

Valuations

Valuing Sponsor Support

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Speakers



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Our work in context

The holistic balance sheet (HBS) is a technique to identify and quantify on a comparable basis:

- a) the obligations under the supervisory regime of the IORP, including risk reserves; and**
 - b) the resources available to the IORP to meet its obligations**
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.....it includes all economic exposures to which IORPs are exposed, whether or not the elements would be on or off balance sheet in an accounting sense. (8.3.16)

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Commission would like the valuation of assets, technical provisions and other liabilities to be market consistent and based on sound economic principles. i.e made according to the 'fair value' principles adopted for Solvency II (8.3.22)

Applying the EIOPA methodology

1

Sponsor Support in the HBS – EIOPA definitions

Maximum Sponsor Support = Future wealth + Current wealth

$$\mathbf{M}_{\text{sscr}} = \text{Min} (\text{Lim} M_{\text{ss}} ; \sum_{t=1}^d i^t * (1 - p_{\text{def}})^t * EC_t + (\xi * z + y))$$

Market value = “Deficit” contributions + recovery on default

$$\mathbf{SS}_{\text{FV}} = (TP - A) \sum_{t=1}^d (1 - p_{\text{def}})^t \frac{1}{d} + (1 - p_{\text{def}})^{t-1} p_{\text{def}} \text{RR} \left[1 - \frac{t-1}{d} \right]$$

Source: *Quantitative Impact Study (QIS) on Institutions for Occupational Retirement Provision (IORPs), Technical Specifications*, European Insurance and Occupational Pensions Authority, dated 8 October 2012

“Maximum value” of Sponsor Support –EIOPA definition

Future wealth (discounted present value)	Current wealth
recovery plan contributions +	50% of shareholder funds +
33% of future company cash flows (average of last 3 years projected)	pension liability in sponsor’s balance sheet

For the purpose of the HBS:

Maximum Sponsor Support = Future wealth + Current wealth

Source: *Quantitative Impact Study (QIS) on Institutions for Occupational Retirement Provision (IORPs), Technical Specifications*, European Insurance and Occupational Pensions Authority, dated 8 October 2012

