DEALS OF THE YEAR Awards 2012

UK loans above £750m category winner

MELROSE

MAKING A BIG DEAL

LAST YEAR, FTSE 100 GROUP MELROSE SNAPPED UP METER BUSINESS ELSTER, FINANCED BY A LARGE RIGHTS ISSUE AND PLENTY OF DEBT

Melrose group treasurer Garry Barnes: "We like to have plenty of headroom"

Melrose makes its money by buying manufacturing businesses, improving them operationally and financially, selling them again, then returning cash to shareholders when it can. 'Buy, improve, sell' is its motto.

But to understand Melrose properly, it's important to understand what it is not. It isn't a private equity (PE) vehicle, because it doesn't use high levels of gearing to generate returns. Nor is it buying into heavily cash-generative businesses just to get its hands on the cash. As group treasurer Garry Barnes says: "We invest a lot of the cash to grow the margins and improve their operational efficiency, and hopefully sell them on for better multiples."

At the end of 2011, Melrose had a revolving credit facility (RCF) that was a bit too large for its needs, and was less than a year and a half away from expiring. Refinancing it with a £600m facility would get it into the year-end accounts. All well and good. Then, in 2012, Melrose spotted its next acquisition, the German-based, US-listed meters and controls business Elster. Melrose got approval from PE house CVC, which owned 62% of Elster, then got the backing of the board for its £1.5bn bid.

Melrose raised £1.2bn in a rights issue – at that time, the largest in 2012 – and decided to rip up and start again with its debt finance. On the debt side, "When this big acquisition came up, we decided to basically tear up the old RCF and start with a brand new facility," says Barnes.

Seven banks were involved in providing £1.5bn of new five-year facilities in sterling, dollars and euros, even though it wasn't a great time to be trying to raise a lot of money. And though it was more than Melrose needed, "We like to have plenty of headroom. We always like to make sure we've got sufficient cash," Barnes says.

There was no shortage of complications along the way; one danger was that Melrose might wind up with not much more than 62% of the Elster shares (CVC's stake), leaving it with a potentially troublesome investment and restrictions on Melrose's ability to manage the business.

Two months later, however, Melrose secured tenders for 99.6%, allowing it to squeeze out the remaining investors, take full control and start generating more returns for shareholders. In September, the group was promoted to the FTSE 100 index.

Deal highlights

Issuer:
Melrose

Amount:
£1.5bn equivalent

Structure:
Tranche A £180m term loan; Tranche B $500m; Tranche C £690m RCF; Tranche D €300m RCF; Tranche E £70m RCF

Tenor:
Five years

What the judges said

"A unanimous choice. A transformational deal by a company that has a very good track record with smaller acquisitions."

Highly commended

THE CO-OPERATIVE

Last year, the mutual retailer The Co-Operative struck a five-year deal to refinance its core working capital facilities with a £500m RCF and a £450m term loan. The deal wasn't without its complications for the BBB- rated group: regulatory ring fences between the retail and the financial services parts of the group added complexity, not least as negotiations were also under way for Project Verde, the purchase by the Co-op of 632 Lloyds Banking Group branches. Also noteworthy was the arrangement that allowed the size of the facilities to be expanded by allowing banks delayed in primary syndication to join the group post signing of the facility agreement, thereby maximising liquidity, but minimising the timeframe for execution.