



THE PCS ALERT

The latest in DB Pensions

DO BUYOUTS DAMAGE YOUR SHARE PRICE?

Dear Sid

The rolling stone of buyout business gathered another huge trade recently, with Cable & Wireless announcing a £1 billion buyout deal with Prudential. A common opinion emanating from reports on the deal was that it was good for Cable & Wireless shareholders. Early trading following the deal's announcement saw the Cable & Wireless shares rise by 1.1%; the rest of the day's trading saw the share price fall in line with the FTSE. Was the buyout deal good for Cable & Wireless investors? Well it certainly wasn't bad.

PCS has researched recent buyout deals and sought evidence on whether such deals are having a positive or negative effect on share prices. Experience of upward shifts in share prices is too shallow to proclaim that buyout deals are advantageous for shareholders. However, there is a distinct lack of material falls in share prices, which supports the notion that buyout deals no longer require a hazardous wealth warning to shareholders.

Top Ten Buyout Deals for UK Listed Companies

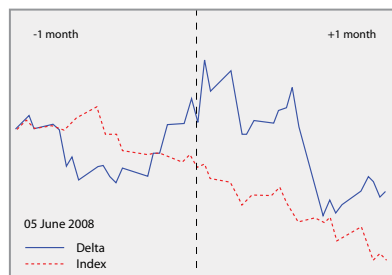
Companies may now choose from many innovative methods to remove or reduce pension scheme liabilities in the buyout market. Here we concentrate on the traditional buyout, where pension scheme liabilities are transferred to an insurer. In the analysis below, the value of pension scheme liabilities bought out are expressed as a percentage of the equity market value of the company.

The ten largest buyout deals for UK listed companies include:

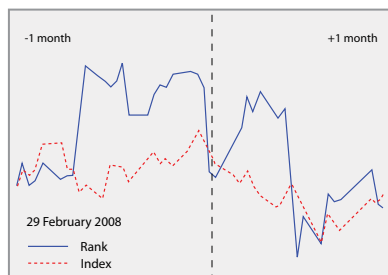
Company	Buyout Date	Liabilities Bought Out	Liabilities as a % of Equity Market Value
Cable & Wireless	3 September 08	£1bn	22%
Rank	29 February 08	£700m	198%
Delta	5 June 08	£451m	232%
Friends Provident	15 May 08	£350m	13%
BBA Aviation	22 March 08	£270m	42%
Smiths Group (own TI Group)	21 April 08	£250m	4%
Weir Group	17 December 07	£240m	15%
Emap	13 November 07	£170m	19%
Morgan Crucible	17 March 08	£160m	42%
Raven Mount (own Swan Hill)	28 May 08	£72m	82%

Six companies bought out pension scheme liabilities bigger than 20% of the equity value of the company. For each of these companies, the graphs below show share price movements (solid blue line) alongside the FTSE All Share Index (broken red line) for a month either side of the buyout date.

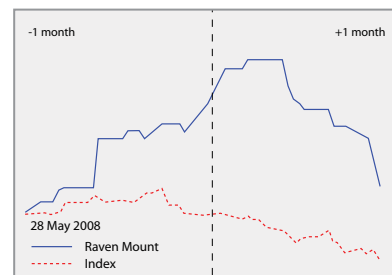
Delta:



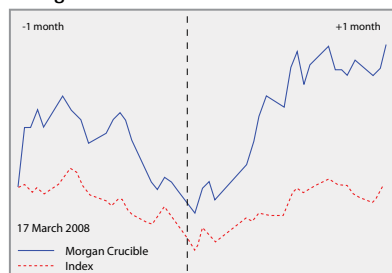
Rank:



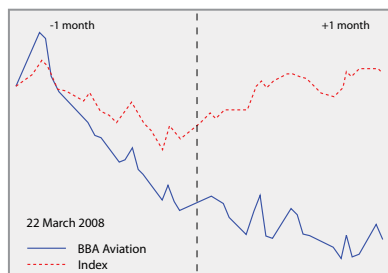
Raven Mount:



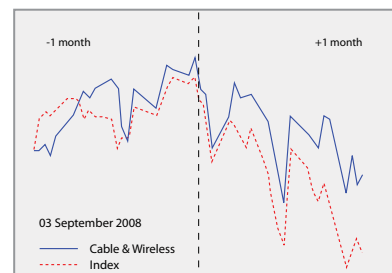
Morgan Crucible:



BBA:



