

Project Palm

April 2020

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- ▶ Since November 2019 the Board has conducted a strategic review of the Tuffnells business
- ▶ As part of the strategic review the Board considered:
 - ▶ Retention of Tuffnells within the Continuing Group
 - ▶ Closure of Tuffnells
 - ▶ Disposal of Tuffnells
- ▶ Having now explored each option, the Board considers that the proposed disposal of Tuffnells to the Purchaser represents the best outcome for shareholders
- ▶ The disposal of Tuffnells is a Class 1 disposal and is conditional upon the approval of shareholders in order to proceed
- ▶ In order to progress the disposal, Michael Holt, NED of Connect and Exec Chair of Tuffnells is expected to continue to have an active role in Tuffnells post-completion
- ▶ Chairman Gary Kennedy intends to step down from the Board at the time the next interim financial results, provided his successor has been identified by that date
- ▶ A formal search process to identify and appoint his successor is under way and a number of potential candidates have been identified and interviewed

Option 1 - Retention of Tuffnells

- ▶ Ownership of Tuffnells affords no material synergies
- ▶ Tuffnells would be expected to remain a significant financial drag on overall profit and surplus free cash
- ▶ Retaining Tuffnells would hinder the Group's ability to leverage cost efficiencies and reduce net debt

Option 2 - Closure

- ▶ Closure of the business would necessitate making early settlement of many of the Tuffnells Group's liabilities
- ▶ When evaluating the potential costs of closing the business as part of the strategic review, these were considered significant
- ▶ Closure would not be in the best interests of the Company, its shareholders or its other stakeholders



Option 3 - Disposal

- ▶ The Board has conducted a thorough and competitive sale process and received guidance from its advisers
- ▶ Several competitive offers for Tuffnells were received
- ▶ The Board believes that the completion of the disposal will allow the Continuing Group's executive team to focus relentlessly and without distraction on the market in which it is strongly positioned and has operational expertise

Market backdrop

- ▶ Options have been explored in the context of the market backdrop and its impact on trading:
 - ▶ Tuffnells followed a similar downward trend to Smith News with a reduction of 25% to 32% in volumes for the two week's following the announcement of the further social movement restrictions by the UK government
 - ▶ The full impact of the Covid-19 pandemic on the Group will depend on a variety of factors including the length of time the restrictions on social movement are in place and the extent to which further measures are required



- ▶ Based on the anticipated outcome of each of the three options available to the Company, the Board believes that the proposed disposal will maximise value for shareholders and is in the best interests of the company as well being in the best interests of shareholders
- ▶ The Company intends to announce it has conditionally agreed to sell Tuffnells to Palm Bidco Limited, a recently incorporated special purpose vehicle sponsored by BOSS, an independent firm with a focus on turnaround and restructuring services
- ▶ The Board expects that disposing of Tuffnells would improve the prospects of the Group refinancing the Facilities on more advantageous terms than would be possible while Tuffnells remains part of the Group
- ▶ The disposal constitutes a Class 1 transaction pursuant to the Listing Rules and is conditional upon the approval of shareholders in order to proceed

Principal terms of the Proposed Transaction

Consideration

- ▶ £15m deferred cash consideration
- ▶ Payable in three tranches between 18 months following completion and the third anniversary of completion

Facilitating the turnaround

- ▶ £10.5m term loan facility provided by Connect to the Purchaser to facilitate the turnaround, secured against seven properties in which TPE has a freehold interest (and one long leasehold interest)
- ▶ £5m repayable 18m from completion, balance 24m from completion
- ▶ 10% interest per annum payable quarterly

Pension scheme

- ▶ The Tuffnells Pension Scheme and the liabilities relating to it will transfer out of the Continuing Group with Tuffnells at completion

Anti-embarrassment

- ▶ 50% of net sale proceeds of sale within 24 months to Group

If the resolution is not passed by shareholders after a vote is held, Connect has an obligation to pay the Purchaser £100,000 as compensation for any losses the Purchaser may have suffered in relation to the proposed transaction



- ▶ The Purchaser is a special purpose vehicle backed by a consortium brought together by the specialist restructuring advisory firm Broad Oak Support Services LLP (BOSS)
- ▶ BOSS was founded in 2008 and has undertaken an extensive number of projects in a broad range of sectors
- ▶ Its partners have acted on behalf of private equity firms, banks, corporate clients and owner managers, implementing turnaround and restructuring services for public and private businesses in the UK and international markets
- ▶ It is expected that Alastair Watson, founding partner of BOSS, will join the TPE board following completion
- ▶ In order to progress the disposal, Michael Holt, NED of Connect and Exec Chair of Tuffnells is expected to continue to have an active role in Tuffnells post-completion

Proposed Transaction is expected to have immediate and tangible benefits to the Group post completion including:

- ▶ Elimination of the significant on-going financial drag on the Continuing Group's profit (statutory and adjusted) and cash flow
- ▶ Facilitating the Board's ambition to reduce net debt leverage
- ▶ Removing the distraction of a turnaround plan
- ▶ A refocusing of the Group to concentrate on its core strengths



- ▶ As part of the strategic review, the Company concluded that it would also be appropriate to enter discussions with its lenders (given expiry of Connect's facilities on 31 January 2021)
- ▶ External debt advisors were appointed, but the Group has decided to defer the refinancing process given the current uncertainty and tightening of the debt markets, including as a result of the onset of the Covid-19 pandemic
- ▶ The Group expects to conclude discussions on refinancing within the six month period leading up to expiry of the Facilities
- ▶ The Board expects that disposing of Tuffnells would improve the prospects of the Group refinancing the Facilities on more advantageous terms than would be possible while Tuffnells remains part of the Group
- ▶ As Group's existing cash resources alone will not be sufficient to repay the facilities at expiry, the working capital statement to be included in the Class 1 Circular will be qualified

