Securitisation is like Viagra for companies.” So said Guy Hands, probably the person who has done most to bring securitisation to the forefront of European corporate finance.

He was speaking about five years ago to an invited gathering of UK business leaders at the London headquarters of Nomura, where Hands was head of the principal finance group.

The audience on that occasion may have been slightly taken aback — “is he talking about us?”

But if Hands had been speaking at a capital markets conference, this striking comment would have lifted the spirits of the audience with a mixture of curiosity and agreement.

The belief that a company’s balance sheet and management could be reinvigorated by a strong dose of secured leverage was one that captured the imagination of City dealmakers in the late 1990s.

Today, the response from both audiences would be sceptical.

Part of it is Enron, WorldCom and the other corporate scandals of the last few months. Participants in the capital markets are mistrustful, for the moment, of any financial technique that is said to have marvellous effects.

But behind that layer are more interesting changes in sentiment. There is the slower, more deep seated ebbing of confidence that has accompanied the downturn in markets since the ‘new economy’ boom ended in March 2000.

And there is the poor performance of a few specific corporate securitisations — notably those by Welcome Break, RoadChef and the London International Exhibition Centre.

The overall market mood-swing would be needless to mention in a discussion about the stock market, but securitisation — especially when wielded by Guy Hands — was supposed to be a contrarian force.

The credo was that securitisation opened up a new way of thinking about companies — a sort of counter-culture, in which assets despised by the masses in the stock market were prized.

Not only that, but long term analysis and cashflow modelling were supposed to enable the structured financier to foresee how a business would operate through several cycles of recession and recovery.

Yet now that the economy is quivering, structured finance specialists find they do, after all, have to revise their expectations of how businesses will perform.

They also discover that the claims they were making for securitisation a few years earlier had been tinged with the same bull market exuberance that they purported to see through.

The gold rush
Welcome Break Finance Plc may not have been the first “whole business” securitisation.

ABS specialists point to earlier prototypes like Nomura’s Angel Train Contracts deal, parcelling the rolling stock leasing company it bought from the UK government; UBS’s Craegmoor Finance, backed by a nursing home business; or even the
$4bn securitisation by Morgan Stanley that rescued Irish aircraft lessor GPA.

But it was Welcome Break, the motorway service area company bought by Bahrain-based venture capitalists Investcorp, that crystallised these powerful currents into a model that was to be copied again and again.

Launched in August 1997 by Bankers Trust, BZW and Chase, the £321m deal that refinanced the buyout was greeted by investors with what EuroWeek described as “rapturous enthusiasm”.

Chase reported that over 100 investors put in orders worth £720m.

“This issue has caught investors’ imagination,” commented one co-manager. “If there is one thing for sure in this holiday season it is that people are driving around and seeing the amount of traffic on the roads and the business rationale and franchise that the service stations have is very obvious.

“That is a good anecdotal support story to what is a well structured and covenant-ed transaction.”

The impetus felt by all the parties in the Welcome Break deal — the equity investor, banks, bond investors, rating agencies — rushed on until the end of the 1990s.

Deal after deal reinforced the sense that this technique — a bond from an SPV, backed by a loan to an operating company, secured with fixed and floating charges over all its assets — could work wonders for companies with durable assets and predictable cashflows.

The Formula One securitisation, launched at $2bn in October 1998 and eventually smuggled out at $1.4bn the following May, was acknowledged to have been a wrong turning. The company was probably strong, observers felt, but for securitisation to try and explore the sunrise media industry any further was a waste of time.

But the pub deals — the most plentiful asset class — kept getting bigger; and the Tussauds Group transaction in May 1999, backed by waxwork museums and amusement parks, vividly demonstrated how much more complex businesses could be financed in a similar way.

At the Montreux ABS conference that June, Lemy Gresh, then head of structured securitisations at Deutsche Bank, was able to declare: “There are businesses that have to be financed with securitisation.”

