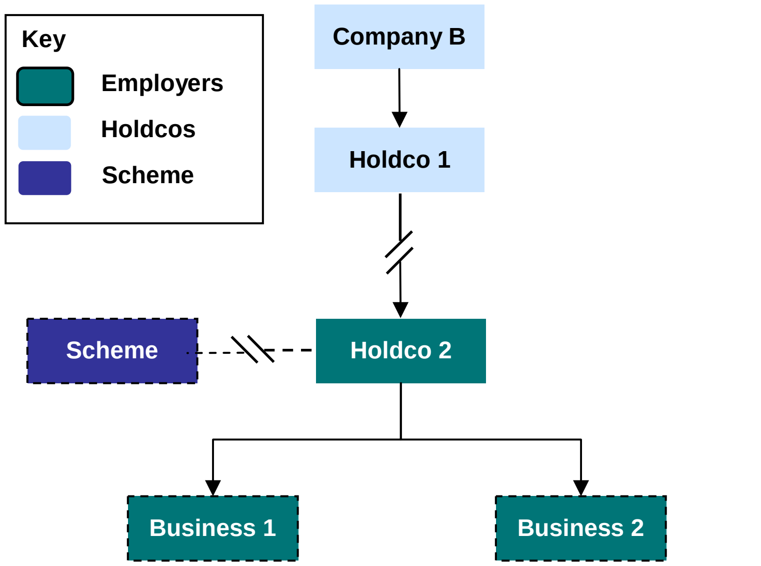
Case Study B : *Group Reorganisation and S75 Debt Apportionment Advice*

- Company B is a large pan-European business which has two different operating businesses in the UK
- The UK defined benefit pension scheme was sponsored by both UK operating businesses / participating employers (Business 1 and Business 2) and a principal employer (Holdco 2)
- Company B proposed to demerge Business 1 from Business 2 in the UK to relieve Business 1, a weaker operating company, from the financial burden of the Scheme. In summary:
  - Holdco 2 / Business 1 would cease to be participating employers
  - Business 2 would become the Scheme's sole sponsor / principal employer
  - The Scheme would receive some mitigation although the Company did not consider the proposal to be detrimental to the Scheme
  - Clearance from the Pensions Regulator would be sought.
- Following completion of the proposals, the Group would have greater strategic and financial flexibility
- In the absence of an appropriate debt apportionment arrangement (or other similar section 75 debt management plan), the proposal would have crystallised a substantial section 75 debt at the time of the demerger
  - The section 75 debt was to be apportioned to Business 2
- Lincoln International was appointed by the Trustee as financial adviser to analyse certain financial and employer covenant aspects of the proposal
- Our role involved:
  - **Employer Covenant :** considering its strength before and after the proposal
  - **Funding Test :** Is the remaining employer covenant (Business 2) able to support the entire scheme?
  - **Material Detriment Test :** Does the proposal cause material detriment to the scheme?
  - **Mitigation :** Assisting the Trustee in considering and negotiating the adequacy of the "mitigation" offered given views on detriment and any change in employer covenant as a result of the proposal

Before Proposed Demerger



After Proposed Demerger