

Heineken Deal Podcast Transcript

Allen & Overy Podcast Transcript – Heineken/Carlsberg Takeover of Scottish & Newcastle

Speaker key

AE	Alun Eynon-Evans – Partner
ET	Edward Timmins – Associate
JF	Jonathan Fletcher Rogers – Associate
HH	Hayley Harris – Trainee
TS	Tom Stancliffe – Trainee
JC	Judi Coe – Interviewer

JC Hello, my name is Judi Coe and I'm here at Allen & Overy, talking to members of the Deal Team who worked on the Heineken/Carlsberg takeover of Scottish & Newcastle Brewery. Please could you introduce yourselves?

AEE Hi, I'm Alun Eynon-Evans. I was the Corporate Partner on the transaction.

ET Hi, my name is Edward Timmins. I am a Corporate Associate on the transaction.

TS Hi, my name is Tom Stancliffe and I was a trainee in the Corporate department at the time of the transaction

HH Hi, my name's Hayley Harris. I was a trainee in the Banking department, advising on the banking aspects of the transaction.

JF Hello, my name's Jonathan Fletcher Rogers and I'm an Associate in the Incentives Group of the Employment & Benefits department.

JC Alun, could you take us through the context and the background to this deal, please?

AEE We've acted for Heineken for many years, doing some transactions in different countries. We've been with them for the last ten years or so, but this is the first big transaction, frankly will probably be the last big transaction they do in the UK. This transaction was always on the horizon because it's a rapidly consolidating industry, the brewery industry. There are only a few major players. Scottish & Newcastle was too small, frankly, to survive on its own and having an open share register, which just means it hasn't got a controlling shareholder that stops other people buying it, means that inevitably somebody was going to buy it at some point.

JC It was very high value too, wasn't it?

ET I think the value of the transaction amounted to about £8 billion which, at the time, was possibly the largest transaction, second maybe to the Rio Tinto BHP deal, which is still going on at the moment. So whenever something happened it was on the front page of the FT.

- AEE** Because it was a FTSE 100 company and one of the biggest companies in the UK.
- JC** Can you take us through the chronology Ed?
- ET** Well, it all started quite a while ago. The first approach to the board of Scottish & Newcastle from Heineken and Carlsberg to acquire the business occurred in, I think, late October. And they offered a certain price that the board of Scottish & Newcastle thought probably was on the low side and told them to go and think about it for a little while. And that happened on and off for upwards of five months, I think, until, mid-January when the offer of £8 billion came in and that was accepted by the board. And so the transaction was pretty much full steam ahead from that point in and it ended up closing at the end of April, so I suppose a solid three and a half, four months
- AEE** How the transaction first became public was that it, it unfortunately leaked...
- JC** Oh, really?
- AEE** ... which is bad but it's actually not that unusual for this kind of transaction. Just to give a bit more background, this was a consortium break-up deal for a FTSE 100 company. It's about the most complicated public thing you can do because, as well as trying to take over a company, you've got two people trying to do the takeover with the view to breaking the company apart once you've acquired it, which means that as well as having two acquirers, you've got two sets of advisors, multiple sets of banks. So there are lots and lots of people involved and inevitably at some point it'll leak out into the market.
- JC** So what were the respective roles of the other members of the team? What were you doing, Hayley?
- HH** I was a trainee in the Banking Group and the team that I was working for was advising Heineken on its borrowing facilities in order to fund its part of the acquisition. So my particular role was to run the CPs, as they're known, otherwise known as the conditions precedent, which are the set of conditions that a lending bank will need to be satisfied before they will agree to fund their part of the money to the borrower, being Heineken.
- JC** What about you Tom, what did you have to do?
- TS** My role was working with my supervisor and Alun to prepare all of the documentation relating to the consortium. So in the earlier stages of the transaction I was really just providing support to that team. Some of that was administrative, but also some of it was helping amend documents which was quite exciting, just to see what was going on and feel like you were an eye witness on some quite exciting discussions that I knew were going on at the time.
- JC** Jonathan what was your role?
- JF** Well, I work in the Incentives Department, which basically looks at the share options aspects of the transaction. So, in this case, Scottish & Newcastle had about seven different share option plans and so our first role would be, as part of due diligence, to look at all the share option plans and look at the effect of the transaction on those share option plans.
- JC** What about Carlsberg? Where do Carlsberg come into this? Because really Carlsberg and Heineken you would think were bitter rivals.
- AEE** That was one interesting dynamic in the deal, in that they are indeed bitter rivals and we knew afterwards, having come together almost as a partnership for this deal, they would take their various pieces of Scottish & Newcastle, go away afterwards and be bitter enemies afterwards.

JC Were there other things which you had to do on Heineken's behalf in order to make the whole thing go through smoothly?