Gresh had been a prime mover in the Welcome Break deal at Bankers Trust, and had gone on to become probably the most creative investment banking user of whole business securitisation.

His argument was that, for the right kind of stable company, securitisation debt was cheap. Because of the security it offered bondholders and its ability to extend maturities up to 25 years and beyond, it could offer both very high leverage and relatively low debt service.

These advantages combined to produce a weighted average cost of capital lower than that available either to a listed company or to a conventional LBO financed business, at the same time as a higher return on equity.

A week later, his words were confirmed when Pubmaster became the fifth pub company to securitise itself — but the first to do so without the spur of a recent acquisition. Pubmaster had been formed in a leveraged buyout 2-1/2 years before.

Motorway dreams

Today, almost exactly five years after the birth of whole business securitisation as a product, a reassessment is going on.

RoadChef Finance, the other motorway service area securitisation, has fallen to BBB+/BBB and BB/BB.

Both these deals have fulfilled the most basic assessment made about them at launch — that they would earn stable cashflows. Unfortunately, they were structured on the basis that they would also show some growth in revenues.

Ian Harris, finance director of Welcome Break, outlines the business idea, which all the parties to the transactions bought into:

“Our offer was tired. We believed that by investing in brands, like Burger King and KFC, we would get a sales uplift, and by investing money in the infrastructure we could change the consumer perception, after many years of bad publicity, that MSAs were poor value for money.”

Welcome Break spent heavily on its sites, but the core Ebitda stubbornly refused to rise.

Fitch estimated in April that in order to pay its debts when amortisation begins in earnest in 2005, Welcome Break would have to raise Ebitda by 5.8%-11.5% a year — a steep improvement.

However, Lemy Gresh, who is now run-
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ning AIG-MezzVest, a mezzanine loan fund, argues that if Welcome Break had been financed conventionally, with the same amount of leverage, the debt service burden would have been compressed into fewer years and the situation might have been worse than it is.

“One should not forget,” he adds, “that this business still has significant enterprise value, which one can estimate to be at least seven to eight times Ebitda, given that it is not a cyclical business, and has considerable bricks and mortar.”

RoadChef was bought by Nikko Principal Investments Ltd and Cabot Square Capital and securitised for £210m in December 1998.

Nikko had not spent much on its MSAs until this year, and Ebitda has been similarly flat. The advantage this deal has is that it began amortising from the outset, so there is no sharp increase in debt service around the corner.

At the end of last year the shareholders posted £4m of cash to repair a broken debt service coverage ratio (DSCR) covenant of 1.25 — this year they have hired a new CEO and injected £25m of equity to be invested in the MSAs, in the hope of raising Ebitda.

Mark Clarke, principal at Nikko, denies it was a mistake to think investing in MSAs could raise their earnings. “We do expect to achieve growth,” he says. “You have to be selective in how you spend money. We are choosing either key sites where demand is greater than the facilities can cope with, or places where it is clearly time we spent some money to bring the facilities up to an adequate level.”

In much worse shape is London International Exhibition Centre Plc, the £184m deal, launched in November 1999, which financed the construction of the ExCel centre in London’s Docklands. This deal has defaulted, and equity and bondholders are negotiating a restructuring.

The ExCel transaction, lead managed by Barclays Capital and originally rated single-A and triple-B, became known as the kind of analysis used to forecast the business’s performance over the 17 year life of the deal was drawn from whole business securitisations; the security package was similar; and some of the people involved in structuring, rating, selling and buying the deal have also worked on whole business deals.

Get selective

Is whole business securitisation a product in trouble? The answer from investment bankers and rating analysts is an emphatic “no”.

“The nature of whole business securitisation is that, whilst it is a sector, every deal is different,” says Philip Basil, head of securitisation at RBS Financial Markets in London. “Each of the casualties had problems specific to that deal or sector — they are not generic problems.”

Most whole business specialists agree with this analysis. If ExCel is discounted, the only downgrades have been in one industry — motorway service areas.

