Bowie Bonds

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Bowie Bonds are asset-backed securities of current and future revenues of the first 25 albums (287 songs) of David Bowie's collection recorded before 1990. Issued by David Bowie in 1997, they were bought for $55 million by the Prudential Insurance Company. The 287 included songs also acted as collateral to insure the bond. The Bonds were a ten-year issue, after which the royalties of the songs would return to David Bowie. By forfeiting ten years worth of royalties, Bowie was able to receive $55 million up front, which allowed him to buy out the rights to the David Bowie songs owned by a former manager. David Bowie now owns the rights to every one of his songs.

The Bowie Bond issuance was perhaps the first instance of intellectual property rights securitization. The securitization of the collections of other artists, such James Brown, Ashford & Simpson and the Isley Brothers, later followed. These Bonds are named Pullman Bonds after David Pullman, the banker who pushed the original Bowie deal.

Bowie Bonds offer a rich 7.9% yield; however, this is not without risk. In March 2004, Moody's Investors Service lowered the bonds from an A3 rating (the seventh highest rating) to Baa3, one notch above junk status. This downgrade was prompted by lower-than-expected revenue "due to weakness in sales for recorded music." A downgrade to an unnamed company that guarantees the issue was also cited as a reason for the downgrade. The success of Apple's iTunes and other legal online music retailers has led to a renewed interest in Bowie and Pullman Bonds. At this time, Bowie Bonds are not available to individual investors.

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Care to Buy Some David Bowie Bonds?

In Europe, securitization is the hottest way to raise cash
Rock star David Bowie did it. Madame Tussaud's wax museum has done it, too, and so have hospitals, credit-card issuers, and the folks that bring you the World Cup. What is it? Securitization. That's a way of hedging financial bets--and raising fast money--by bundling assets and selling bonds backed by current and future revenue from those assets. Once a financial strategy pretty much confined to the New World, it has caught on big-time in the Old. Europe in the past few years has become a hotbed of securitization, as companies from London to Rome look for innovative ways to tap the financial markets.

Indeed, securitization has never been more popular, as banks become increasingly skittish about lending money in today's volatile capital markets. On Feb. 12, British property developer Canary Wharf Group PLC issued $1.8 billion in bonds backed by rental income from the company's portfolio of office blocks--including four buildings still under construction--in London's Docklands. It's the fifth time in as many years that Canary Wharf has tapped the securitization market, raising a total of $5 billion. The proceeds have gone to fund development, repay construction loans, and even return cash to shareholders. "Securitization lets us more effectively manage our balance sheet," says Canary Wharf's managing director of finance, Peter Anderson. "There's also a substantial pricing advantage."

Canary Wharf is just one of hundreds of companies jumping into the game. Last year, the European securitization market grew 54%, with $117 billion in bonds issued. This year, new issuance is likely to exceed $155 billion, according to Deutsche Bank. Once the sole province of banks that bundled mortgages and credit-card debt, securitization has become a favorite financing tool for a broad range of companies, including telecoms, utilities, and retailers. Companies benefit because they can often raise money at better rates than those offered by banks or the unsecured bond market.

In Europe, worsening economic conditions and rising debt levels are fueling the market's growth. For companies and even governments with assets generating predictable revenue, "securitization is a highly efficient way to lock in long-term financing," says Ravi Joseph, head of European securitization research at Morgan Stanley Dean Witter & Co. in London.

These days, anything is fair game for securitization. In the past three years, Telecom Italia has securitized future receipts from telephone bills, London's Madame Tussaud's has securitized future admissions, and the international football federation, FIFA, has sold bonds backed by sponsorship revenues from this year's World Cup. David Bowie's 1997 deal was a typical one: He securitized the future royalties to his music, netting himself a cool, quick $55 million--though it means he will lose the revenues from 300 of his songs.

Here's the way a securitization deal works: Rights to the assets are sold to a specially created company, which issues bonds backed by those assets. By separating the credit from the original owner--who can no longer use the assets for his own purposes--the new company earns a higher credit rating, allowing it to raise money more cheaply.

The surge in demand for securitized bonds is welcome news for investment banks in Europe, which have seen an income drought from initial public offerings and mergers. The banks are pouring resources into the area in hopes that securitization will open the floodgates to all sorts of other fee-generating deals, including leveraged buyouts, acquisitions, and advisory services. A decade ago, Morgan Stanley had four people doing securitization in London. Today, there are more than 50. Rivals Citigroup and Credit Suisse First Boston have seen the same growth. Others are quickly getting into the act. Goldman, Sachs & Co. recently poached Citigroup securitization honcho Bill Young to co-head its own structured finance team. The securitization market, he says, "has been stimulated by increased investor interest."

One prime target of the securitization push: European telecoms, which are so debtridden they are having trouble raising funds at reasonable rates by conventional means. Last year, British Telecom securitized rental cash flows from commercial properties it owns, raising $2.5 billion. France Telecom, Deutsche Telekom, and Telecom Italia all have securitization deals in the pipeline for later this year.

European Union governments are also expected to tap the market in the coming year. The Italian government did three big deals in 2001, securitizing future lottery revenues, government property rentals, and delinquent social security contributions, in the process raising a total of $6 billion. Indeed, Dresdner Kleinwort Wasserstein predicts that Eastern European countries will use securitization to bring down their debt levels in order to qualify for entry into the EU.

That kind of creative financing, of course, ought to set off alarm bells. Analysts worry that the securitization craze could get out of hand. The rule of thumb within the industry is that no company or government agency should securitize more than 20% of its assets. But, says Ganesh Rajendra, director of European asset-backed research at Deutsche Bank in London, Europe has a long way to go before reaching that saturation point. Moreover, the independent rating agencies are watching the trend closely. "As with any financing innovation, companies need to be cautious that it doesn't weaken their balance sheet," says Cliff Griep, chief credit officer for Standard & Poor's in New York.

Until some watchdog agency reins them in, however, the securitizers will continue to flourish. At least for now, the only obstacle to the market's growth is the creativity and imagination of the investment bankers driving it.

By Kerry Capell in London