

Disposal of Tuffnells

The Company made an announcement on Wednesday 15 April 2020 (see www.connectgroupplc.com/investors/regulatory-news) setting out the proposed disposal of The Big Green Parcel Holding Company Limited and its subsidiaries, including Tuffnells Parcels Express Limited which principally trades as 'Tuffnells'.

In light of the COVID-19 'stay at home' restrictions limiting physical participation at the General Meeting to be held on 1 May 2020, the Company has committed to providing shareholders with a Q&A facility on its website in the event shareholders have any questions that would otherwise be asked at the General Meeting.

Questions and answers received to date are set out below:

| | Question | Answer | Last Updated |
|----|---|--|---------------------|
| 1. | Why would Smiths News (a distributor of newspapers and magazines, which specialises in the timely delivery of newsprint on a countrywide basis) and Tuffnells (a distributor of parcels, which specialises in delivering unconventionally sized parcels, on a countrywide basis) not be compatible /realise synergistic opportunities and be able to share much of the same infrastructure? | <p>In the Board's view, opportunities for synergies between Smiths News and Tuffnells have been consistently under review, including with particular reference to significant attempts made in 2017 to integrate their respective operations.</p> <p>However, such opportunities have been found to be limited between what are two distinct operating models, with both businesses demanding a key surge in competing operational depot activity at the same time in the morning (3am-7am), and otherwise each representing entirely separate product offerings (news & mags vs IDW freight) and each deploying separate IT infrastructure and operational assets (e.g. sprinter vans vs 3.5 tonne+).</p> | 27 April 2020 |
| 2. | Is selling Tuffnells now the worst possible timing given the onset of the coronavirus pandemic? | <p>The Board first announced a strategic review of the Tuffnells business on 6 November 2019 in order to determine its longer term role and future within Connect Group.</p> <p>During the Board's review period, a careful review of the prospects for Tuffnells' turnaround within the Group's ownership as well as its potential impact on the Group was carefully considered. The review which was ongoing for approximately 5 months and where key parts of which predated the UK Government's 'stay at home' and social distancing measures, involved evaluating a number of options in order to assess which would be most likely to maximise value for Shareholders,</p> | 27 April 2020 |

| | | | |
|----|---|--|---------------|
| | | <p>including:</p> <ul style="list-style-type: none"> • continuing to support the on-going Tuffnells Group turnaround under the Group's ownership; • the potential for and consequences of closing the business; and • a possible disposal to a third party. <p>In relation to a possible disposal to a third party, the Board conducted a thorough and competitive sale process during the review period and received extensive guidance from its advisers, including in relation to the Proposed Transaction. As a result of receiving several competitive offers for Tuffnells and having carefully considered the financial costs and key stakeholder views related to both the possible closure of Tuffnells and the possibility of retaining the business under the Group's ownership, the Board concluded that a disposal of Tuffnells on the terms agreed with the Purchaser is the option that would offer the best opportunity to maximise shareholder value and would be in the best interests of the Company and Shareholders as a whole, and therefore approved the Proposed Transaction.</p> | |
| 3. | Connect Group will provide Palm Bidco Limited with £10.5 Million working capital facility at an interest rate of 10% per annum which is presumably at risk of default? | The loan facility to be made available to Palm Bidco Limited is in fact secured pursuant to a Deed of Security over the English properties in which Tuffnells has a freehold interest (including one long leasehold interest) and other rights and assets relating to such properties including plant, machinery, property rights and insurance policies. Such security can be enforced in the event of Tuffnells default. | 27 April 2020 |
| 4. | Noting that Connect Group PLC agreed to stand as guarantor pursuant to the sale and leaseback agreements relating to 8 Tuffnells properties announced on 23 September 2019 and 7 November 2019, in the event of Tuffnells default presumably Connect Group will remain liable as guarantor? | <p>As a result of Completion of the Proposed Transaction, the guarantees are expected to fall away with no further liability owing to Connect Group.</p> <p>Pursuant to the Share Purchase Agreement made with Palm Bidco Limited, the Purchaser is obliged to promptly either procure a replacement guarantor approved by the relevant Landlord or to procure a rent deposit is provided to the relevant Landlord for a deposit of not less than 12 months' main rent in respect of the relevant Lease Agreement, in each case in a manner to obtain the release of Connect Group from the relevant guarantees. Discussions with the respective Landlords are underway and the</p> | 27 April 2020 |

| | | | |
|----|--|---|---------------|
| | | <p>Board is reasonably confident that those discussions will conclude in short order, extinguishing any ongoing liability for Connect Group.</p> <p>In any case, prior to and after such releases are obtained, the Purchaser has agreed to indemnify Connect Group for any and all costs, claims and liabilities arising under the relevant guarantees.</p> | |
| 5. | <p>It is difficult to see any benefit to Connect Group shareholders of the sale of Tuffnells under the terms outlined in the Circular.</p> | <p>Following the outcome of the strategic review, the Board considers that Group ownership of Tuffnells affords no material synergies to the Group's other businesses including Smiths News or to Tuffnells itself. Retaining Tuffnells would, in the Board's view, hinder the Group's ability to leverage cost efficiencies in managing its central overheads and disposing of Tuffnells is expected to improve the prospects of the Group refinancing its current external debt facilities on more advantageous terms than would be possible while Tuffnells remains part of the Group. While a medium-term recovery of Tuffnells could be achieved under the Group's ownership, Tuffnells would be expected, in the meantime, to remain a significant financial drag on overall profit and surplus free cash for the Group during the turnaround of the business and hinder the Board's stated ambition to reduce net debt leverage.</p> <p>The proposed transaction is also expected to have immediate and tangible benefits to the Group including:</p> <ul style="list-style-type: none"> • elimination of the significant on-going financial drag on the Group's profit (statutory and adjusted) and cash flow as a result of Tuffnells' financial underperformance; • an expected material increase in the Group's adjusted earnings per share on a pro forma basis and an expected material reduction in net cash outflows following Completion; • facilitating the Board's ambition to reduce net debt leverage and to focus on a more prudent and disciplined approach to capital management; • an anticipated improved ability to refinance the Group's debt facilities on more advantageous terms than would be possible whilst Tuffnells remains part of the Group; • removing the distraction of a turnaround plan that has | 27 April 2020 |

| | | | |
|----|--|--|--|
| | | absorbed management time, energy and resources, which the Board believes are better applied to the future strategy of the Group; and <ul style="list-style-type: none">• a refocusing of the Group to concentrate on its core strengths and expertise in newspaper and magazine distribution. | |
| 6. | | | |