DEALS OF THE YEAR 2012 Awards

UK or European loans below £750m category winner

TOM TAILOR

DETAIL IN RETAIL

GERMAN FASHION RETAILER TOM TAILOR SECURED COMPLICATED, MULTI-FACETED FINANCE ARRANGEMENTS TO SUPPORT AN ACQUISITION AND FUND FUTURE GROWTH

Tom Tailor CFO Axel Rebien: "I would classify it as a 360-degree deal"

German fashion retailer Tom Tailor floated on the Frankfurt Stock Exchange in March 2010 after five years in PE ownership. But it was still relatively little known in the financial markets last year, when the management team saw an opportunity for a transformational acquisition. Buying Bonita, a privately owned group, would double the size of the business, take it into the 40+ age group that was at the opposite end of Tom Tailor's teens/young adults market, and give it access to a state-of-the-art retail logistics operation that had plenty of spare capacity to take on Tom Tailor's business as well.

But because this was almost a merger of equals, it was going to be difficult for Tom Tailor to pay for Bonita. "I would classify it as a 360-degree deal," says Tom Tailor CFO Axel Rebien. "We had to respect the equity side and we had to find a way to leverage the company. We really didn't want to exceed 2.5-times debt to EBITDA."

The agreed €220m purchase price was made up of around €145m in cash and the rest in freshly minted Tom Tailor shares. But this would have given the seller a stake of more than 24.9% in the combined business, the level at which a compulsory takeover bid is triggered. So another €20m of shares (equal to around 10% of the original equity) had to be issued to the market via a book-build to dilute the vendor's stake. The result was a huge 46% increase in the equity base.

On the debt side, being a German fashion retailer raised some concerns given the uncertainty in the eurozone. So banks weren't ready to commit to five-year funding. A 'three-year + one year + one year' structure was agreed for the bulk of the new facilities, giving Tom Tailor the right after the first year to ask each bank to extend the tenor from three years to four, and then again after the second year to ask to extend the tenor to five years.

Tom Tailor raised more than twice as much finance than it needed to pay for the acquisition, but it seemed an opportune time to get funding for working capital and future store roll-outs. One small €20m bridge-to-equity tranche was found not to be needed after the success of the share issue. Another €80m bridge tranche will see the company return to the capital markets before long.

For the other three facilities – a term loan, an RCF and a guarantee facility – Tom Tailor had to negotiate with five banks. "That was a bit tricky because we had to negotiate with everybody," says Rebien.

One banker says: "The Tom Tailor management team certainly helped bring the banks in, giving them a good spin on what the relationship could be."

Deal highlights

Issuer:
Tom Tailor

Amount:
€475m

Structure:
Tranche A1 (€20m, bridge to equity, cancelled before drawdown); Tranche A2 (€80m bridge to debt); Tranche B1 (€100m term loan); €137.5m RCF; €137.5m guarantee facility

Tenor:
Tranche A1: 6m+6m; Tranche A2: 12m+6m+6m; All other facilities 3yr+1yr+1yr

Equity issue:
Share capital was increased by 46% through issue of shares to vendor and rights issue

What the judges said

"A transformational deal in a difficult market shows the value of staying close to your stakeholders."

Highly commended

DS SMITH

Packaging group DS Smith's €1.6bn acquisition of SCA Packaging was an ambitious move that doubles group turnover to around £4bn. The loan finance to make that happen comprised a €300m bridge facility and a €400m term loan, set alongside a £466m rights issue. The deal was launched at a difficult time in the markets, with considerable concerns around the eurozone. But DS Smith had great confidence and strong relationships with its banking partners, ensuring that the financing could be delivered.