

The UK's major airport acquisition - Gatwick

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The sale of London's second largest airport to Global Infrastructure Partners (GIP) was one of the landmark Transport transactions of 2009, proving that even in difficult market conditions there is still demand for high quality assets.

Despite falling passenger numbers, regulatory issues, a reluctant seller and challenging credit markets, BAA's sale of Gatwick Airport made it away at 96 per cent debt to RAB (regulated asset base).

At a time when so many projects remain difficult to finance and the backlog of deals swells, Gatwick can be seen as a door-opening transaction and the start of renewed confidence in the sector. The sale of Gatwick also acted as a catalyst, allowing BAA to move forward with a return to the capital markets with a £1 billion bond issue.

For an infrastructure acquisition deal, the Gatwick transaction took a long time and eventually required a club of 12 banks to get it away - but ended up with the debt package oversubscribed and with the banks scaled back.

Background and Procurement

The deal [\[Projects Database\]](#) was initiated following an investigation of the UK Competition Commission (CC) into the airport services market in the UK.

The former owners of Gatwick, Ferrovial-owned BAA, were investigated by the CC in early 2007 because they owned seven major airports throughout the country.

BAA had bought Gatwick at a premium at the height of the market and then found itself in a position where it could be forced to sell at a discount when the airports and financial sectors were under pressure.

While the inquiry was ongoing BAA decided to put Gatwick on the market to potential buyers and in September 2008 project advisers were appointed. This may have prevented a rushed sale of all three airports, and also could be seen as a move to appease the CC on subsequent sales.

Information and work started on the deal in January 2009, and by March/April the fundamentals had been sorted out.

On 19 March 2009, the Competition Commission published its final report with respect to its investigation and required BAA to divest Gatwick Airport, along with Stansted, and Glasgow or Edinburgh, within two years from the publication of the final report.

Three consortia submitted bids at the end of April 2009.

They were:

- **Global Infrastructure Partners** - General Electric and Credit Suisse
- **Lysander Gatwick Investment Group** - Citi Infrastructure Investors, Vancouver Airport Services and John Hancock Life Insurance Company
- **Manchester Airports Group (MAG)** - Borealis Infrastructure (part of OMERS - the Ontario Municipal Employees Retirement System) and Greater Manchester Pension Fund

Indicative offers from three other bidders - led by 3i Infrastructure, Babcock & Brown and Hochtief - were also submitted in January before the shortlist was whittled down.

By mid-May the Lysander team's bid was rejected on the grounds that it had significantly undervalued Gatwick, with BAA saying the bid was "uncompetitive on price and there were no assurances on deliverability" - just 70 per cent of RAB.

The largest bid received came in from GIP at £1.39 billion - falling short of the £1.575 billion RAB.

It was at this point that many thought a deal could be struck, up until 19 May when BAA threw a cat among the pigeons by appealing to the Competition Appeal Tribunal (CAT) to review the CC report that forced the sale of the airports.

This allowed BAA extra time to negotiate a better deal and for the market to show signs of improvement. In its appeal, BAA also drew reference to an issue in the sales process that "the report is affected by apparent bias". The allegation of a bias related to the MAG consortium which it claimed tainted Prof Peter Moizer who worked on the CC panel and also an adviser to the Greater Manchester Pension Fund, a backer of the MAG bid.

Moizer, did however disclose his role at the start of the inquiry. He has since resigned from the CC panel with no blemish to his character.

The Competition Commission continued to defend its ruling vigorously and then had six weeks from the date of the notice of application (19 May) to prepare a defence.

Over the summer months the remaining bidders - GIP and MAG - continued to work on their bids and a hearing date was set for BAA's appeal against the CC ruling. The hearing was to be staged on 19 October and four days were set aside to allow the case to run its course.

Amid market rumour and media speculation - reported to be either on the brink of a quick sale, or Ferrovial buying time with the CC - by mid-October it had become clear that a [sale was imminent](#) with a 12-strong bank group primed to finance a bid.

To add pressure to the approaching CAT hearing, the Department for Transport (DfT) was also looking to implement legal proposals that would potentially change the regulatory environment in the aviation sector.