AEE The great thing about this kind of deal is that it's just the kind of deal that A&O does and does very well, which is a very high profile, a very difficult takeover, but with a smallish team internally, bringing together all of the elements. Like Jonathan doing share incentives, people doing tax, people doing pensions and the banking side financing the acquisition to start with.

JC Lots of late nights?

ET With a public takeover, you're generally sticking at it for a significant period and, although, you know, with the odd exception, I wasn't staying up until, say, four or five in the morning, there was a period there where I caught a taxi home every night for about a month [laughter].

JC What about the trainees, did you have to work late nights and long hours? Or were you shielded from that by the rest of the team?

TS During the stage where the consortium was coming together in November, there were some late nights. But actually I'd only started at the firm about three months before this was happening, so I'd been waiting to be able to stay late, to go and tell everyone [laughter].

JC But was it a very steep learning curve for you?

TS Definitely, and I think, in preparation of the scheme circular, Ed was really good at trying to get me involved in drafting things and that was an amazing experience to actually help and prepare. I was really lucky in my first six months, in my first seat, to be involved in something as exciting as that because, it was quite exciting, seeing the FT and knowing that the day-to-day movements and conversations you were privy to were front-page news.

JC What about you? Did you learn a lot, Hayley?

HH Yes, definitely. I was in a slightly different position, being on the Banking team. I was also towards the end of my banking seat. So I mean I had been involved with similar deals before, but this was definitely the biggest and it was a really nice way to end my seat on such a high. On process it was quite short and sharp, but it was just fuelled all the time with excitement and adrenaline really, from my perspective. I was actually based in the Canary Wharf office at the time, but since most things were happening here in the Bishops Square office, it was a case of my team, or the team I was working with, camping down in our temporary office spaces in Bishops Square, which just made it all seem a little bit more exciting.

JC Absolutely. And in terms of this being cross practice, is that quite typical for the way you work, Jonathan?

JF Yes. Well, probably I'd say over the half the work that we do in the Incentives department is corporate linked. There are only, I think, four or five associates and two partners in our department so at any one time we could be working, each one of us, on about five or six corporate transactions. But we also have our own work streams as well, as I said, the communications to option holders. So there were short periods of intense activity in getting documents sorted out and then just ad hoc queries now and again. We're still dealing with ad hoc queries from Scottish & Newcastle today. (laughter) But these transactions also give you a good opportunity for further business development opportunities with the client that you may not have had contact with before. And for us specialist departments it's an opportunity to get stand alone work.

JC What was particularly innovative about this deal, Alun?

AEE The takeover itself is not that complicated a transaction, in the sense that we do a lot of them. So it's a tried and tested method. What was very different was that it was a consortium break-up bid and in fact in a situation which for most of the transaction was hostile or semi-hostile, as in the targets were not actively cooperating with us. And I think I would have said that probably a year or two years ago the overall view would have been that you couldn't do a hostile break-up bid. The only other one that's been done even vaguely similar was probably AMN Amro with RBS. And to try to do a deal where you're envisaging going into the target, splitting it into two different pieces and sending those two different pieces in different ways, when you don't have any information from the target about what that business is and how you're going to do there, is a very, very challenging transaction. But I think the main point is that it shows these types of deals can be done and, where before people would be very reluctant to try to put together a very big, complicated break-up transaction for one of the largest listed companies, this shows you can do that. And I think from A&O's points of view, it shows A&O as the go-to firm for this kind of high profile public transaction.

JC Were there any particular points of learning for you, Hayley and Tom, as the more junior members of the team?

HH I think, from my perspective, a lot of the conditions precedent that I was dealing with may have involved constitutional documents that the company had or they needed to get. So it involved quite a lot of contact with people at Heineken which, for me in the Banking department, I'd already had a fair amount of experience doing it, but not quite as intense, and that was a really exciting part of my role, but also a really enjoyable part.

JC Tom?

TS I think the due diligence process was really interesting. I think Ed's already mentioned that actually it happened over a very short period of time, I think over a period of about five days, including one weekend. So it was really all hands to the pump, which actually, as a trainee, is in a way the best scenario because that's when you get the most responsibility.

ET I think I frustrate my friends quite a lot at the moment because, whenever we go to the pub and I buy a beer, I say, oh, well, this, this beer was established by a family back in the '70s and [laughter]. Well, it was purchased by Scottish & Newcastle in the '80s, which is now owned by a, a Dutch brewer [laughter].

JC Did you not celebrate with champagne then?

ET Actually, that was quite funny [laughter]. We brought the CEO of Heineken and the CEO of Carlsberg to the office, when we signed the consortium agreement, and we had people run out and organise a bucket of Carlsberg, a bucket of Heineken and a bucket of Kronenbourg. And we were all just kind of standing there, waiting to see what the CEO of each of the company would grab to drink, to celebrate the deal, and the Heineken CEO, he had a Carlsberg which we thought that was very diplomatic. The Carlsberg CEO, he had a Carlsberg.

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