

Annington Homes Sells PIK Notes to Fund Terra Firma Acquisition

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By Katie Linsell

Nov. 22 (Bloomberg) -- Annington Homes Ltd. is selling 550 million pounds (\$877 million) of payment-in-kind notes to fund the buyout of the U.K. residential property manager by Terra Firma Capital Partners Ltd.

The junior-ranking debt will pay a coupon of about 13 percent and is due to mature in 2023, according to a person familiar with the matter, who asked not to be identified because they're not authorized to speak. It's the largest global sale this year of a single tranche of PIK notes, a form of debt where part of the interest payment will be made only on maturity, according to data compiled by Bloomberg.

Terra Firma will provide 1 billion pounds of equity from an existing fund and raise new debt to help pay for the 3.2 billion-pound acquisition, the London-based firm said in a statement on Nov. 19. It's buying the manager of about 40,000 homes from Nomura International Plc in a deal due to close by the end of 2012.

"It's a difficult sector and any macro-economic hiccup could cause repayment of this bond to be more difficult," said Louis Gargour, chief investment officer at London-based hedge fund LNG Capital LLP. "In difficult sectors with headwinds you would prefer to be senior and observe the part of the capital structure that takes the first loss."

The new debt ranks behind about 2.1 billion pounds of mortgage-backed bonds and includes a so-called toggle allowing the borrower to elect to pay interest in cash or by issuing more debt, according to Moody's Investors Service. The notes, which can be called after five years, are rated Caa1 by Moody's, seven levels below investment grade, and CCC+ by S&P.

London-based Annington Homes was set up by Nomura's principal finance group in 1996 to buy housing from the U.K.

Ministry of Defence. Terra Firma Chairman Guy Hands led the acquisition of Annington Homes when he worked at Nomura and has since managed the company on the bank's behalf.

Hands agreed to buy Four Seasons Health Care, a U.K. care-home operator, for 825 million pounds in April, his biggest purchase since losing control of EMI Group Ltd. to lender Citigroup Inc. Terra Firma's Deutsche Annington Immobilien AG last week got the backing of holders of its commercial mortgage-backed securities to refinance more than 4 billion euros (\$5.2 Billion) of debt coming due in 2013.

Annington Homes is selling the debt through its Annington Finance No. 5 unit. Barclays Plc is the sole manager of the deal.