

To all known creditors

4 February 2021

Our ref: /D355Gv2017

Dear Sirs

**Paperchase Products Limited – in Administration (“the Company”)**

**Why you’ve received this letter**

The Company’s records show that you may be owed money by the Company. So, I’m writing to tell you that, as shown on the enclosed notice, Rob Lewis, Rachael Wilkinson and I were appointed joint administrators of the Company on 28 January 2021. We will manage the Company’s affairs, business and property as its agents and without personal liability.

I’m also writing to tell you about the sale of part of the Company’s business and assets.

**The purpose of administration**

The statutory purpose of an 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 isn’t possible
- c. realising the Company’s assets to make a distribution to secured or preferential creditors.

In this case, we are pursuing objective (b) as it wasn’t possible to rescue the Company as a going concern.

**Sale of part of the business**

I’m pleased to tell you that on 28 January 2021 part of the Company’s business and assets were sold to Aspen Phoenix Newco Limited (“the Purchaser”) as a going concern. Details of the sale are in the appendix.

The sale enables the statutory purpose to be achieved and was the best available outcome for creditors as a whole in all the circumstances. The sale has resulted in 761 jobs being saved, with potentially more in subsequent property transfers.

If you’re a supplier or customer with an outstanding order, you want to reclaim stock subject to retention of title or you own property hired or rented by the Company, please contact [admin.queries@paperchase.co.uk](mailto:admin.queries@paperchase.co.uk) which is monitored by the Purchaser.

**What you’re owed**

Our preferred method for creditors to submit claims and supporting documents is via the Turnkey (IPS) online portal, as this is the most efficient and cost effective way for us to deal with your claim and also allows you to better track its status, so we recommend the use of the online portal for claim submission. Your unique login details will be sent to you separately.

If your claim includes VAT, you may be able to obtain VAT bad debt relief six months after your supply. Your local VAT office can help you with this.

**How we report to creditors**

Our proposals setting out how we intend to achieve the purpose of administration are being published at the same time as this document.

Every six months until the administration ends, we will also issue a report on the progress of the administration. Our first report will be available at [www.pwc.co.uk/paperchase](http://www.pwc.co.uk/paperchase) in late August 2021.

**Your rights as creditors**

Our appointment means that you can’t start or continue legal action, enforce security or repossess any goods held by the Company unless we agree or the court allows it.



**Strictly private and confidential**

You can find information on your rights and administrators' fees at:

<https://www.icaew.com/-/media/corporate/files/technical/insolvency/creditors-guides/2017/administration-creditor-fee-guide-6-april-2017.ashx?la=en>

Please contact [uk\\_paperchase\\_creditors@pwc.com](mailto:uk_paperchase_creditors@pwc.com) if you'd like a paper copy free of charge or have any questions.

Finally, you also have the right to opt out of receiving further documents relating to these proceedings. Please see the attached sheet 'Information provided to creditors on opting out in accordance with Rule 1.39' for full details.

The right to opt out only applies to documents required by the Insolvency Act 1986 or the Insolvency (England and Wales) Rules 2016 to be delivered to creditors generally or to a particular class of creditors. It does not apply to documents or correspondence sent to people in a capacity other than as creditor (e.g. as an employee) or to correspondence sent to individual creditors.

Any formal opt out request should be sent to Dharmil Mehta at the address listed above or by e-mail to: [uk\\_insolvencydocsrequests@pwc.com](mailto:uk_insolvencydocsrequests@pwc.com).

### **Directors' conduct**

One of our duties is to look at the actions of anybody who has been a director of the Company in the three years before our appointment. We also have to decide whether any action should be taken against anyone to recover or contribute to the Company's assets. If you think there is something we should know about, please write to me at this address. This is part of our normal work and doesn't necessarily imply any criticism of the directors' actions.

Yours faithfully  
For and on behalf of the Company



Zelf Hussain  
Joint administrator  
Enclosures: Appendix

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Information provided to creditors on opting out in accordance with Rule 1.39

Zelf Hussain, Rob Lewis and Rachael Wilkinson have been appointed as joint administrators of Paperchase Products Limited to manage its affairs, business and property as its agents and act without personal liability. The joint administrators are all licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales. The joint administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

The joint administrators may act as controllers of personal data as defined by UK data protection law depending upon the specific processing activities undertaken. PricewaterhouseCoopers LLP may act as a processor on the instructions of the joint administrators. Personal data will be kept secure and processed only for matters relating to the joint administrators' appointment. Further details are available in the privacy statement on the [PwC.co.uk](https://www.pwc.co.uk) website or by contacting the joint administrators.

## Appendix

### Information regarding the sale of the business and assets of Paperchase Products Limited on 28 January 2021 as required by Statement of Insolvency Practice No.16 (SIP 16)

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'.

In the lead up to an administration appointment, an insolvency practitioner may act as an advisor to the company as it seeks to make arrangements for a sale. Their role at this time is to advise the company, rather than the directors or the purchaser.

