Followers of fashion

Fashion house **New Look** has declared itself a dedicated follower of financial fashion by raising £359m through a payment-in-kind loan.

The payment-in-kind loan is designed to raise a dividend for the high-street retail chain's venture capital backers Apax and Permira, but its structure also indicates that New Look is looking at a flotation back on the stockmarket within an 18-month window from the end of this year.

With a nine-and-half-year maturity, the payment-in-kind loan cannot be called or bought back within the first six months but it can then be called at par for the following 18 months. After that and during the following year it can be called at 102% of face value, at 101% in the year after that and then back to par thereafter.

It is understood that the first 18-month par call period is designed to allow for an initial public offering (IPO), at which point the loan would be redeemed.

The loan is priced at 900 basis points over Libor and underwritten by management agreeing to buy £20m of the deal.

Payment-in-kind debt arrangements mean interest is not paid in cash but rolled up as new debt. The cash is only paid at redemption – in this case potentially from the proceeds of a stockmarket flotation.

The higher rates of returns – typically between 10% and 20% – over standard debt-funding has made payment-in-kind deals attractive to hedge fund investors with the appetite to take on the added risk that such loans are at the bottom end of companies' capital structures and ultimately run the risk of not being redeemed should a company hit financial problems and/or fail to raise cash from an IPO.

They have also become a popular tool for venture capital companies keen to maximise the returns from their equity investments.

Apax and Permira took a £100m dividend out of the company in January 2005 after its £700m acquisition of New Look the previous year, backed by £385m of senior debt and a £100m mezzanine facility. Later last year the business was recapitalised in a £805m deal with mezzanine and second-lien debt alongside £670m of senior debt.

"We have restructured ourselves to get ready for the next phase of transformation," said Chief Executive Phil Wrigley.

New Look's payment-in-kind was arranged and led by Goldman Sachs.

After a record-breaking private placement last year, giant international builders merchant **Wolseley** saw heavy over-subscription for what ultimately became a new €2.8bn five-year revolver.

Plans for a fund-raising of €2bn to repay €1.23bn of existing facilities were scaled up after commitments of more than €3bn were received.

Wolseley Group Treasurer Mike Verrier said that 27 banks had committed to the new facility which was ultimately set as a €2.8bn single five-year, multicurrency, revolving credit facility. The loan is paying 20 basis points over Euribor, significantly down from the margins paid on the company's previous revolving credit facilities arranged in 2001.

"The successful syndication follows on from the private placement late last year and again demonstrates that Wolseley is recognised as a strong investment partner with a proven track record," said Verrier.

Last autumn Wolseley raised $1.2bn in a private placement of fixed and floating rates of between three and 15 years which substantially changed the maturity profile of the group's capital structure.

The acquisitive company, which has become the world's largest specialist trade supplier of plumbing/heating products and building materials, said the revolver proceeds after debt repayment would go to general corporate purposes.

Barclays Capital, BNP Paribas, Citigroup and Lloyds TSB acted as bookrunners and Royal Bank of Scotland was the agent.

Britain's biggest car dealer, **Pendragon**, is funding its £450m takeover of rival Reg Vardy with an £850m refinancing.

Pendragon is splitting the financing with a £450m five-year revolving facility, a £200m amortising five-year loan, and an 18-month £200m loan. The offer is paying at an initial margin of 125 basis points.

Royal Bank of Scotland is acting as bookrunner with Barclays and Lloyds TSB as lead arrangers.

Robert Lea is City Correspondent of *The London Evening Standard*.

INTERNATIONAL LOANS

BORROWER	CREDIT DATE	DEAL TYPE	TRANCHE VALUE	DEAL VALUE	TRANCHE MARGIN	MANDATED ARRANGER PARENT	TRANCHE FEE REMARKS
YELL GROUP PLC	27-Apr-06	Leveraged	$5,358m/ $715m	$8,216m	175	Citigroup, Deutsche Bank, Goldman Sachs, HSBC	Undisclosed
YELL GROUP PLC	27-Apr-06	Leveraged	$2,143m	$8,216m	225	Citigroup, Deutsche Bank, Goldman Sachs, HSBC	Undisclosed
EUROPEAN METAL RECYCLING LTD	25-Jun-06 est	Investment Grade	$138m/$212m	$350m	87.5	HSBC, Fortis, Lloyds TSB Capital Markets	

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