Capital Markets team

During 2015, our in-house Capital Markets team led a number of innovative debt and equity market processes relating to new and existing portfolio companies.

Amid the persistent market volatility and macro-economic uncertainty of recent years, our portfolio companies have maintained robust and flexible debt capital structures. This is a consequence of our decision, more than a decade ago, to systematise our approach within a dedicated Capital Markets team.

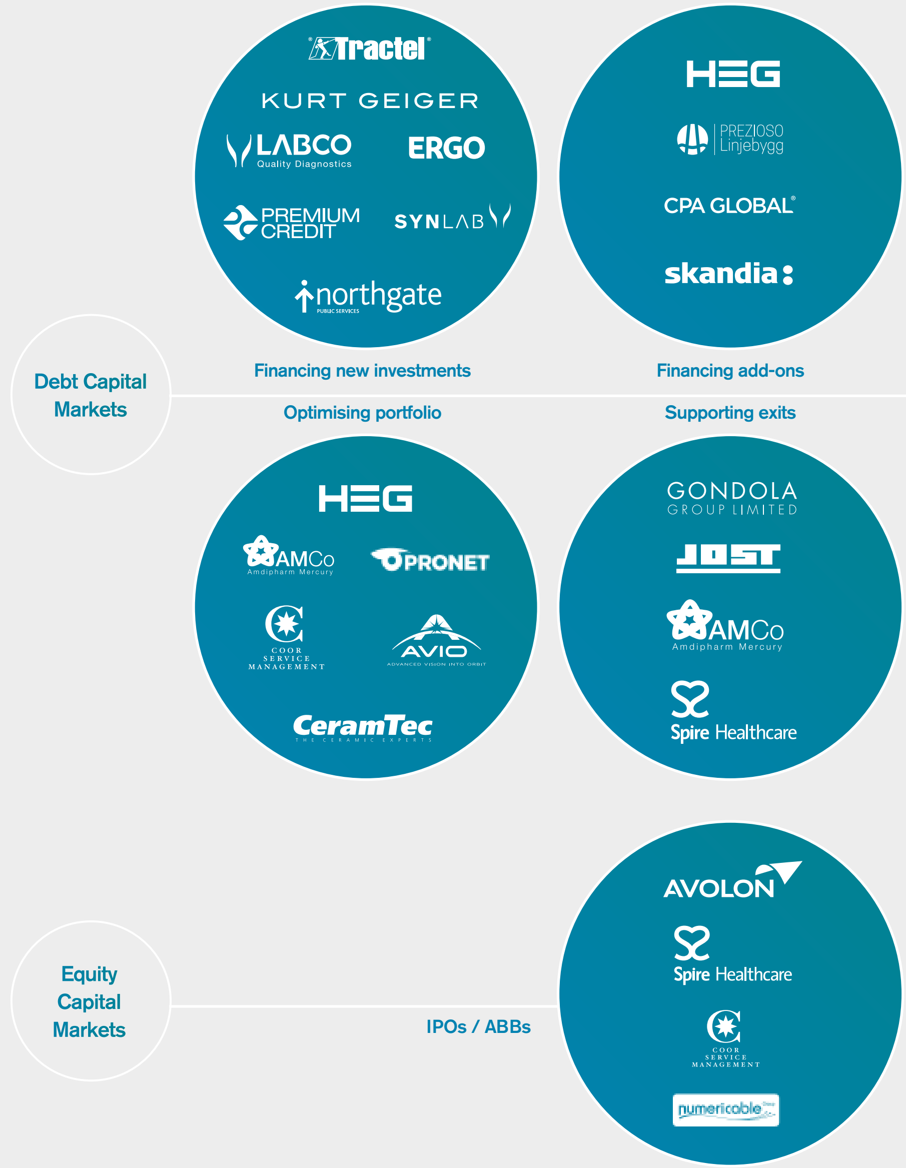
Besides our debt markets work, we have brought more of our equity capital markets activities within the remit of the team, a move that has helped us optimise realisations through the public markets.

