TRAVERS SMITH

Retail Bonds

£2bn and growing: The retail bond market as a viable alternative to bank debt

September 2012

Travers Smith recently acted for CLS Holdings plc on the issue of its £65m 5.5% retail bond due 2019.

CLS Holdings is one of the most recent in a line of companies to tap the growing retail bond market. Since the London Stock Exchange launched its Order book for Retail Bonds (ORB) in February 2010, over £2bn has been raised on the market through 24 issues and 4 additional taps of bonds targeted at the retail investor. In addition, around 90 corporate bonds of retail size have been moved onto the market since its launch.

Retail bonds offer issuers an opportunity to diversify their funding sources, and the ability to make relatively small issues means that retail bonds are a viable alternative to bank financing. ORB has given private investors direct access to fixed income securities and is proving increasingly attractive to private investors seeking to actively manage their portfolio and obtain yields in excess of those available on bank deposits.

What are retail bonds

Retail bonds are low denomination securities aimed at private investors. Yields may be fixed, floating or index linked. Listed retail bonds typically have a maturity of 5-10 years. To be traded on ORB, the bonds must have a denomination of less than £10,000 per unit; most are £100, making them a feasible investment for individuals. In contrast, wholesale bonds have a minimum denomination of €100,000. Retail bonds may be eligible for ISA and SIPP inclusion.

A key advantage for issuers is the flexible size of retail bond issues. Wholesale bonds are typically issued in tranches of at least £300m, whereas issues of retail bonds on ORB range from £10-350m. This allows issuers to raise funds without the scale usually associated with an issue of debt securities. Retail bonds can be issued under a programme, allowing the company to return to the market as and when further funding is required. National Grid and RBS have each twice tapped existing lines of retail bonds.

London Stock Exchange's ORB

To be eligible for ORB, bonds must be listed on the Main Market of the Official List, admitted to trading on the London Stock Exchange, eligible for settlement through CREST and have a denomination of no more than £10,000 per unit. Each line of bonds is required to have a dedicated market maker committed to providing two-way prices throughout the trading day within maximum spread and minimum volume requirements.

Prior to ORB, bonds were usually traded OTC (over-the-counter). ORB offers investors a transparent platform on which private investors can buy and sell bonds as they would shares. All participants have simultaneous access to executable prices, and liquidity is enhanced and concentrated by dedicated market makers and a centralised trading mechanism.

Timing and process
From commencement to launch can take less than 6 weeks, with funding within 8 weeks

Agree Termsheet

Prepare Prospectus and obtain UKLA approval
- *4–6 weeks*

Lead Manager due diligence
Pre-sounding selected distributors
- *3–4 days prior to launch*
- *Informs pricing*

Announce launch of retail bond, publish Prospectus and commence marketing
- *Yield and maturity fixed*

Marketing by distributors
- *Up to 2 weeks - most issues close early due to high demand*

Close marketing and announce issue size
- *Fix size of bond issue*

Closing and settlement
- *Within 3-5 days of sizing*

Unlisted retail bonds

Not all retail bonds are listed. A handful of companies, including John Lewis, Hotel Chocolat and Ecotricity, have issued unlisted bonds targeted at their employees or customers. These are typically non-transferable instruments, with a maturity of 3-5 years (shorter than that of listed retail bonds). Issues of unlisted retail bonds are usually small scale; all but John Lewis have raised less than £15m.

Procedure for issuing listed retail bonds

A lead manager is engaged and the key terms of the bonds agreed. The company will be required to publish a prospectus approved by the UKLA; this process usually takes 4-6 weeks. During that time, the lead manager will undertake limited due diligence on the company to confirm that it is a suitable issuer and assess its ability to meet payment obligations.

On launch, the interest rate and maturity of the bonds is fixed. The company announces the key terms of the bonds, publishes the prospectus, and the offer period begins. Marketing is co-ordinated by the lead manager through a number of distributors. Once demand meets the targeted issue size, the offering is closed and principal amount of the issue announced. Closing takes place within 3-5 days, and the company receives the funds.

Examples of ORB listed retail bonds

Issuer	Issue size	Yield type	Yield	Maturity	Date
CLS Holdings plc	£65m	Fixed	5.5%	7½ years	September 2012
ICAP plc	£125m	Fixed	5.5%	6 years	July 2012
Primary Health Properties plc	£75m	Fixed	5.375%	7 years	July 2012
Intermediate Capital Group plc	£25m	Fixed	7%	7 years	December 2011
Tesco Personal Finance plc	£200m	Fixed	5%	8½ years	May 2012
National Grid plc	£260m	Variable	1.25%	10 years	September 2011
Royal Bank of Scotland plc	£20m	Variable	3.9%	12 years	November 2010
Provident Financial plc	£120m	Fixed	7%	5½ years	April 2012

How we can help

If you would like further information on the above, or to discuss your options in the retail bond market, please contact Spencer Summerfield, Matt Ayre or your usual contact at Travers Smith.

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