There has been one downgrade of a nursing home lease securitisation — NHP’s Care Homes 3 — which is really a property deal, though it is quite close to whole business securitisations in credit terms.

Many more industries have a good record — pubs, nursing home operators, hospitals, ferries, Formula One, London City Airport, Tussauds, Really Useful Theatres.

One pub deal, Avebury Properties Ltd, had its ratings reviewed last autumn when it became apparent that profitability was running below the original expectations.

But Fitch and Moody’s both affirmed their single-A and triple-B ratings in November 2001, noting management’s argument that revenues had been reduced because of delays in reinvesting the proceeds from selling pubs in new assets.

Moody’s observed that performance would have to improve if the ratings were to be maintained — but so far, they have been. It is encouraging that the problem in that deal did not lie with the assets, but with a failure to own enough of them, which can be corrected.

Nearly all these industries are likely to be affected by the overall health of the economy, to varying degrees, but apart from that, they are all very different from each other.

Bankers draw a contrast with the CDO market, where the same kind of collateral backs dozens of deals by a great variety of issuers. There, swathes of deals have been downgraded and investors and traders have had to take a view on the health of particular categories, such as investment grade bank balance sheet CLOs.

But the whole business deals do have one other thing in common — the way they were done. The security structure, the use of past numbers to predict future performance, the cashflow modelling and stress testing — a standard toolbox evolved fairly quickly, and became known as the technique of whole business securitisation.

If this technique, which has been applied by a fairly small group of people at the investment banks and rating agencies, failed to assess and structure the MSA and ExCel deals correctly, should investors be sceptical of the claims made for other deals?

“Investors are becoming more selective and suspicious,” says Andrew Burton, head of utilities and structured finance research at RBS in London. “Some major UK institutions have told us they are disillusioned — it is far harder to do a new asset class these days, but the right deal will still receive widespread support. Investors are also getting choosy about which banks they buy from.”

“Selective” is almost a buzzword in the market now. Rob Marshall, director of fixed income credit research at M&G Investment Management, is a firm believer
in the argument that whole business securitisations should not be viewed as a single sector. “We are still buying whole business deals, across all the main categories, but selectively,” he says.

Nicole Downer, managing director in the European securitisation group at Deutsche Bank, believes this stance is typical: “Generally investors are still very much open to these deals,” she says. “But whereas in the early years they might have said a whole business deal is a whole business deal, now they are a lot more discerning. They ask a lot more questions and they think more about the quality of management.”

Investors, then, have indeed become more sceptical, but with a few exceptions they have not lost faith in the product as a whole.

“If you are a fund manager with targets to meet, and benchmarks which are rating constrained, an obvious way to outperform is to buy these deals,” says Burton. “Investors can’t afford to ignore the sector.”

The modern scene
The tally of deals this year suggests there is little chance of that. In February Barclays Capital and UBS Warburg raised a further £610m of debt for Nomura on its Annington subsidiary, which owns the UK armed forces housing estate.

The following month Isle of Man Steam Packet Co, which operates the ferry between the mainland and the Isle of Man, borrowed £65m via ABN Amro and NM Rothschild.

Days later Citigroup and Goldman Sachs sold £656.5m of bonds to finance the extraction of Punch Group’s managed pubs from the giant Punch Funding II deal of 2000. Punch planned to float the leased pub company later this year.

Then came the water deals — £66.5m in June for Portsmouth Water, one of the smaller, water-only companies in England and Wales, using an RBS vehicle; and £1.76bn for Anglian Water Services in mid-July (see Deal focus, p10). Barclays and Citigroup were at the helm.

And in early July, BUPA became the second UK provider of private hospitals (after General Healthcare Group a year earlier) to securitise, as RBS harvested £450m.

But if the agencies will rate, and investors will finance, such a varied range of businesses, what are the touchstones of quality they now look for?

