



# A FIRST FOR ANGLO AMERICAN

CLEAR OBJECTIVES, FLEXIBILITY AND STRONG LEAD MANAGERS ARE JUST SOME OF THE THINGS THAT CONTRIBUTE TO ISSUING A SUCCESSFUL DEBUT BOND, SAYS **SUSAN HARRINGTON** OF ANGLO AMERICAN.

**A**nglo American plc was established in 1999 by the merger of Anglo American Corporation of South Africa and Minorco. The group dates back to 1917 when the founder, Sir Ernest Oppenheimer, started with the development of major gold mining interests in South Africa. Now, the company is a global leader in the mining and natural resource sector, with significant interests in gold, platinum, diamonds, coal, base and ferrous metals, industrial minerals and forest products.

In October 2002, Anglo American plc secured new long-term credit ratings for the first time from Moody's and Standard & Poor's of A3 (stable) and A- (stable), respectively. These new ratings gave it the opportunity to consider financing in the international debt capital markets.

The group's objectives were to diversify its debt funding, which had predominantly been sourced from the bank market, and to extend the maturity profile of debt by the issuance of medium- or long-term bonds.

**EMTN PROGRAMME.** In October 2002, Anglo invited its core relationship banks to put forward their views on an appropriate capital market strategy for Anglo American. Anglo American is a global resources group with nearly 50% of its sales going to

customers in the UK and Europe. After careful consideration, it was concluded that the first step would be to establish a presence in the Eurobond market and the most efficient way to access the market would be by means of a euro medium-term note (EMTN) programme. The key benefits were perceived to be:

- setting up standard documentation would facilitate a number of bond issues (over a period of time) in the Eurobond market;
- having the ability to respond to reverse enquiries from potential investors;
- speed of execution – with the programme documentation in place before issuance it would be able to enter the market at short notice, if required; and
- cost effectiveness – the cost of establishing the EMTN programme would be roughly equivalent to the cost of documenting two standalone public-size bond issues.

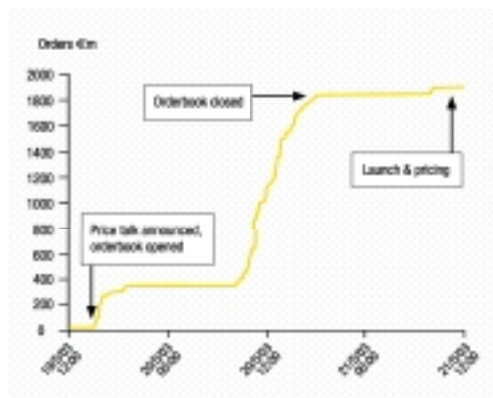
Anglo American arranged for five of its relationship banks to present their proposals and credentials for the role as arranger of the EMTN programme. They were chosen on the basis of their past experience in arranging comparable EMTN programmes, and Barclays Capital was subsequently selected to arrange the programme.

**EMTN DOCUMENTATION.** EMTN programme documentation is generally quite standardised. The documents produced as part of the EMTN programme are as follows:

