Slaughter and May Podcast
Premier In Green: In conversation with Whitbread

Jennifer Sadek	Hello and welcome to this Slaughter and May podcast. I'm Jennifer Sadek an associate in the finance team here at Slaughter and May and I'm joined by Matthew Tobin, Head of DCM at Slaughters and Chris Vaughan, the General Counsel at Whitbread. For those of you who don't know, the Whitbread Group owns the Premier Inn Hotel chain as well as various accompanying restaurant brands and earlier this year we worked with Chris and his team on the issuance of a dual tranche green bond. Today we are going to be discussing the attraction, advantages and practicalities for issuing green and ESG bonds which I know is something that a lot more companies and treasure teams have been considering. One point to clarify, I guess, at the outset is that when we're talking about a green bond in this podcast, we are referring to a use of proceeds bond. So, similar to your conventional stand-alone bond but the proceeds of which are required to be used to fund a range of environmental projects which are identified prior to the issuance. So, let's kick off. Chris, I know that Whitbread sustainability programme is something that you are very proud of but could you tell us a little bit more about it at the outset.
Chris Vaughan	Yes, sure. Hi Jen thanks. So yeah, we are very proud of it. It's been going for around 10 years or so although we have recently had a much more enhanced focus on it, I have to say. And it is a pretty broad programme. It covers things like the people side of our business so, training development, diversity and inclusion, mental health, things like that. We look at the roles we play in the communities in which we operate, we've got around 820 or so hotels in the UK so as you can imagine we touch a lot of communities and do a lot of work in the communities. And it also covers our environmental footprint the impact we have on the planet. So, this is where we have our targets for net zero. We have a net zero by 2040 target for carbon emissions for example. We have a target to reduce food waste and eliminate single use plastics and about responsible sourcing as well. So, it's a pretty broad programme and if you think about Whitbread's business, you know, we're a hotel business, so we are buying pieces of land and building hotels on them, or we're signing leases and landlords are building hotels on them and we are occupying them. We obviously operate those hotels and we also have about 450 restaurants by the way and obviously we're buying lots of products to operate our business so that's how we invest our capital or cash in the business, and I think that's important just as we think about how we might allocate proceeds in a green bond issue.
Jennifer Sadek	Thanks, that all sounds great. And the bond itself is obviously a great success being hugely oversubscribed and pricing very tightly. Do you think that a large part of that was on account of its green features, and

	what would you say the main factors were for receiving such a good reception?
Chris Vaughan	Yeah, I think the green feature certainly helped. There was a significant amount of appetite for the bond. We were over eight times over-subscribed. It's a little bit hard to say exactly what proportion of that was down to the green element of it. When I talked to the banks afterwards they would put, sort of, two to three times of that around the sort of green bond element but we had a significant amount of interest in it and we attracted a slightly different investor base to the normal investor base that we would have for a normal bond issue and so, and obviously for our, from our equity investors. But for us it was, it was a way of demonstrating, you know, the fact that our sustainability programme was a good one. It was like an endorsement of our sustainability programme that's why we were so keen to do it. And as soon as our CFO and I had a discussion about doing a bond issue I was very keen to see if we could find a way of doing a green bond because I thought it was the right thing to do and it was a clear, it would be a clear endorsement of our sustainability programme. As well as potentially attracting investors that we otherwise wouldn't be able to attract and potentially even attracting, you know, a slightly better, a better margin on the bond itself. So, I think it was a success, we were quite lucky in one sense in that we got the timing right. You know, we did it in February of this year, 2021, when there was a lot of talk of recovery out of the Covid pandemic and obviously we're a hospitality business, so we have been particularly badly affected by the pandemic. But, actually, you know, a lot of investors bought into our recovery story because we are a well-capitalised business so, you know, in contrast to some of our competitors. So, it was a good credit story but there were significant appetite for the green bond. And at the time we did it, there was a lack of supply of green bonds and plenty of appetite for it, so the timing was right, it all sort of came together.
Matthew Tobin	I think that's really helpful, Chris, in terms of both understanding the background, in terms of your sustainability programme and also why that led to doing the green bond, why that made sense for you. Just going back to that conversation with the CFO, the sort of first conversation about, this is going to be a green bond, and the practical aspects of that. I guess, one of the main practical aspects was the requirement for a green framework which was for the purpose of this bond issuance, and I guess that was something you were thinking about in terms of how to issue the bond. Just looking back, how did you find that process of putting together the green framework?
Chris Vaughan	Yes, so it wasn't entirely straightforward, I think green bonds weren't necessarily designed for companies like Whitbread but they've become much more common for companies like Whitbread to use them. I think what really helped us was having a well-established sustainability