Illustrative example - “Maximum value” of Sponsor Support per EIOPA definition

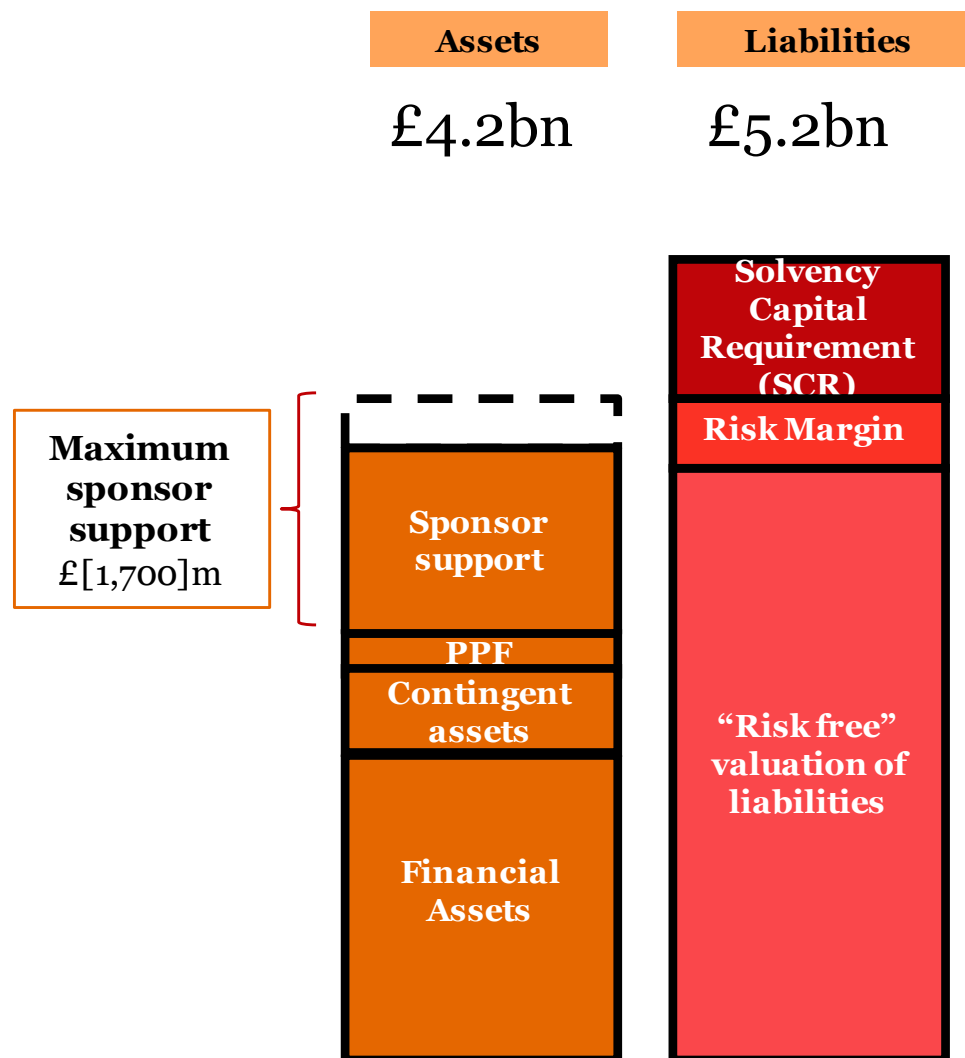
Future wealth (discounted present value)	Current wealth
recovery plan contributions £570m	50% of shareholder funds £400m
33% of future company cash flows £300m	pension liability in sponsor's balance sheet £400m
£870m	£800m

For the purpose of the HBS:

Maximum Sponsor Support = £1.7bn (£870m + £800m)

Source: *Quantitative Impact Study (QIS) on Institutions for Occupational Retirement Provision (IORPs), Technical Specifications*, European Insurance and Occupational Pensions Authority, dated 8 October 2012

