Sterling work on yankees

In the first major cross-currency exchange since the introduction of the new international financial reporting standards (IFRS) accounting rules, insurance group **Royal & Sun Alliance** has converted $500m of so-called yankee bonds.

"What we have done is convert some expensive senior debt – non-callable, long-dated bonds with a 8.95% coupon – that did not fit with what we wanted," said Royal & Sun Group Treasurer Steve Fenn.

In a move which the insurance giant said delivered an all-round strengthening of the group's balance sheet, Royal & Sun called in US dollar bonds with a redemption date of October 2029 and a sterling value of just under £300m.

The deal did not just call in the yankee bonds but also converted them to sterling perpetual notes alongside a tranche of the sterling perpetuals that had already issued by the group.

"The yankee bonds, which were first issued in 1999, were not being recognised as regulatory capital by the Financial Services Authority, which had over time changed the rules," said Fenn.

"We had flagged that we had wanted to do something about this since the Royal & Sun rights issue of 2003. The key thing had to be that a new issue would be classed by the FSA as regulatory capital."

However, the process was delayed by the onset of the new IFRS rules and their effect on exchange accounting. Fenn said that he and his team had waited to see the new accounting treatment bed in to make sure that Royal & Sun and its auditors were happy with the proposals.

Ultimately, the conversion of the yankee bond to a cheaper sterling-denominated instrument with the surplus amortised under the new IFRS exchange accounting rules meant that the effect of the change was minimal to the profit and loss account, said Fenn.

In a process structured and handled by Merrill Lynch and co-managed by BNP Paribas, Lehman Brothers and HSBC, Royal & Sun called in $500m 30-year dollar bonds paying a coupon of 8.95%.

The exchange spread on the bonds saw them called in at more than 119 basis points over the equivalent US treasuries – or an effective rate of nearly 130% over.

The bonds were exchanged for a new tranche of tier 1 sterling perpetual notes issued at 187 basis points over the equivalent gilts with a coupon of 6.7%. The notes can be called in 2017 or the coupon rate can be reset at that time.

Massive demand for the new notes issue was such that a further £77m was raised, taking the new tranche to £375m on top of a previous £445m issue of Royal & Sun sterling perpetual notes, callable in 2014 with a coupon of 8.5%.

Bank of Scotland has reworked the terms of a £350m syndicated loan financing the High Wycombe-based **IMO Car Wash Group** after the world's largest carwash company changed hands from JPMorgan Partners (the private equity arm of the US investment bank) to US investment house Carlyle Group.

Bank of Scotland had originally provided the financing when JPMorgan Partners bought IMO Car Wash from a group of London venture capital houses led by Bridgepoint in early 2004.

Bank of Scotland persuaded the lenders – including Allied Irish Banks, Banco Espirito Santo, CIC, Co-operative Bank, Deutsche Bank, Erste Bank, Landesbanki and Singer & Friedlander – to accept a margin cut in the flex deal.

Two tranches of senior debt were both increased by £5m to £120m with the five-year term loans paying 237.5 basis points over Libor rather than 250 points.

A £30m capital expenditure facility remains, paying at 250 basis points, while a five-and-a-half-year mezzanine tranche is reduced from £90m to £85m.

All tranches are on bullet repayment terms to settle on maturity.

Century-old department store chain **Debenhams** has returned to the stock market with a £1.675bn flotation, raising £950m to finance the company's plans to expand its portfolio and double from its current size to 240 locations.

The pricing at 195p was right at the bottom of the 195p to 250p indicative range, and the business came to market with net debt of £1.2bn.

After an over-allotment exercise, the free float represented 62.4% of the issued shares, with the private equity vendors Texas Pacific Group, CVC Capital Partners and Merrill Lynch Global Private Equity retaining between them a stake of nearly 30%.

Debenhams Chief Executive Rob Templeman said: "We are pleased with the quality of Debenhams' shareholder register on the company's return to the stock market."

Citigroup, the sole sponsor, and Merrill Lynch acted as joint global co-ordinators, with Credit Suisse and Morgan Stanley joining them as joint bookrunners for the offer.

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

INTERNATIONAL EQUITIES

ISSUER	AMOUNT	TYPE	TRANCHE SHARES OFFERED	TRANCHE OFFER PRICE	PRICING DATE	EXCHANGE	FEES %	BOOKRUNNER
SCOTTISH & NEWCASTLE PLC	$366m	FO	42,000,000	$8.71	11/04/2006	London	-	Deutsche Bank, UBS

FO = Follow on

All data provided by Dealogic. www.dealogic.com