What stands out from this list of deals is that none of them is a new asset class. Annington and Punch are repeat issuers; the water deals built on the success of Sutton & East Surrey Water and Glas Cymru in 2001; and BUPA and Steam Packet were the second and third deals of their kinds.

Deals with solid precedents behind them are likely to appeal more to investors with a downgraded bond or two in their portfolio.

The main difference on the scene in the last 18 months is the emergence of the utilities. So far, these have nearly all been UK water companies, though the £2bn Telereal securitisation in December, backed by the divested fixed line infrastructure of British Telecom, could also be put into this category.

Since this market began, bankers have used “utility-like cashflows” as a standard of desirability, so now that real utilities are willing to contemplate structured finance, it is not surprising they have become the focus of innovation for investment banks.

Whole business securitisation needed to amass several years of experience with simpler businesses before tackling the complex package of risks involved in a regulated industry like water.

The essentialness of a service is a virtue in corporate securitisation, but if the service is vital to life, the government takes such a keen interest that normal commercial rights are naturally subordinated to the power of the regulator.

Provided a water business is running to adequate standards, the assets can be bought and sold as private property, subject to a regulatory rubber stamp, but in extreme circumstances the regulator could step in and take control.

Moreover, the value of the assets is in part determined by the state, through the regulatory asset value (RAV), and the price to customers is fixed.

The water deals also lack the security rights that other whole business securitisations rely on.

Tim Short, director in the asset finance group at Credit Suisse First Boston, argues that there is still a lot of value in the security package: “You can’t actually take valid security in the ‘protected land’ on which the infrastructure is built, but if the regulator steps in to transfer the assets, the charge becomes effective on the proceeds of a sale.”

Lee Rochford, CSFB’s head of northern European asset finance, adds: “The regulator has an explicit duty to ensure companies can finance themselves — you can rely on that.”

The analysis for the water deals lays great emphasis on the belief that the regulator would not set prices in a way that made it impossible for water companies to service their debt; and also that, since the government needs water and other services to be privately financed, it could never afford to expropriate assets in a way that left bondholders out of pocket.

Despite the loud complaints from City institutions over the treatment of Railtrack’s shareholders, investors have satisfied themselves that the water bonds are safe, and have bought them in great quantities.

The A1 ‘triple-A’, wrapped tranche of the Glas deal is one of the tightest priced whole business securities, having tightened from 105bp over Gilts at launch to 70bp over, according to Andrew Burton at RBS. The wrapped A2 tranche of Punch Funding II was launched at the widest point of the market, in June 2000, with a spread of 180bp — it has now tightened to 80bp over.

Anglian Water Services’ wrapped A1 tranche has tightened from 85bp to 80bp over in the two weeks since it was launched.

Triple-B tranches have also come in. Punch II’s triple-B ‘N2’ tranche, sold at 400bp over, is now marked at 170bp, while the 295bp launch spread on Glas Cymru’s triple-Bs has narrowed to 180bp.
Whole business securitisation

RHM Finance’s triple-B notes traded wide after launch but have rallied from about 400bp over to around 300bp. Tees and Hartlepool’s single-A and triple-B bonds have stayed roughly level, at around 180bp and 270bp over Gils.

Welcome Break and RoadChef are trading at distressed levels — around 55.00 and 65.00 respectively for the senior tranches and 15.00 and 25.00 for the juniors.

**What the market likes**

But apart from the changing industrial make-up of the market, which is driven partly by issuer demand, as well as institutional appetite, investors — and hence, banks, too — have adjusted what they look for in a deal.

Rob Marshall says M&G Investment Management’s holdings in the two MSA deals were always small and are now negligible; he declines to comment on ExCeL. But, like any alert investor, Marshall has watched those situations develop.

“What lessons have I learnt?,” he asks — “Pro forma estimates of earnings are no more reliable in this arena than in any other area, and we should resist basing a credit assessment solely on those. That has been behind the problems felt by at least two of the troubled issuers.”

Marshall adds: “Beware irregular amortisation profiles and grace periods. Be aware that covenant calculations can be massaged.