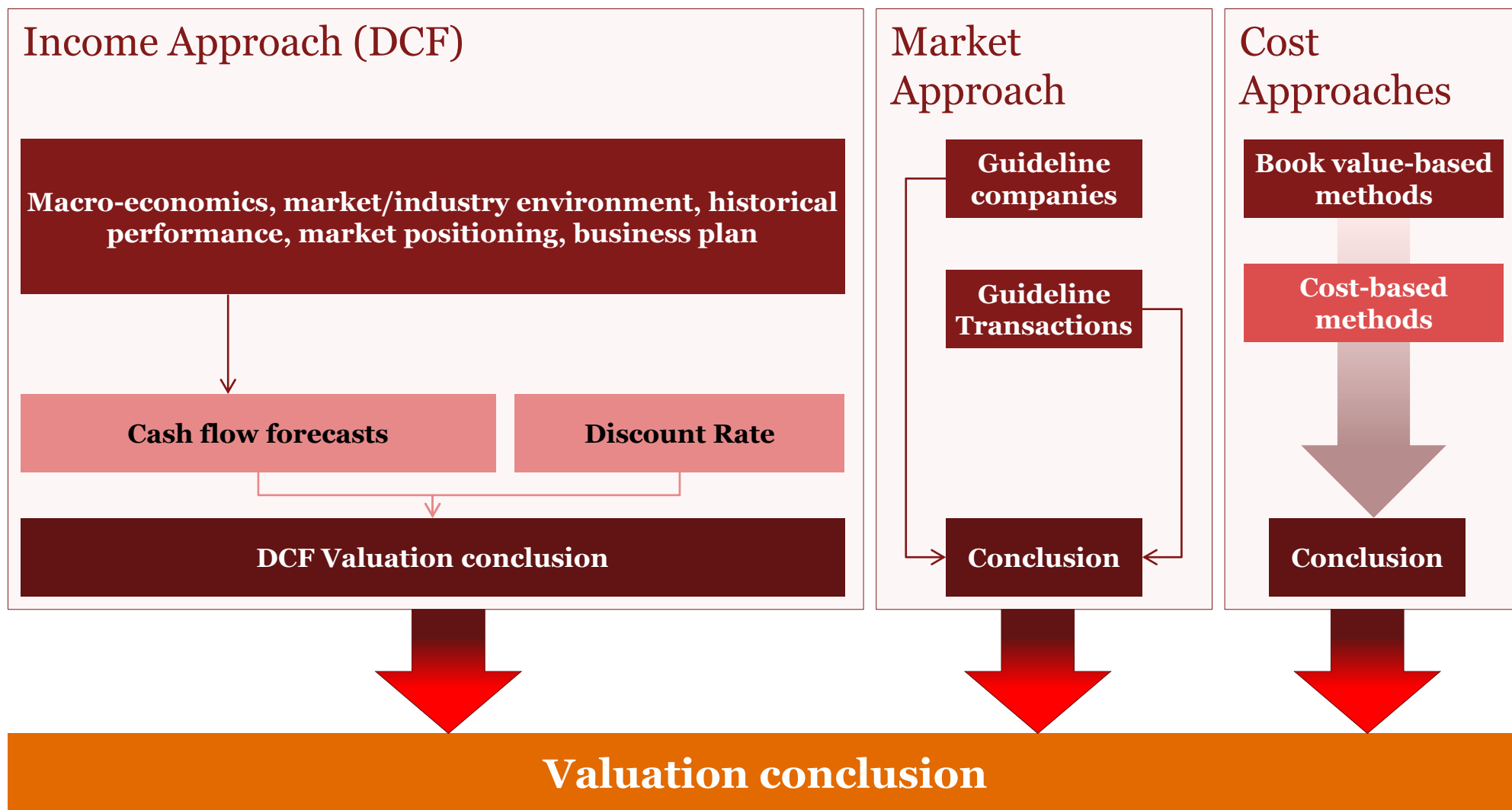
Illustrative example - Sponsor Support value in the HBS