By 20 October BAA reached an agreement to sell Gatwick to the Credit Suisse and General Electric-backed independent investment fund GIP for £1.51 billion.

On 5 November the Competition Commission gave its final consent to GIP as a suitable buyer of Gatwick, and by the end of November the [European Commission cleared](#) under the EU Merger Regulation the acquisition by GIP of Gatwick Airport Limited (GAL) from BAA.

The commission concluded that the transaction would not significantly impede effective competition in the European Economic Area (EEA) or any substantial part of it.

The commission's examination of the proposed transaction showed that the horizontal overlaps between the activities of London City airport and Gatwick airport were limited and that, therefore, the transaction would raise no competition concerns.

GIP's portfolio includes a 75 per cent joint ownership interest in London City Airport.

It concluded that London City is mainly a niche airport focusing on short haul flights for business passengers, while

Gatwick is a large airport serving predominantly leisure passengers.

Financing

GIP is investing in Gatwick through Ivy BidCo - a UK-registered limited liability company - established for the purposes of making the acquisition.

Under the terms of the deal, Ivy BidCo will pay a cash consideration of £1.455 million (\$2.387m) for the entire share capital of Gatwick Airport Limited on a cash-free, debt-free basis.

The total project value is £1.935 billion (US\$3.16bn), which includes debt amounting to £1.125 billion (US\$1.84bn) and equity of £810 million (US\$1.32bn).

The commercial debt includes:

- acquisition facility (term loan) - £700 million
- capex facility (term loan) - £375 million
- revolving credit facility - £50 million

The margins start at Libor +350bp, rising to Libor +500bp, on a mini-term structure that refinances every five years. The debt service coverage ratio is 2.50.

The debt package ended up being oversubscribed and banks had to be scaled back.

The 12-strong bank group includes:

- Banco Espírito Santo (BES)
- BayernLB
- Calyon
- Credit Suisse
- Grupo Santander
- HSBC
- JP Morgan
- RBC Capital Markets
- RBS
- SMBC
- Société Générale
- WestLB

The tranches are as follows:

Acquisition Facility

Term loan of £700 million (US\$1150.73) - maturity of five years and drawdown date of 3 December 2009.

- Banco Espírito Santo (BES) - £62.783 million
- BayernLB - £23.33 million
- Calyon - £62.783 million
- Credit Suisse - £62.783 million
- Grupo Santander - £62.783 million
- HSBC - £62.783 million
- JP Morgan - £62.783 million
- RBC Capital Markets - £55.807 million
- RBS - £62.783 million
- SMBC - £55.807 million

- Société Générale - £62.783 million
- WestLB - £62.783 million

Capex Facility

Term loan of £375 million (US\$616.46m) - maturity of five years.

- Banco Espírito Santo (BES) - £33.634 million
- BayernLB - £12.499 million
- Calyon - £33.634 million
- Credit Suisse - £33.634 million
- Grupo Santander - £33.634 million
- HSBC - £33.634 million
- JP Morgan - £33.634 million
- RBC Capital Markets - £29.8969 million
- RBS - £33.634 million
- SMBC - £29.896 million
- Société Générale - £33.634 million
- WestLB - £33.634 million

Revolving Credit Facility

Revolver facility of £50 million (US\$82.19m) - maturity of five years.

- Banco Espírito Santo (BES) - £4.484 million
- BayernLB - £1.66 million
- Calyon - £4.484 million
- Credit Suisse - £4.484 million
- Grupo Santander - £4.484 million
- HSBC - £4.484 million
- JP Morgan - £4.484 million
- RBC Capital Markets - £3.986 million
- RBS - £4.484 million
- SMBC - £3.986 million
- Société Générale - £4.484 million
- WestLB - £4.484 million

Project Advisers

RBC Capital Markets, along with Credit Suisse, JP Morgan and Grupo Santander, acted as co-financial advisers to GIP, while Slaughter and May provided legal advice.

Allen & Overy acted as legal adviser to the lenders, while Jacobs Consultancy was the technical adviser. Operis provided financial model audit and tax and accounting advice to GIP and the funders.

