When Cobra Beer needed funds for expansion, selling equity looked the only option. But that was before hedge fund Och-Ziff offered cash in the form of an unsecured, deferred interest loan. Brian Bollen examines this innovative deal.
Cobra Beer raised £27.5m in its most recent round of financing, completed in July. Of that amount, £25m took the form of a PIK (payment in kind) unsecured loan note issued by Och-Ziff Capital Management, a US-headquartered hedge fund. The balance came from individual investors.

Sphere Partners acted as in-house financial adviser to Cobra, while Grant Thornton Corporate Finance continued in its long-standing role as adviser to Cobra on financing and strategy, as well as auditor. Grant Thornton also acted as placement agent on the equity component of the financing, alongside Carlton Corporate Finance. David Meacher of City Capital Corporation (3C) acted as broker, playing a pivotal role throughout. Philip Rogers, a partner at Clyde & Co, provided legal advice to Cobra.

Brendan Brien represented Lloyds TSB, who provided a further £4.2m of debt finance. S J Berwin partner Steven Davis and associates Julie Galligan and Peter Moore looked after the bulk of the legal work for Och-Ziff.

Cobra Beer is one of the fastest growing beer brands in the UK, with a current turnover of £95m at retail value. It has been exported to over 50 countries worldwide and is available nationwide in more than 6,000 Indian restaurants, 5,000 supermarkets and off-licenses and 6,000 bars, pubs and clubs.

Previously listed in the Virgin Fast Track 100 of the fastest-growing private companies in the UK, Cobra has offices throughout the world, including India, South Africa and the US. It is brewed in the UK, Belgium, the Netherlands, Poland and India.

In June, Cobra Beer won a Gold medal at the prestigious Monde Selection, Brussels 2006 – World Selection of Quality, more than any other brewery.

A new source of capital

David Meacher, a founding partner of 3C, believes a growing number of companies are likely to follow Cobra’s example. "A new route of financing is opening up for high-quality companies that are growing strongly but without established levels of cash generation," he says.

"Hedge funds are increasingly willing to step into a space in the pre-IPO world traditionally occupied by private equity and funding companies that are not yet ready – or want to defer the decision – to float but have clear strategic plans for significant expansion before they float," he continues. "The solution they offered Cobra – to be the sole provider of this element of the financing package – was extremely attractive and it didn't take Cobra long to realise it fitted their requirements very well."

With the necessary finance in place, Cobra is now concentrating fully on its ambitious expansion plans, including expansion of the fast-growing draught offering. The product range now includes the exceptionally tasty King Cobra, described as the world’s first double-fermented lager (which is sold in champagne-style bottles at double the normal strength of lager sold in the UK). In keeping with the changing zeitgeist, Cobra also offers lower calorie, lower carbohydrate and even alcohol-free versions, which it plans to sell alongside lunchtime sandwiches in high street retail chains such as Boots.

"Buoyed by the success of the expanding range and jet-propelled by the Och-Ziff investment, the company says Cobra hopes to float on AIM within the next two to three years."

Brian Bollen is the curry-eating, Cobra-drinking, contributing editor of Corporate Financier.
COMPANIES UK: Cobra strikes out for market expansion with £27.5m fundraising

By David Blackwell
Financial Times, Jul 17, 2006

Cobra Beer, producer of thirst-quenching beers and lagers for curry lovers, has raised £27.5m for expansion.

The company last summer was looking at plans for a flotation that would value it at about £50m. However, it has secured £25m in the form of 15 per cent payment in kind (PIK) notes issued by Och-Ziff Capital Management, the US hedge fund.

In addition, it has raised £2.5m through a placing of new ordinary shares to private and institutional investors at a price valuing the total equity at £80m.

Lord Bilimoria, founder and chief executive, said the financing was the biggest undertaken in the company's history. "We have decided to take the brand to the next level before the float."

Although the bottled beer is available in 90 per cent of the UK’s Indian restaurants, the draught is only in 33 per cent. Supermarkets are starting to take up the brand, and it has just started appearing in pubs and bars.

Just over a year ago the company - which subcontracts its brewing to Wells in the UK and other brewers in Belgium, the Netherlands and Poland - started production in India. Lord Bilimoria said he expected India to overtake the UK as its main market within five to 10 years.

The company will use £13m of the proceeds to redeem all its convertible cumulative preference shares a year early. The remainder will be used to fund expansion in the UK and India, and to expand draught capacity in the UK.

The PIK notes take the form of subordinated unsecured loan notes on which interest is paid through the issue of more notes on similar terms. The Och-Ziff notes are due for redemption in 2013, but the company can choose to repay them at any time after one year.

The growth of the business, which has notched up retail sales of £80m in the past 12 months, has averaged more than 40 per cent over the past 10 years. It has been financed from multiple sources, including cash flow, government-guaranteed loans and equity investment by wealthy individuals.

Lord Bilimoria, who owns about 70 per cent of the equity, expects to start preparing for a float on either Aim or the main market in two to three years' time.

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