

Enel Rete Gas: High-volume hybrid

09/02/2010

The Eu1.025 billion (\$1.54 billion) Enel Rete Gas refinancing closed in September 2009. The sheer volume of the deal, added to the fact that it combined leveraged and project finance methodologies and closed in tough times, make it stand out as a deal of the year; the market at that time was ultra wary of leveraged buyouts and there are no additional lenders comforts, cash sweeps for example, on the structure.

What the deal had in its favour was an intrinsic value for lenders due to a combination of the fact that Enel remained as a shareholder after the sale, and that F2i and Axa were seen as high-quality sponsors taking control of an asset-heavy company back by a well established regulatory framework and tariffs for distribution and metering completely de-linked from the gas volumes distributed, in effect no gas volume risk.

The deal was part of the sale agreement by Enel/Enel Distribuzione of 80% of Enel Rete Gas for Eu480 million (\$682 million) to F2i Reti Italia – a special purpose vehicle owned 75% by F2i and 25% by AXA Private Equity. Enel Rete Gas has an Italian market share of about 12% of gas distributed and generated revenues of Eu307.1 million, an operating profit of Eu63.4 million and a net profit of Eu17.3 million in 2008.

Competition for the asset, which carried a valuation of around Eu1.6 billion, was launched in November 2008. Interest was shown by seven infrastructure funds, including F2i/Axa and a Valiance/Reef/ Goldman Sachs consortium. By April 2009, F2i and Enel entered into exclusive talks on the acquisition, with a deadline set for the end of that month. Discussions slid past the agreed deadline, but the two remained in talks for the sale. In June 2009, Enel announced that it had reached an agreement on the sale to F2i and AXA.

The Eu1.025 billion financing breaks down into three five-year facilities – a Eu800 million acquisition facility, a Eu150 million capital expenditure facility and a Eu75 million revolving credit facility. All three pieces were lead arranged by a club comprising Banca IMI, Mediocredito Centrale, Mediobanca – Banca di Credito Finanziario, Monte dei Paschi di Siena Banking Group, JP Morgan Chase, Calyon, Societe Generale, BNP Paribas, HSBC, Natixis and Banco Santander. The margin on the debt is 275bp over Euribor for years one to three, 325bp for years three to four and 425bp at year five. The upfront fee is 225bp. Minimum DSCR is 1.3x and debt-to-editeda under the base case is 4.8x.

The Eu480 million asking price was paid in two tranches of Eu240 million, which comprise Eu170 million of equity and a Eu70 million vendor loan granted by Enel to the bidders at an annual interest rate of 8.25% and maturing in 2017. Payment of the first tranche was at closing on 30 September 2009, and the second tranche (with interest of 100bp over Euribor) closed at the end of December.

The financing was used to repay existing bank and intra-group debt, thus reducing Enel's consolidated net debt by over Eu1.2 billion (taking into account the deconsolidation of the debt of Enel Rete Gas), and for Enel Rete's capex plan. Enel Distribuzione will have a call option on 80% of the share capital of Enel Rete Gas, from 2014 (when a five-year lock up that applies to both Enel Distribuzione and the bidders expires) until 2018, at a strike price that takes into account the fair market value of the stake. At the end of the lock-up period, Enel Rete Gas may be floated.

As in many of the large deals that closed in 2009, the credit market conditions had a dramatic effect on structuring. Added to that, the combination of leveraged and project finance methodologies on the Enel Rete acquisition was

especially challenging in the face of tightened lending guidelines. As Carlo Michelini, senior partner in the investment team at F2i says: "Of course, borrowers would always like longer tenors and lower margins, but in difficult market conditions, you're incredibly lucky to work with the kind of lending team we did. The real strength of the deal for us was that the banks negotiated covenants that allow us to continue to invest in our company, as well as to follow a dividend policy that's good for our investors."

Enel Rete Gas

Status: Financial close 15 September 2009

Description: the Eu1.025 billion refinancing of Enel Rete Gas as part of its sale

Sponsors: AXA Private Equity/F2i Fondi Italiani per la infrastrutture

Divestor: ENEL

Target: Enel Rete Gas

Financial advisers to ENEL: Morgan Stanley, Banca IMI

Financial advisers to F2i/AXA: Banca Leonardo, Merrill Lynch, Unicredit, BNP Paribas, HSBC

Mandated lead arrangers: Banca IMI; Mediocredito Centrale; Mediobanca – Banca di Credito Finanziario; Monte dei Paschi di Siena Banking Group; JP Morgan Chase; Calyon; Societe Generale; BNP Paribas; HSBC; Natixos; Banco Santander

Enel legal counsel: d'Urso Gatti e Associati

F2i/AXA legal counsel: Gianni Origoni Grippo & Partners

Lenders legal counsel: Allen & Overy, Chiomenti

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