M&B breaks the limits

When Mitchells & Butlers launched a £1.95bn pub securitisation in November 2003, it broke new ground both transactionally and from a corporate perspective. The deal was successfully launched despite a market full of 'pub' paper and despite major corporate changes.

Pub group Mitchells & Butlers launched the largest-ever pub securitisation in November 2003. The deal introduced new structures and was the first-ever wholly-managed pub securitisation. It faced a market that had taken up a similar transaction within mere weeks, and the group was facing a hostile takeover bid at the time as well. But despite these challenges, the deal was launched successfully and fulfilled the needs of the group.

The group structured the £1.95bn deal to ring-fence 1,942 managed pubs, owned by Mitchells & Butlers Retail Ltd. The deal was commended for the complexity of the structure and its market-making size. It was also praised for the tenacity of the management team in getting such a complex deal done to specifications in less than ideal circumstances over a short period of time. Mitchells & Butlers became the first major stock exchange listed-company in the UK to go down the whole-business securitisation route for its core funding, according to Damian Thompson, Head of Leveraged Finance and Property Securitisation at RBS. "This was a major step that no-one had taken before, which in retrospect looks to have worked out well," he says.

In addition, the deal came right after a year of changes for the group. During the previous twelve-month period, Mitchells & Butlers transformed itself from part of a much bigger company to an individual entity with the demerger from Six Continents. It also undertook an initial refinancing and put in place its long-term funding with the whole-business securitisation.

John Butterfield, Mitchells & Butlers' Strategy Director, says that the deal itself stretched borders both from the market perspective and from a corporate perspective. "From the point of view of the market, it was the largest pub securitisation that has ever been done and it was the first pure new issue managed pub transaction," he explains. "Before this all pub securitisations had been either tenanted pubs or a combination of tenanted and managed pubs."

This means the deal broke new ground in terms of what ratios and what covenants needed to be looked at for the structure to work. In addition, it was the first pub transaction to include a dollar tranche as well as sterling tranches.

"From a corporate perspective, at the time of the demerger we had set up a process of putting in place the appropriate long-term financing," says Butterfield. "We reviewed all the possible types of funding that were available and selected the whole-business securitisation as the best funding mechanism for our strategy.

"We managed to execute it successfully within the timeframe we had set for ourselves. We set up the company to go ahead as an independent entity with the right financing in place for us as a pub group."

Challenges faced

Market conditions were generally favourable at the time of the deal, although there were a few challenges: "The only complication was that Punch Taverns launched another very complex pub securitisation literally two or three weeks before ours. Therefore, there was a lot of pub paper around at that particular moment," says Butterfield. Nonetheless, the transaction saw quite a favourable market response. All the different tranches were well subscribed and spreads subsequently tightened after the issue.

In addition, the way the deal was structured was unique, according to Butterfield. "It was designed to maintain the operational flexibility that we require to drive our business forward. We were effectively the first Footsie 100 plc to launch a whole-business securitisation, which meant we really had to balance the interests of our equity and stock investors with the bond investors," he says.

Mitchells & Butlers structured the deal so that it would pay regular dividends out, whereas typically in the past whole-business securitisations have been designed to maximise debt and minimise dividend payments.

Another challenge the group had to overcome when it began to set up the deal was that it faced a hostile bid. "Therefore, we had some key time commitments in terms of refinancing the business and returning money to shareholders," explains Butterfield. "The challenge was to make sure we got the appropriate flexibility but in rapid time. And we succeeded at both goals."

Thompson adds: "Mitchells & Butlers has found this to be a very effective way to finance the company." He points out that the securitisation structure does not allow as

Principal terms

Amount £1.95bn
Maturity 2010-2030 fully amortising
Guarantor Ambac on Class A1, A and A3 notes
Bookrunners RBS, Citigroup

much freedom as pure bank financing. "But, nevertheless, it has not constrained the way the business is operated and, on the flip side, it is seeing other benefits in terms of finance cost."

The deal paved the way for other large listed entities to consider whole-business securitisation. "It is a very good test case for this sort of financing for large companies such as Mitchells & Butlers. You can see its success in the strong equity performance over the past year," says Thompson.

Highly-commended FIFA

The Fédération Internationale de Football Association (FIFA) was commended for the innovation it showed in using the structured finance market to mitigate the risk of potential cancellation of the 2006 Football World Cup. The $250m equivalent multi-currency transaction was conducted in several tranches and rated A3 by Moody's.

The transaction was a capital markets first – the first transfer of natural and man-made (terrorist) risk, the first transfer of exposure to a sporting event and the first 'catastrophe' type bond to be issued across several currencies including the US dollar and the euro.

It was extensively marketed across Europe and the US and fifteen investors bought into it, representing six countries and four currencies. The deal was priced well inside expectations at Libor/mid Swaps +150bps and was up-sized by $10m. It was oversubscribed by 20%.

"The transfer of the risk of the cancellation of the 2006 World Cup to the capital markets represents a highly innovative transaction structure that is a significant development in the securitisation market," said a FIFA spokesman.

CSFB was the bookrunner on the deal.