



The Actuarial Profession
making financial sense of the future

Pensions conference 2011
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Intangible asset securitisation

3 June 2011

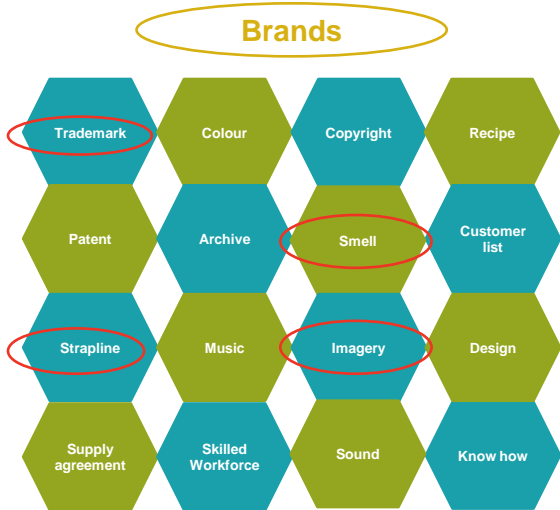
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Intangible assets

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1

Brands are an amalgam of IP

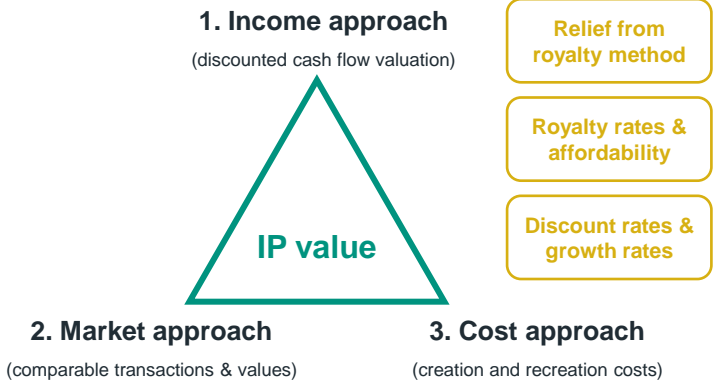


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How is IP valued?

- Tailored approach but generally three main methodologies are used:



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Suitability of intangible assets for pension schemes



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Using intangible assets for pension schemes

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How are assets typically used for pension schemes?

Charge over
asset

Provides security
but value is
contingent



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6

How are assets typically used for pension schemes?

Charge over
asset

Give asset to
scheme

Provides security
but value is
contingent

Provides upfront
value but Trustee
controls asset

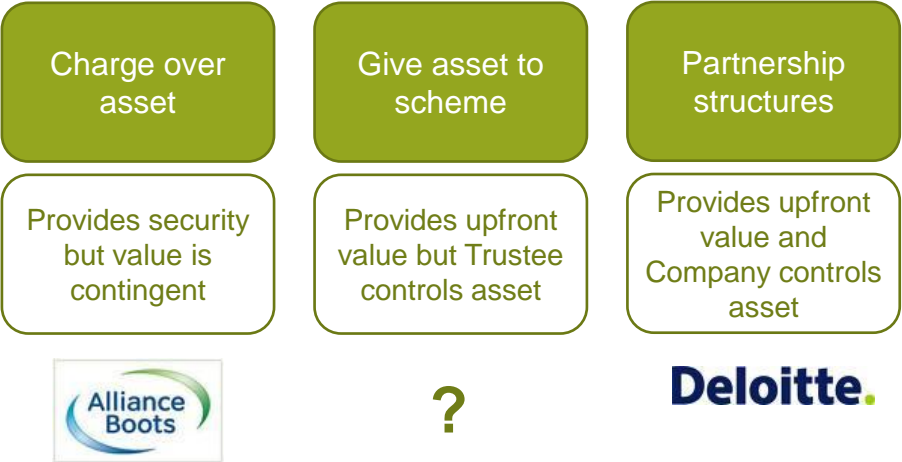


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7

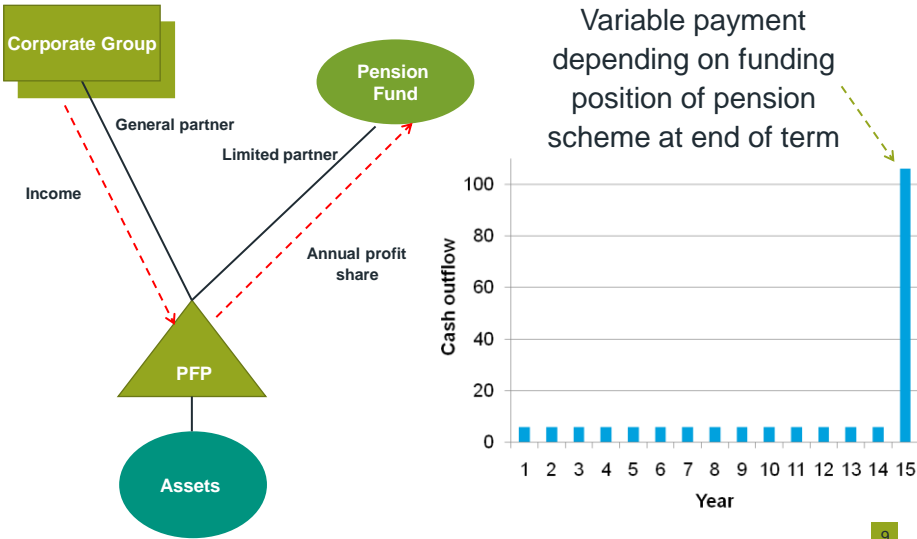
How are assets typically used for pension schemes?