Following an appointment where no sale agreement has yet been signed, the insolvency practitioner may become the administrator and complete the sale in that role. When considering the manner of disposal of the company's business or assets, an administrator must bear in mind their duties to company's creditors as a whole.

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>

More information regarding the purpose and process of administration can be found at the link below:

[https://www.r3.org.uk/media/documents/publications/professional/Creditors\\_Administration.pdf](https://www.r3.org.uk/media/documents/publications/professional/Creditors_Administration.pdf)

Information relating to this sale is set out in the remainder of this Appendix.

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#### Background

#### Business operations

The Company operated as a retailer of greeting cards, gift wrap, gifts and stationery from (i) 125 leasehold sites across the UK selling a combination of own brand and branded products; (ii) operated concessions in a number of department stores including House of Fraser, Selfridges and Fenwicks, and through various Next stores; and (iii) ran an ecommerce channel through its own website and Amazon, and wholesale partnerships with Al Maya in the Middle East and Norli in Norway.

The Company also operated a warehouse and distribution centre from a leasehold property in Haldens Parkway (Unit 1A), Thrapston, Northamptonshire NN14 4FR, United Kingdom, with an outsourced distribution service provided by iForce Group to support ecommerce sales. Its head office was formerly located above a trading store on Tottenham Court Road, London.

The Company employed 1,278 people across its store portfolio, head office function and its distribution centre.

#### Group structure

The Company operated as part of a wider group, although Paperchase Products Limited is the main trading entity. The group is owned by Primary Capital Partners LLP ("Primary Capital").

A group structure chart is set out at Appendix A.

The group contains various subsidiaries. The Company previously provided head office support and management services to the subsidiaries.

Paperchase Limited and Paperchase Designs Limited are both dormant UK entities with no value. Paperchase Retail Inc ceased to trade on 31 December 2020 when the group took the decision to close down this company and focus on core UK operations. Paperchase Canada Retail Limited formerly operated a

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concession agreement in Canada with Hudson Bay, however this is subject to a separate locally controlled winding up process.

Paperchase Designs Ireland Limited ("PDIL") is registered in Ireland and operates one branch and one concession through a department store in Ireland. It also owns branches in France and Germany that trade under concession arrangements. PDIL is subject to a separate local liquidation process.

The Company's secured creditor was Sanne Fiduciary Services Limited but the funding was provided by Lloyds Banking Group ("Lloyds Bank") and Permira Debt Managers Ltd ("PDM"). At the date of appointment, the exposure to Lloyds Bank totalled c£375k in respect of credit card accounts and a duty deferment account. The majority of the funding to the group was provided by PDM. The Company owed £55.2m to PDM as at the date of the administration.

### Background and trading history

Primary Capital acquired the Paperchase brand and trading operations from Borders in July 2010. This included 65 branded stores and 35 concessions. The strategy was to expand the retail estate and grow the business.

In 2015, Primary Capital launched a sale process in order to release the value of its investment in the group. We understand that whilst offers were received for the business, Primary Capital decided against a sale and instead sought a refinance and investment for continued expansion. PDM invested £32 million into Paperchase Worldwide Group Limited, which was cross guaranteed across group entities, which repaid the loan notes to Primary Capital and covered refinancing fees.

Over recent years, the Company has faced a significant number of challenges with turnover and profitability declining year on year as noted in the table below.

Y/E Jan £m	** FY21 outturn	FY20 Management	FY19 Audited	FY18 Audited	FY17 Audited
Turnover	56.9	108.9	125.3	131.1	124.1
Gross Profit without exceptional items*	-	-	14	17.9	21.5
Gross Profit	0.1	16.1	7.4	15.4	20.3
EBITDA without exceptional items*	-	-	0.3	4.4	9.0
EBITDA	(10.0)	2.2	(7.2)	1.4	8.0
Operating Profit/(Loss) without exceptional items*	-	-	(4.7)	(1.1)	3.5
Operating Profit/(Loss)	-	(12.4)	(12.3)	(4.1)	2.1
Net Assets	-	-	(6.1)	1.4	5.9
Cash	-	1.4	2.1	4.6	7.8
*Exceptional items include but are not limited to the store closures as a result of the CVA					
** Trading performance impacted by Covid-19 store closures					

The Company's trading performance has been declining in recent years due to the increased fixed cost base associated with its retail store portfolio (increasing wage costs, rent costs and business rates). Together with a shift in consumer buying behaviour to online driving reduced footfall in retail locations, this led to pressure on performance from 2017-18 onwards.

In early 2019, in light of the financial difficulties facing the Company, the directors sought independent professional advice from KPMG to understand the options available to the business, including a refinance of its secured debt, and a sale of the Company's shares to a third party. Ultimately, these options weren't viable and resulted in the Company proposing a Company Voluntary Arrangement ("CVA") which was subsequently approved by the Company's creditors in March 2019,

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with the objective of amending the rental terms to be in line with prevailing market rates.

