The company’s view of its covenant
Adrian Bourne – Towers Watson
Warm up

An Irishman, Spaniard, Italian and a Greek walk into a restaurant.
Who buys lunch?

Why is it important to the company?

Guidance on monitoring employer support: covenant, contingent assets and other security
Issues for corporates

Keeping awake

“Theft from multi storey car parks is wrong on so many levels”
What happens in the news…

Volatile markets threaten EMI sale

Offers between $1.7 bn and $2.5bn, less than $4bn expected

Bid from Universal Music included conditions on how much of EMI's pension liabilities it was willing to take on

EMI struggling to meet the terms of its loans

£8.6m hit to profits sent shares plummeting by a third

Will breach banking covenants, £87m of debt and schedules to repay £30m in March

IT – Valuation and TPR

Affordability

Formal parent company guarantee

IT
Large deficit with 15 year recovery plan, £100m pa

Professional advisers consulted

Contingent assets
Case study – Acquisition

Impact of transaction
• Profits
• Synergies vs Costs
• Diversification
• Break up values of the employers

Changes in business policy
• Employer roles in new structure
• Financing (debt vs equity, secured vs unsecured)
• Growth strategy

Vehicle rental company
European company acquired by larger US company

Movement of cash / revenue streams
• Away from employers
• Dividends / Buybacks
• Notional cash pools

New risks
• Other pension plans
• Debt / leverage ratios

Vehicle rental company
European company acquired by larger US company
Nearly there….

I was asked for an 8 character password……

And came up with Snow White and the Seven Dwarfs

What is this?
If there is time....

Why was the number 10 afraid of the number 7?

..........!

Covenant assessment

Overall assessment: Medium

- Legal obligation
- Group structure and position of the Scheme
  Principal employer is key company within the Group

- Financial ability
  • Of principal and/or participating employers
  • Of wider group

- Liquidity / Funding
  Secure funding and sufficient liquidity to support ongoing operations

- Financial performance
  Profitable and cash generating

- Balance sheet
  Material coverage over and above the Scheme liabilities

- Future Outlook
  Some key contracts in place

- Risks
  Key risks are economic environment