Equity

Investors showed their unwavering support for UK supermarket giant Tesco when the group launched its first equity placing in thirteen years. The £773m deal will give Tesco's management room to manoeuvre and build on Tesco's successful strategy for growth. The deal demonstrated how investors will

Tesco gets its fair share

When supermarket group Tesco came to the equity market in January 2004, it was not with a typical cash placing. This was the first time in thirteen years that the group had placed equity paper. More importantly, it was a strategic move to give management the flexibility to continue with Tesco's core development plans. Without a clear acquisition target in mind, this would have been a hard sell for most companies, but this was not the case with Tesco. With almost the entire group's major investors committing to the issue, and the paper strongly subscribed, the deal demonstrated the confidence that investors have in the group and its management.

Tesco placed 315 million new shares – 4.4% of the group's issued capital. It raised £773m through joint bookrunners Cazenove and Deutsche Bank at a share price of 248p, including a £45m greenshoe option. The deal was launched at a 0.8% discount to the share price on launch day, and a 4% discount to the previous day's closing share price. UK investors took up 80% of the placing, with the US taking 10% and European investors buying the remaining 10%.

"The thing that really stands out for me is the speed with which the deal was done, especially given its size; it was completed within a day and accounted for 4.4% of our issued capital. We timed it with an update to the City on our

TESCO

Principal terms

Amount raised £773m
Number of shares 315m
Share price 248p
Discount 0.8%
Bookrunners Cazenove, Deutsche Bank

Christmas trading results and we were able to close the transaction with nine out of our top ten shareholders subscribing to the equity," says Nick Mourant, Group Treasurer at Tesco.

He notes that it has been a long time since Tesco last went to the equity market for funding. "Our last rights issue was in 1991. We had previously had board level discussions within the company about our cost of capital and had made a strategic decision that we wished our long-term rating to stay a strong single A.

"While equity is an expensive form of funding, we were prepared to have a slightly higher Weighted Average Cost of Capital (WACC) in order to maintain that single A position."

Challenges of the deal

The big challenge for Tesco was convincing investors that the reasoning behind the deal was sound. "Our commercial strategy has not changed, which was part of the challenge of the deal," says Mourant. "Normally this type of transaction is done with a specific acquisition target in mind. We identified certain areas that we wished to invest in but the equity placement was not earmarked for a specific acquisition target.

"This was the most difficult thing to sell to investors – the fact that the placing was to support our existing strategy, rather than a new acquisition and new strategy," he continues. "The market is not used to a share capital placement simply for 'more of the same' – that is to give us the ability to move more quickly on our existing strategy."

The cash placing was part of a wider funding programme including enhancement of working capital management strategies and an analysis of value-creation opportunities in the group's property portfolio, with a view to raising a similar amount of money as raised by the cash placing.

According to Charlie Foreman, Managing Director and Co-head of Corporate Broking at Deutsche Bank "The execution was flawless, with a very small discount and stock went to very solid accounts. Because of the continuity of management, execution shareholders were prepared to step up and subscribe to the transaction."

He adds: "The lack of contention is what really stood out about the deal. It was a real vote of confidence in the management's abilities and strategic vision, which has been fully borne out by the performance of the company over the past year."

Highly-commended pagesjaunes

Pages Jaunes' €1.5bn IPO from France Telecom was highly-commended by *The Treasurer*'s Deals of the Year Panel for being a particularly large, successful deal, despite being launched at a time not particularly favourable to IPOs.

The deal was the largest IPO and equity offering in France and the fourth largest in Europe in 2004. It provided France Telecom with an efficient means of raising cash while taking control of Wanadoo.

Another interesting aspect of the deal was the innovative syndicate appointment and pricing structure. Banks would only be paid if the final price was within their proposed price range following pre-marketing. The premium pricing achieved was relative to the industry benchmark Yell.

The IPO was completed within four months. It saw gross institutional demand in excess of €3.3bn with more than €740m of demand from 530,000 French retail investors. The final price of €14.40 for institutions was set in the top half of the price range.

Michel Datchary, Chief Executive Officer of Pages Jaunes, attributed the deal's success to the high quality of the group's assets and the huge welcome that the financial community gave to the Pages Jaunes' 'equity' story. "The results speak for themselves – an over-subscription of three times at the IPO price," he said.

ABN AMRO Rothschild, BNP Paribas, Calyon, Lehman Brothers and Morgan Stanley were bookrunners on the deal.