Information regarding the sale of specific assets of Mothercare UK Ltd ("MUK" or the "Company") on 5 November 2019 as required by Statement of Insolvency Practice No. 16 ("SIP16")

The purpose of Statements of Insolvency Practice (SIPs) is to promote and maintain high standards by setting out required practice and harmonising the approach of Insolvency Practitioners to particular aspects of insolvency work.

SIP 16 relates to situations where the sale of all or part of a company's business or assets is negotiated with a purchaser prior to the appointment of an administrator and the administrator effects the sale immediately on, or shortly after, appointment. This is sometimes referred to as a "pre-packaged sale".

A copy of SIP 16 can be found at the link below:

https://www.icaew.com/-/media/corporate/files/technical/insolvency/regulations-and-standards/sips/england/sip-16-e-and-w-pre-packaged-sales-in-administrations-2015.ashx

Background

The Mothercare Group (Mothercare plc and its subsidiaries, together the "Group") is an international retailer of prams, pushchairs, maternity and baby clothing and other items. In the UK, products are sold through the Group's own multi-channel retail operations (79 UK stores and online) and via a smaller wholesale operation. Internationally, the Group's products are sold through its franchise partners' retail stores, online and via a wholesale business for territories where there are not currently franchise partners.

The main trading company in the Group is Mothercare UK Limited ("MUK"). Its accounts show the following financial performance:

Year ended	*Revenue £m*	*Loss £m*
March 2019	336.6	36.3
March 2018	381.5	40.4
March 2017	459.4	4.4

Given the loss-making position of MUK, management has been pursuing a number of restructuring options to try and preserve the business.

Company Voluntary Arrangements

In light of the financial position of the Group, in May 2018, MUK and other Group entities proposed company voluntary arrangements ("CVAs") to close a number of stores and seek rent reductions at others. The CVA supervisors were insolvency practitioners from KPMG LLP. The CVA was successfully approved for all legal entities (including MUK) other than Childrens World Limited (a company holding the legal interest in a number of leased properties) where sufficient creditor votes in favour of the CVA were not obtained.

As a consequence of the CVA not being approved, Childrens World Limited entered administration on 9 July 2018. This administration has since been concluded.

Continued losses and cash flow pressure

The MUK CVA did not ultimately solve the Company's problems and, following the approval of the CVA, the UK business continued to be loss making, whilst the international franchise business remained profitable.

Management therefore explored a number of options to split the UK and international businesses. Mothercare plc, the Group's parent company, engaged Numis as advisors to run a sales process primarily focused on the UK business but also providing potential buyers with the opportunity to bid for the Group as a whole.

While 35 potential purchasers were approached, resulting in two parties making indicative offers and undertaking additional due diligence, ultimately neither party made an offer to buy the business or separately the brand.

Additionally, PwC was engaged in May 2019 through to August 2019 by Mothercare plc to assist with the development of strategy and options to potentially restructure the Group and separate the UK and international operations.

One of the options identified was a CVA which the Group chose to develop further with another advisor. However, this option was ultimately not implemented and PwC was asked to consider the remaining options.

Given the cash flow position of the Company, and lack of offers for the UK business, the directors resolved the Company was insolvent. The directors filed a Notice of Intention to Appoint Administrators on 4 November 2019 and Zelf Hussain, David Baxendale and Toby Banfield were appointed as joint administrators on 5 November 2019.

Immediately following the administration appointment, Mothercare Global Brand Limited, purchased the beneficial interest in the international franchise contracts and intellectual property of the MUK business together with rights to key operating contacts. The consideration for the purchase was the assumption of certain MUK liabilities, notably the MUK defined benefit pension schemes and certain trade creditors. In addition, as part of the transaction, it has been agreed that intercompany balances due to other members of the Group will not participate in any dividend distribution made in MUK. This significantly reduced the value of unsecured creditor claims in MUK and is expected to result in a higher ultimate dividend to the remaining unsecured creditors. This is because the value of stock and other assets recovered in MUK will be distributed to a smaller pool of unsecured creditors.

We explain in more detail below why this transaction represents the best value for MUK's creditors, including the top-up consideration mechanic which is explained below.