Whole business type structuring should be used in the context of established and proven businesses and not speculative forecasts.”

Robert Palache, head of corporate securitisation at Barclays Capital, gives a similar list of warnings: “Look carefully at deals involving growth assumptions — especially for Ebitda; asset values are a bit different. Secondly, be sceptical about barriers to entry and test them with rigorous questions.

“Thirdly, be sceptical about single-asset transactions with no diversification of risk. And fourthly, focus on essentiality — is it secured on something essential?”

Most of these points are relevant to the three downgraded deals.

**Adjusting the rating microscope**

The rating agencies, too, have adapted the way they approach whole business securitisations.

“When the first deals came out, hybrid securitisation was a new technique,” says Elena Folkerts-Landau, director in the structured finance group at Standard & Poor’s in London. We are constantly reviewing our approach to this type of deal, especially as new assets and business types are being considered.

Folkerts-Landau argues that the problems some deals have run into concerned the underlying business risk, not the structural enhancements.

Chris Hillard, head of the four-strong whole business securitisation unit at Fitch Ratings, reveals that although the ratings for these deals look ahead 25 years, usually modelling the effect of at least two recessions, the agency has changed its stance in line with the current economic cycle.

“Our position is that as we are approaching the top of the economic cycle, the propensity for a company’s performance to fall is higher,” Hillard says. “A lot of these businesses showed cashflow growth through the last recession, but we feel justified in looking for lower Ebitda multiples and higher coverage levels because we haven’t seen a recession for 10 years. We are not rating deals at nine or 11 times Ebitda now.”

One issue that has proved difficult to cope with in whole business deals is capital expenditure.

Usually in structured finance, banks and rating agencies have the option of erring on the side of caution. More collateral, a more complete hedging structure, tougher debt service coverage triggers, restrictions on dividends — these always serve to protect investors, even though occasionally the effects are unpleasant, as with the early amortisation of a credit card deal or CLO.

But with capex the right amount of spending needs to be found — erring on either side can be damaging. If a company neglects its assets, they will fall in value and their cashflow generating capability may decline.

Shareholders can of course invest as much of their own money as they like; but if the company is close to its DSCR trigger, or looks like it is heading closer to them, bondholders might rather the company’s own earnings were not ploughed into the business for an uncertain return. Paying down debt, or saving money against a rainy day, might suit them better.

Not only is it hard for structured finance to police two sides of a variable — but there is no objective means of determining what the right level of capex is. It is a matter of judgement. Trying to predict capex needs in the future is even more difficult.

Market participants also highlight the frustration and occasional anger that beset investor relations in this field.

Mark Clarke at Nikko recalls: “When our RoadChef deal was launched in December 1998 there was no requirement to hold meetings with bondholders, or put reports on Bloomberg.”

“Investors have told us they felt like lame ducks,” says Elena Folkerts-Landau at S&P. “They complain that they first read bad news about these companies in the newspapers. Now we are helping them, by suggesting that issuers commit to regular bondholder meetings and post results publicly.”

BUPA and Steam Packet both said they would do this from the outset.

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Whole business securitisation

Robert Palache: different parts of a business need different kinds of funding

S&P also suggests as a matter of good business practice that offering circulars include a section, similar to the Risks section, outlining potential conflicts of interest between investors and management or the owners.

But it is not just a question of information. Some issuers have — quite legally — changed covenants on their deals, in a way that not all the bondholders like.

“I have been deeply disappointed by the willingness banks have shown to support and work through changes which are not necessarily in bondholders' best interests,” says Rob Marshall.

“It is not that changes to covenants which benefit the shareholders are never appropriate, but they are not when the company's track record of operating successfully is still very short.”

Documents usually permit trustees to alter covenants, provided the ratings are confirmed. Issuers may ask lead managers to assist with this process.

Marshall would like to see a requirement for a bondholder vote before any change in covenants.

