



## Private Equity Sound Bite

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### Final Salary/Defined Benefit Pension Liabilities

Figures released by the ONS at the end of last year show that active membership of defined benefit pension schemes in the private sector has continued to decline. Only 1.9 million people in the UK are now accruing this type of benefit, and around 60% of those individuals are in schemes that are closed to new members. Clearly, employers are not keen on continuing to offer their employees a benefit promise, the cost of which is impossible to predict. However, despite the decline of these types of benefits—and as the private equity industry knows well—a lot of businesses in the UK are dealing with historic underfunded defined benefit pension liabilities.

Given the investment that some of these pension funds make in private equity themselves, they are not always bad news to the industry. However, it is understandable why, when due diligence reveals that a potential investment carries with it a defined benefit pension liability, this is not seen as good news. Investing in a business that has significant or open-ended pensions liabilities is never going to make the deal more straightforward. The would-be buyer or investor is also not helped, for example, by the protections that have been put in place over time for members' benefits (such as stricter funding measures, inflation-linked increases, and the powers of the Pensions Regulator), by changing demographics (crucially, strengthening mortality) or by the 'super priority' that can now be given to such liabilities (following a Court of Appeal judgment at the end of 2011).

Three key approaches can be taken when this type of liability is part of the equation: walk away from the investment, seek to structure the transaction so that the liability is ring-fenced, or take on that liability. The third option, taking on the liability, may seem like something to avoid at all costs, but taking this approach could also be seen as a missed opportunity to gain a material price reduction given the unpredictability of such a liability. This opportunity stems from the various measures by which pension liabilities are valued. If a buyer or investor can extract a large price reduction on the basis of a conservative valuation (which puts the pension liabilities at a very high value), it should be the case that the ultimate cost of funding the benefits under that pension scheme over the longer term will be less than the price reduction negotiated. This is because, over time, the assets of the pension scheme should receive investment growth (which will not be taken into account by the conservative valuation measure used to secure the price reduction). This is therefore something to consider in conjunction with advisers before walking away/seeking to ring-fence the risk when a defined benefit pension scheme is involved. We would be very happy to talk through the relevant issues with you. For any questions, please contact William Sutton at [wsutton@reedsmith.com](mailto:wsutton@reedsmith.com).

## Reed Smith Recognition

### Private Equity Legal Publications



At the end of each year, French business magazines publish their annual rankings of market-leading legal teams in various practice areas. Paris Corporate partners Lucas d'Orgeval, Emmanuel Vergnaud and Marc Fredj were once again recognized among the best practitioners in Private Equity by major publication Option Droit & Affaires. The team received four out of five stars in "growth capital and LBOs under 50 million Euros," and an equal score in "venture capital." This new ranking confirms our French team's excellent position in the market.

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# Transaction Highlights

## Recent Deals Across Our Global Platform



Reed Smith advised a consortium made up of three family groups operating in wines, alcohols, and sugar production and distribution (J. Chatel, Terroirs Distillers and SA Adrien Bellier), and French private equity fund Unigrains, in the creation of a joint venture and the acquisition of Quartier Français Spiritueux Outre Mer from La Martiniquaise group. Quartier Français Spiritueux Outre Mer group was founded at the start of the 20th Century and has since been a key player in the industrial activity on Ile de La Réunion, a French overseas territory located near Madagascar. Quartier Français Spiritueux d'Outre Mer has been leading the European market in rum production and distribution with a famous brand, "Charrette." Our team successfully closed this transaction financed by a club of three banks (Société Générale, Crédit Agricole and Caisse d'Épargne) and a mezzanine fund, OC+, managed by CDC Entreprises for the French Strategic Investment Fund. The team was led by Lucas d'Orgeval.



A Private Equity team led by Emmanuel Vergnaud advised Activa Capital, a long-standing client of the Paris Corporate team, on the build-up acquisition of the company Family Service by **Primavista**. Primavista, the leading French group in the future and young parent business, is part of Activa Capital's portfolio. With the addition of Family Service's leading European activity in direct marketing aimed at future and young parents, Primavista broadens its range of services already comprising photography for new-borns and children, birth and wedding e-cards, and community website for pregnant women [www.etreenceinte.com](http://www.etreenceinte.com). Primavista, with this acquisition of Family Service, is now the leading European group targeting young parents, with a turnover estimated around €100 million in seven countries.

## Global Capabilities

### Expanding the Private Equity Team

Reed Smith's Global Private Equity team continues to develop and grow with lateral recruits, expanding our experience and knowledge across our platform, especially in the key markets of London and New York. Our team operates as leaders in their local jurisdictions with a global perspective, working closely with clients wherever they may be located. With this goal in mind, our team has expanded with the recent addition of the noted team below:



**Jeffrey A. Legault, Partner – New York** Jeff focuses on mergers and acquisitions, both public and private, with an emphasis on private equity transactions in a variety of industries, ranging from industrial and manufacturing to financial services. His clients include public and private companies, private equity firms (both sponsors and family offices), and investment banks. Jeff has extensive experience in public and private mergers and acquisitions and private equity transactions (both domestic and cross-border); joint ventures and strategic alliances; proxy fights and other matters of corporate governance and control; asset securitizations; and general corporate legal matters, including representation of clients before the SEC. Jeff can be reached at [jlegault@reedsmith.com](mailto:jlegault@reedsmith.com).



**Tahira Bano, Senior Associate – London** Tahira is a senior associate in Reed Smith's growing London Private Equity Practice, having joined the firm in January 2013. Tara previously worked as legal counsel at Nissan Motors GB Limited, as well as practicing at her previous European-based firm. Tahira specialises in all aspects of corporate finance transactions, including advising private equity houses and management teams on leveraged buyouts, investments, restructurings, disposals and all corporate matters relating to portfolio interests. Tahira can be reached at [tbano@reedsmith.com](mailto:tbano@reedsmith.com).



**Emilia Valvano, Associate – London** Emilia continued the London Private Equity team's growth in 2012, joining the firm in October, as an associate in the Private Equity practice. She trained at SJ Berwin with Perry Yam and qualified in 2012. Emilia has a broad range of international corporate experience, particularly in all forms of private equity transactions. Emilia can be reached at [evalvano@reedsmith.com](mailto:evalvano@reedsmith.com).



**Alexandre Tron, Partner, and Olivier Borenstein, Associate – Paris** Alexandre Tron joined us as a partner in our Paris office, bringing with him senior associate Olivier Borenstein. Their addition represents a significant step in the further development of the Finance Group in Paris, enhancing its service provision for clients across a broad range of banking and finance matters. Alexandre and Olivier have deep experience and market expertise in finance transactions, particularly those that support corporate acquisitions, corporate growth, corporate reorganisation and leveraged buyouts (LBO). Alexandre advises clients, including credit institutions, mezzanine funds, private equity funds and corporate borrowers, on the structuring, negotiation, and restructuring of varying types of financings, ranging from acquisition and LBO financings, to project and real estate financings. You can reach Alexandre at [atron@reedsmith.com](mailto:atron@reedsmith.com) and Oliver at [oborenstein@reedsmith.com](mailto:oborenstein@reedsmith.com).