

CORPORATE FINANCE

A new guide for borrowers in Europe

As deregulation sweeps the continent's capital markets, vast new financing opportunities are open to corporations.

by Fiammetta Rocco

When R.J. Reynolds Industries decided to refinance \$1.5 billion of the debt incurred acquiring Nabisco Brands last year, it put out the word to its bankers that it would look at anything they cared to come up with. There was just one special criterion: The American tobacco company wanted no foreign exchange exposure, so any proposals had to wind up with dollars at the end of the day.

Morgan Guaranty Trust Co.'s sundry European subsidiaries carried off the prize. The banks led or co-managed six different borrowing operations — in Swiss francs, Euroyen, ECUs, Eurodollars and deutsche marks — all of which were later swapped into dollars. In just ten weeks Reynolds was able to raise \$650 million in Europe (the remainder of the \$1.5 billion was borrowed

conventionally through the U.S. public debt market).

Reynolds's all-in cost worked out to "between fifteen and 45-to-50 basis points below what we could have done in the U.S. at the same time," says the company's then-treasurer and now senior vice president for finance, John Dowdle. "Two years ago," adds Dowdle, "that would have been impossible. The only way we would have been able to go into Europe was through the Eurodollar market. The opportunities from a flexibility standpoint have grown enormously."

So corporate borrowers have been discovering. Reynolds is not the only blue-chip borrower to hurry to take advantage of the wave of deregulation sweeping Europe's booming bourses. While the volume

of international issues grew worldwide by around 60 percent in 1985, issues denominated in European currencies doubled in volume. The ancillary markets also have become suddenly important: ECU-denominated issues increased by 139 percent and new Euromarkets opened in French francs, Italian lire and Danish kroner. Deregulation has been the single most significant kick propelling the European markets into the front line of the world bond business, according to World Bank treasurer Eugene Rotberg, who borrowed \$4.8 billion in Europe in the last six months of 1985.

Impetus for change

Monetary and regulatory authorities in one country after another have taken steps to internationalize their securities markets.

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