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THE PCS ALERT
The latest in DB Pensions

PENSION CAPITAL STRATEGIES
Innovative Alternatives

UNIQ TRANSFORMATION - WHAT CAN WE LEARN?

Dear Sid

Recent press articles have commented on the Uniq equity deficit swap. At PCS we congratulate Geoff Eaton, Chief Executive and Martin Beer, Finance Director, the Trustees of the Uniq Pension Plan, BDO and their other advisers for their creativity and innovative approach to resolving a seemingly irresolvable corporate and pension scheme problem.

Background
Uniq plc has approximately 114.83 million shares floated on the London Stock Exchange, currently trading at a value of 7.76 pence per share (26 October 2010). This means that Uniq plc has a combined market cap of £8.91 million.

Revenues at Uniq have fallen from over £700 million in the year to March 2006, to less than £300 million in the year to December 2009.

Uniq is the sponsor to a defined benefit pension scheme which currently has a pension scheme deficit of £436 million (approximately 50 times the market cap of the company).

The position looked terminal. Servicing the deficit on the pension scheme alone costs in the region of £17.5 million per annum (at 4% interest). This means that each year, the deficit grows by twice the market cap of the company.

In the absence of any intervention the most likely outcome is that the company would become insolvent, shareholders would receive nothing, over 2000 jobs would be lost, pension scheme members would receive only PPF benefits, more strain is put on PPF funding levels and PPF levies will increase for surviving companies. An all too familiar tale in the current economic climate.

Hats off then to the senior team at Uniq, the Trustees, BDO and their other advisors for formulating a plan to try to gain members higher than PPF benefits, protect jobs and to try to give some value back to shareholders. We hope that the Pensions Regulator and the PPF are able to give their support to this agreement.

Financial Overview
There are two major aspects to the transformation:

- The pension scheme trustees are being asked to exchange the pension scheme deficit of £436 million for a 90% stake in Uniq plc (currently valued at £8.0 million) plus a £1 apportionment debt on employer;
- Shareholders are being asked to give up 90% of the value of their shareholding, the combined value reducing from £8.91 million to £0.89 million

There are other financial aspects to the transformation. The Company has also offered the pension scheme a put option to sell a proportion of its shares back to the Company, at a pre-agreed price per share, for a total consideration which may be up to £25m to £30m, funded through the cash generated from the proceeds of the disposals of the businesses in Europe.

Why could the transformation work?
Pension scheme aside, analysts believe Uniq to be a reasonable and profitable business. Analysts at Investec have in fact said that shares could be traded at 70p per share in the absence of the pension scheme commitments. In effect this would put the value of the current shareholders' holdings back at the £8.9 million, and would generate nine times that value for the pension scheme. The deficit wouldn't be eradicated, but would secure benefits for members which are better than those provided by the PPF. The alternative we have already discussed.

What could stop the transformation working?
There are still hurdles to clear. The Pensions Regulator and the PPF need to agree to the arrangement. Shareholders need to agree to the exchange, and a High Court decision needs to be made to enable this to happen. Each of the hurdles is significant, but hopefully the outcome justifies the efforts required.

Commentary
The proposed solution is both creative and innovative, it demonstrates the efforts required in order to

a) deliver benefits as high as possible to pension scheme members and

b) preserve an otherwise profitable UK company and protect UK jobs.

The balance is sometimes very hard to achieve, and sadly sometimes impossible. We hope that the Pensions Regulator and the PPF are able to approve the transformation.

There is a warning here to all companies regarding the need to derisk pension schemes at an early a stage as possible. The case above of a large company that divested divisions demonstrates the point dramatically.

On divesting a division with a defined benefit pension scheme, the most straightforward option is to either transfer all current employees and retain deferreds and pensioners, or to retain all members within the current pension scheme. Beware though: divesting reduces the size of the company, but not the size of the pension scheme. Even though debts may be served and paid in full, unless risk is passed out of the pension scheme, the risk still remains with the group.

All companies concerned about risk, and in particular those undertaking a strategy of divesting divisions need to have a pension scheme strategy that also divests pension scheme risk at the same time.

Yours sincerely,

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