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High Yield Bonds by European Financial Services Companies

Earlier this year, we published a number of articles examining high yield bond issuances by issuers in the European real estate and energy sectors. In this article, we want to highlight a steady stream of high yield bond offerings by a diverse range of European financial services companies, including debt purchasers and debt managers, providers of payment and foreign exchange services, consumer finance companies and mortgage lending businesses.

These offerings involve issuances of fixed rate notes, floating rate notes and even PIK toggle notes, and they are another good example that access to the debt capital markets is not reserved for just the very large and investment-grade rated companies anymore.

Debt Purchasers / Managers

Recent high yield bond offerings by debt purchasers and debt managers include (i) the offering of €285,000,000 Senior Secured Floating Rate Notes due 2026 and concurrent tap offering of £100,000,000 5.125% Senior Secured Notes due 2024 (at an issue price of 99.5%) by repeat issuer Arrow Global Finance plc (Moody's: Ba3) in March 2018 to redeem in full a series of previously issued floating rate notes, to repay drawings under its revolving credit facility and to fund two proposed acquisitions, (ii) the concurrent offerings of €530,000,000 Floating Rate Senior Secured Notes due 2023 and SEK 1,280,000,000 Floating Rate Senior Secured Notes due 2023 by Garfunkelux Holdco 3 S.A., holding company of the Lowell Group (Moody's: B2; S&P: B+) and another repeat issuer, in February 2018 to fund acquisitions, and (iii) the offering of €270,000,000 4.25% Senior Secured Notes due 2024 by Louvre Bidco SAS (Moody's: B2; S&P: BB-) in September 2017 to fund a portion of the purchase price for the leveraged buyout of MCS Groupe and the redemption of existing high yield bonds of MCS Groupe.

Payment Services

Recent high yield bond offerings by payment services providers include (i) the concurrent offering of $500,000,000 4.375% Senior Notes due 2025 and £470,000,000 3.875% Senior Notes due 2025 by Vantiv (now Wordpay, Inc.) (Moody's: B1) in December 2017 to fund a portion of the purchase price for the acquisition of Worldpay Group plc, itself a high yield issuer, to repay certain Worldpay debt and to pay certain transaction costs and (ii) the offering of €600,000,000 of 7.125/7.875 Senior Secured Fixed Rate PIK Toggle Notes due 2021 by repeat issuer Mercury Bondco plc, a finance company for various sponsor-owned holding companies of ICBPI (now nexi) (Moody's: B3; S&P: B) in February 2017 to fund several bolt-on acquisitions.

Foreign Exchange Services

A recent high yield bond offering by a foreign exchange business is the offering of €360,000,000 8% Senior Notes due 2022 by Travelex Financing plc (Moody's: B3; S&P: B-) in May 2017 to refinance existing high yield bonds.

Consumer Finance

Recent high yield bond offerings by consumer finance businesses include (i) the offering of $325,000,000 10.75% Senior Notes due 2022 by repeat issuer 4finance S.A. (Moody's: B3; S&P B+) in April 2017 to refinance existing high yield bonds and for general corporate purposes, (ii) the concurrent offerings of £275,000,000 7.375% Senior Secured Notes due 2024 and £150,000,000 Senior Secured Floating Rate Notes due 2023 by Nemean Bondco plc (Moody's: B1; S&P: B) in January 2017 to fund the leveraged buyout of NewDay Group Holdings S.à.r.l. and (iii) the offering of £275,000,000 7.625% Senior Secured Notes due 2024 by Amigo Luxembourg S.A. (Moody's: B1; S&P: B+) in January 2017 to fund repayments under Amigo's revolving credit facility, of a shareholder loan and of certain intra-group balances, followed by a £50,000,000 tap offering in May 2017 to fund a further repayment of drawings under Amigo's RCF and for general corporate purposes.

Mortgage Lenders

A recent high yield bond offering by a mortgage lender is the offering of £200,000,000 6.125% Senior Secured Notes due 2024 by repeat issuer Jerrold FinCo plc (together) (S&P B+; Fitch BB-) in February 2017 to reduce drawn balances under certain securitization programs.

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The benefits for those eligible companies that do decide to opt for a bond offering , investment-grade or high yield, include the opportunity to secure long-term financing at often attractive (and mostly fixed) interest rates and with a bullet maturity, increased operational and financial flexibility through typically less onerous covenants (and typically no financial maintenance covenants), potential flexibility to issue unsecured / junior debt (at the HoldCo-level) as well as the opportunity to potentially significantly expand their investor base.

Unfortunately, size does matter when it comes to accessing the debt capital markets, and mere size is even something that the rating agencies will consider in assigning a particular rating. Due to a combination of the requirements of key institutional high yield investors, internal requirements of the underwriting banks active in the European high yield market and the comparatively higher transaction expenses (including for legal advisers, rating agencies, auditors, ...) for a traditional high yield bond offering compared to a credit facility, the minimum offering size for a "proper" high yield offering is normally about €200-250 million (as a rough rule of thumb), but may be lower depending on the specific circumstances. This, however, does not mean that smaller companies (or companies with lower financing requirements) cannot access the debt capital markets at all, but they may only be able to do so at less attractive terms, both in economic terms (i.e. higher coupons and shorter tenors) and in terms of more onerous covenant packages.

Of course, irrespective of any credit ratings assigned to a particular issuer, a payment services company and debt / receivables management company represents a very different investment case compared to a consumer lending business, for example. Apart from absolute size, a more diversified business (both in terms of geography and products/services) may face less scrutiny from investors than a highly specialized and/or single-product/market company, although a strong position in an attractive (niche) market or other unique features can also a be a big selling point. It will then be incumbent upon the issuer, with the support from its financial and legal advisers, to properly highlight any such strengths (and other factors t hat might differentiate the issuer from other companies in the sector) when engaging with the rating agencies and potential investors.

For more information generally about high yield bonds, please click on the following link to obtain a PDF copy of the 4th European Edition of our High Yield Bonds – An Issuer's Guide. As with earlier editions, the Guide is primarily intended for (first-time) issuers of high yield bonds.

For further information or advice or to request a hard copy of the Guide, please contact Bernd Bohr or your usual contact at Mayer Brown.

Learn more about our High Yield Bonds, Capital Markets and Financial Service Regulatory & Enforcement practices.

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