Sponsor support based on business valuation principles

2

Traditional business and asset valuation approaches



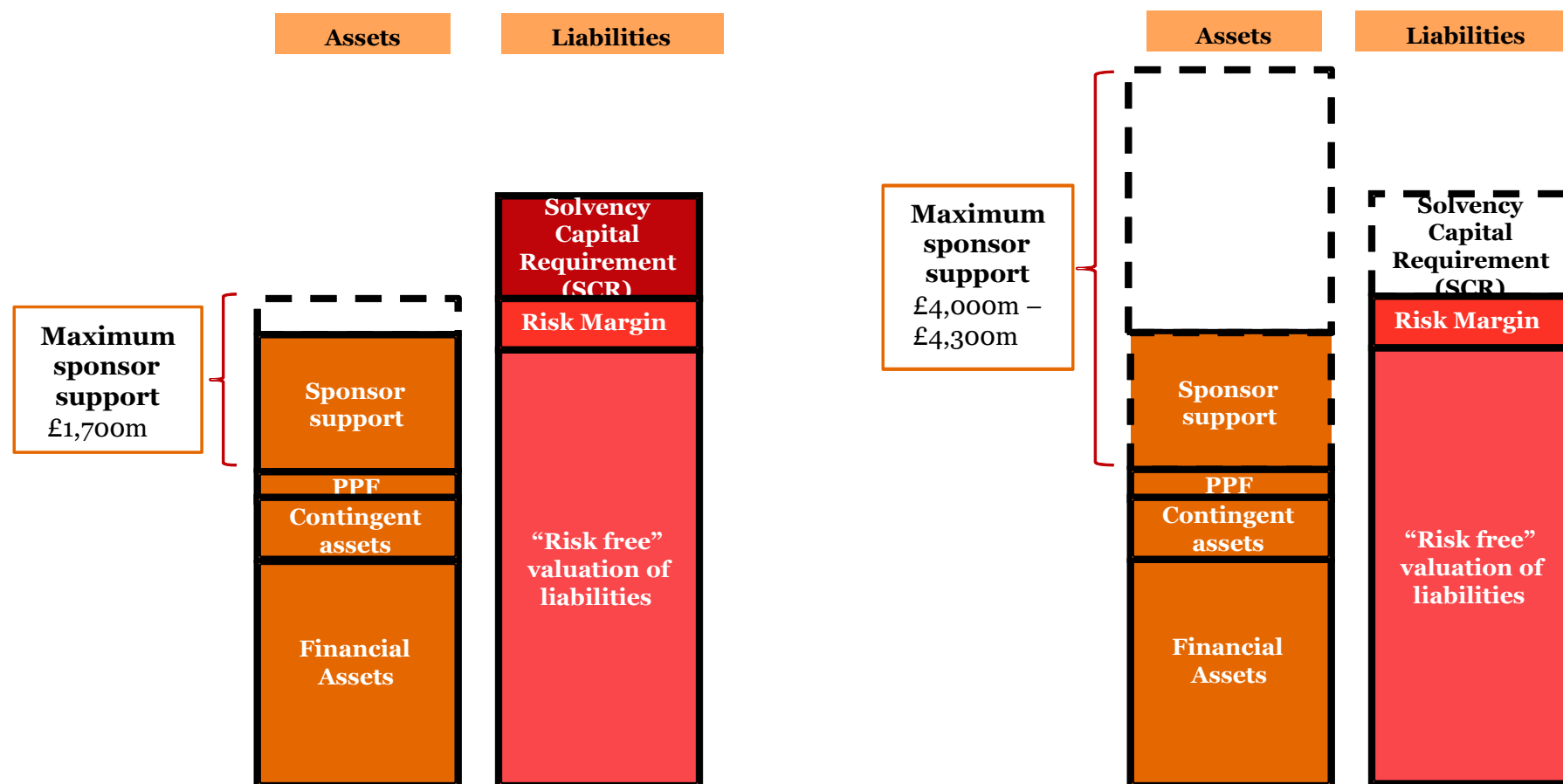
Illustrative example - Business valuation methods applied to calculate the maximum value of Sponsor Support

	Market Approach	
	Transactions	Listed companies
EV/EBITDA Multiple	8 - 9x	7 - 8x
Business value (£m)	4,240 - 4,770	3,710 - 4,240
Business Value Conclusion	4,200	
Net Debt	(200)	
Value of Sponsor Support	4,000	

	Income Approach				
	2012	2013	2014	2015	
EBITDA	530	560	580	597	
Less Tax	(92)	(98)	(105)	(110)	
Less Capital Expenditure	(130)	(120)	(122)	(120)	
Less Change in Work. Cap.	(5)	(6)	(7)	(7)	
Free Cash Flow	303	336	346	361	368
Terminal value					4,599
Net Present Value		321	300	284	3,624
Business Value Conclusion	4,528				
Net Debt	(200)				
Value of Sponsor Support	4,328				