At the same time, Lloyds Bank withdrew an £8m working capital facility, and Primary Capital declined the opportunity to provide a replacement facility. To provide sufficient liquidity to the business, PDM advanced £16m of additional funding to the Company to support its day to day operations. This included replacing the Lloyds Bank facility, plus investing £8m via a new secured loan. A separate Capex facility which had been in place with Lloyds Bank since pre-2010 had reduced to £1.5m by the start of the CVA and was repaid in equal instalments of £750k in January 2020 and December 2020. The £16m loan also included a call option on the shares of PWGL for £1.

The CVA sought to categorise stores according to performance, exiting stores that were unprofitable, securing rent reductions where stores were non-viable and securing turnover rent agreements to reduce the fixed cost base of the business. At the time, London based stores were highly profitable, in particular stores located at major rail and underground stations, as well as other locations on key commuter thoroughfares. The CVA therefore left these stores on existing lease terms and targeted savings in other locations. The Board also took the opportunity to implement their new business plan focused on enhancing the Paperchase brand, streamlining the supplier base, securing cost reductions across the rest of the business and investing in a new e-commerce site.

The CVA was completed in August 2019 in line with the terms of the CVA proposal, and the Board continued to progress with the new business plan. The reduced rental agreements remained in place for the duration of the 3 year term secured as part of the CVA. Up until March 2020, the restructured business was performing in line with expectations and the Board were confident that the new business plan could continue to be delivered, successfully moving the business back into profitability, generating £2.8m EBITDA in the year to 31 January 2020.

#### **Events leading up to administration**

In March 2020, the effects of Covid-19 started to hit the UK economy. At this point, the directors worked closely with their advisors (KPMG) on how to manage the effects of the pandemic on the business. The nationwide lockdown in March severely impacted the Company's performance as all shops were closed for three months, with the Company only able to rely on its e-commerce business. In the period from March to May 2020, the business made a £4m loss compared to a £1.9m loss in the same period in 2019.

During the first lockdown, the directors took advantage of the various government support schemes around Covid-19 and sought further rent concessions from landlords. Lloyds Bank was also approached to request access to further financing via the CLBILs scheme, which was subsequently declined. As Primary Capital had previously indicated that no further funding would be forthcoming, the directors approached PDM to request additional funds be invested into the Company, with a resulting £5.0m funding provided in July 2020.

The second national lockdown in November 2020 caused a far greater impact as it coincided with the Company's key trading period in the lead up to Christmas. In 2019, this period generated profit of £6.2m and in 2020 it generated a loss of £1.1m.

Overall, the Company is expecting to deliver an EBITDA loss in FY21 of £7.6m compared to the £2.8m profit in FY20.

In terms of the store portfolio, the Company has seen a substantial shift in footfall, with the stores that were previously performing well pre-pandemic due to high commuter footfall now loss making. The turnover of the rail station and city centre stores for the period has been the hardest hit as a result.

In early November 2020, the directors formally engaged KPMG to provide options advice due to the directors' concerns around the Company's solvency and the forecast funding requirement in 2021. This work was concluded later in November. The directors re-forecast that a funding requirement of £10m was needed in 2021 in order to implement a solvent turnaround plan. The directors therefore approached Lloyds Bank and PDM to provide this. Lloyds Bank declined to provide funding under CLBILS and requested the Company seek alternative

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banking arrangements. At this time, Lloyds Bank also withdrew the Company's offset overdraft facility, placing further operational pressure on the business.

The directors had forecast the business would run out of cash by March 2021 and, recognising that the business was facing insolvency both on a cash flow and balance sheet basis, the directors took action to protect the position for creditors by engaging PwC as advisors on 1 December 2020. The business was forecast to generate cash during December 2020 (the seasonal peak trading period), so the directors continued to trade whilst the funding request was being considered.

### **Insolvency planning**

On 15 December 2020, in the absence of a formal response with respect to the funding request, the directors decided it was appropriate to accelerate contingency planning for an administration of the Company.

Given the level of secured debt in the business and the outcome of discussions the directors held prior to the CVA, it was considered highly unlikely that any third party would provide an offer sufficient to fully repay PDM's secured debt. As such, PDM was approached to consider their appetite to acquire the assets directly. For the reasons explained throughout this appendix, the decision was taken not to formally market the business prior to appointment. Instead, the joint administrators sought to rely upon an option agreement in the sale, where a third party could submit a higher offer post appointment, that would have the effect of unwinding the sale.

To confirm expectations on value, and on account of the Insolvency Service's recent consultation, the directors were advised to engage an independent valuation firm to consider whether the offer submitted by PDM was sufficient compared to the open market value. The directors chose to engage Duff & Phelps Ltd to undertake this work prior to the date of appointment.

A Notice of Intention to Appoint Administrators ("NOI") was filed on 5 January 2021. Due to delays in incorporating the Purchaser entity and to ensure the transaction was capable of immediate completion, a further NOI was filed on 18 January 2021. Zelf Hussain, Rachael Wilkinson and Rob Lewis were appointed administrators of the Company on 28 January 2021.

