

FINANCE, INVESTMENT & RISK MANAGEMENT CONFERENCE

15-17 JUNE 2008
HILTON DEANS GATE, MANCHESTER

The market value of pension liabilities

- What is the “correct” way to price a defined benefit pension obligation?
- Do all market participants operate in the same way?
- If not, how do they differ and what opportunities does this present?

PSTS research – October 2005

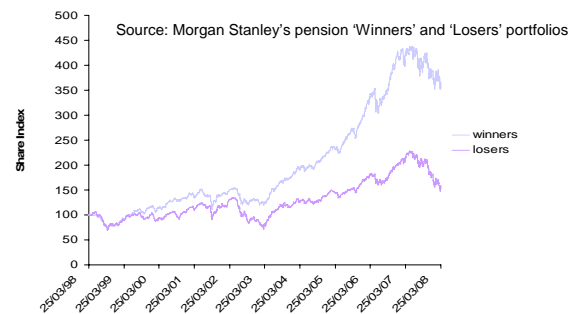
- Survey of private equity firms
- Review of academic literature
- Discussions with equity analysts and brokers
- Analysis of special situations
- Review of debt markets

Our findings

- UK private equity and debt markets treat a deficit as a debt, typically measured on an FRS 17 / IAS 19 basis
- UK public equity market places “too low” a weight on pension liabilities

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Winners and losers



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New PSTS survey

- Has the UK private equity market's view changed?
- Is the Pensions Regulator influencing behavior?
- What are the main concerns over pension obligations?
- When would buy-out become economically viable?

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Preliminary findings

- Pricing now above FRS 17 driven by
 - Clearance and “self-sufficiency”
 - Credit crunch
- Float remains the best exit for pension schemes
- Key concerns are mortality and regulatory creep
- 2/3rds of PE firms would consider if buy-out was cheaper than 120% of FRS 17

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Conclusions

- Pricing - no “right” answer
- Debt and equity markets price very differently
- Floating can raise the best price for a business
- Executives with share options can under-fund knowing the equity market will forgive a deficit but not a foregone dividend
- A deficit can be:
 - a barrier to a private equity takeover
 - a cheap and flexible form of debt

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References

- Our report can be found in full on our website at the following address:
http://www.pstransactions.co.uk/research_reports/FINAL_MV_PENSIONS_REPORT.pdf
- Results of latest survey will appear here in due course

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