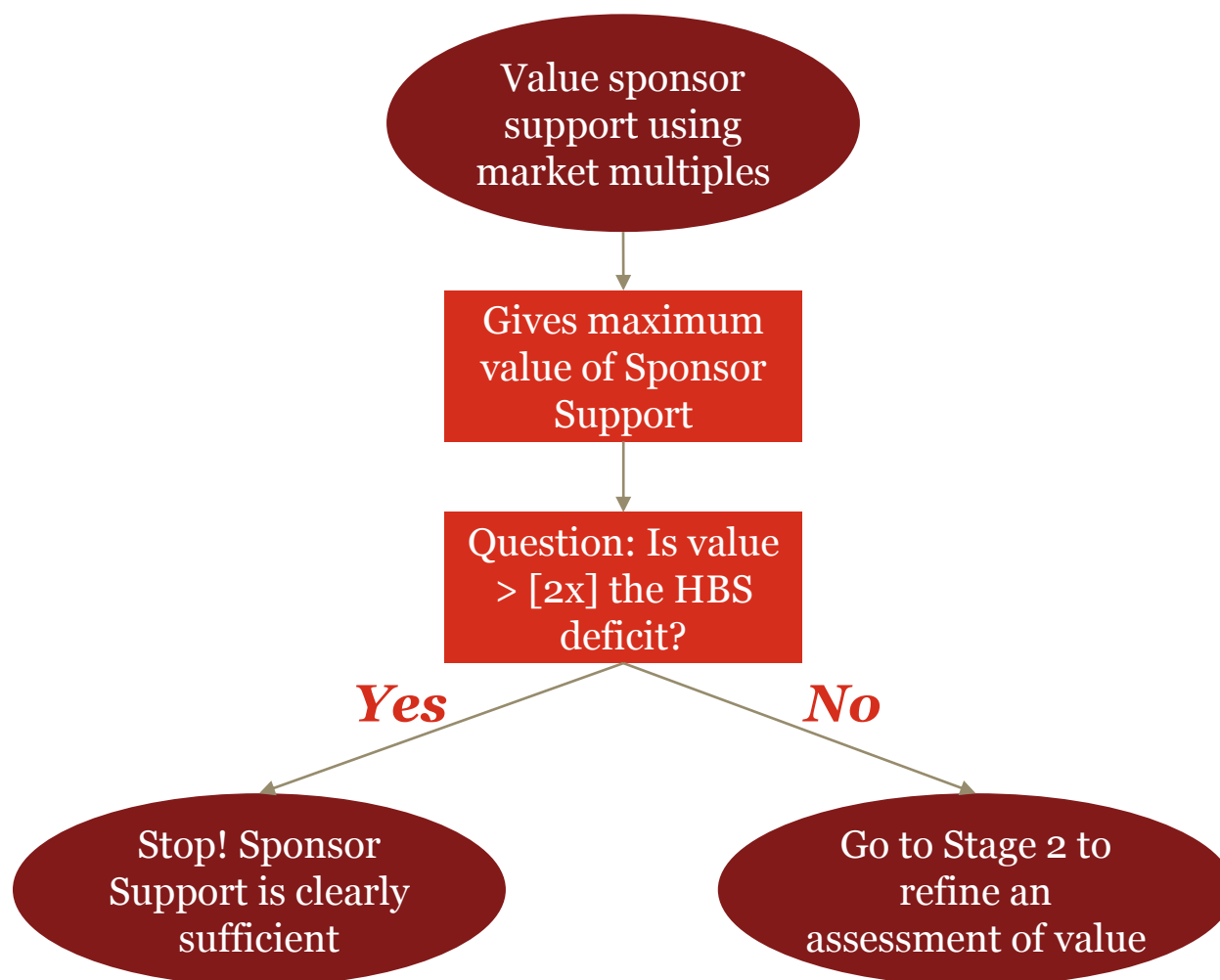
Valuation conclusion
£4bn - 4.3bn

Example - Sponsor Support per EIOPA compared to Sponsor Support using Business valuation

