equity and high-yield markets were in our favour. The institutional market was also there. We set ourselves a target to make a decision on the refinancing to investors by the end of January 2004."

He continues: "At that point in time, we were approached by Deutsche Bank who offered to fully underwrite both the high-yield and bank debt, while also participating

Invensys achieves the top

Invensys' £625m High-Yield Bond issue in March 2004 was part of a larger refinancing package which represented a major recapitalisation in the industrials sector and the first-ever three part recapitalisation in the UK. It enabled Invensys to diversify its investor base, reduce short-term maturity and put the





Invensys®

Principal terms

Amount US\$550m and €475m

Coupon 9.875%

Maturity 2011

Bookrunner Deutsche Bank

grade

in the equity. An assessment of the options, in light of the changing timescales, led Invensys to decide in favour of the sole bank, fully-underwritten solution."

Following a 5th February launch, pricing of the high-yield bonds in late February and a successful EGM, the deal was completed on 5th March. While the share offer experienced a 70% take-up, the bond deal was widely syndicated with around 85 accounts participating from traditional, high-

yield, hedge and straight equity funds; the notes were two times over-subscribed.

The success of the deal was also illustrated by the fact that Invensys' share price rose by 16% when the deal was announced; existing notes tightened up by 100bps.

The deal enabled Invensys to refinance its existing debt and put in place a long-term sustainable balance sheet. The new credit facilities allowed the company to reduce creditor pressure and successfully restructure its operations, including the sale of non-core assets.

"Our focus is now very much on driving the growth and profitability of the business that we are retaining," says Chief Executive Richard Haythornthwaite.

Brian Bassett, Head of High-Yield Capital Markets at Deutsche Bank, adds: "We always thought Invensys was worthy of Deals of the Year consideration. At the time of the bond issue, the company had numerous corporate events and operational improvements it was considering.

"At the time, it was the largest single B offering in numerous years. The bonds were part of a complete refinancing package which enabled the company to push out its debt maturity schedule and increase liquidity.

"Since the bond transaction, the company has delivered upon its asset sale programme and underlying business improvements. This has caused the bonds to perform very well in the secondary market."

Highly-commended



SEAT Pagine Gialle's issue of €1.3bn of 8% senior notes, due 2014, was commended for being the largest-ever euro-denominated high-yield offering.

The success of the deal was such that it

was nearly three times over-subscribed.

The deal formed part of a larger arrangement conducted to finance an acquisition. The company also raised €3.1bn and £75,000,000 in senior secured

credit facilities, and entered a €1.15bn subordinated bridge loan.

The bookrunners on the deal were CSFB, BNP Paribas, Barclays Capital and RBS.