PFI AWARDS 2011

Global M&A Deal of the Year: **Fenice**

F2i and AXA's jumbo refinancing of their three Italian gas networks defied expectations, with 12 banks providing a more than €2bn debt package.

Whereas F2i and AXA financed their two previous gas network acquisitions (Enel Rete and E.On Rete) separately, the sponsor group opted for a bold three network refinancing when acquiring G6 Rete from GDF Suez. After sounding out the capital markets to no avail, the sponsors approached the banks from the previous deals with the prospect of a big bank debt solution.

Twelve banks entered negotiations for the deal in June, but two dropped out early on. JP Morgan was first to drop out, with the US bank believed to be uncomfortable with the deal's seven-year tenor. Santander soon followed suit as the bank does not consider Italy a key market. The deal attracted two new banks, however, Centrobanca and ING. Although Centrobanca took a small €30m ING put forward €120m, constituting the largest amount of entirely fresh debt committed to the project.

Commitments were signed at the start of August, just before a new round of sovereign downgrades for Italy while the ECB tried to staunch rising Italian bond yields. Banks had every right to demand a margin flex, but held back due to the quality of sponsors and given the opportunity for new business from them further down the line. The deal was signed on September 26, following approval from the EC and Italian Competition Authority. Full financial close came on October 3, with first drawdown following shortly after. Swaps were completed by the end of that month with 75% hedged, yet another sign of the attractive terms sponsors managed to extract from their bank group. Whereas Enel Rete and E.ON Rete closed using five-year debt, banks were able to stretch to a seven-year tenor for the refinancing. The debt is split into three facilities, all maturing on September 30 2018. The first is a €1.77bn term loan refinancing of three gas network acquisitions. The second is a smaller €300m term loan covering new capital expenditure. The third is a €40m working capital revolver.

While the sponsors managed to extract great terms from their banks, the deal is still prudently structured for the lenders. Margins step up from 210bp to 375bp over the loan's life and a 35% cash sweep kicks in in year four, which then becomes a full cash sweep from year five. In addition to margin step-ups and cash sweeps, there are also dividend lock-ups linked not only to coverage ratios but to gearing metrics such as net debt to regulated asset base and net debt to Ebitda.

Away from its financial structure, the deal represents another step in the liberalisation of Italy's gas market. F2i Reti Italia now has a market share ranging from 17% to 22% according to various measures, a growing challenge to state backed Eni's hegemony. The financing reflects bank's continued appetite for regulated utilities with mini-perm tenors.