Other assets of MUK

It should be noted that the asset sale which is subject to this disclosure is that of the international franchise contracts and the brand. The UK retail business is currently trading under the supervision of the administrators and their appointed agents, Gordon Brothers and has not been sold. Further information in relation to the realisation of the assets of the UK business will be provided to creditors through the normal reporting channels of the administration in due course.

The administrators' initial introduction	The now joint administrators were approached by Clive Whiley (Chairman Mothercare plc) and Glyn Hughes (CFO Mothercare UK) in May 2019.
The extent of the administrators' involvement before the appointment	PwC was engaged in May 2019 through to August 2019 by Mothercare plc to assist with the development of strategy and options to potentially restructure the Group and separate the UK and international operations. Separately, an independent team from PwC, that was subject to ethical walls, has been advising the trustees of the Mothercare Group's defined benefit pension schemes since early 2017. These two schemes were sponsored by MUK, with guarantees from Mothercare plc. This team supported the trustees in dealing with the issues relating to the MUK CVA process in May 2018 and also advised the trustees in respect of the various restructuring proposals considered by the Group. Additionally, and as noted in the background section, following the unsuccessful CVA proposal for another Group company, Childrens World Limited, Zelf Hussain and David Baxendale, two of the three administrators of MUK, were appointed as administrators of that company.
Alternative options considered by the directors before formal insolvency and by the administrators on their appointment and during the administration and the possible outcome(s) of the alternative options, including why it was not appropriate to trade the business and market the brand during the administration	**Pre-appointment options considered** *Solvent sale* The directors sought a solvent sale of all or part of the business, engaging Numis as advisors. This did not result in any executable offers for the business or the brand. *New CVA* As mentioned previously, the Directors considered a new CVA proposal. We understand the other professional advisor engaged ultimately considered this not to be viable, given the worsening liquidity position of MUK. **Post-appointment options** *Trading administration* Allowing the international business to trade for a period under the administrators' supervision was considered but then viewed not to be in the best interests of preserving value to creditors. The international franchise agreements were subject to termination upon an insolvency event, and would therefore have been open to renegotiation or complete termination. This would have significantly eroded the value of the Company's assets by impacting on the value of the brand and the ability to continue to operate the international franchises. *Liquidation/shut down* This option would also have resulted in poorer returns for creditors as the international franchise agreements would have terminated and the ability to trade the business would have been impacted by the termination of trading contracts and employee contracts. This would also have limited the strategic options for the UK business.

	Post-appointment CVA Given the previous unsuccessful CVAs within the Group, and the advice to the directors on a CVA not being viable, implementing a CVA post appointment of administrators was not considered to lead to a better outcome to creditors.
Why it was not appropriate to trade the international business and offer it for sale as a going concern during the administration	See comments above regarding trading the business.
Whether efforts were made to consult major or representative creditors	The secured lenders were consulted with during the pre-appointment marketing period. They were also kept apprised of the level of offers, provided with an assessment of their deliverability and impact on the outcome for creditors. The secured lenders also had to consent to the appointment of the joint administrators and in addition agreed to grant a forbearance in respect of certain enforcement rights in respect of the defaults that arose from the administration filing. The lenders were therefore consulted with immediately prior to the administrators' appointment. The pension scheme trustees were consulted in the international franchise transaction. They were independently advised and consented to the transaction by transferring the MUK pension scheme liability to Mothercare Global Brand Limited under the terms of the Scheme Apportionment Agreements. Accordingly, there will be no claim in the estate in respect of the pension scheme liabilities. The Pension Protection Fund and the Pensions Regulator were also made aware of the transaction. Additionally the intra-group creditors, where it was agreed that the relevant Group company would not claim in the estate of MUK, were consulted with in advance. Mothercare plc remained a listed entity throughout the process and the directors took continued advice on their responsibilities in making announcements to the market. The listed status of Mothercare plc meant that it was not possible to consult with creditors more widely albeit the creditors referred to above were the three largest groups of creditors and represented 100% of the secured creditor base and 68% of the estimated unsecured creditor base.
Requests made to potential funders to fund working capital requirements	The Group has been in long running discussions with its lenders about the performance of the business and its liquidity position. Given the level of losses incurred, it was not viable to request additional funding to avoid an insolvency. We understand that an approach was made to shareholders for additional funds but that no funding was forthcoming.

