

# Impala AA Bond Company Ltd

## 4.125% Fixed-to-Floating Rate Notes 2025

22 September 2014

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Issuer Series	IMP AA BD 4.125% / FLTG RTE NTS 31/07/25
ISIN / SEDOL	XS1106516351 / BQN1DB3
Format	Senior Secured, Dated, Unsubordinated
Security	AA Bond Company Ltd 6.269% 2025 Secured Class A Debt
Security Rating	BBB-
Maturity Date	31 July 2025
Coupon (paid quarterly)	4.125% p.a. to 31 July 2017; thereafter 3-month GBP Libor + 1.00% p.a. to 31 July 2025
Issue Price	100.00
Minimum Denominations	£1,000 plus increments of £100
Listing & Trading	London Stock Exchange
Pricing	Committed on the LSE, Bloomberg
Issue Date	22 September 2014

The Impala AA 4.125% Fixed-to-Floating Rate Notes 2025 are issued by Investec Bank plc.

### Why The AA?

#### The AA

- UK's largest operator of roadside assistance services for motorists as well as a leading supplier of driving lessons and insurance products
- The AA has a competitive business model with a leading market position and high brand recognition – it has over 13 million roadside assistance customers
- There are considerable barriers to entry given the need for intensive capex on IT systems and nationwide patrol coverage
- IPO'd in June raising £1.4bn from a group of leading UK institutional investors. The AA stock has since risen 10.40% and has a current market cap of £1.5bn

#### Underlying Security Issuer: AA Bond Company Ltd (OpCo)

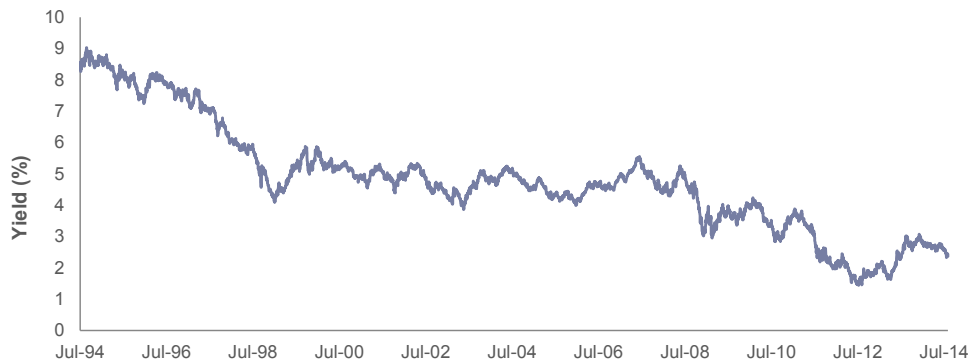
- The bonds benefit from the safest position in the securitisation financing structure (Class A) and are senior to £655m of Class B bonds and £175m of PIK Notes. There is a total of £3.2bn of debt in the structure
- The AA has predictable and stable cash flows with OpCo debt/EBITDA of 7.2x and Class A debt/EBITDA of 5.6x
- The AA is generating significant positive Free Cash Flow (FCF), and is expected to use this over the next few year to reduce the overall amount of debt, by up to £1bn

Sources: Investec, Deutsche Bank Markets Research Report 15 May 2014, Cenkos Other Financial Services AA plc 29 July 2014 and AA Annual Report FY14

Continued overleaf

## Why is the Impala bond being offered as a Fixed-to-Floating Rate Bond?

- The initial fixed rate for 3 years enables investors to lock-in an attractive fixed coupon in the earlier years of their investment
- The floating rate coupon offered for the final 8 years of the investment addresses the market expectations of rising interest rates over the medium term. 3-month Libor is expected to be at 2.22% in 3 years time
- The new Impala bond reduces the duration of the The AA bond from 8.1 to 2.75 years
- Bond investors are concerned about the impact of Gilt yields increasing, especially over the medium-to-long term, resulting in greater price volatility in fixed rate bonds. These concerns have intensified recently given the volatility in yields
- Gilt yields are close to all time lows:



— 10 Year UK Gilts

- Where will rates go in the future?
- Does it make sense to hedge a portion of your portfolio?

Source: Bloomberg

- Investing in bonds which have a floating rate of income reduces interest rate exposure whilst ensuring income reflects changes in interest rates
- Impala bonds bridge the gap between investor demand for short duration bonds and their limited availability in the market
- This issuance also offers an attractive fixed rate for the first 3 years

## Risk and considerations

- Investors will retain credit exposure to the underlying credit, AA Bond Company Ltd Secured Class A debt. The price of the Impala 'The AA' bond will therefore be affected by changes in the underlying credit
- In the event that Investec or the underlying credit becomes insolvent, investors will have exposure to the underlying fixed coupon bond (AA Bond Company Ltd 6.269% 2025), in addition to the mark-to-market of the swap put in place by Investec
- The Impala bonds, although listed on the Official List of the UKLA and admitted to trading on the LSE, can only ever be as liquid as the underlying fixed coupon bond
- Investec undertake, under normal market conditions, to make a live daily market on the Impala bonds





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