For the reasons explained throughout this appendix, the Company's directors and the joint administrators concluded that a pre-packaged sale of the business and assets to the Purchaser would provide the best possible outcome for the creditors and stakeholders in the circumstances. In particular, this was on the basis that:

- A pre-packaged sale to the Purchaser would generate better value for the creditors as a whole than the break up value of the assets
- Following the independent valuation of the Company's business, and in light of broader economic and sector conditions, it was very unlikely that any other party would make an offer in line with that received from the Purchaser
- Following the filing of the NOI on 5 January 2021, 17 parties contacted PwC with an interest in acquiring the business and/or assets. PwC explained the credit bid transaction and level of offer that had been received. All parties declined to take their interest further as they could not match or better that offer
- Continuing to trade the business during its peak trading season without the disruption caused by a formal marketing process was considered the optimum way of maximising the funds available to creditors
- The secured creditor, being the party with the main economic interest due to the preferential creditors being paid in full and the prescribed part being maximised, supported the transaction
- The sale resulted in the transfer of 761 people to the Purchaser thereby both retaining employment for a significant number of people and mitigating preferential and unsecured creditor claims

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### **The administrators' initial introduction**

Zelf Hussain, a partner and insolvency practitioner at PwC, was first introduced to the Company as the engagement leader of the tender submitted to undertake this

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	<p>work. The introduction was made by its principal lender, PDM, on 18 November 2020. Rob Lewis and Rachael Wilkinson were introduced following the start of this work.</p>
<p><b>The extent of the administrators' involvement before the appointment</b></p>	<p>Whilst PwC has historically provided non-audit services to the Company, there have been no active engagements since 2015 before this engagement.</p> <p>A proposal document was prepared and sent to PDM and the Company on 21 November 2020 setting out the proposed scope of work that PwC could undertake for the Company.</p> <p>On 1 December 2020, the Company engaged PwC to provide the following services:</p> <ul style="list-style-type: none"> <li>• provision of pre-insolvency support to the Company, including advice to the Company on the key considerations and risks associated with the situation;</li> <li>• supporting discussions with the Company's key stakeholders, including PDM;</li> <li>• review and comment on the rolling short term cash flow forecast and the liquidity available to the Company;</li> <li>• undertake high level options analysis to understand strategic restructuring options available to the Company, and work with the Company to refine the strategy; and</li> <li>• undertake contingency planning in the event of an insolvency, including consideration of employees, landlords, contracts, suppliers and liquidity requirements.</li> </ul> <p>Prior to the appointment, advice was provided to the Company. Advice was not provided to the directors personally, nor to the Purchaser.</p>
<p><b>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</b></p>	<p>The options considered and compared with the execution of a sale of the business via a pre-packaged administration were as follows:</p> <p><b>Continuing to trade the business</b></p> <p>The directors could have tried to continue to trade the business outside of an insolvency process and sought to effect a successful turnaround. However, as noted above the Company did not have sufficient funding available, and existing stakeholders were unwilling to provide the funding given the risks inherent in the business plan.</p> <p>The directors were also mindful of their fiduciary duties in not continuing to trade where there was no prospect of the Company continuing as a going concern.</p> <p>Continuing to trade would almost certainly have led to creditors taking action against the business, which even with the Covid-19 restrictions would likely eventually have led to winding up action being taken against the Company. This would have led to an uncontrolled insolvency process and assets having to be sold on a break up basis, at a significant shortfall to the consideration achieved under the sale.</p> <p><b>Refinancing</b></p> <p>The directors were of the view that refinancing was not viable given the existing level of secured debt in the Company. The appetite for providing funding outside the government backed schemes to retail is low in the current economic environment, and the £55m of debt meant the Company was already highly leveraged. The Company applied for funding under the Coronavirus Large Business Interruption Loan Scheme (CLBILS) to Lloyds Bank in May/June 2020. The Company was unsuccessful in its application to Lloyds Bank due to failing the 'undertaking in difficulty' criteria.</p> <p>The Company made a further application to Lloyds Bank under the CLBILS in November 2020 with the aim of securing c£10m to fund the 2021 forecast funding requirement, but this was also unsuccessful.</p> <p><b>Company Voluntary Arrangement / Restructuring Plan</b></p> <p>A CVA or a Restructuring Plan could have been adopted to supplement the turnaround plan developed by management. However, as the Company had</p>

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already embarked on a CVA, the extent to which creditors would support a further CVA was uncertain. Furthermore, neither a CVA nor a Restructuring Plan were considered viable for the Company as the funding required was not available.

#### **Liquidation / immediate shut down**

An immediate shut down of the business would have had a greater negative impact on the value of the Company's assets as minimal value would have been achieved in respect of goodwill. The assets would have been sold on a break-up basis achieving significantly less for the creditors as a whole.

Additionally the creditor liabilities would increase due to termination of various contracts and significant landlord claims. There would have been no prospect of preserving employment for the Company's workforce, further increasing liabilities due to redundancy and other claims.

This option was therefore not considered to be in the best interests of the Company's creditors, compared to alternative options available.