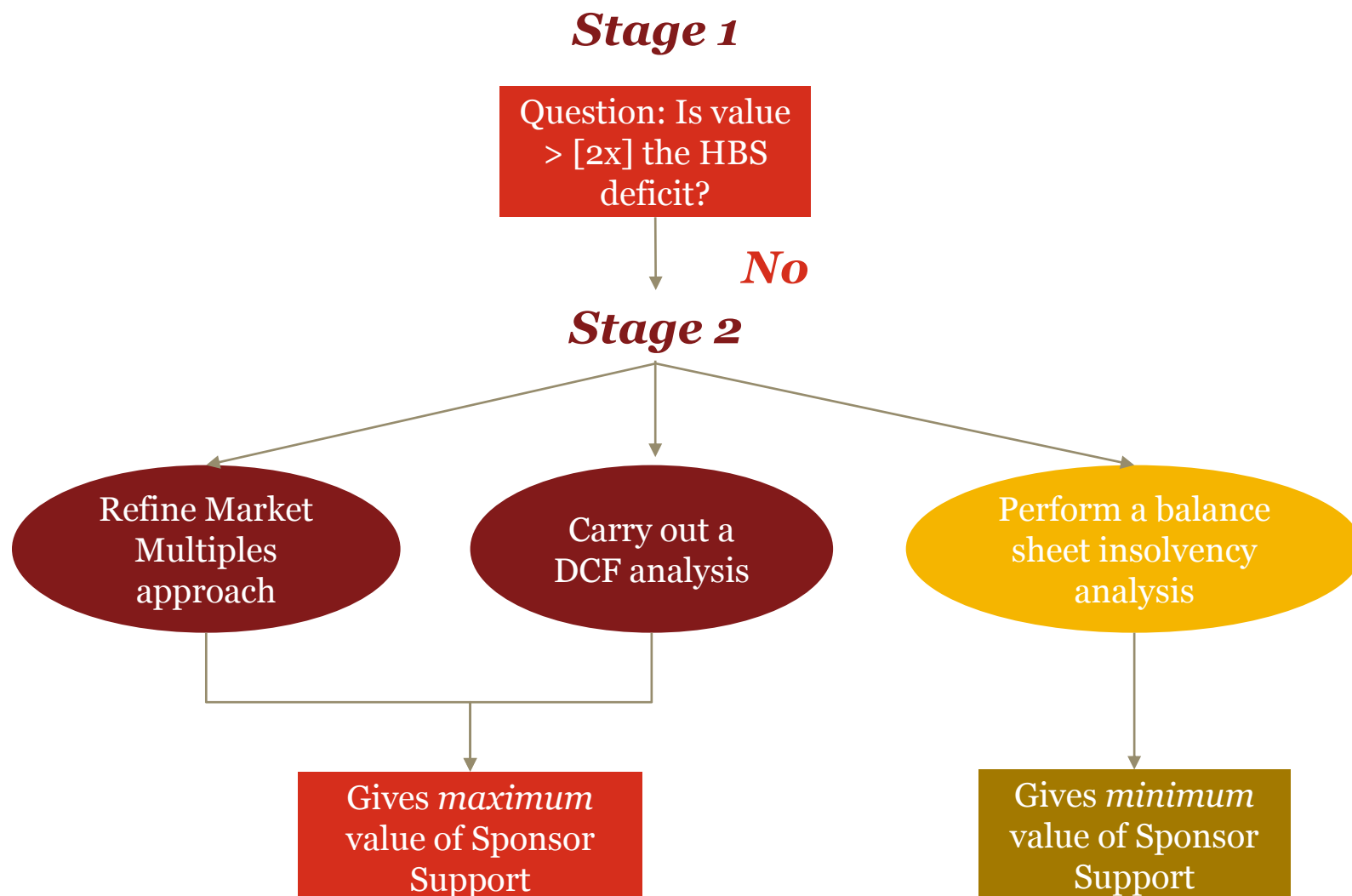


PwC's suggested approach

Stage 1



PwC's suggested approach



Key messages

- Grounded in business valuation theory, so will be recognisable to anyone who has done valuation in an accounting or deals context.
- Allows more flexibility and greater application of judgement in terms of methodology and input assumptions – so better suited to the variety seen across the UK pensions landscape.
- Proportionate - meaning relatively simple to apply for companies with significant “headroom”.
- Consistent with current approaches used to assess Sponsor Support.

Thank you

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