Details of registered charges with dates of creation	(a) an English law governed debenture in favour of HSBC and dated 17 May 2018 creating (inter alia) fixed and floating security over all assets of MUK; (b) Hong Kong law governed share charge in favour of HSBC and dated 17 May 2018 securing (inter alia) MUK's shares in Mothercare International (Hong Kong) Limited; (c) an English law governed debenture in favour of HSBC and dated 5 May 2017 creating (inter alia) fixed and floating security over all assets of MUK; (d) a Hong Kong law governed share charge in favour of HSBC and dated 5 May 2017 securing (inter alia) MUK's shares in Mothercare International (Hong Kong) Limited; (e) a Hong Kong law governed share charge in favour of HSBC and dated 18 May 2012 securing (inter alia) MUK's shares in Mothercare International (Hong Kong) Limited; (f) an English law governed debenture in favour of HSBC and dated 11 April 2012 creating (inter alia) fixed and floating security over all assets of MUK; (g) an English law governed debenture in favour of HSBC and dated 16 May 2011 creating (inter alia) fixed and floating security over all assets of MUK; (h) a rent deposit deed in favour of Brookshire Capital LLP and dated 11 April 2012; and (i) an English law governed debenture in favour of HSBC and dated 16 May 2011 creating (inter alia) fixed and floating security over all assets of MUK.
Whether or not the business or business assets have been acquired from an insolvency practitioner within the previous two years	No
Marketing activities conducted by the Company and / or administrators	As noted above, pre-appointment, Mothercare Plc engaged Numis to run a sales process primarily focused on the UK business but also providing potential buyers with the opportunity to bid for the Group as a whole. Numis identified a list of potential Sponsor, Trade and Strategic bidders on a tiered approach: ● The initial contact was made with Tier 1 and 2 accounts (starting in July 2019) ● Selectively, contact was made with the Tier 3 parties ● 35 parties were approached in total ● Discussions and the granting of data room access continued from July to September 2019.

	Two parties made indicative offers and undertook additional diligence and attended meetings/calls with management. Neither offer progressed to the stage of a final offer being made, either to buy the business or separately the brand. We believe that the above process targeted the most appropriate buyers to the situation. The administrators are of the view that the marketing process was fully transparent as each of the interested parties had access to the same information. It was also as comprehensive as possible in the time available and sought to achieve the best value possible for the business. We did not advertise the business for sale, and it is not customary to do so in situations such as this. It has been widely reported in trade and business press that the business was available for sale (see 26 July 2019 market update from Mothercare plc where reference was made to transforming UK retail operations to an independent franchise). As such, we consider that the availability of the business for sale has been sufficiently and widely publicised.
Valuer's details	Metis Partners Limited ("Metis") was appointed to value the intellectual property (brand and international franchises). Metis confirmed their independence in providing this valuation.
Valuations of the business or the underlying assets	Metis was provided with a schedule of designs, patents, trade marks, domains and supporting financial information by the Group. They also had meetings with the Head of Legal and Chief Financial Officer of Mothercare Plc. The assumptions which were used in the valuation were: - Sale of the brand from a company in administration - Franchise contracts not enforceable on an insolvency event - Any buyer would have adequate due diligence support in looking to acquire the assets - Sale to accelerated timelines - A reasonable period of marketing would be allowed to complete the sale The brand was valued at between £7.5m and £13.7m. No other asset valuations were obtained. The plant and machinery included in the sale was primarily fixtures and fittings at the head office and South China hub. The computer system sold was computer hardware, software, telecommunications, networks and internet-related equipment. In both cases, the administrators considered that these assets had limited value, in-situ or otherwise, and no specific value has been ascribed to them in the sale agreement.
The date of the transaction	5 November 2019