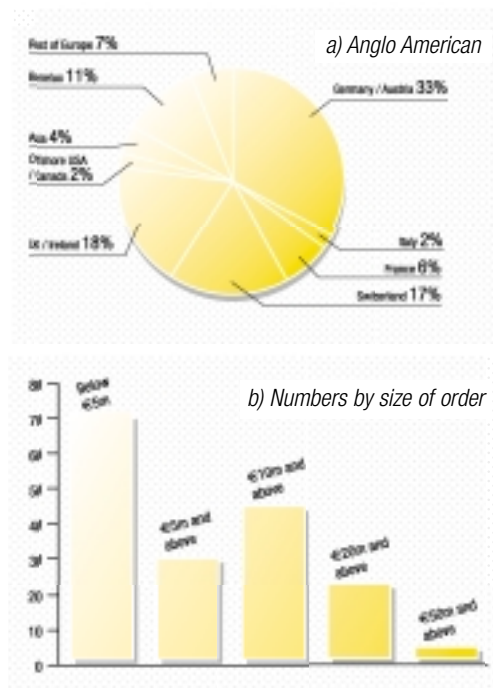
- **The Offering Circular** – acts as a marketing tool for the investor and serves as the listing document. It sets out the terms and conditions of the securities, selling restrictions, and provides a brief business description of the issuer/guarantor together with certain financial information.
- **The Programme/Dealer Agreement** – details the legal framework for the programme and the administrative details. It includes representations, warranties and conditions precedent to issuance and pertinent sales restrictions. It also notes the arrangement for reverse enquiries through 'dealer for the day' provisions.
- **The Agency Agreement** – sets out the mechanics of issuance and payments on the securities and the responsibilities of the issuing and paying agent.
- **The Trust Deed** – sets out the obligations of the trustee, who is appointed to act on behalf of the security holders.
- **Legal opinions** – letters from the legal advisers opining on the transaction's legality and the validity of all documents. It will cover, amongst others, matters such as the due incorporation of the Issuer/guarantor, necessary consents and authorisations, positions of local tax and stamp duty and enforceability of the notes and bonds issued pursuant to the programme.
- **Comfort letters** – letters as to the accuracy of the financial information provided and confirmation that the auditor has seen nothing to cause them to believe that the financial position of the issuer or guarantor has materially and adversely changed since the date of such information.

Anglo American plc had already issued an unrated convertible Eurobond in April 2002, and to undertake that issue, a full offering circular and Eurobond documentation was prepared. As a consequence, the terms and conditions within these documents appropriate to a debt issue were used as a basis for the EMTN documentation. The documentation process went smoothly and was completed shortly after the release of the group's financial results in March 2003.

▪ **Figure 1**  
Evolution of the order book

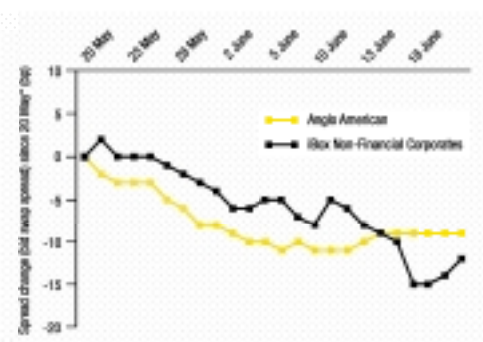


▪ **Figure 2**  
Investor geographic spread



▪ **Figure 3**  
Secondary market performance

Aggregate spread tightening of Anglo American 2008 vs. iBox and comparables since 20 May\*



Source: Dresdner Kleinwort Wasserstein

## 'THE COMMITMENT OF SENIOR MANAGEMENT TO ROADSHOW PRESENTATIONS, MEETINGS, AND THE LIKE IS CRUCIAL FOR A DEBUT ISSUER'

**PLANNING THE DEBUT BOND ISSUE.** Following discussions with a number of key relationship banks, Anglo American concluded that its 'first choice' for its debut bond issue was the euro-denominated bond market. It selected an intermediate maturity (five to seven years) as this met its debt maturity needs and coincided with a very large pool of pan-European investors with proven demand for high-quality A3/A-credits and experience of investing in the bonds of comparable diversified mining companies, such as Rio Tinto and BHP Billiton. Anglo American then held formal meetings with a broad cross-section of its relationship banks to select lead managers and finalise its plans. The selection process used the following criteria:

- the level of historic and existing credit commitment to Anglo American (relationship quality);
- previous experience and credentials in lead manager roles;
- willingness to extend credit lines for the interest rate and cross-currency swaps associated with the bonds;
- market assessment capabilities, including timing issues and bond structure;
- mining and metals expertise;
- investor distribution capabilities, both geographic and by investor type;
- quality of execution strategy advised, including syndicate structure;
- credibility of proposed pricing strategy; and
- overall ability to provide practical and impartial advice to Anglo American, overall presentation quality, experience and commitment shown.

