McDonald's Deal Sets Low for Bond Interest Rates

By CHRIS DIETERICH

McDonald's Corp. raised $750 million in the bond market Wednesday, paying what its deal manager said was the lowest interest rate of any U.S. company in at least 15 years and illustrating how competition among yield-hungry investors is driving down borrowing costs.

The fast-food giant sold $450 million of 10-year bonds and $300 million of 30-year securities. The 10-year debt pays investors an interest rate of 3.5%, lower than any interest rate paid by a U.S. company since at least 1995, according to data compiled by Bank of America Merrill Lynch, which helped manage the McDonald's sale.

McDonald's sold the 30-year bonds at an interest rate of 4.875%, a level that ties the record set by Wal-Mart Stores last month, BofA said. Many corporate borrowers find the low rates on offer to be irresistible. Some are raising cash in the market even though they have no immediate need for the money.

"It's opportunistic financing," said Dan Mead, a managing director in Investment Grade syndicate at Bank of America Merrill Lynch. "They've all come to market to take advantage of these rates."

Companies are benefiting because their interest rates are tied to yields on Treasury securities, which are also at record lows. Borrowers, however, are finding bond buyers even at these levels. Investors placed $8 billion of orders for the McDonald's offer, for example, and then bid up the price of the bonds in the secondary market.

Analysts said they could not help but recommend the high-quality bonds even if they had reservations.

"We don't generally approve of buying a company's bonds before it has released its balance sheet and cash-flow statement for the latest reported quarter," said Carol Levenson, an analyst at Gimmie Credit, an independent credit research firm. "But [McDonald's] seemingly can get away with murder, given its strong operating performance, stable cash flow and low leverage."

A McDonald's spokeswoman said earlier that the company found the borrowing market attractive. Calls seeking comment about the record rates were not returned.
Kimberly-Clark Corp. tied the previous record for the lowest 10-year borrowing rate Monday when it sold $250 million worth of 10-year notes at 3.625%, matching Wal-Mart's rate in late June. The four lowest 10-year bond interest rates and the two lowest 30-year bond interest rates have all come in deals over the last 30 days.

Union Pacific Corp. had the lowest ever 10-year bond rate by a rail company Wednesday when it sold $500 million in bonds at 4.00%, a tie for the eighth lowest among corporate borrowers on record.