Work to be done

Such debates are endemic to any active area of corporate finance — observers welcome the fact that issues are now more often being talked about face to face, rather than grumbled about in private.

But improving disclosure and fine-tuning structures will not determine the overall shape of the market in one, two or five years’ time.

It seems clear that, barring a fresh outbreak of credit problems in whole business deals, investors will keep buying the bonds — at least when it is a road-tested asset type and a good structure, preferably with at least two ratings.

But will companies want to issue them? And what about untested industries?

Robert Palache, who has ardently championed the benefits of securitisation for corporates, still believes in the message, though a little weariness may have crept into his tone. “We are going through a long process of demonstrating that focussing on one balance sheet is wrong,” he says.

“There will be businesses within the balance sheet that are much better leveraged than funded with equity. That persuasion is a long, slow process. It will be another five or six years before corporates understand the need to look at their divisions more closely.”

Lemy Gresh, who is now running AIG-MezzVest, a mezzanine loan fund, characterises the present mood more as a return to equilibrium, after whole business securitisation has made its impact.

“Pubs have been done, carparks may be done — people are quite aware of the technique and it is not pioneering work any more,” says Gresh. “The innovations now are at the margin — can you do an all floating rate deal, and so on.”

Gresh adds that the technique has not really made the transition from the debt community to the equity community.

“Shareholders are quite aware of the advantages of securitisation now, and also of the disadvantages — having a lot of fixed rate debt on your books can be a good or a bad thing,” he says.

“It gives a company much greater flexibility and leverage than a traditional leveraged finance deal; however, it is less flexible when you try to IPO.”

Nevertheless, there is plenty more business to do in the short term. Folkerts-Landau says S&P is working on at least a dozen UK whole business deals, all of which, like those already launched this year, are backed by repeat asset types.

“It is not about to boom, nor is it a doom and gloom scenario,” says Tim Short at CSFB. “The market will continue to evolve and grow gently.”

Water companies are still top of the agenda. “There is a one-off restructuring going on in the water industry,” says CSFB’s Rochford. “The question is, how long does it take to play out? Companies can choose their leverage level, but they will have to go higher. If you are an equity holder and you want to make 15% or 20% ROE, that is the only way you can do it, given the way the regulators set the cost of capital.”

Banks have been busy investigating the opportunities in other utility sectors.

“What you really want is pipes and wires, because no one is going to replicate that infrastructure,” says Short.

“A power generation business is impossible, unless you have offtake agreements with high credit quality customers. You are much more exposed to spot markets.”

“With a telecom company you can do customer receivables; whether you can do the whole thing remains to be seen. The rating agencies may need a lot of persuading that you have something that’s stable and is going to be there for some time. I think it can be done — the question is what multiples you can get.”

But what of the more esoteric deals that used to enliven the whole business market? It would appear that either the banks and investors have lost their nerve, or that most of the more unusual companies that could be securitised have already been done.

One deal that stood out from the crowd was Nikko’s second securitisation, refinancing its acquisition of the Tees and Hartlepool Port Authority, which operates two ports in the northeast of England.

The business is a highly complex one, with different streams of revenue of different kinds. The port earns money from an offshore gas pipeline terminal, from importing raw materials for the chemical industries of the area, and from exporting steel, as well as smaller elements of revenue.

Led by Deutsche Bank, the £305m deal was one of the most complex of the real estate backed whole business deals.

“It has been a bit of a learning curve getting used to the documentation, but the covenants are not so different from what you might have in the bank market,” says James Wilding, principal at Nikko in London. “We have had some ups and downs, especially after September 11, but while some parts of the business are earning a bit less, others are doing better.

One of the features of the securitisation was that we were able to invest in a significant capex programme to build
whole business securitisation

container handling facilities — we’ve got existing customers asking us to handle more capacity. So there are some real growth prospects there.”

The underlying momentum

Ranks Hovis McDougall’s £650m issue in February 2001 is a marker point for many bankers — a deal that they are relieved they did not have to execute.

