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Money & Investing

WorldCom's Offering Draws Buyers Despite Telecom Woes

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It might seem like the worst possible time for a company in the troubled telecommunications business to sell bonds. But that didn't stop **WorldCom** Inc. from pulling off a record-breaking $11.9 billion bond offering.

What gives? While investors may be dumping stocks and bonds of telecom upstarts as more miss their debt payments, they're still eager to invest in a company like WorldCom that has real assets and earnings, not to mention bonds that have an investment-grade rating. And investors are betting WorldCom will emerge as one of the survivors of the painful shakeout in the telecommunications industry.

[1] **Credit Markets Thursday:** Strong Employment Report Sends Treasury Prices Lower

[2] See more information on bond trading from Briefing.com.

But WorldCom was forced to pay a hefty interest rate to pique interest in the bonds, a sign of the dramatic shift in sentiment by investors toward a sector dealing with staggering amounts of debt.

The bond sale -- the largest on record by a U.S. corporation and the third-biggest deal by any company -- comes as WorldCom is dealing with heavy debts and a weakened stock price. Shares of the Clinton, Miss., company traded at almost $50 a share last July, but closed at $18.29 Wednesday, up from $13.50 in December.

But investors were eager to get in on the issuance, in part because it sported the juicy interest coupon. The different maturities of bonds sold Wednesday have an average interest rate of 7.6%, with the 30-year slice selling at a yield of 8.25%, a hefty 2.59 percentage points above the 30-year Treasury yield of 5.660%.

The rate WorldCom is paying is 0.50 percentage point higher than the yield on its bonds compared with comparable Treasurys one year ago, and it's more than a full percentage point higher than rates on bonds of companies with a higher investment-grade credit rating, such as **Verizon Communications** Inc.

DEBT DELUGE

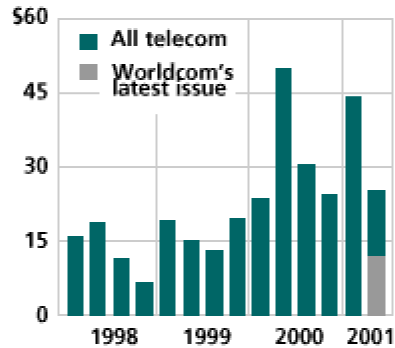
WorldCom launches a big deal...

Leading U.S. corporate-debt issues

Date	Issuer	Total amount (in billions)
May 9, '01	WorldCom	$11.9
July 9, '99	Ford Motor Co.	8.6
March 23, '99	AT&T Corp.	8.0
Jan. 11, '01	DaimlerChrysler	6.6
March 1, '01	AT&T Wireless Srvcs.	6.5
May 12, '89	RJR Holdings Capital	6.1
Aug. 6, '98	WorldCom	6.1
July 10, '00	AT&T Corp	6.0
July 26, '00	Ford Motor Credit	6.0
April 18, '01	Morgan Stanley	6.0

On the heels of a surge in telecom debt

Global corporate-debt issuance, telecom deals, in billions



Source: Thomson Financial

"The company has problems on its long-distance side, but their data side is doing great, and the pricing of the bonds was very, very attractive," said Michael Kennedy, a portfolio manager at Stein Roe Mutual Funds, which purchased WorldCom bonds Wednesday. "They're raising their debt levels a bit, but that's not alarming to us. We think we're toward the tail end of the big debt raising of the telecom providers, so just about the worst is over."

The company is using the money from Wednesday's bond sale to pay down $3.1 billion of debt maturing this year, and will use another $6 billion of the deal to pay off short-term commercial paper, making Wednesday's deal mostly about refinancing at a slightly higher interest rate.

But the remaining $2.8 billion will be used to help expand the company's businesses. As such, it will add to WorldCom's debt load, which stood at almost $27 billion as of March 31.

The company has sizable debt payments to meet and is still investing heavily in its businesses. WorldCom expects to shell out about $8 billion in capital expenditures this year, but will only generate $4 billion from operations, according to analysts. While the $2.8 billion from Wednesday's bond sale will go a long way toward bridging that gap, the company will likely go back to the commercial-paper market later this year to issue more debt to make up the difference, according to Phillip Olesen an analyst at UBS Warburg LLC. The company has told investors the cash gap might be smaller than analysts expect.

At its peak later this year, the company's debt will likely amount to 2.5 times cash flow, or its earnings before interest, taxes, depreciation and amortization, according to Mr. Olesen. That's a much higher figure than that of the Baby Bells but lower than most others in the telecom industry, a sign that WorldCom can handle its debt payments, according to Mr. Olesen. And because investors have been hesitant to buy commercial paper from companies such as WorldCom that don't boast top ratings in that market, investors applauded the company's goal of reducing exposure to the commercial paper market.

More promising: By the end of next year the company is expected to be in a position to start reducing its debt. Further, the company said it is seeing signs that telecommunications prices are stabilizing, and some are even rising somewhat.

"We don't see a slowdown in our businesses," said Susan Mayer, WorldCom's treasurer. "We're so confident about our strategy that we are comfortable taking on the debt and servicing it."

Speculation that WorldCom could be acquired by a strong telecom provider in the next year or so also boosted the appetite for the bonds, although no deal seems currently on the horizon. The bonds rose in price following Wednesday's early afternoon deal. And unlike some recent big bond sales by global telecom providers, WorldCom didn't have to offer investors additional interest payments in the event that WorldCom's bond rating gets downgraded to a lower credit rating.

"Companies like AT&T are deleveraging, and this company is adding debt; but the bad news is out there already, and they'll be one of the survivors and could benefit from consolidation," argued Marion Boucher Soper, an analyst at Bear Stearns.

WorldCom has been struggling over the past year with sluggish revenue growth in its core long-distance business. The company, a former Wall Street darling, has seen its robust profit margins eaten away by falling long-distance prices, a slew of new competitors -- including the regional Bell phone companies -- and the advent of new technologies, such as wireless, for traditional phone calls. WorldCom is in the process of splitting some of its slower-growing businesses, including its consumer long-distance unit, into a tracking stock.

The company plans to focus on sales of high-growth services, such as Web hosting applications, to corporate customers. Sales of the company's data services haven't been as strong as some industry observers expected, however. Daniel P. Reingold, an analyst with Credit Suisse First Boston, said in a research note Wednesday that WorldCom's first-quarter sales of data and Internet grew at slower rates than he had been anticipating.

WorldCom executives were upbeat, however, pointing to the success of the bond deal as evidence that the tide may be turning.

"Investors have a high degree of confidence in our business and future," said Ms. Mayer. The reception to the bond deal "is a precursor to what we'll see in the equity markets."

-- Deborah Solomon contributed to this article.

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