Disney Amazes Investors With Sale of 100-Year Bonds
By Thomas T. Vogel Jr.

NEW YORK -- The corporate race to lock in low credit costs hit a fever pitch as Walt Disney Co. began marketing the first 100-year bonds to be sold by any borrower since 1954.

Bond traders were stunned to hear that the entertainment concern is expecting to sell $150 million of 100-year bonds at a yield of only about 7.5%, barely 0.95 percentage point above 30-year U.S. Treasury bonds.

"It's crazy," said William Gross, head of fixed-income investments at Pacific Investment Management Co. Noting the ups and down of the entertainment industry, he said: "Look at the path of Coney Island over the last 50 years and see what happens to amusement parks."

"Obviously we're going through a phase in the market where everyone is pushing the envelope where they can," said Glenn Murphy, chief investment officer of Travelers Asset Management Inc. The Disney issue will turn out to be a "historic artifact, a curiosity," he said.

Disney's bond issue may not really be around for a century. It can be called away from investors by the company after 30 years. But demand for the issue is said to be brisk and there is even some talk that the offering size might be increased.

The 100-year buyers are expected to be the usual flock of pension funds, insurers and financial advisers, according to Mark Seigel, head of corporate underwriting at Morgan Stanley & Co., which will lead the underwriting. Merrill Lynch & Co. will co-manage the deal.

While 100-year bonds are rare, they seem a fitting climax to a recent flurry of very long-dated corporate bonds. So far this year, five companies have sold 50-year bonds for a total of $1.13 billion. Last year one company sold 50-year bonds, and before that, none had sold such long-dated securities in decades.

Demand for such long-dated bond issues has grown in recent months because investors, sick of measly returns, are becoming more willing to shoulder greater risks in return for higher yields, even marginally higher ones as in the case of the Disney bonds.

Utility Duke Power Co. sold 40-year first and refunding mortgage bonds yesterday that were priced to yield 7.267%; the bonds are noncallable for 10 years.

In the Treasury bond market, the yield on the benchmark 30-year bond rose slightly to 6.55% from 6.54% Monday.

"People are chasing higher yields," said Pacific Investment's Mr. Gross. "From a buyer standpoint, it doesn't make any sense" to buy a 100-year bond, he said. "From an issuer standpoint," it does make sense to lock in a low yield for a century.

According to Mr. Seigel of Morgan Stanley, an institutional investor approached his firm about a week ago with a request for 100-year corporate bonds. Apparently the investor, whom Mr. Seigel wouldn't identify, wanted to lengthen the average maturity of his holdings in order to counterbalance short-term holdings.

Morgan Stanley offered to find an issuer for the investor and came up with Disney. In Burbank, Calif., Disney officials declined to comment yesterday on the bond sale.

Investors buying a 100-year Disney issue will need to have "a lot of confidence in the longevity of Mickey Mouse," said John Lonski, senior economist at Moody's Investors Service Inc. Disney's French affiliate Euro Disney ran into disappointing attendance almost from its opening.

The bonds are expected to carry the same ratings as other Disney long-term debt, according to Morgan Stanley officials. Moody's has rated that debt double-A-3 and Standard & Poor's has rated it double-A-minus.

The first company to be founded in what has grown to be Walt Disney was Disney Brothers Studios, which was founded in October 1923, or 70 years ago, according to a Disney spokeswoman.

There are a handful of 100-year bonds from other companies still outstanding, according to Mr. Lonski of Moody's. Most of them carry coupons of 5% or less.

The last 100-year issue came in 1954 from

Chicago & Eastern Illinois, a railroad, according to Morgan Stanley. According to Moody's Bond Record, a compendium of bonds outstanding in the U.S., the Chicago & Eastern issue carries a 5% coupon and isn't callable until May 1, 2054. This means that for much of the life of the bond, it has yielded less than what investors could have found among newer issuers.

According to an analysis prepared by Morgan Stanley and sent to a number of potential investors in the Disney issue yesterday, even a small move up in interest rates over the life of the bond could mean significantly lower returns. It says that if long-term yields, like that of the 30-year Treasury bond, were to rise one percentage point, investors in the Disney bond would have a total return of negative 4.19% over the next year. If long-term rates were to fall one percentage point, however, the return would be nearly 23%.

The analysis does not take inflation into consideration. In statements to a House Banking subcommittee yesterday, Federal Reserve Chairman Alan Greenspan said that investor enthusiasm for the recent flood of new 50-year bonds "may be read as one indication that some investors once again believe that inflationary pressures will remain subdued."

But the longer the maturity, the more susceptible a fixed-income bond is to the ravages of inflation. Take a 90-year bond issued by the Atchison Topeka & Santa Fe Railway in 1908. That bond carries a coupon of 4%, just barely above inflation now, but far below inflation for much of the past two decades. The bonds still exist, but investors aren't eager to own them.