#### **Trading administration with a sale pursued during administration**

See below for reasons why this was not considered appropriate in these circumstances.

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#### **Why it was not appropriate to trade the business and offer it for sale as a going concern during the administration**

##### **Transaction structure**

The transaction completed on appointment included an immediate sale of the ecommerce business, the distribution centre operations including stock located at the distribution centre, an element of store stock, a number of leasehold stores and intellectual property including the brand and customer lists. Certain aspects of the business remain within the administration, further details of which are provided later in this document.

Continuing to trade the business in administration was not considered appropriate for the following reasons:

- An offer for the business had been received in excess of the enterprise value (being the full value of the business - see below for further details) according to the professional valuation. Following the filing of the first NOI on 5 January 2021, 17 parties had approached the prospective joint administrators, 14 of which to express their interest in acquiring the business but none of them were willing to offer close to the value of the consideration. As a result, it appeared unlikely that a new party would come forward and that continuing to trade the business would have resulted in a better outcome for creditors. This would likely have led to either a discount being applied to the existing offer (or the existing offer being withdrawn) due to the brand value being eroded by remaining in administration.
  - The pre-packaged transaction has enhanced value for the general body of creditors as it has ensured continuity of trading and employment for part of the Company's workforce. This is especially the case given the extremely challenging economic environment in high street retail in particular in light of the ongoing Covid-19 restrictions. The Purchaser is seeking to agree new terms with landlords and suppliers which will reduce uncertainty and support the supply chain, providing a better outcome for these creditors. It is unlikely that continuing to trade the business would have led to such deals being made as the administrator would have been left with the cash absorbing contractual terms from the pre-CVA period.
  - During December 2020, as part of the government's response to the Covid-19 pandemic, firstly tier 4 restrictions were introduced which forced c70 of the Company's 127 leasehold stores to close, then a national lockdown was introduced forcing a closure of all non-essential retail stores. As a result, the joint administrators would have had to retain the entire workforce on furlough, with the cash strain and uncertainty this would have created for the store estate, and been unable to trade
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through any means other than continued e-commerce sales. This would have hampered any attempts to liquidate stock quickly given the capacity constraints and reliance on external third parties for trading through this channel. It is therefore considered likely that trading would have been materially loss making, with funding having to be sought from existing stakeholders, who had already declined to fund the business further. It is likely that a greater level of redundancies would have to have been made on day one, as retaining employees on furlough continues to absorb cash (payroll processing, pensions costs and NIC contributions).

- Notwithstanding that a trading administration was unlikely to result in enhanced asset realisations, it would have resulted in significant cash losses through increased professional costs and staff costs in continuing to trade the e-commerce business, maintaining the store portfolio in a furloughed / mothballed stores and ensuring continuity of stock supplies. This would have further reduced net creditor returns.

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**Whether efforts were made to consult major or representative creditors**

Due to the level of debt finance that had been provided to the business, and as indicated by the professional valuation, the party with the primary financial interest in any insolvency process was PDM.

Preferential creditors (amounts in relation to employee liabilities and VAT, PAYE and Employees National Insurance Contributions due to HMRC) were forecast to be paid in full; and unsecured creditors would only benefit by virtue of the statutory prescribed part fund in the Company.

PDM was consulted during the pre-administration period both in their capacity as secured lender to the Company and as proposed purchaser of the business and certain assets.

Lloyds Bank was also consulted as a secured creditor in the pre-appointment period.

We did not engage with other creditors given the risk that this could destabilise the business, erode value and potentially damage the prospect of completing the business and assets sale. Furthermore, with the preferential creditors expected to be repaid in full and the prescribed part fund maximised, PDM was considered the party with a principal financial interest in any insolvency process (at the point of the transaction Lloyds Bank's exposure was c£375k of credit card and duty deferment exposure which was first ranking).

**Note**

On 6 April 2020, the Insolvency Act 1986 (Prescribed Part) (Amendment) Order 2020 came into force which increases the maximum amount of prescribed part from £600k to £800k where a floating charge has been created on or after 6 April 2020.

Here, the floating charge was created prior to 6 April 2020 and therefore the applicable prescribed part is £600k.

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**Requests made to potential funders to fund working capital requirements**

The directors did not identify any new sources of funding given the Company's current indebtedness.

As mentioned previously, the Company approached Lloyds Bank in May / June 2020 and again in November 2020 to discuss a loan under the CLBILS for £10m, being the forecast funding requirement in 2021. Both of these applications were unsuccessful.

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**Details of registered charges with dates of creation**

**Charge holder: Sanne Fiduciary Services Limited\***

Type of charge: Floating and Fixed charge

Assets charged: Floating charge covers all property or undertakings of company

Date of creation: 29th October 2015

**Charge holder: Sanne Fiduciary Services Limited\***

Type of charge: Floating and Fixed charge

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Assets charged: Registered Trademarks, Floating charge covers all property or undertakings of company

Date of creation: 4th March 2019

\*Sanne Fiduciary Services Limited is the security agent acting on behalf of the secured creditors, PDM and Lloyds Bank

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**Whether or not the business or business assets have been acquired from an insolvency practitioner within the previous two years**

Neither the business nor business assets have been acquired from an insolvency practitioner in the previous two years.

