

MERCER'S PENSION DEBT SOLUTION™

Defined benefit (DB) pensions consistently raise red flags for potential buyers. Plans are often underfunded, lack cost certainty, and have significant exposure to asset-liability mismatch risk.

HOW DOES A COMPANY THAT IS SELLING AN ASSET WITH A DB OBLIGATION ADDRESS BUYER CONCERNS ABOUT PENSIONS?

Potential buyers may be reluctant to pursue an asset with a DB pension. Many companies have had a financial burden with their DB pensions, as funding costs have exceeded projections, resulting in large financial losses. Financial liability associated with DB plans has generated significant press in recent years, especially in the investor space.

DB pensions can be a barrier to receiving a bid or can result in a large reduction in your purchase price — Mercer 2016 survey results¹ showed 50% of buyers were unwilling to take on a target with a DB pension.

Buyers have different perspectives on managing DB pensions. Some organizations are comfortable managing the pension with a long-term investment view and willingly accept risk for the expectation of lower costs, whereas others want to take on little or no risk. In recent years, a number of new solutions and tools — at all price points — have been developed to help companies address their DB pension risk issues.

Where a DB plan liability is material, Mercer recommends that a seller directly address the pension risk by providing the best information to a potential bidder on its pension situation and the market opportunities to minimize financial exposure.

PERIODS OF LARGE FUNDED STATUS SWINGS CAN OCCUR OVER SHORT PERIODS OF TIME



According to Mercer's 2015 CFO Research Survey, financial executives' perception of the cost of de-risking was much higher than the actual market costs — i.e., in the absence of good information, most buyers will believe the costs are higher and the risks are far greater than they actually are.

INTRODUCING MERCER'S PENSION DEBT SOLUTION™

Mercer's Pension Debt Solution can help mitigate pension issues for both sellers and buyers by minimizing volatility in the short term or reducing overall risk in the long term.

The Mercer solution includes:

A. The report, which provides analysis and current market data from Mercer tools, including:

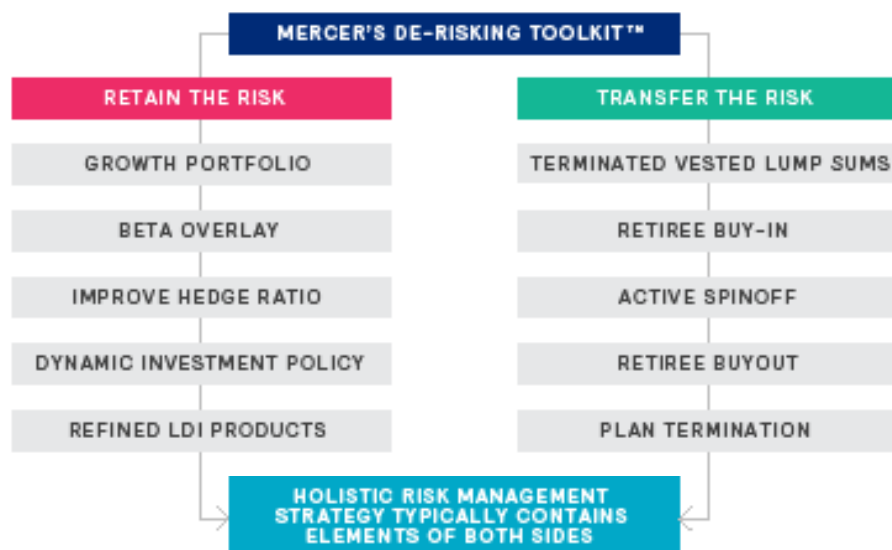
- Baseline financial projections based on "as is" state
- Pension risk profile analysis
- Market pricing using Mercer Explore™, a monitoring tool for annuity buyouts
- Risk transfer opportunities and cost estimates based on current market pricing
- Risk reduction strategies and cost estimates

B. Temporary funded status protection:

To protect the seller against exposure to misaligned short-term financial exposure to a long-term investment strategy, Mercer's financial strategy consultants work with clients to implement a temporary funded status solution that:

- Can be implemented within a few weeks once the sale process starts
- Includes custom analysis based on the pension fund's asset mix and the plan's liabilities
- Uses derivative strategy to substantially reduce market risk over the short term
- Provides buyers financial protection and time while they form their pension strategy, which can be left in place during handover of ownership

The funded position of DB plans for S&P 1500 companies has ranged from 95% to 75% over the past two years. The largest drop over a three-month period was more than 10%. Short-term volatility in DB plans is material and fairly common. For the typical funded defined benefit pension plan with 60% in equities and 40% in fixed income, there is a one in six chance of a drop of 7% or more in pension funded status over a three-month period.



How big is this risk? It needs to be put into the context of the overall deal. A \$100 million pension plan that goes from 95% funded to 90% funded has lost \$5 million — for many DB plans, this magnitude of change is a common occurrence and can happen in a matter of weeks or months.

ABOUT MERCER'S M&A TRANSACTION SERVICES

Mercer's M&A Transaction Services is the preeminent global M&A advisor on people issues to buyers and sellers in corporate and private equity transactions. To learn more, visit www.mercer.com/mergers-acquisitions.

CONTACT US

For more information, please contact:

Jeff Cox
Global M&A Leader
Senior Partner
Mercer
+1 312 917 0592
jeff.cox@mercer.com

Chad Hueffmeier
Financial Strategy Group
Partner
Mercer
+1 312 917 0820
chad.hueffmeier@mercer.com

Doug Johnson
Canada M&A Leader
Partner
Mercer
+1 416 868 2213
douglas.johnson@mercer.com

¹People Risks in M&A Transactions, 2016 Mercer Research Report, available at www.mercer.com/our-thinking/survey-people-risk.html.