	programme because we had a clear idea about the sort of investments we were making in sustainable projects and what we did was to look at what other people have done when they'd issued green bonds, the sort of projects that they were using for use of proceeds bonds. And we sort of designed our framework around that. So, it wasn't entirely straightforward and that's why I explained at the start what Whitbread does because obviously we're investing in buildings and green buildings are a key part of the green bond principle. So we worked to The International Capital Markets Association Green Bond Principles and green buildings are a key part of that, those principles, but also green operations including, you know if you think about a hotel, we have energy efficient management systems, we invest in things like solar panels, renewable energy. We recently announced a deal to install electrical vehicle charging points in a lot of our hotels for example. Also, we're procuring a lot of our products sustainably. So, we buy a lot of timber; we buy a lot of cotton, if you think about a hotel, we think we're the second largest purchaser of cotton in the country after the NHS actually. We buy a lot of timber and fish and things like that. So, all of that really was something that we could use as eligible projects when we were thinking about the green bond principles. We did have some other things that we procure sustainably that didn't really fit with the green bond principles which were a bit harder. So, things like, anything to do with animal husbandry, so the purchase of beef, pork, chicken, for example, which we buy a lot of, wasn't going to be possible. Although we do buy them sustainably and we did have discussion with the second party opinion provider about whether to allow them as sustainable projects but they basically rejected that. We also had quite an interesting discussion with and about eggs because we buy a lot of eggs for our breakfast, and, they didn't even like free range eggs. So, what we settled on was a framework in three parts. The first was around green buildings, so the capital expenditure that we have in green buildings. The second is around green operations of those buildings, so these are the energy efficient management systems; the electric vehicle charging points; solar panels, also the procurement of renewable energy is also part of that. And then the third element was a procurement element, which is around the procurement of certain products like fish, timber and cotton to sustainable standards. And that's how we framed our framework with a second party opinion provider. But it was a little bit of a negotiation and because the frameworks are public, it was quite helpful to be able to see what other companies had done and, you know, other retail companies in particular. So people with portfolios of retail units or a retail estate, we looked at those companies to see what they had done and then adapted our own framework to suit what we thought we could do to comply with the green bond principles from the ICMA. So that's how we put it together. It wasn't entirely straightforward, it was a bit of a negotiation. It really helped that we had well-established sustainability programme at the start, so we knew, you know, we knew exactly what we were spending on green buildings for example. And,

	don't forget that you can look back three years and forward three years when you're thinking about how much to allocate to these proceeds. So, that's how we did it and we were issuing bonds worth circa £500m. So, we ended up with £550m in the end just because we were so over-subscribed and the pricing was attractive but we had to be comfortable that we could allocate proceeds to that amount to all of these things within the framework. So, it was quite a lot of work doing it. I wouldn't underestimate that. It definitely added a bit of time to the timetable but the more organised you can be upfront, the better and the clearer you can be around how much you spend on all of your eligible projects and are likely to spend over the coming years, the easier it will be for you.
Matthew Tobin	Thanks, Chris. And I'm pleased you've focussed on the role there of the second party opinion provider because that's obviously a key role in terms of issuing this type of instrument and it's of course rather different from just issuing a vanilla bond. It's an additional part of the process and I think interestingly actually since you issued your bond, the ICMA have updated the principles just to put the role of the opinion provider forward more forcefully than perhaps it was before which I just reflects the practice in the market. Just picking on sort of key other issues for companies that are thinking about issuing a green bond, I guess, one of them is just the sort of timing issue – how much does it add to the timing?
Chris Vaughan	Yes, when we've done bond issues before we would normally think about a four to six week process for a bond issue, that's the sort of nature of it if you're reasonably well organised. It probably did add a bit to be honest. Mostly, because it was the first time we're doing it, so I think it took sort of more like eight weeks from start to finish, rather than six. We used a second party opinion provider called Sustainalytics who were, I think, you know, one of the market leaders in this field. They work to their own timetable, so you do need to factor that in and they have, once you submit your green framework, they come back to you within a certain amount of days. So you do need to factor that into your timetable. It definitely added a little bit of time and some complexity into the process. One thing I did which I thought worked well was to spend some time with Sustainalytics right at the start of the process just explaining about our own sustainability programme, how well established it was, what we were doing, what our targets were, where we spent all of our money. Just to make sure that they had a really good understanding of the sort of things we were doing and I think that helped and I think Sustainalytics really welcomed that. They had a really good understanding of our business and I think when we came to talk about eligible projects and the framework, which was a little bit of a negotiation as I have said, then it just made it that bit easier. So, I think if you are going to do it, you need to be organised, you need to have thought about your eligible projects within the green bond principles before you start. I'd recommend early conversations with your second party opinion