Whilst not specifically related, the Company was subject to a CVA in March 2019 which was successfully completed in August 2019 with a Notice of Completion of the CVA filed at Companies House on 5 September 2019.

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**Marketing activities conducted by the Company and/or administrators**

In this instance, the Company decided not to run a formal pre-appointment marketing exercise. This is normally undertaken prior to the appointment of an administrator and completion of a pre-packaged sale.

As noted, the directors had a view of the likely realisable value of the Company following a sale process undertaken in parallel to pursuing the CVA. An accelerated merger and acquisition process was undertaken in early 2019 which involved an approach to approximately 100 trade parties and financial investors. Some interest was received for the business with a number of credible buyers pursuing a level of due diligence and undertaking management presentations. A small number of offers were received for the business at that time, with the best offer being substantially short of the £32 million needed to repay PDM in full.

Given this process had failed to achieve full repayment of PDM's indebtedness at that time; the worsening state of the retail sector in the interim period and the increase in the level of PDM's exposure to £55m, it was considered highly unlikely that a full formal marketing exercise would identify one of these buyers being able to fully repay PDM's indebtedness.

Given the Company's key trading period was Christmas, and the November lockdown already having limited the cash generation possible over the period, utilising management time in marketing the business was likely to be detrimental to the returns generated from trading that would ultimately be available to creditors through an insolvency process. Building this cash ensured that preferential creditors would be repaid in full, and unsecured creditors would benefit from the maximum value of the prescribed part fund, unless an interested party was willing to repay PDM's indebtedness in full.

In order to provide additional comfort to the joint administrators, a professional valuation was undertaken by Duff & Phelps Ltd under an engagement letter dated 13 January 2021. This concluded that the enterprise value of the business was between £29.3 million and £36.6 million, some way below the value ultimately paid by the Purchaser.

In the lead up to the appointment, in light of the publicity generated by the filing of the first NOI on 5th January 2021, 17 parties approached management and the joint administrators, 14 expressing an interest in acquiring the business. This included the top 3 bidders involved in the pre CVA marketing process. These parties were advised of the level of consideration required (in excess of £40m) to be considered a viable option in acquiring the business and none of them were interested in proceeding at that level.

The administrators also ensured that a call option was included in the sale agreement. Under this option, if a third party were to come forward in the 28 days following the appointment and submit a funded and viable offer at greater consideration, the administrators could trigger the option. The administrators have the ability to buy back the business and effectively unwind the transaction and sell the business and assets to this new bidder instead, enhancing recoveries.

PDM was fully aligned with this strategy as it would improve creditor recoveries. Therefore, the administrators were content that PDM (being the Purchasers' owner) would also use its best endeavours to ensure this protection would operate as intended were an interested party to come forward post appointment.

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	<p>Given the level of publicity anticipated to be generated by the appointment, and the extent to which parties have already come forward, no formal additional marketing will be undertaken post appointment. The existence of this option will be disclosed to all interested parties in the interim period to identify whether a party is willing to pay more than the consideration value.</p>
<b>Valuer's details</b>	<p>On 13 January 2021, Duff &amp; Phelps Ltd was engaged to provide an independent enterprise valuation of the Company. Duff &amp; Phelps confirmed its independence and that adequate professional indemnity insurance was held. The valuation team consists of qualified accountants who are members of various recognised accountancy bodies.</p> <p>No other valuations were obtained.</p>
<b>Valuations of the business or the underlying assets</b>	<p>Duff &amp; Phelps advised that the business was valued at between £29.3 million and £36.6 million on an enterprise value basis.</p> <p>Enterprise value was defined in the engagement letter as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. It is also called fair value.</p> <p>No other valuations were obtained.</p> <p>At the level of offer received for the business and in light of the business valuation, it was highly unlikely that break up value would be in any way near to £40 million. The proposed administrators also reviewed the net book value of assets in the latest balance sheet at November 2020 which showed assets of £33.4 million. This included capitalised expenditure on leasehold improvements, fixtures and fittings and investment in computer hardware and software of £9.6 million (which would not be realisable in a break-up scenario), stock at £15.5 million together with other assets of £3.5 million.</p> <p>In light of break-up values very rarely achieving values in excess of net book value for stock, receivables and fixtures and fittings; and given the lack of value in leasehold property, it was concluded that the offer received for the business and its goodwill was substantially in excess of the value of realisations on a break up basis.</p>
<b>The date of the transaction</b>	28 January 2021
<b>The identity of the purchaser(s)</b>	Aspen Phoenix Newco Limited
<b>Any connection between the purchaser(s) and the directors, shareholders or secured creditors of the Company or their associates</b>	PDM is connected to the transaction as it is the ultimate beneficial owner of the Purchaser and is the major secured lender to the Company, sitting behind the security agent Sanne Fiduciary Services Ltd.
<b>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 purchasing entity, or of any other entity into which any of the assets are transferred</b>	<p>We understand that the Purchaser has reached agreement with the following directors to continue in management roles in the Purchaser's new business:</p> <p><b>Statutory directors</b> Mike Woodcock Olly Raeburn</p>

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**Whether the directors had given guarantees to a prior financier**

No guarantees given.

