

PENSIONS ADVISORY

DB PENSIONS IN MERGERS AND ACQUISITIONS



DB pension obligations can make or break a transaction, and we provide insightful, concise and pragmatic transaction advice

THE TEAM

The BDO Pensions Advisory team consists of 11 people located throughout the UK.

All senior team members have worked exclusively in pensions advisory since the inception of the current pension funding regime in 2005.

The accountancy, corporate finance, restructuring and actuarial backgrounds within our team gives us a deep understanding of the impact of a corporate transaction on the DB pension obligations.

DB OBLIGATIONS IN TRANSACTIONS

Many investors have historically disliked, or even dismissed, acquiring entities with DB pension obligations. Times are starting to change. More investors are seeing the pension obligation as a debt like any other, which can be understood and managed. Furthermore, if managed correctly, this debt can create value during a shareholders period of ownership.

DB pension obligations should not necessarily scupper transactions, but they should be a pricing consideration. DB pension obligations do, however, bring a different type of risk into a business than you may be used to. Understand and embrace it where appropriate and differentiate yourself from many of your competitors in order to find a potential additional source of returns.

SERVICE LINES

At purchase

- Diligence on the DB pension obligations of the target.
- Assisting with understanding and quantifying the risks and pricing the DB pension obligation correctly in the company valuation.
- Advising on negotiations with the vendor, the scheme trustees and the Pensions Regulator, if required.

During ownership

- Advising on options to manage the deficit over the ownership period.
- Preparing for sale, both in terms of the scheme and the company's reporting of the financial position of the scheme.

At sale

- Carrying out vendor due diligence on the DB pension obligations.
- Assistance with any Information Memorandum.
- Advising on, and assisting with, negotiations with the pension scheme trustees and the Pensions Regulator, if required. This may include negotiating a memorandum of understanding between the company and the trustees, in relation to the future funding of the scheme following a transaction.
- Advising on negotiations with bidders in order to obtain the best possible price for the business, which typically means the lowest possible Purchase Price Adjustment for the pension scheme.

“Having the BDO Pension Advisory Team advising us, we have been able to refinance, restructure and dispose of a number of key business units against a backdrop of complex pension issues”

JOHN HUBBLEDAY
Head of Pensions M&A
+44 (0) 207 893 2256
john.hubbleday@bdo.co.uk

MATTHEW GIBSON
Partner
+44 (0) 207 893 2845
matthew.gibson@bdo.co.uk

ANDY PALMER
Partner
+44 (0) 161 817 7626
andy.palmer@bdo.co.uk

PENSIONS M&A CASE STUDIES

PROJECT OASIS - SELL SIDE

The company is a provider of water services, with a 3 year strategic plan to transform itself from an asset rich, cash poor, highly indebted business, into an internationally focused group with improved liquidity, lower cost base and an affordable pension obligation. BDO acted for the company in the following areas:

1. The pension aspects of the Company's restructuring;
2. Preparation of a vendor due diligence report on the pension scheme as part of the sale of one of the divisions;
3. Assisting with pricing and due diligence negotiations in order that our client could obtain best value (i.e. minimum Purchase Price Adjustment ("PPA") in respect of the Pension Scheme); and
4. Assisting with negotiations with the Pension Scheme Trustees in relation to the restructuring and the disposal, with particular emphasis on mitigation proposals (including an inter-creditor agreement), Scheme Apportionment, Regulatory Clearance and the transfer of certain tranches of pension liability as part of the disposal.

The restructuring and the disposal were completed, and a significant proportion of the Pension Scheme liabilities were also transferred to the acquirer and the PPA was agreed based on the existing Scheme Funding assumptions.

PROJECT THISTLE - BUY SIDE

BDO were appointed to advise one of the UK's largest logistics companies on the acquisition of a listed haulage operator which sponsored two UK Defined Benefit pension schemes.

BDO carried out Purchaser Due Diligence on the two schemes, which focused on the future cash requirements for the Schemes and a suitable range for the pension debt figure to include within the transaction value analysis. BDO also considered the accounting implications of the schemes, which was an important consideration for our client who was also listed.

Finally, we also presented our key findings to the Board and there was a robust debate between the Board members regarding the most appropriate pension debt figure, where BDO provided input by explaining the rationale for a number of key deficit figures e.g. accounting, Scheme Funding and buyout.

PROJECT PEARLS - SELL SIDE

We were engaged to provide pensions related M&A advice to a Dutch, private equity owned packaging group, in relation to a proposed MBO of its UK sub-group on a pension free basis.

We identified a range of potential financial structures and proposed employer covenant mitigation packages capable of replacing the employer covenant which had been provided to the schemes via the UK sub-group. The group put forward a proposal to the trustees of the group's two DB schemes which included a parent company guarantee for the full buyout deficit.

Subsequently the private equity owners wanted to sell the group. In preparation for the sale, we worked with the group to agree a Memorandum of Understanding ('MoU') between the group and the pension scheme's Trustee in relation to the future funding of the two schemes. This MoU included the assumptions which would be used for the valuation and the resulting funding position and cash contributions which would be paid under different post-transaction leverage scenarios.

As a result of the MoU, the purchaser agreed to a PPA in line with the future cash commitments to the schemes and very few questions were asked of management during the due diligence process.

PROJECT PEGASUS - SELL SIDE

BDO have carried out a number of pensions advisory roles for this client, including M&A advice. Our client received an offer for the company with a Purchase Price Adjustment ("PPA") to reflect the pension deficit, which was more than 30% of the company equity. BDO worked alongside the client's other M&A advisers to structure the transaction in a more efficient way, and negotiate a reduced PPA. We then assisted the Company and Purchaser in negotiations with the Trustees to achieve an appropriate ongoing cash funding obligation.

We were ultimately able to reduce the PPA to less than 15% of equity. The company have also now locked in a level of cash contributions which is sustainable and have started to more effectively manage and control their pension risk.

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