The flour milling and baking company belongs with Formula One in the category of deals that do not rely primarily on ownership of specific pieces of real estate, which are cash generative by virtue of their infrastructure and location.

RHM owns factories and distribution facilities, but they have no captive local market and were valued at only £435.5m. RHM’s unique strength is its market leading brands — Hovis bread, Saxa salt, Mr Kipling cakes — and expertise at distributing to tight deadlines. The deal was rated Baa2 and Ba3 by Moody’s only.

“I don’t think we will see many more of those deals in the UK,” says Philip Basil at RBS. “It is a good deal at that leverage, but the financing terms are not better than they could have got in the leveraged finance market — and they had to sell a lot of double-Bs to get there. Apart from the lack of property, it has high operating leverage.”

Companies with high fixed costs are not typical securitisation fodder, because they find it hard to cut costs in a downturn.

Folkerts-Landau at S&P believes there is still plenty of scope for doing deals away from the real estate based paradigm.

“People are becoming more conscious of the predictability or stability of cashflows in a variety of sectors,” she says. “The universe of business risks is open.”

But most bankers appear to follow Chris Hillard’s more cautious view that property is still the best basis for a deal. “Our view on brands is that their value is more tangible than property. You can get brand valuations, but they require investment to maintain. Mother’s Pride used to be a powerful brand of bread in the 1980s, but it’s much less visible now.”

Investment bankers are still pitching novel deals to the rating agencies. Fitch has reviewed chains of carwash shops, Bingo halls and cinemas, but was unable to grant the leverage the banks wanted.

Michael Cox, analyst in Fitch’s whole business team, estimates that of all the enquiries he fielded from investment banks about whole business deals last year, perhaps 10% have ended up as deals. “Where the securitisation team makes a serious presentation, the hit rate is probably about 40% — which is not to say some of the rejected ones won’t come back later,” he adds.

Securitisations will only happen when they can offer something other financing techniques can’t.

“There are the obvious deals everyone’s waiting for, in the water and pub sectors,” says Downer. “But I do think the market is quieter, otherwise. The M&A environment has been slower over the last six to 12 months and that has affected the pipeline.”

It is a paradox that whole business securitisation has been driven to where it is by the private equity industry, yet the whole point of the technique is that it suits predictable, low growth businesses — which private equity investors may not ultimately find appealing.

Perhaps Guy Hands would have spoken more accurately if he had called securitisation “Viagra for venture capitalists.” It certainly seemed to excite their desire for pub companies, MSAs and the like — but perhaps the drugs don’t work for them any more.

“These businesses are superb retirement funds and pension funds ought to be interested in them as direct investments,” observes Lemy Gresh.

Ultimately, that may be the point. Savings need a long term home, and so do low-growth companies. Equity investors only want them if the returns are high, and that means leverage.

“We have seen massive spread tightening on whole business deals in the last few months,” says Philip Basil. “Investors can’t afford to make Type 2 errors [missing out on opportunities]. They used to run barbell portfolios of Gilts and equities, but the stock market has tanked, so insurance companies and funds have had to pull money out of equities and go looking for returns in the bond market.”

The mix of businesses that can — and wish to — explore this financing route is likely to change. But it does not seem to be dwindling.

The flashy, venture capital-backed deals may no longer be leaping from one market ‘first’ to the next as they did in the late 1990s — but more and more companies — BUPA, for example — are choosing to leverage themselves up without having been through an acquisition.

And there is a deeper rumble in the background, of heavy public sector assets on the move.

The Department of Trade and Industry is said to have detested the Glas Cymru proposal at first; now, the government cannot get enough structured finance.

The water companies have been given the go-ahead and several of them are hard at it; the second half of this year will be dominated by Railtrack and the London Underground.

Whole business securitisation is no longer shiny or sexy. It has some miles on the clock and scratches on the paintwork. But the engine still works, and when there is fuel in the tank and a competent driver, it travels.