Freshfields acted as legal adviser to BAA, while RBS and HSBC were financial advisers to BAA.

Deloitte was the accountant on the deal, Marsh was insurance adviser, while Lane Clark & Peacock acted as pensions adviser.

Moving into 2010

Gatwick marked its last full month under BAA ownership with a 4.5 per cent increase in traffic and according to recent statistics it is now the fastest growing airport in Europe.

Michael McGhee, the GIP partner leading the acquisition, commented: "We will upgrade and modernise Gatwick Airport to transform the experience for both business and leisure passengers. We plan to work closely with the airlines to improve performance, as we have done successfully at London City Airport."

The Gatwick board will be chaired by Sir David Rowlands, the former Permanent Secretary at the Department for Transport.

Its other non-executive membership will include:

- Sir David Rowlands - chairman
- Michael McGhee - GIP partner and former head of transport at Credit Suisse
- Bill Woodburn - GIP partner and former head of GE Infrastructure
- Andrew Jurenko - former managing director of BAA International and BAA Lynton, and former interim CEO of Melbourne Airport
- James van Hoften - former Bechtel partner, head of aviation, project leader for new Hong Kong Airport

Adebayo Ogunlesi, chairman and managing partner of GIP commented: "The acquisition of Gatwick is a landmark deal for GIP and adds another quality asset to our portfolio. We see significant scope to apply both our strong operational focus and our knowledge of the airports' sector to make Gatwick an airport of choice."

Ferrovial is now expected to use the funds to reduce the high level of debt taken on when it originally acquired BAA in 2006 for £9.6 billion (US\$16bn). BAA will focus on improving Heathrow and its other airports.

It's likely that additional UK airports will be up for sale in 2010, and the CAT is due to report back by the end of the year on whether BAA has to sell a further two airports.

Conclusion

The Gatwick deal reveals two things about the market - firstly how fragile the credit markets have been for the last 18 months, but also illustrates that high quality assets are still financeable though the debt markets.

However, the acquisition included a lot of equity and there aren't that many buyers that can afford a deal of this type. The potential sale of Stansted and Glasgow/Edinburgh will be much better indicators of where the market is.

Gatwick was a challenging deal in terms of market conditions and the circumstances surrounding the sale, but ultimately market sentiment is positive on the acquisition.

The deal was important for the PF market in 2009, but it is not necessarily a carbon copy for other infrastructure asset acquisitions going into the New Year.

The project at a glance

Project Name	Gatwick Airport Acquisition
Location	Gatwick, London, United Kingdom
Description	The sale of Gatwick Airport to Global Infrastructure Partners from BAA - the UK airports operator owned by Ferrovial
SPV	Ivy BidCo
Sponsors	Global Infrastructure Partners: • General Electric • Credit Suisse
Total Project Value	£1.935 billion (US\$3.16bn)
Total equity	£810 million (US\$1.32bn)

Equity Breakdown	100 per cent GIP
Total senior debt	£1.125 billion (US\$1.84bn)
Senior debt breakdown	• acquisition facility (term loan) - £700 million • capex facility (term loan) - £375 million • revolving credit facility - £50 million
Senior debt pricing	Libor +350bp, rising to Libor +500bp
Tenor	5 years
Mandated lead arrangers	• Banco Espírito Santo (BES) • BayernLB • Calyon • Credit Suisse • Grupo Santander • HSBC • JP Morgan • RBC Capital Markets • RBS • SMBC • Société Générale • WestLB
Financial advisers to GIP	• RBC Capital Markets • Credit Suisse • JP Morgan • Grupo Santander
Legal adviser to GIP	Slaughter and May
Technical adviser to GIP	AviaSolutions
Legal adviser to lenders	Allen & Overy
Technical adviser to lenders	Jacobs Consultancy
Model audit	Operis
Legal adviser to BAA	Freshfields
Financial advisers to BAA	• RBS • HSBC
Insurance adviser	Marsh
Pensions adviser	Lane Clark & Peacock
Accountant	Deloitte
Date of financial close	20 October 2009

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