



LEVERAGED & EQUITY INVESTMENT

DEFINED BENEFIT BULK ANNUITY PURCHASE

REVENUE SOLUTION STUDY



Removed the pension scheme from company balance sheet.



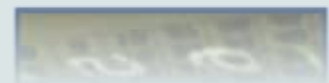
Eliminated the need to replace pension liability with balance sheet debt.



Immediate transfer of risk to insurer, no delay due to deferred premiums.



Key ratios and structures improved ahead of schedule.



Leveraged & Equity Investment, independent, bespoke, pension scheme funding solutions



Case study – Bulk Annuity purchase – Variety Services Group Limited

At triennial pension scheme valuations recently deficits have been volatile. Over the period since the last formal valuation the sponsor board has concluded the pension scheme hinders the group's progress acquisition growth programme.

Variety Services Group Limited was established over fifty years ago. They have both defined benefit and defined contribution schemes.

Discussions between the sponsor and scheme Trustees resulted in agreement that removing the defined benefit scheme from the balance sheet was mutually beneficial.

The Variety Services Group Limited had defined benefit scheme liabilities of nearly £125 million on an actuarial basis. The scheme was virtually 90% funded.

Variety Services Group Limited wanted to remove the defined benefit scheme from the balance sheet within six months.

It was key that the sponsor would not be required to make any immediate contribution requirements.

Over the next twelve months they were looking to raise new capital for expansion and acquisitions. Removal of the scheme would reduce financing costs and improve the perception of their shares as an investment prospect.

Variety Services Group Limited held extensive discussion and negotiation with risk transfer insurers. Whilst several options were reviewed no provider could offer a mechanism that fully removed the scheme due to a funding shortfall of over £30 million on a buyout basis.

Insurers offered deferred premiums, but this did not fully remove the scheme from the balance sheet, and left some risks with scheme members. The sponsor could take on bank debt but this in reality increased liabilities due to the difference between actuarial and insured liability values. Despite the issues a preferred supplier was identified.



SUMMARY SOLUTION PROVIDED BY LEVERAGED & EQUITY INVESTMENT

1. Leveraged & Equity Investment created a bespoke, revenue accounting (off balance sheet), fully tax deductible, structure that financed the asset shortfall over a 12-year term. Variety Services Group Limited were able to close the full buyout immediately.
2. The scheme was removed from the sponsor balance sheet within 4 months, well ahead of schedule. No immediate capital payments were due from the sponsor. The revenue payments lower than previous contributions.
3. The structure included the option to include defined benefit pension schemes for financing from acquisition targets. Enabling Variety Services Group Limited to consider higher bids for target businesses.
4. The immediate cash provision of the balance of the full premium to the insurer, together with the possibility of further assets from future acquisitions, enabled the sponsor to negotiate a lower final premium than previously accepted from the bulk annuity provider.
5. Variety Services Group saved seven years administrative costs compared to deferred premiums, and nearly £2 million by immediate elimination of pension finance costs.
6. The Leveraged & Equity Investment solution raised the enterprise value by over £12 million, improved ratios and cashflow. The company was now more attractive to both lenders and possible equity investors.
7. Scheme members were fully insured, future covenant risk completely removed within 4 months of negotiations commencing.



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Contact Leveraged & Equity Investment

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