Ericsson calls for cash

01/01/2002

Right across the telecoms spectrum, companies are striving to restructure debt and free up cash flow. Ericsson is no exception and in December 2001 successfully sold off $1.523 billion of vendor credit. The portfolio of financings is made up of $300 million of vendor credits transferred from Ericsson's balance sheet, $130 million of underwritten off balance sheet exposures and $1090 million of credit commitments. They have been taken from across thirteen operators. There is said to be a significant presence of 3G financings, although the exact proportion has not been disclosed. 2G network financings are also been included. Ossie Everum, Ericsson project finance AB's head, said that all the transactions involved were well known to rating agencies.

The portfolio was then transferred to wholly owned special purpose vehicle Ericsson Credit AB and refinanced with a loan syndicated in the bank markets. This is not the first such transaction that Ericsson has completed. A $365 million portfolio financing of twenty vendor credits was completed in 1999 and in 2000 a similar deal worth $835 million closed. Both were arranged Skandinaviska Enskilda Banken (SEB). However, those involved in the 2001 financing were keen to point out that it is not an exact replication of its predecessors. It marks a significant step forward for vendor companies looking to mitigate risk through the bank markets.

The considerably greater amount in question meant that two lead arrangers were appointed and documents drawn up according to UK law in order to facilitate international syndication. More significant than this, however, was the fact that all the credits involved in 1999 and 2000 were already drawn down. In the recent deal, on the other hand, some are only commitments. Banks are willing to lend against vendor financings that have not yet been placed.

This was in part put down to strong support from a group of Nordic banks. There is EKN support on a portion of the credits but this was also true of the previous portfolio transactions.

Financing breaks down into a non-recourse facility of $1.166 billion equivalent and a put option of $375 million equivalent. The former consists of tranches comprising $596 million and Eu640 million. It is has a final maturity of eight years and an average life of 3.5 years. In addition to some EKN support, this facility has limited credit enhancement provided by Ericsson. It has been stated that the EKN backing, present across roughly five of the credits, comes as normal ECA support. Commercial cover ranges from 50% to 90%.

The put option is a single facility of Eu357 million. It is fully recourse to Ericsson through a put option upon the occurrence of certain events. The tenor on this is two years.

Lead arrangers SEB and IBJ signed in syndicating banks at year-end. Bayerische Landesbank, Credit Agricole Indosuez, Nordea, Svenska Handlesbanken, Swedbank (ForeningsSparbanken) and WestLB came on board as arrangers. Credit Lyonnais, Danske Bank and Societie Generale opted for co-arranger status and ABB has joined as a lead manager.

Financing came in over-subscribed to the tune of Eu35 million. Although this is only a very small proportion, it was described as impressive given the difficult conditions currently reigning in the telcoms banking market. One architect of the deal pointed to the spread of European banks as an indication of the deal's allure. It is believed that pricing is comparable to other telecoms deals currently trying to raise finance.

Ericsson has stated that the cash flow effect is about $300 million. It will also be welcomed by analysts who have been concerned that equipment manufacturers are taking on too much of the risk associated with the telecommunications industry. However, it is unlikely that the deal will have a direct impact on Ericsson's ratings. This will come when sales improve and attitudes to telcos in general start to shift.

Having successfully sold down a third facility of credits, Ericsson continues to consider vendor finance facilities. 3G deals are likely to be a component, with UMTS technology expected to account for 10% of sales in 2002. This figure is likely to increase in following years. However, Ossie Everum suggests that a degree of caution will remain. ?Many operators are increasingly expecting vendor finance as a requirement for a sale but Ericsson will not and can not attempt to compete with banks.?

More vendor finance facilities may well give rise to more credit refinancings. A banking source states that it is being considered as a tool for manufacturers across Europe.

Ericsson, who have stated that freeing up cash flow is their main priority for the coming months, employ a whole range of techniques. Another transaction completed in December was a sale and lease back of software equipment at test plant sites in Sweden and the US. It is estimated that this will free up approximately $750 million. The syndicate of financial institutions that arranged this deal has not been disclosed.