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The Pension Funding Partnership (PFP) structure



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Asset considerations

	Property	Inventory	Subsidiaries	Receivables	Brands
Generates income	●	●	●	●	●
Ongoing value	●	●	●	●	●
Value on insolvency	●	●	●	●	●
Ease of managing income	●		●	●	●
Ease of reviewing/managing value	●	●	●	●	●

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12

Summary

- Could intangibles be the way forward?
 - Less companies owning property/land (e.g. Opco/PropCo structures)
 - Increasing use of intangible assets (e.g. for financial restructuring)
 - More intangible-based businesses
 - Increasing innovation in pension funding
 - Companies want to make use of their valuable assets
 - Companies want to preserve cash

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Case studies

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Case study: Company X, Y, Z

- The trustees and directors had sought a solvent compromise to the pension funding deficit
- Very short time frame to find a solution
- Company was in distress being unable to make loan repayments
- Distressed debt pushed the company into an insolvent position
- Trustees aware of a strong probability the pension fund would enter the PPF resulting in reduced benefits for members
- Company placed into administration either as a CVA or as a pre-pack with the pension fund as an unsecured creditor being left adrift of the company eventually entering PPF

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15

Case study: Company X, Y, Z

Key learning

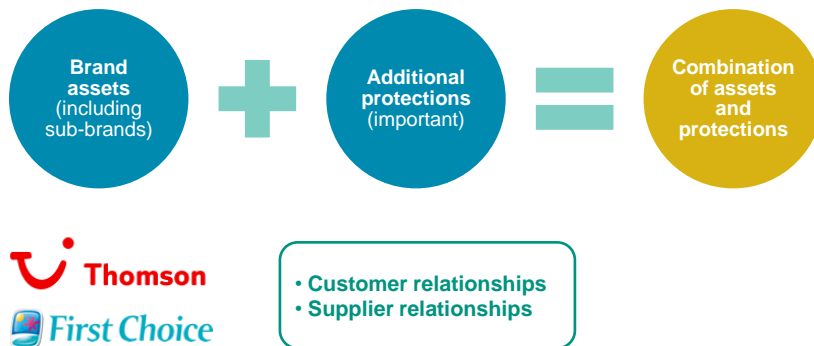
- From a trustee's perspective, where a company is struggling to manage its debt repayments the trustees should consider pre-empting the situation.
- There is an education process required for the owners of the company, advisers and the trustees.
- Putting in place a PFP is complex and time consuming even when dealing with a single group of trustees, as the company and the pension fund need to seek professional advice for legal, actuarial, investment, valuation, accounting and tax purposes.
- Company's burdened with debt operating in a difficult economic climate are vulnerable to distress events

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16

Case study: TUI Travel plc

- The pension deficit reduction strategy utilising brand assets was driven by the company

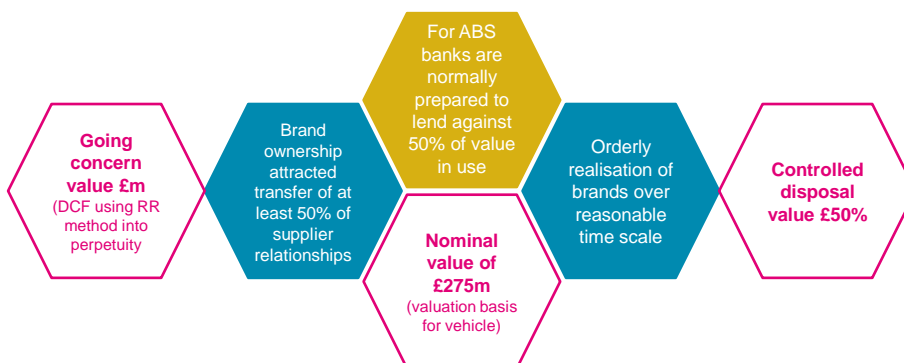


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Case study: TUI Travel plc

- Determination of going concern value vs. controlled disposal value



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Case study: TUI Travel plc

Key learnings

- Trustees did not initially understand the brand from a consumer behavioural perspective and had difficulty appreciating value in a distress scenario
- Deferred cash for immediate greater security of significance to trustees
- Defining the intangibles i.e. core and related assets
- Defining 'distressed value' in a managed controlled disposal (administration vs. insolvency)
- Importance of control mechanisms to monitor brand performance
- Ability to explain to the trustees the value of intangibles in a distressed situation
- From an investment point of view, investment advisers were not used to assessing risk on tailored specific non-liquid assets
- Involvement of a large number of professional advisers with differing perspectives has an impact on managing the project timeframe

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19

Questions or comments?

Expressions of individual views by members of the Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