The group attached different weightings to each of these important criteria, with the heaviest weighting being placed on credit commitment.

**ROADSHOW AND LAUNCH.** The EMTN programme was signed on 13 March 2003. While markets more or less remained open for business throughout the conflict in Iraq, Anglo American concluded that the increased risk to the group, in terms of pricing volatility and deal execution risk for a debut issuer, was not acceptable. In late April, it decided that these risk factors were more manageable and that investor demand appeared robust for the type of issue it was considering. Accordingly, the group commenced the deal process, which had been planned for some time.

The four lead managers were informed of their roles on 2 May 2003 in a 'kick-off' meeting. These were as follows:

- Barclays Capital – documentation, timetable and announcements co-ordinator (as arranger on the EMTN programme, it followed logically that Barclays should take the documentation forward for the first bond issue);
- BNP Paribas – swap co-ordinator;
- Dresdner Kleinwort Wasserstein – electronic e-bookbuilding system; and
- UBS – roadshow logistics and investor presentation.

**EUROPEAN ROADSHOW.** As Anglo American was a new credit and was planning a debut benchmark issue, it was strongly advised to organise a roadshow in Europe to meet investors face to face and to answer any questions they had. The roadshow lasted for four days, with visits to Frankfurt, Munich, Paris, Zurich, London, Amsterdam, The Hague and Rotterdam. In all, seven group meetings/presentations, 13 one-on-one meetings, and one investor conference call were held. This was quite a gruelling schedule for one team but definitely proved to have a favourable impact on the final transaction outcome. The roadshow participants from Anglo American were Finance Director, Tony Lea, and Treasurer, Doug Smailes, supported by other members of the treasury team, and the lead managers.

There were extensive discussions throughout with the syndicate managers from the bank group and a pricing strategy was quickly agreed. Price 'talk' (or guidance) was initiated shortly after the final investor conference call in the afternoon on Monday, 19 May 2003. The initial price 'talk' of 60bp-65bp over mid-swaps for a five-year issue met with a positive response from investors and an order book in excess of €1.9bn was built in less than 24 hours. Following extensive investor feedback, the deal size was increased from €750m to €1bn, and the deal was launched on 21 May 2003 with final pricing of 60bp over mid-swaps – that is, at the tight end of the initial guidance.

Importantly, some 174 investors from across Europe, as well as offshore North America and Asia, participated in Anglo American's debut issue. The demand from Germany, the UK and Switzerland was particularly strong, and the size of orders was broadly spread.

**SWAP EXECUTION.** From the outset, Anglo American's objective was to raise floating rate US dollars. Therefore, at the same time as the bond was priced, it executed interest rate and cross-currency swaps with the four lead managers. This exercise was planned in some detail in advance. The process and administrative details, such as swap credit charges, were all agreed before bond pricing, leading to relatively pain-free swap execution on the day.

**SECONDARY MARKET PERFORMANCE AND TRADING ACTIVITY.** By mid-June, the bond had performed more or less in line with iBoxx non-financial corporates index, tightening by about 8bp-10bp. This relative performance was consistent with the group's original objectives and Anglo American is now well established as a highly regarded and sought-after credit in the euro market.

**OUTCOME AND LESSONS LEARNT.** During the planning phase, Anglo American set out a number of objectives for its debut bond issue in terms of timing, size, maturity, pricing, distribution and secondary market performance. Notwithstanding a modest delay in timing because of hostilities in Iraq, the group is pleased its objectives were achieved.

Advice for any corporate treasury contemplating a debut issue in the Eurobond market is to set clear objectives, plan carefully, listen to advice, select strong lead managers and try to be flexible on timing and structures. The commitment of senior management to roadshow presentations, meetings, and the like is crucial for a debut issuer. Also, attention to detail, particularly on more mundane matters such as swap execution is to be recommended. Last, but not least, keep your fingers crossed that world or unexpected market-specific events do not disrupt your best-laid plans.

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