FCA dispensations for General Meeting in light of Covid-19

- ▶ To address the challenges faced by listed companies during the Covid-19 pandemic, the FCA has temporarily modified the Listing Rules with regards to Class 1 transactions and the requirement to hold a General Meeting
- ▶ The Class 1 Circular will be posted and notice given of the General Meeting in the usual way
- ▶ However if shareholders holding >50% of share capital provide written undertakings confirming approval of the transaction and would vote in favour then this will be announced via RNS, the General Meeting will not proceed and the transaction will complete shortly thereafter
- ▶ If you are supportive of the transaction we would ask that you please engage with Berenberg in order to provide that written undertaking

- ▶ The Board considers the proposed transaction to be in the best interests of the Company and its Shareholders as a whole and, accordingly, the Board unanimously recommends that you vote in favour of the Resolution that will be proposed at the General Meeting.
- ▶ On completion, Michael Holt will continue to have an active role in the supervision or management of Tuffnells and an equity interest in the Purchaser, he has not participated in the Board's decision to approve the proposed transaction or recommend that shareholders vote in favour of it.
- ▶ The Board is confident the Group will be a stronger position to negotiate the upcoming refinancing should the transaction proceed than were it not to proceed

Indicative timetable

- ▶ Announcement:
15 April 2020
- ▶ Publication of
Class 1 Circular:
15 April 2020
- ▶ General Meeting:
1 May 2020
- ▶ Completion:
2 May 2020

Appendix

Glossary of defined terms

Board	the board of directors of the Company		
BOSS	Broad Oak Support Services Limited Liability Partnership incorporated under the laws of England and Wales, Company number OC334331	Proposed Transaction	the proposed disposal of the Tuffnells Group by way of a share sale pursuant to the terms of the Share Purchase Agreement which constitutes a Class 1 transaction under the Listing Rules and requires the approval of Shareholders at a General Meeting of the Company
Company	Connect Group PLC, a public limited company incorporated in England and Wales with registered number 05195191 and whose registered office is Rowan House, Cherry Orchard North, Kembrey Park, Swindon, SN2 8UH	Purchaser	Palm Bidco Limited a company incorporated and registered in England and Wales with company number 12547241 whose registered office is 10 St Bride Street, London, EC4A 4AD
Completion	completion of the Proposed Transaction as contemplated by the terms of the Share Purchase Agreement	Resolution	the ordinary resolution to be proposed and considered at the General Meeting to approve the Proposed Transaction as set out in the Notice of General Meeting forming part of the Circular
Continuing Group	the Company and its subsidiaries with effect from completion of the Proposed Transaction	Sale and Leaseback Agreements	the leases of TPE relating to the sale and leaseback transactions which completed in 2019 and which were announced by the Company via a Regulatory Information Service
Directors	the directors of the Company	Shareholder	a holder of Ordinary Shares from time to time
Facilities	the Revolving Facility and the Term Facility	Smiths News	Smiths News Holdings and its subsidiaries
General Meeting	the General Meeting of the Company to be held at Rowan House, Cherry Orchard North, Kembrey Park, Swindon, SN2 8UH at 10.00 a.m. on or around 1 May 2020, notice of which is set out in Part VIII (Notice of General Meeting) of the Circular, including any adjournment of it	TPE	Tuffnells Parcels Express Limited, a company incorporated and registered in England and Wales with company number 00319964 whose registered office is Rowan House Cherry Orchard North, Kembrey Park, Swindon, United Kingdom, SN2 8UH
Group	the Company and its subsidiaries	Tuffnells Group	HoldCo and its direct and indirect subsidiaries including TPE
Proposed Refinancing	the Company's proposed refinancing of the Facilities		

Pro Forma Financial Information



£m	The Group YE 31 August 2019 (A)	Adjustment - Tuffnells Group YE 31 August 2019 (B)	Pro forma income statement of the Group YE 31 August 2019 (A+B)
Revenue	1,467.9	(164.4)	1,303.5
Cost of Sales	(1,387.0)	182.3	(1,204.7)
Gross Profit/Loss	80.9	17.9	98.8
Admin expenses	(112.8)	49.7	(63.1)
Income from joint ventures	0.6	0.0	0.6
Operating (loss)/profit	(31.3)	67.6	36.3
Finance costs	(6.3)	0.2	(6.1)
(Loss)/profit before tax	(37.6)	67.8	30.2
Income tax expense	6.1	(14.4)	(8.3)
(Loss)/profit for the year	(31.5)	53.4	21.9

Tuffnells P&L (unaudited)



£m	Tuffnells Group YE 31 August 2017	Tuffnells Group YE 31 August 2018	Tuffnells Group YE 31 August 2019
Revenue	183.8	175.2	164.4
Cost of sales	(160.8)	(163.9)	(182.3)
Gross profit / (loss)	23.0	11.3	(17.9)
Admin expenses	(18.7)	(69.0)	(49.7)
Operating profit / (loss)	4.3	(57.7)	(67.6)
Finance costs	(0.3)	(0.3)	(0.2)
Profit / (loss) before tax	4.0	(58.0)	(67.8)
Income tax expense	(0.9)	1.0	14.4
Profit / (loss) after tax	3.1	(57.0)	(53.4)