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**Whether the transaction impacts on more than one related company**

The transaction only involves the business and assets of the Company. However, it will have the impact of removing the central head office function from the previous group, which will impact the following entities:

- Paperchase Limited - UK registered entity
- Paperchase Designs Limited - UK registered entity
- Paperchase Designs Ireland Limited - Ireland registered entity
- Paperchase Canada Retail Limited - Canada registered entity
- Paperchase Retail Inc - US registered entity

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**Details of the assets involved and the nature of the transaction**

A going concern sale of part of the business and certain assets including:

- E-commerce business and associated infrastructure
- Certain stock located at the distribution centres and an element of store stock
- 73 leasehold stores where Licences to Occupy have been granted for a 12 week period
- Intellectual property including the brand, website and customer lists
- Various concession and wholesale agreements subject to formal novation

A number of assets remain in the administration including

- the Company's book debts (£3m including a claim in respect of the Coronavirus Job Retention Scheme totalling c£1m)
- 52 stores, of which 27 were closed on day one with all employees being made redundant. 25 stores have been retained as we understand the Purchaser continues to seek agreement from the landlord for rental terms which would mean that the store can trade viably in future
- c£2.1m at cost of stock considered by the Purchaser to be non-core to ongoing operations (located at the 27 closed stores and the Distribution Centre);
- £1.5m at cost of stock located in the 25 stores that have been retained in the administration;
- a number of systems which continue to be provided for use to the Purchaser under a transitional services arrangement;
- the lease for the Distribution Centre which is being utilised by the Purchaser under a licence to occupy; and
- cash in the Company totalling c£12m was excluded from the transaction.

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**The consideration for the transaction, terms of payment, and any condition of the contract that could materially affect the consideration**

Total consideration for the sale was £40m. The consideration was structured by way of credit bid, meaning that there was an immediate distribution to PDM thereby reducing the Company's indebtedness to PDM by the sum of the credit bid. £32m was payable on completion and a further £8m payable after five weeks.

The breakdown of the consideration between asset categories is as follows:

**Fixed charge consideration:**

Goodwill - £32,974,178

Intellectual property - £1

**Floating charge consideration:**

Stock (located at stores) - £2,288,974

Stock (located at distribution centres) - £4,736,843

Properties subject to a Licence to Occupy - £1

Social media accounts - £1

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	<p>Contracts - £1</p> <p>Records - £1</p> <p><b>Total consideration: £40,000,000</b></p> <p>Note - the amount attributed to Goodwill may be partially reallocated to intellectual property at request by the Purchaser.</p> <p>The calculation of stock consideration was based on an adjusted net realisable value calculation undertaken by the Purchaser by applying a discount to aged stock and taking current stock at net book value. No other assets apart from intangible assets were considered to have material value.</p> <p>The Company's cash balance of £12m meant that professional costs of the administration, preferential claims (from employees and HMRC) and the prescribed part were in effect already fully covered prior to allocation of consideration from the sale of business.</p>
<b>Any options, buy-back arrangements, deferred consideration or similar conditions attached to the transaction</b>	<p>As noted above, the Joint Administrators have a call option to effectively unwind the transaction if another interested party comes forward in the 28 days following completion of the sale. The interested party must come forward with a funded viable offer capable of immediate completion for the administrators to be able to exercise the option. The joint administrators would then either procure the assets (effectively reversing the sale) to then sell the assets onto the new interested party; or agree for the Purchaser to top up the level of consideration to match the interested party's offer.</p> <p>The joint administrators are content that no security for this option is required given the common financial interest of PDM being best served by such a cash offer being presented in the near term. The provisions require the costs of any creditor arrears and other liabilities that have arisen in the meantime in the Purchaser to also be paid by the interested party (in order to allow the Purchaser to stabilise trading immediately following the transaction without being concerned about the existence of the option).</p> <p>£8m of the credit bid consideration is deferred until after the option period has expired. This has been structured for tax efficiency, and given the relatively short period the decision was taken not to require security for the deferred consideration.</p>
<b>If the sale is part of a wider transaction, a description of the other aspects of the transaction.</b>	<p>The sale was not part of any wider transaction.</p>
<b>Connected party transactions</b>	<p>The pre-pack pool was set up to provide an independent opinion on the purchase of a business and/or its assets by connected parties where a pre-packaged sale is proposed.</p> <p>PDM is not a connected party under the provisions of the Insolvency Act 1986. We did inform PDM that they could consider approaching the pre-pack pool. The Purchaser chose not to approach the pre-pack pool, as they are not a connected party for this purpose, and a viability statement has therefore not been provided by the Purchaser.</p>

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**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.

