

FSTA - the UK's largest PFI to date

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The UK's largest PFI transaction to replace a fleet of Royal Air Force refuelling aircraft has finally reached financial close with seven banks financing the deal in the long-running controversial FSTA scheme.

The EADS-led AirTanker consortium and a bank group led by Bank of Scotland closed the big ticket deal this morning - four years after AirTanker was named preferred bidder.

The pathfinder FSTA (Future Strategic Tanker Aircraft) initiative[Projects Database] closed for £2.485 billion (US\$4.977bn) and is expected to be worth £13 billion (US\$26.2bn) over 27 years.

The AirTanker consortium includes:

- EADS
- Rolls-Royce
- Cobham
- Thales
- VT Group

Funding for the scheme started in the City last summer and consortium adviser Deutsche Bank managed to maintain a degree of financing optionality by running behind two institutions - Ambac and Bank of Scotland.

In the end the all-bank deal was financed through the following seven banks:

- Bank of Scotland
- RBC Capital Markets
- Calyon
- Lloyds TSB
- BayernLB
- BBVA
- Fortis

The consortium is paying Libor+100bp for the debt with a Baa1 credit rating, rising to Libor+115bp over the 25-year term - a good deal given the current market conditions.

The total senior debt totals £2.2 billion (US\$4.41bn), where Bank of Scotland has provided £350 million (US\$706m) and the other six banks have each put forward £308.3 million (US\$621.5m).

The debt to equity ratio is 90:10, where the 10 per cent equity - £285 million (US\$571m) - includes a mezzanine facility of £105 million (US\$210m) and an equity bridge loan of £180 million (US\$361m) - provided by Bank of Scotland.

Bank of Scotland's total investment in the scheme totals £635 million (US\$1.272bn).

The equity split will not be equal, with EADS putting forward 40 per cent of the equity.

Deutsche Bank originally wanted to arrange a £2 billion bond to pay for the deal, but that plan was blown off course. A combined solution of bank debt and a bond issue was mooted, but the bond insurers crisis forced the companies to go back to the sole bank debt option.

Managing director of Deutsche Bank, Anthony KJ Forshaw, said:

“There was a deliberate attempt by all the key decision makers to maintain optionality throughout the process as a way of keeping competition keen, albeit at some cost in terms of resourcing and complexity. This became doubly important when it became clear to everyone that the monoline market was effectively shut at which point the sense of the decision became very apparent.”

Deutsche Bank acted as financial adviser to AirTanker, while Clifford Chance provided legal advice.

Forshaw also commented on the running of the PFI deal:

“We sought to inject more of the competitive overtones associated with private equity run financings in the leveraged finance market. However, in return, much of the typical project finance style workload was reduced for the banks since documentation and structure were all highly advanced before banks were asked to commit resource. Consequently we think the approach was readily accepted with only minor grumbling.”

KPMG acted as financial adviser to the MoD and Simmons & Simmons was legal adviser.

Linklaters provided legal advice to the lenders, Mott MacDonald was technical adviser, while Marsh provided insurance advice.

Jacobs was the technical adviser to the potential lender up until about six to nine months ago, but Mott MacDonald moved in to replace the firm to complete the deal.

Head of origination, infrastructure finance at Bank of Scotland, Sameer Amin, said: "In the current market conditions the conclusion of financing of this scale is testament to the underlying strength and quality of the sponsors and the project structure."

The deal will replace the 1960s fleet of VC10 and Tri-Star aircraft with a new fleet of A330 Airbus aircraft.

It will include the provision of 14 new aircraft, new facilities at the main operating base at RAF Brize Norton, including operations and training.

The new aircraft are scheduled for delivery to a phased programme between 43 and 102 months from financial close. The project is heavily dependent on EADS as the sole supplier for the Airbus A330 aircraft.

The project reached financial close on 27 March 2008.

Projects Table

Project Name	Future Strategic Tanker Aircraft (FSTA) PFI
Location	UK
Description	The replacement of a fleet of Royal Air Force air-to-air refuelling aircraft
Sponsors	AirTanker: <ul style="list-style-type: none">• EADS• Rolls-Royce• Cobham• Thales• VT Group
Project Duration	27 years (including a two year tail at the end of the 25-year term)

Project delivery	The new aircraft are scheduled for delivery to a phased programme between 43 and 102 months from financial close
Total Project Value	£2.485 billion (US\$4.977bn)
Total equity	£285 million (US\$571m)
Equity Breakdown	Provided by Bank of Scotland: equity bridge facility - £180 million (US\$361m) mezzanine facility - £105 million (US\$210m)
Total senior debt	£2.2 billion (US\$4.43bn)
Senior debt breakdown	Bank of Scotland- £350 million (US\$701.03m) RBC Capital Markets - £308.3 million (US\$617.51m) Calyon - £308.3 million (US\$617.51m) Lloyds - £308.3 million (US\$617.51m) BayernLB - £308.3 million (US\$617.51m) BBVA - £308.3 million (US\$617.51m) Fortis - £308.3 million (US\$617.51m)
Senior debt pricing	Libor+100bp - rising to Libor+115bp over the 25-year term
Debt:equity ratio	90:10
Mandated lead arrangers	Bank of Scotland RBC Capital Markets Calyon Lloyds BayernLB BBVA Fortis
Participant banks	
Legal Adviser to Airtanker	Clifford Chance
Financial Adviser to Airtanker	Deutsche Bank
Legal adviser to banks	Linklaters
Technical adviser to banks	Mott MacDonald - was previously Jacobs
Insurance adviser to banks	Marsh
Legal adviser to government	Simmons & Simmons
Financial adviser to MoD	KPMG
Date of financial close	27 March 2008

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