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Investors look beyond Khashoggi as Saudi Arabia bond amasses US$27bn of demand

Italy tipped to return to syndication after year off as orders top €70bn for sovereign trio

SPACs find a way through as fourth week of US shutdown leaves other IPOs in limbo

Otas deal sets model for Turkish restructurings

TURKEY Lenders take control of Otas and the underlying stake in Turk Telekom

Banks have taken majority ownership of TURK TELECOM in a fully consensual US$4.75bn financial restructuring of Turkish holding company OTAS, which owns a 55% stake in Turk Telekom. The deal closed on December 21 and sets many precedents for the Turkish restructuring market.

Otas, which was set up by Dubai-headquartered Oger Telecom in 2005 to buy the stake in Turk Telekom, failed to make at least three US$290m loan repayments since September 2016 on a US$4.75bn loan which backed the acquisition of the stake.

Under the terms of the debt for equity restructuring, lenders have taken control of Otas and the underlying stake in Turk Telekom, making them the majority owners of the business. Three of the banks – Garanti Bank, Isbank and Akbank – own around 85% of the shares.

Otas will now be liquidated and US$3.5bn of the debt reinstated and placed into a new SPV called Turkish Newco, with a view to the banks eventually selling the stake on, sources said.

LANDMARK DEAL

The deal was done using English law and set a number of precedents for the Turkish market which could be useful as Turkey faces a rise in the number of debt restructurings following the chronic devaluation of the lira over the last year.

"This is a landmark deal for the Turkish market based on its size, the number of parties involved, and the structure by which it was implemented to facilitate control shifting to lenders," said Joe Julian, managing director at Houlihan Lokey, which acted as financial restructuring adviser to Otas.

"Due to the macro economic issues facing the country following the devaluation of the lira, there is likely to be more (debt restructurings) to come in Turkey and in this transaction will provide the template for those deals to follow," he said.

The restructuring comprised a long list of activities such as the enforcement of share pledges, debt-for-equity and the appointment of directors by lenders.

"[It is] plain vanilla for most western countries, but unprecedented for a deal of this size in Turkey," said Julian.

Some aspects of these processes were surprisingly straightforward considering how unusual they are in Turkey, while others were more complicated.

With 23 banks in the bank group it was expected that an English scheme of arrangement would have to be used to cram down minority lenders into the deal.

But in the end the lenders recognised that English law could be used to bind them to the restructuring terms approved by the majority, despite the fact that the collateral was shares in a Turkish company with little UK nexus other than the English law governing the loan agreements, and decided to sign up to the deal instead.

"I thought we would have to prepare a scheme (of arrangement) to get the deal over the line but because we were able to obtain 100% consent of all lenders, a scheme was not required," said Julian.

However the banks were initially more resistant to a debt for equity – not helped in November 2017 when Turkey's bank regulator asked creditors not to classify Otas's debt as non-performing weakening any motivation they had at that time to do an equity deal.

Instead the stake was put up for sale and initially attracted interest from Saudi Telecom Company and Qatari telecom company Ooredoo, but a sale did not materialise.

The larger banks were also wary of the practicalities of owning such a large stake in the company.

"They were worried that their ownership was so large that they would have to consolidate (Turk Telekom's) financial results into their own financial results but the use of the SPV mitigates this," said Julian.

Following the eventual debt for equity, the debt is now paid by available cash from dividends and not mandatory, which Julian argues puts them in a much stronger position to make future recoveries.

"The SPV is set up such that at any point the majority lenders can launch a full M&A process. Rather than being forced to sell at an inopportune time, the SPV has the flexibility to hold the shares indefinitely and when the market recovers it will be a pretty attractive asset," he said.

RECORD DEAL

Otas signed the US$4.75bn loan in May 2013 and it was Turkey's largest corporate loan at the time, underwritten and arranged by mandated lead arrangers and bookrunners Akbank, BNP Paribas, Citigroup, Deutsche Bank, Garanti Bank and JP Morgan.

The restructuring of the loan, especially the use of a debt for equity, points to an evolution in the Turkish restructuring market.

It marks a movement away from simple cash recovery, re-profiling of the debt or forced sales towards more Western style business rescue and negotiated outcomes between borrowers and creditors, according to Hessam Kalantar, managing partner at Kalantar Business Law Group, which along with Clifford Chance and Durukan + Partners, were legal advisers to Otas on the restructuring.

"What is happening here is that the creditors are having to now think like investors," he said.

Sandrine Bradley

In connection with the refinancing, new investors will acquire a minority equity stake in the business.

IVC, owned by private equity firm EQT since 2016, merged in 2017 with Evidensia, which has also been owned by EQT since 2014.

The company, which has operations across Europe, has grown from 289 clinics in 2016 to over 999 clinics as of September 2018.

IVC last tapped the loan market with a £150m-equivalent add-on financing in euros and sterling in June last year. The deal, led by SMBC, priced at 375bp over Euribor and 450bp over Libor.

SCALIAN SELECTS BANKS

French engineering consultancy SCALIAN has selected *Natixis* and *Societe Generale* to lead a €140m financing that backs its acquisition by private equity firm Cobepa.

Natixis and Societe Generale are bookrunners and mandated lead arrangers on the loan, which comprises a seven-year covenanted €100m Term Loan B, a six-year €35m acquisition/capex facility and a €5m revolving credit facility.

In addition to the debt financing, Cobepa is providing a "strong" equity cushion. The company's management team is investing alongside the private equity firm.

A bank meeting is due to take place in Paris and syndication is to be launched later this month.

Scalian recorded sales of €190m in 2018 and has an adjusted Ebitda of €20.9m. The firm expects these to rise to €205m and €22.8m over the next 12 months.

In 2017, Scalian acquired CMT+ with unitranche financing from both LGT and Idinvest. As part of the debt package the middle market lenders provided an additional line to finance further expansion.

COURIR ALLOCATES LBO LOANS

French sporting goods retailer COURIR allocated a senior debt package backing its buyout by Equistone.

The deal included a €75m Term Loan B, which priced at 425bp over Euribor with a 99.5 OID after being guided in a range of 99-99.5.

There is also a €40m Term Loan A, a €25m revolving credit facility, and a €15m acquisition facility, which all priced at 350bp over Euribor.

BNP Paribas and *Societe Generale* are mandated lead arrangers and bookrunners,