The joint administrators confirm that the sale enables the statutory purpose to be achieved.

The joint administrators also confirm that the outcome was the best available for creditors as a whole in all the circumstances.

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## Information provided to creditors on opting out in accordance with Rule 1.39

As part of our first communication with you, we are required to inform you about your right to elect to opt out of receiving further documents relating to these proceedings as follows:

You have the right to elect to opt out of receiving further documents about these proceedings unless:

- (a) the Insolvency Act 1986 requires a document to be delivered to all creditors without expressly excluding opted-out creditors;
- (b) it is a notice relating to a change in the office-holder or the office-holder's contact details, or;
- (c) it is a notice of a dividend or proposed dividend or a notice which the court orders to be sent to all creditors or all creditors of a particular category to which the creditor belongs.

Any election to opt out will not affect a creditor's entitlement to receive dividends, should any be paid to creditors. Similarly, unless IR16 provide to the contrary, opting-out will not affect any right the creditor may have to vote in a decision procedure or participate in a deemed consent procedure in these proceedings, although the creditor will not receive notice of it.

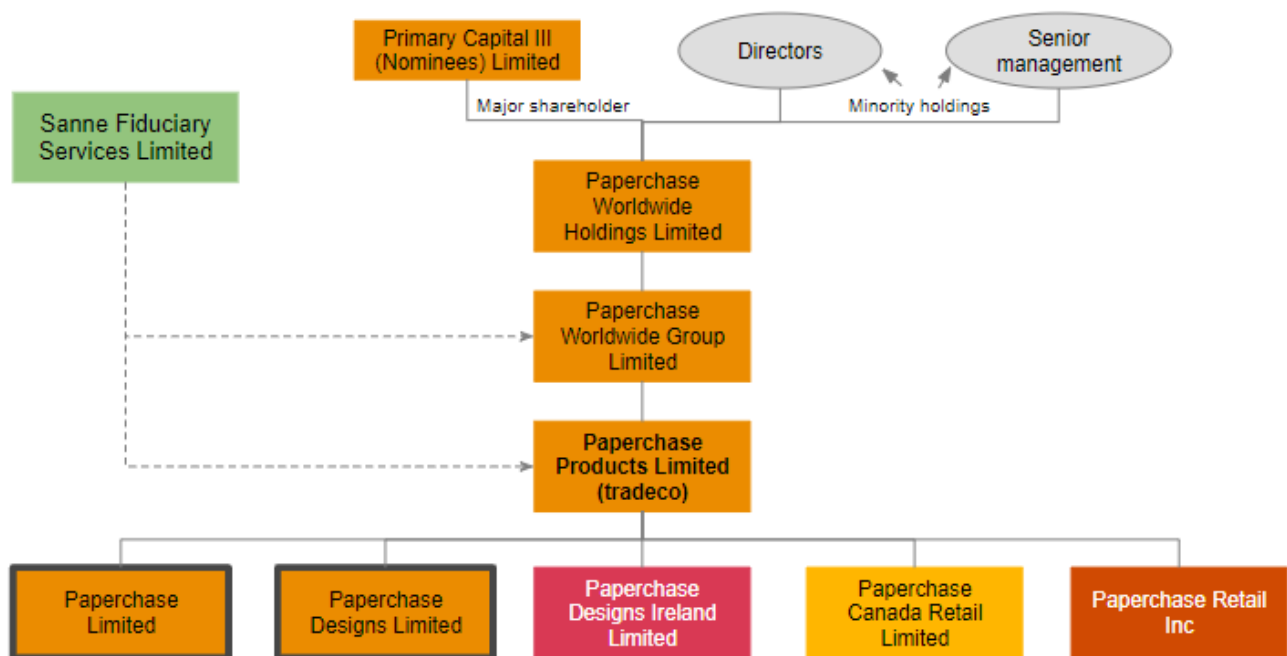
If a creditor opts out, they will be treated as having opted out in respect of any consecutive insolvency proceedings of a different kind in respect of the same company.

A creditor can opt out at any time by delivering written notice to the office holder at the postal address noted in the covering correspondence or by e-mail to: [uk\\_insolvencydocsrequests@pwc.com](mailto:uk_insolvencydocsrequests@pwc.com). The notice must be authenticated in accordance with rule 1.5 IR16 and dated by the creditor. A creditor will be treated as an opted-out creditor as soon as reasonably practicable after delivery of the creditor's election to opt out.

An election to opt out can be revoked at any time by delivering a further notice to the office-holder in writing, authenticated and dated by the creditor. A creditor ceases to be an opted-out creditor from the date the notice is received by the office holder.

Should you have any questions on this process, please use the contact details in the covering correspondence.

## Appendix A: Group Structure





[pwc.com](https://www.pwc.com)

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PricewaterhouseCoopers LLP, Central Square, 29 Wellington Street, Leeds, LS1 4DL  
T: +44 (0) 1132 894 000, F: +44 (0) 1132 894 460, [www.pwc.co.uk](https://www.pwc.co.uk)

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