A Proposed Strategic Capital Architecture for the Acquisition of DB Schenker

Prepared for: Mizuho Investment Banking Committee

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1. Transaction Context The Core Problem

The Seller's Motivation: The divestment of DB Schenker is a strategic imperative for Deutsche Bahn AG. Analysis of DB Group's H1 2024 results reveals a core rail business operating at a significant loss (-€1.2 billion EBIT), propped up by government equity injections. Schenker, in contrast, is a highly profitable, non-core asset (+€520 million EBIT). DB Group is monetising its crown jewel to fund the survival and restructuring of its core national railway business. This confirms they are a committed seller. **The Buyer's Profile:** DSV A/S is a world-class serial acquirer. Its "Flywheel" business model is a disciplined cycle: acquire a target, apply superior operational controls to extract synergies, generate cash flow, deleverage, and repeat. This operational excellence is DSV's core competency. **The Core Problem:** This transaction creates a fundamental conflict. DSV, a company whose identity is built on operational control, is about to take on a level of debt that will elevate its pro-forma leverage to over 3.0x. This immediately triggers a "Negative" credit outlook from S&P, placing the company at the mercy of volatile public capital markets. A standard financing approach—a 12-month bridge loan followed by an immediate public market take-out—would force DSV to issue permanent debt and equity from a position of maximum weakness, destroying value. Our strategy is designed to resolve this conflict. We must provide a financing structure that insulates DSV from the capital markets long enough for its proven operational model to strengthen the balance sheet.

2. Executive Summary: An Operations-First Financing Mandate

The acquisition of DB Schenker is a transformative, but financially stretching, transaction for DSV. Our analysis leads to a critical conclusion: a financing strategy reliant on large-scale, near-term public market transactions is unfeasible due to the "Negative" outlook assigned by S&P to DSV's credit rating. This proposal therefore pivots from a standard "capital markets first" approach to an "operations first" financing mandate. The core of this strategy is to provide DSV's management with a stable, multi-year financing runway, defined by the absence of a near-term refinancing deadline. By locking in committed funding that extends beyond the 18-24 month period required to integrate an asset of this scale, this structure removes all immediate refinancing pressure. This allows the team to focus exclusively on the operational integration of Schenker and the rapid cash flow generation required to deleverage the balance sheet. We believe the most intelligent and executable plan is one that provides DSV with what it truly needs: time and stability.

3. The Financing and Deleveraging Path

Our proposed solution is a sequence of integrated financing and advisory actions, structured in three phases.

Phase 1: Closing Integration (Months 0–36)

The immediate objective is to provide 100% of the acquisition financing through a single, stable facility. This removes all near-term refinancing pressure and allows management to focus entirely on the operational integration of Schenker. Our Loan Capital Markets (LCM) team proposes an **£11 Billion, 3-Year Underwritten Term Loan Facility.** A 3-year term is specified to directly align the financing timeline with the operational timeline required to integrate Schenker and secure a revision of the S&P outlook back to "Stable." The facility will be structured with a covenant-lite package to provide operational flexibility, but with a pricing grid that ratchets down as DSV achieves specific deleveraging targets, contractually rewarding performance. Mizuho will lead a club of 5–6 core relationship banks to underwrite the full amount, de-risking the syndication and ensuring deliverability. Our Derivatives Risk Solutions (DRS) team will provide an integrated hedging solution at closing. Structuring the Term Loan in Euros provides the most efficient primary hedge against the EUR-denominated acquisition payment, eliminating the need for a costly and complex deal-contingent forward. The associated **Interest Rate Swap** on a facility of this size will be executed in a phased approach to minimise market impact and provide the cost certainty to which DSV's management is accustomed.

Phase 2: The Deleveraging Plan (Months 0–36)

While the Term Loan is in place, we will actively support and accelerate DSV's operational deleveraging using tools that unlock internal cash flow without resorting to public markets. Our Leveraged & Corporate Finance advisory capacity will be crucial here. The Term Loan will include a **mandatory cash flow sweep mechanism**, contractually dedicating 50-75% of Excess Cash Flow to debt repayment. This is an essential component of the structure that guarantees operational success is immediately channelled into deleveraging, providing a clear and predictable repayment path for the lending syndicate. In parallel, our Structured Finance Solutions (SFS) team will implement a **Trade Receivables Securitisation Programme**. This is an off-balance sheet financing mechanism. We will help DSV establish a Special Purpose Vehicle (SPV) to purchase a revolving pool of high-quality German trade receivables from Schenker. The SPV funds this purchase by issuing Notes. The cash proceeds from the sale of receivables to the SPV are immediately available to DSV for a one-time, material paydown of the Term Loan. A c. £1.5B programme represents a 10-15% reduction in the loan balance, funded entirely from internal assets, and actively improves the credit profile for rating agencies.

Phase 3: The Objective - Accessing Public Markets from a Position of Strength (Months 24–36)

This is the planned final act. The actions in Phase 1 and 2 are designed to engineer a smaller, cheaper, and less dilutive refinancing. Once operational success has improved the credit profile and the S&P outlook is "Stable," we will help DSV tap the public capital markets. The Debt Capital Markets (DCM) team will execute a multi-tranche **Eurobond package** to refinance the remaining Term Loan. After 24+ months of contractually-enforced deleveraging, DSV's credit metrics will have tangibly improved. The narrative for the bond market will therefore be a testament to a proven track record of execution. This allows us to market the bonds on a forward-looking basis, achieving tighter pricing than would be possible today. The Equity Capital Markets (ECM) team will then advise on a c. **£2 Billion Accelerated Bookbuild (ABB)**. An ABB is the optimal instrument to project a narrative of a confident, re-energised DSV. The overnight execution demonstrates strength and control, aligning with the "re-arming the DSV Flywheel" story. The investment proposition will be compelling: management was sufficiently confident in the standalone business to repurchase shares immediately prior to this transaction, and the balance sheet has been strengthened through operational cash flow. This new capital is therefore positioned as funding for future growth, rather than for the remediation of past liabilities. A protracted rights issue would signal weakness, while a complex convertible bond is misaligned with DSV's clean equity story. Finally, the DRS team will implement a **"Rolling" Cross-Currency Swap Programme**. With permanent Euro-denominated bonds on its DKK-functional balance sheet, DSV will have a long-term translation risk. DRS will provide ongoing strategic advice, executing a series of smaller, liquid EUR/DKK swaps to allow DSV's treasury to dynamically manage its FX exposure.

4. Conclusion

This proposal constitutes a single, integrated execution plan rather than a menu of options. It is a cohesive strategy that de-risks the acquisition by aligning the financing directly with DSV's core operational strengths. We are providing a structure that allows our client to succeed on their own terms, establishing this as the most prudent and deliverable strategy.