	provider just to explain the background to your sustainability programme and, you know, just be prepared to add a little bit of extra time in into your process. I think if we'd had to do a bond issue really quickly, I don't think we would have done a green bond, I think we would have gone with a plain vanilla one. But, you know, with hindsight, I'm really glad we did it. I think it's been a really interesting experience and I do think it's an endorsement of our sustainability programme.
Matthew Tobin	No, I can see that.
Chris Vaughan	Yeah and so when I asked the Banks if there was any margin advantage as a result of doing a green bond, I know it's not an exact science this, but they did indicate that there was a margin advantage. Largely because of the amount of demand for the bonds, so increased demand. And they put that at about there or thereabouts ten basis points of advantage. Now that's quite a lot of money in, you know, we were issuing a £550m bond so, you know, that's an annual sort of interest rate margin advantage of over half a million pounds a year. So there's a real saving in monetary terms for us in doing this in the first place which when you add that to the reputational advantage which we thought we would gain, and having access to a different investor pool, made it quite a compelling proposition.
Jennifer Sadek	Thanks Chris. And like you say there's obviously a bit of an aspect of getting Sustainalytics up the curve as to what your putting in your green framework and how that works in your business. But when it came to the investors on your roadshow did you also find that there was reasonably specific questions on your green framework or much interest from the investors in the green aspects of the bond?
Chris Vaughan	There was actually so I think the finance director and I did a roadshow to around 30 or 35 bond investors. They weren't necessarily the investors we would normally see. We did see some specific, sort of, green bond funds that were interested in buying the bonds. I would think of all of the questions we had, the questions on the green bond framework was probably about twenty five to thirty five per cent, so between a quarter and a third, something like that. And they tended to focus on the use of proceeds, so what were we going to do with the proceeds, was the spends historic or forward looking, what sort of capital projects were we going to invest in, and things like that. But, I think like any bond issue, the lion's share of the questions was still around the company strategy, its credit worthiness and, at the time when we did it in February 2021, Whitbread was a Covid-recovery sort of story. So, a lot of questions around Covid-recovery but the ESG element nevertheless took a, I'd say around between a quarter and a third, something like that.
Matthew Tobin	Just going back Chris, just to the sort of initial decision of what product to issue. As you said before actually, when it came to issuance, that was

	effectively in the middle of our second lockdown, or third lockdown, whichever way you look at it, but January 2021, and I guess there were other products on the table, so potentially a sustainability-linked bond or a sustainability-linked loan. Just going back to that rationale as to why this product, can you say a little bit about that for us?
Chris Vaughan	Yeah, of course. We did look at sustainability-link bonds. I think the way a sustainability-link bond works is that you agree certain KPIs. The issue we found with that was that we weren't quite sure which KPIs to focus on. So I'll give you an example. We have a target of achieving net zero, a carbon reduction target of net zero by 2040, but the way the target is actually delivered, it's a bit lumpy. So, you can make quite a big dent in the target by, for example, buying renewal electricity, but other than that, and obviously it's a twenty year target, so it doesn't necessarily come out evenly through the duration of the bond which was, in our case, six years. So, we felt it was simpler and easier for us to work on a, you know what we thought was a great standard, a use of proceeds bond, and we could identify readily the proceeds that we'd use it for. So, we decided to go with a use of proceeds bond. I wouldn't rule out doing a sustainability-link bond in the future as well, and we also were extending our revolving credit facility and we did look at whether to do a sustainability-linked revolving credit facility, which you can do. But again, it would be quite complex to do that at the same time as the green bond and you also run into the same issue with what targets, what KPIs should you link the sustainability loan to. So in the end we ended up doing the use of proceeds bond, the green bond and sort of playing vanilla revolving credit facility. But I would definitely not rule out doing sustainability-linked bonds and certainly next time we do a renewal of the revolving credit facility, we'll look at a sustainability-linked loan.
Matthew Tobin	No, I can see that and I guess that the KPIs, the thing about this bond was maturity of five years and not necessarily the same targets, in terms of when you're going to hit KPI, so that make senses to me. Just a word on the sort of internal process because it is obviously a bit different doing a green bond than doing a vanilla bond where the expertise lies probably solely within the finance and treasury teams in terms of the process. I'm guessing, for most companies actually, for doing a green bond that involves bringing people in from other parts of the organisation in order to do the issuance. Do you want to say a little bit about that in Whitbread's case?
Chris Vaughan	Yeah, that's a great point actually and doing a green bond did feel like a little bit more of a team effort. You're right that if you did a plain vanilla bond it's mostly a finance/treasury legal type process and there is a bit of a tried and tested formula for it. Whereas for our green bond it was a combination of finance, treasury and legal but also my sustainability team was implicitly involved in it but we also needed to involve the property team, for example, because we were investing in green