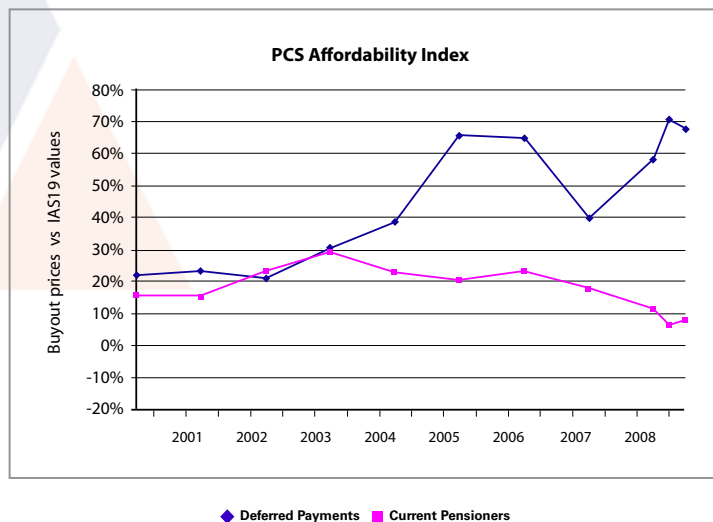
Cable & Wireless:



Market Views on Buyouts

In the PCS publication '2008 Survey of Analysts' Views on Pensions', 72% of share analysts indicated that they would be neutral to a company's decision to transfer £100m of IAS19 pension liabilities through a traditional buyout with an insurer at a cost of £130m (a premium of 30% above the pension liabilities on the company's balance sheet).

The PCS Affordability index shows that the average price to buy pensioner liabilities with an insurer is now less than 110% of the IAS19 value of the pensioner liabilities and that buyout prices for pensioners look very attractive against historic levels. The Cable & Wireless deal transferred all of the scheme's pensioners to Prudential, whilst the cost of buying out deferred liabilities was acknowledged to be too expensive.



In Conclusion..

Current prices in the buyout market present a real opportunity. Competition is white hot and the Cable & Wireless deal saw Prudential re-establish itself as a serious competitor. Insurers are passing on the high returns available on corporate bonds to reduce prices for buyout customers. Also, more sophisticated techniques are being used to predict the life expectancy of pensioners, which reduces the risk margins that insurers include in their premiums. The resultant low prices, especially for pensioners, are the main catalyst for the recent surge in buyout trades.

A further element of saving is often overlooked. Not only will a buyout reduce administration expenses, but it can also reduce PPF levies.

Pension liabilities have long been an Achilles' heel for financial directors. An otherwise sound business can appear insolvent as a result of a deficit in a pension scheme. Ominously, IAS19 liabilities are inversely related to the level of yields on AA corporate bonds which are currently aloft with the credit crunch. A fall in corporate bond yields threatens to increase IAS19 pension liabilities. Additionally of course, pension liabilities are made more unpalatable by the balance sheet volatility they create. Even if there is a significant cost to offloading the liabilities, buyouts are an increasingly attractive option for companies to remove or reduce an unwanted liability.

Although the evidence is not yet conclusive, PCS believes that buyouts are good for a company's share price and this will become increasingly apparent. Millions of shareholders will benefit from a glut of buyout deals that PCS expect to be announced over the next 12 months. And further millions of shareholders will be expecting companies with pension scheme liabilities to consider buyout opportunities if they have not already done so. Shareholder expectations alone will be another strong impetus to accelerate the rolling stone of buyout business.

Yours sincerely,



For further information on what PCS can offer you, please email us at solutions@pensionstrategies.co.uk or visit our website at www.pensionstrategies.co.uk to register your interest. Alternatively call Charles Cowling on 0161 242 5388, Tiziana Perrella on 0161 242 5332 or Aled Edwards on 0117 968 9628

Whilst all reasonable care has been taken in the preparation of this publication no liability is accepted under any circumstances by Jardine Lloyd Thompson for any loss or damage occurring as a result of reliance on any statement, opinion, or any error or omission contained herein. Any statement or opinion unless otherwise stated should not be construed as independent research and reflects our understanding of current or proposed legislation and regulation, which may change without notice. The content of this document should not be regarded as specific advice in relation to the matters addressed.

Pension Capital Strategies Ltd. Authorised and regulated by the Financial Services Authority. A member of the Jardine Lloyd Thompson Group. Registered Office: 6 Crutched Friars, London EC3N 2PH. Registered in England No 5651461. VAT No. 244 2321 96.