In addition to financing for new investments and add-on acquisitions, the team is active in optimising the balance sheets of existing investments and also ensuring that portfolio companies close to exit have financing arrangements that are refreshed and in good order. This provides a clear ‘runway’ in its funding terms, as the company enters its next phase of ownership.

The Capital Markets team

Matthew Sabben-Clare [1]
Partner
Soren Christensen [2]
Partner
Christopher Anderson [3]
Managing Director

Capital Markets team activity in 2015



Capital Markets team

continued

Debt capital markets activity in 2015

Throughout the life of the Fifth Cinven Fund we have focused on developing robust debt structures within our portfolio companies with the capacity to withstand less favourable market environments.

More than half of the investments in the Fifth Cinven Fund have a particular set of borrower-friendly terms, known as 'covenant-light'. Three-quarters of the companies have an all-senior debt capital structure, which is simple, flexible and cost-effective. We have been highly selective in our use of subordinated debt and have often elected to deploy less leverage than the amount offered by the market.

We have built in further flexibility for our portfolio companies through the use of long-dated debt with 'bullet' or lump sum repayments payable at maturity, further minimising refinancing risk. In addition, we have used our deep relationships across the banking and credit funds markets to ensure the size of lender groups remains manageable, so they are capable of moving quickly to support each company as opportunities arise.

The average leverage level (net debt/EBITDA) across investments in the Fifth Cinven Fund was c. 4x on 31 December 2015.

Relationship-based LBO financing

Tractel

The debt capital markets were fairly volatile during our acquisition of industrial manufacturer Tractel, which completed in October 2015. Therefore, rather than opt for a widely distributed syndicated loan, we structured the financing with around half the required debt facility held by a tight group of relationship banks keen to demonstrate their support for the structure; and half distributed to the institutional market. This combination – of a traditional banking 'club deal' and an 'underwrite-to-distribute' approach – de-risked the syndication process. In addition, given the high demand among funds, we were able to lower the price of the debt through a "reverse flex" and incorporate flexibility in the structure to allow for future bolt-on acquisitions.

Accelerated underwriting

LABCO Quality Diagnostics

Our investment in Labco was predicated on our ability to execute the transaction very quickly, and amid growing debt market volatility. In addition, due to a dual-track sales process, some of the company's existing lenders were conflicted and could not underwrite a financing. Despite this, we were able to secure a backstop of the company's existing bonds in a very compressed timeframe. After signing the deal, we refinanced the backstop with a new senior secured notes offering and were able to place a revolving credit acquisition facility with nine lenders on borrower-friendly terms, given our strong banking relationships. These factors meant we were able to transact in a demanding market and tight timeframe.

Equity capital markets activity in 2015

As a financial sponsor, Cinven has been an extremely active and regular user of the public equity markets as an exit route. During 2015, we effected 10 equity capital markets transactions, including initial public offerings (IPOs) and subsequent secondary sales of our stakes.

Centralising these processes through our dedicated Capital Markets team has allowed us to build up a detailed understanding of the processes and technical requirements to effect successful sell-downs post-IPO, as well as hone our timing and judgement in our engagements with the public markets.

Innovative refinancing

Heidelberger Leben

Combining Financial Services sector expertise with our Capital Markets focus, we have been able to bring together and educate a select group of banks about Cinven's various life insurance investments. In 2015, we assembled eight institutions to recapitalise German-based Heidelberger Leben Group following its strong trading performance. The transaction, combined with a simultaneous disposal of non-core assets and the unwinding of legacy hedges, enabled the business to return proceeds equalling around 80% of the investment's original cost, without materially adding to its risk profile.

Strategic sell-down

Spire Healthcare

When we floated Spire Healthcare in July 2014, amid a backdrop of market volatility, we chose to retain our entire holding, with the confidence that a public listing would allow us to participate in further appreciation of the company's equity value. Over the course of the ensuing 11 months, we sold our remaining stake through a series of four sell-downs, namely three overnight 'accelerated book-building processes' (ABBs), and the sale of 30% of the company to a strategic investor. These secondary sales were all at a material premium to the flotation price.