	buildings, the procurement team because we were relying on spend on things like renewable energy and sustainable cotton and timber and fish and things like that. So it felt like much more of a broader company team effort and it did take a little bit more time, as a result. (A) To get everyone up to speed; and then (B) just to sort of investigate all the different permutations of the bond internally. So, I think the lesson, for me anyway, is it's perfectly doable but you do need to allow a little bit more time, you need to get everyone on board with what you're doing and why and explain the advantages to people. But it's perfectly doable, it probably added around two weeks, I'd say, to a plain vanilla bond. So, if we wanted to raise the same funds in a real hurry, I would think this is a plain vanilla stand-alone is probably easier but I certainly think that, you know, what we did was doable in a relatively short period of time, but it did require greater coordination internally.
Jennifer Sadek	Yeah, and as we have touched on I think it is coming out that there is obviously a bit more work involved with the green framework and generally more personnel involved if you are issuing an ESG bond as opposed to your plain vanilla stand alones. But, after the issuance, as the issuer have you felt that the benefits of issuing the green bond have outweighed the kind of additional complexity and time requirements for doing so?
Chris Vaughan	Yes, I do think that actually. I think it's definitely been an endorsement of our sustainability programme. Obviously as I mentioned earlier, we have got a little bit of a margin advantage. It has also had the impact internally of creating a bit more interest in a bond issue. You know we spent quite a lot of time explaining what it is we have done, what we're going to spend the money on and that also has generated more interest in our sustainability programme because we're just highlighting things like, you know, we're spending a lot of capital on environmentally-friendly buildings, for example, which I don't think people necessarily knew before. So, I think yes it's a little bit more process, yes it's a bit more complex but I think it is an endorsement of our programme both internally, and externally. And it's, you know, it's had a little bit of a margin advantage. So, I definitely believe that the benefits outweigh the additional complexity and any additional time requirements, and I would do it again, as long as we've got time.
Jennifer Sadek	Well that all sounds very positive. It's good to hear that you think the work was worthwhile and I think that's probably answered my last question which was whether or not you thought there was going to be future green bonds and ESG products for Whitbread?
Matthew Tobin	Thanks Chris and thanks for all of your insight and it's been really helpful to hear. I think my sort of key takeaways are, sort of first, your benefitting doing this from a really strong framework in the process and lots of work that you done before and a really supportive board and

	that's sort of put you in a very good position. Second, there was a further process involved in terms of the work with the second party opinion provider, Sustainalytics, and in terms of the framework, and that added a little bit to the process for the green bond that wouldn't have been there otherwise for a vanilla bond. But I suppose third, the most important thing, is the points that you were making just now in terms of the interest that that's generated for you both, within Whitbread, and also externally with investors. And the pricing advantage meant that actually it's something which you regarded as being a big success and would think about doing again. Did you have anything more that you'd add?
Chris Vaughan	No, I think that's a really good summary. I definitely regard it as a success and I'd definitely consider doing it again. I think, as you said, you do need to be prepared, you need to have a decent sustainability framework and you need to think about how the use of proceeds can fit within that. You do need to add a little bit more time. It is a team effort and you need to include other people within the organisation who can help you and the roadshow is a little bit more complex than it otherwise might be as well, because you have to allow for time and questions on different elements of the framework so, in our case, you know the use of proceeds and how we are going to spend the money. But, overall, I thought it was a really well worthwhile process and I would definitely recommend if you're, certainly for people to think about it, and take some advice on it because I think it's been beneficial for us as a company as a whole.
Jennifer Sadek	Well thank you both and particularly, thanks Chris for joining us today. And equally thank you everyone for listening. We hope that you find this podcast insightful and if you do have any questions or would like further information on green bonds or ESG products generally, please do get in touch with Matthew or your usual Slaughter and May contact.

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