Extract of Project Spice draft report

Options summary

We have considered the viability and merits of options available to ECSP1 and/or PCC ranging from amending the existing PCC loan, to a sale of the business, to an insolvency of ECSP1.

Important notice

- Teneo Restructuring Limited has been engaged by Peterborough City Council ("PCC") and ECS Peterborough 1 LLP ("ECSP1") for the sole purpose of assisting and advising PCC and ECSP1 in accordance with our engagement letter dated 20 May 2021. Teneo Restructuring Limited accepts no liability to any party other than to the addressees of the engagement letter.
- These three slides are an extract of our draft report for PCC to share with its cabinet on the basis that it may not be relied upon by any party other than PCC and ECSP1 in accordance with our engagement letter dated 20 May 2021.

Introduction

- In this section we have considered the viability and merits of key options available to ECSP1 and/or PCC to achieve repayment of the PCC loan.
- A summary of key attributes of each option is presented below. Our conclusion on the best option(s) to maximise recoveries for creditors is on the following page.

Max recoveries for creditors

	Option number and description	PCC exit?	Avoids loss crystallisation?	Empower remains in control of ECSP1?	Avoids insolvency process or FCR?	Avoids risk of key contract termination?
NPV in region of £20.4m*	1. Amendment to existing PCC loan	✗	Uncertain	✓	✓	✓
	2. PCC takes ECSP1 or its assets in-house	✗	Uncertain	✗	Uncertain (depending on legal mechanism)	Uncertain (depending on legal mechanism)
Enterprise value in region of £15.4m*	3. Consensual sale of ECSP1 or its assets	✓	✗	Uncertain	✓	✓ (assuming entity sale)
	4. Non-consensual sale of ECSP1 or its assets effected using PCC's security rights	✓	✗	✗	✓	✓ (assuming entity sale)
	5. Refinance or sale of PCC debt	✓	✗	✓	✓	✓
	6. Pre-pack administration sale of ECSP1's business and assets	✓	✗	✗	✗	✗
	7. Administration of ECSP1 and subsequent sale of business and assets	✓	✗	✗	✗	✗
	8. Fixed charge receiver appointment to ECSP1's assets	✓	✗	✗	✗	✗

Min recoveries for creditors

** Indicative values as at 31 March 2020 based on valuation report*
Source: Management information, Teneo analysis, valuation report

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Conclusions

We consider that either an amendment to the existing PCC loan (extended term and reduced interest rate) or PCC taking the asset in-house would provide the maximum financial recovery for PCC, though both would require a long-term hold by PCC.

88

Should PCC wish to exit from ECSP1 in the short term then we consider that a sale of the business and assets (whether consensual, non-consensual or insolvent) would provide the next best financial outcome. In practice, the delivery mechanism for this sale would develop during the marketing process.

Max recoveries for creditors

Amendment to existing PCC loan *(Opt. 1)*

- PCC reduces interest rate to level at or close to its cost of capital and extends amortisation profile over FiT period.
- All CFADS to be applied to debt service – thus NPV of debt repayments c.£20.4m (as in Opt. 2).
- In this scenario, Empower would remain in control of the asset (with ECM as asset manager).
- PCC remains exposed to risks/opportunities of ECSP1's business model with risk of value erosion over time.

Refinance or sale of PCC debt *(Opt. 5)*

- Whereas a buyer of the assets would base their offer on the value of the assets, a lender would require to adhere to LTV limits and only lend a percentage of the asset value.

PCC takes ECSP1 or its assets in-house *(Opt. 2)*

- Various legal mechanisms for PCC taking control including through its rights under its debenture, assignment and assumption deed or by acquiring the business through a pre-pack administration (effectively in settlement of some or all of PCC's debt).
- NPV of future cash flows estimated at £20.4m based on discount rate of 2.1%.
- In this scenario, PCC would be in full control of the assets and could choose to replace ECM with an alternative asset manager.

Organised sale processes

In practice, the delivery mechanism for a sale transaction will develop during the marketing process, based on the level of interest and preferences of key interested parties and method through which the best outcome for creditors can be achieved

Consensual sale of ECSP1 or its assets *(Opt. 3)*

- The valuation report estimated an enterprise value between £14.5m and £16.4m. Whilst the market has not been tested this is an approximate guide as to the value which may be achieved in a consensual sale.

Non-consensual sale of ECSP1 or its assets effected using PCC's security rights *(Opt. 4)*

- A non-consensual (but non-insolvent) sale would likely carry a further discount due to the sale circumstances and perceptions of distress by buyers.

Pre-pack administration sale of ECSP1's business and assets *(Opt. 6)*

- Whilst in a pre-pack sale the purchaser would not inherit creditor liabilities (potentially increasing value), a buyer would typically expect an insolvency "discount".
- Additionally, PCC may suffer "leakage" to unsecured creditors via the prescribed part, along with the costs of the administration process itself.

Administration of ECSP1 *(Opt. 7)* OR
Fixed charge receiver appointment to ECSP1's assets *(Opt. 8)*

- Continued trading by an FCR or administrator may require supplier ransom payments and buyers would expect an insolvency discount.
- The costs of an FCR appointment are likely to be lower than an administration due to the more limited nature of an FCR's responsibilities.

Min recoveries for creditors

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Glossary

CFADS	Cash flow available for debt service
Empower	ECM and ECF as members of ECSP1
ECF	Empower Community Foundation
ECM	Empower Community Management LLP
ECSP1 or the Borrower	ECS Peterborough 1 LLP
FiT	Feed-in-tariff
FCR	Fixed charge receiver
LTV	Lend to value
Management	The senior management of ECSP1
NPV	Net present value
PCC or the Lender	Peterborough City Council

68

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