

# Pensions: Uniq will eat itself

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Uniq, the rump business emerging from the dismantling of Unigate, will hand over 90% of the company to its pension scheme in return for severing the sponsor link. Pat Ryan has, unkindly, called BA a flying pension deficit. Deals like this bring that idea closer to reality – but in the case of Uniq – it could be the best thing for shareholders.

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## Dominating deficits

A few companies have found themselves in a situation where the pension deficit dominates the value of the business. British Airways is among the most talked about, but there are plenty of others. BT has issues, although what look like some legal slips during the privatisation might make that the taxpayers £23bn problem.

## Unigate to Uniq

Unigate is best known for its milk delivery from the dairy business. Many in the UK got their daily pintas from a Unigate float. The business, however, was a large conglomerate with a dairy business, a cheese business, a haulage business and even a chain of 100 restaurants in the USA.

As the company was broken up and units sold off, the pension liabilities were not transferred to the new owners. This has left a company with around 2,200 employees (making sandwiches and chilled salads) with a pension scheme that has around 21,000 members.

## Pension rules

The Pensions Act, 2004 stipulates that companies running a moderate deficit must reach agreement with the trustees (to the satisfaction of the Pensions Regulator) on a plan that will eliminate the deficit within a reasonable period of time. Ten years is a good rule of thumb.

## The asset play

As the Pensions Act rules emerged, the first transactions centred on pumping more cash into pensions through higher sponsor contributions over a period.

Companies that shrink, but don't shrink their pension liabilities are becoming subservient to their pension trusts.

It can be tough for companies where the pension trust is considerably larger than the business to fill the deficit with cash. More recently, there have been some interesting

deals where businesses have used some of their assets to collateralise a pension deficit. Diagio has assigned its maturing whisky to its pension trust – a good match as the whisky sits in barrels for around ten years – so it is a solid long term asset, but has little utility to the business at that stage.

### The ultimate asset

The sponsor company itself is the ultimate asset of a pension trust through the sponsor covenant. Uniq has effectively admitted this by handing over 90% of the company to its pension fund. However, in return (assuming the Pensions Regulator agrees), the company will rid itself of any future liability to the pension trust. In effect Uniq is spinning off its last large business unit – a pensions provider. This will, no doubt, be snapped up by one of the pension buy-out businesses.

### Marconi – Telent

This proposal is innovative, but it is not the first time that such a proposal has been put forward. However, the last proposal emerged from a company that was already bust – Marconi. This plan is thus more timely. As the assets of Marconi were being sold off by the liquidator, it too was split into two businesses. One business was effectively the pension trust, plus enough assets to give sufficient security to the pensioners. The other company was the remaining business of Marconi.

### Shareholder impact

Whilst it might seem bizarre at first brush, this deal could be good news for shareholders. Although the shareholders only end up with one tenth of the new company, the new company could end up being more than ten times more valuable. The value of a company is related to its future earnings. The large pension deficit threatened to suck up significant amounts of the company's future earnings and restrain its growth prospects. Moreover, the large and volatile pension deficit could have bankrupted Uniq at almost any time – so there might not even be too many future earnings. Freed of the pension liability, the management of Uniq can focus on building their business into a growing market place.

Overall this does look like a good deal for both shareholders and pensioners. The pensioners get better security as the deficit is filled and the shareholders get a business freed from a large legacy liability that was hampering its future prospects.

The sponsor's covenant makes the sponsor company the ultimate asset of any pension trust.

Companies that realise this are now looking to negotiate an exit – before it becomes too late.

The Uniq deal shows that this can be done to the benefit of all sides.

## BRAVE Partners' services

BRAVE Partners has a track record of providing innovative solutions. The firm can assist pension sponsors and trustees in analysing their exposure profile and determining which risks to mitigate and how to manage the residual risks to the scheme in order to reach the most cost effective solution to its exposures.

## Interaction

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- The pension deficit for some companies is so large that it can only realistically be filled by the company itself.
- The sponsor's covenant means that the sponsor company is the ultimate asset of a pension trust.
- Realistic management who understand this and deal with the issue – are making some interesting deals that appear to be good for all.
- BRAVE Partners LLP can advise sponsors and trustees to identify the optimal risk mitigation strategies for pension funds.

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