The identity of the purchaser(s)	Mothercare Global Brands Ltd
Any connection between the purchaser(s) and the directors, shareholders or secured creditors of the Company or their associates	The purchaser and the vendor have a common ultimate parent, Mothercare plc.
Whether the purchaser was independently advised	Yes – the purchaser was advised by Bird & Bird LLP and DLA Piper DDP
The names of any directors, or former directors (or their associates), of the Company who are involved in the management, financing or ownership of the purchaser, or of any other entity into which any of the assets were / will be transferred	William Glyn Lawrence Hughes Kevin Jonathan Rusling
Whether any directors had given guarantees for amounts due from the Company to a prior financier, and whether that financier is financing the new business	No personal guarantees given
Whether the transaction impacts on more than one related company	No
Details of the assets involved and the nature of the transaction	**Assets included in the transaction** • goodwill; • book debts; • the benefit (subject to the burden) of the Alshaya Facility (a receivables credit facility); • the plant and machinery (mainly fixtures and fittings at the head office and south china hub);

	- the computer system (computer hardware, software, telecommunications, networks and internet-related equipment owned or used by the Seller in connection with the Business) - the seller's records; - shares in Group companies owned by MUK; - the benefit (subject to the burden) of the customer and supplier contracts; - the beneficial interest in the Business IPR and the Franchise Agreements.
The consideration for the transaction, terms of payment, and any condition of the contract that could materially affect the consideration	**Initial consideration** The initial consideration is non-cash. The purchaser is assuming the following liabilities, from which MUK is released: - Mothercare UK Pension Scheme with a s75 buyout deficit of £159.1m; and - Certain trade creditor balances, totalling £3.75m. In addition, the administrators have negotiated that intercompany balances due to other members of the Group of £168.8m will not participate in any dividend distribution in MUK. This benefits the remaining unsecured creditors by significantly reducing the value of unsecured creditor claims in MUK, meaning a higher ultimate dividend being available to the remaining unsecured creditors. These items have not been allocated between fixed and floating charges, given that they are non-cash items and the purchaser has confirmed that the administrators may allocate them in such way as they see fit. As such, if it were to become necessary to allocate between fixed and floating charges, this split will subsequently be disclosed to creditors in progress reports. **Top up consideration adjustment** The purchaser has agreed to pay an additional cash amount. This is to safeguard that the transaction delivers an outcome to creditors at least in line with other possible insolvency scenarios. The top up consideration adjustment is as follows: - The purchaser has provided an uncapped commitment to the secured creditors of MUK to ensure they are paid in full. - Provided the secured creditor is repaid in full, the purchaser will pay a cash amount into the administration which will be calculated on an agreed formula to ensure that a certain distribution to creditors is underpinned (subject to a cap). We are not disclosing the capped amount here for commercial reasons. - Once the administrators are in a position to make a final distribution to MUK's unsecured creditors, they will notify the purchaser of this, and of the proposed dividend percentage.

	Sell-on clause If the purchaser's business is subsequently sold within 12 months, the sale agreement provides for an additional payment to the administration, where consideration for that sale exceeds a certain threshold. Above this threshold, 50% of the sale price would be payable.
Any options, buy-back arrangements, deferred consideration or similar conditions attached to the transaction	Yes - see information above regarding top up consideration potentially due
If the sale is part of a wider transaction, a description of the other aspects of the transaction	No
Connected party transactions	Where a sale has been undertaken to a connected party, the purchaser may choose to approach the Pre-pack Pool, an independent body which reviews connected party pre-pack sale transactions, for its opinion on the sale. The purchaser decided not to approach the Pre-pack Pool given the time constraints involved.
The sale and the purpose of administration	Following their appointment, administrators must perform their functions with the objective of achieving the statutory purpose of the administration. The statutory purpose of administration is to achieve one of these objectives:- (a) rescuing the Company as a going concern, or if that is not possible or if (b) would achieve a better result for the creditors than (a) (b) achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in administration), or finally, if that is not possible (c) realising the Company's assets to pay a dividend to secured or preferential creditors. In general, administrators must perform their functions in the interests of the creditors of the Company as a whole. In this case, the joint administrators are pursuing objective b) as it was not possible to rescue the Company as a going concern.