Pension schemes warning over £7bn Morrisons takeover deal

The £7bn US private equity takeover of Morrisons could "materially weaken" the security of its pension schemes, trustees of the funds have warned.

Tens of thousands of current and former workers at Britain's fourth biggest supermarket chain belong to the retirement schemes.

The board of Morrisons last week **agreed to a takeover** by Clayton Dubilier & Rice (CD&R), trumping a £6.7bn rival offer led by Fortress Investment Group that it had previously accepted.

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But trustees running the pension funds say a further support package for them should be agreed before shareholders are asked to back the deal.

Steve Southern, chair of trustees for the schemes, said: “An offer for Morrisons structured along the lines of the current offers would, if successful, materially weaken the existing sponsor covenant supporting the pension schemes, unless appropriate additional support for the schemes is provided.

“We hope agreement can be reached as soon as possible on an additional security package that provides protection for members’ benefits.”

The intervention centres on schemes holding £5.5bn of assets which, as of April 2019, had more than 80,000 members.

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The schemes are currently in surplus but would face a notional shortfall of £800m if, for example the scheme were to be wound up or the company behind it go bust.

That accounting figure represents the additional sum that would be needed to buy annuities from an insurance company to cover the benefits the schemes are due to pay out.

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Trustees of the schemes fear that, in the case of both the CD&R and Fortress offers, the financial support from Morrisons underpinning them could be weakened by a number of factors.

Those include the loading up of further debt on the supermarket – from creditors who would have a higher priority claim than the pension schemes against its assets should it go bust.

The trustees said in a statement that they had previously held talks with Fortress and since had an “introductory meeting” with CD&R.

They said they “look forward to productive discussions leading to agreeing an appropriate mitigation package with CD&R as soon as possible”.

In response to the intervention, CD&R issued a statement reiterating plans set out as part of its offer including that existing pension rights for the company’s employees would be “fully safeguarded” and that it did not intend to make any changes to the benefits provided by the schemes.

The firm said that after “positive discussion” with the trustees, dialogue was “now progressing”.

“CD&R intends to continue this dialogue to ensure that the trustees understand and support the sponsor covenant following the completion of the CD&R offer,” it said.

“CD&R understands and accepts that the trustees consider this dialogue is likely to extend to considering arrangements which provide additional security to the schemes through an appropriate mitigation package.”

Morrisons said in a statement: “Morrisons is supportive of the parties reaching an agreement which protects and supports the pension schemes in an appropriate manner, and will continue to work with all parties to achieve this as soon as possible.”

The prospect of a takeover has already prompted concerns from MPs about the potential for new owners selling off property assets or reducing the rights of workers.

The original Fortress-led deal agreed by the Morrisons board included commitments to the current management team, strategy and its £10 per hour shop floor wage.

In its latest offer document, CD&R said it recognised the “strong heritage” of the supermarket and that it will further build on its long-standing strengths.

The firm indicated that it was not planning big changes in the management of the Morrisons property portfolio.

Fortress said that it was considering its options after it was elbowed aside by the higher bid.