DESIGN & EXECUTION OF REFINANCING & HEDGING PROGRAMS

CASE STUDY

SITUATION

The CFO was faced with a serious situation following the unplanned departure of the Group Treasurer and the Deputy Group Treasurer in close proximity to each other, and immediately prior to commencing business-critical workstreams:

- Refinancing circa A$1 B of debt; and
- Designing and implementing a circa A$3 B interest rate hedging program.

The CFO advised that the Group's relationships with its banking counterparties (over 20 banks) across loans, debt capital markets, and trading were strained, resulting in tension, and in some cases, conflict.

The CFO wanted the refinancing and hedging programs designed and executed in the market, and banking relationships

INTERVENTION

We prioritised the refinancing program because the A$1 B of debt was expiring within two months. A failure to refinance successfully would not only damage business operations, it would also undermine the credibility and reputation of the CFO with the C-suite and Board, and of the C-suite and Board with the market.

We met one-on-one with the core banking group to hear their concerns and to design a brand-in-market solution for the client to repair damaged relationships without alienating strong relationships. As an independent party, we were able to have some raw conversations which flushed-out persistent underlying issues, working with all parties to close the gap between them. This solution was made even more challenging by the extremely tight refinancing deadline.

We worked closely with the banking group to reset expectations of future share-of-wallet, including ancillary business, to level-up the playing field to promote fair and aggressive competition, and to communicate client requirements for balance sheet support, credit margins, efficient pricing, and flexible terms and conditions.

We presented to the CFO bank requirements for the ongoing maintenance of the reset relationships to deliver win-win scenarios.

We worked with the CFO to design and implement:

- Parallel debt capital market and syndicated bank loan programs to refinance the circa A$1 B refinancing; and
- A circa A$3 B interest rate hedging program to reduce borrowing costs at the same time as supporting credit rating and bank covenant metrics.

RESOLUTION

The CFO was able to announce to equity (owners) that the refinancing had been successfully completed. The refinancing not only exceeded pricing expectations, it also re-opened access to offshore debt capital markets for the client after an extended period of absence, diversified the investor base, and substantially extended the duration of the debt maturity profile.

The A$1 B of debt was successfully refinanced through a combination of debt capital markets and syndicated bank loans. This combination ensured strong competitive tension between markets and banks, with strong oversubscription allowing pricing to tighten markedly while at the same time providing improved, more flexible terms and conditions.

We also designed an interest rate hedging program which reduced earnings volatility by aligning the interest cost basis with the revenue basis; and we ran several pre-execution dry-runs with the client and bank trading teams to ensure that cross-currency and domestic interest rate swap desks understood the trading execution protocols.

Marengo Capital completed the 'live' execution of the cross-currency and domestic interest rate swap transactions to the CFO's satisfaction, transferring the intellectual property to the internal team for future reference and independent use.