

TO ALL KNOWN CREDITORS

25 January 2024

Ref: RLL/SJW/HJO/OC

RLLAdministration@uk.ey.com
RLMWAdministration@uk.ey.com

Dear Sir or Madam

Recycling Lives Limited (“RLL”)
RLMW Realisations Limited (formerly Recycling Lives Metal & Waste Limited) (“RLMW”)
(both in Administration) (together the “Companies”)

As you may be aware, on 18 January 2024 (the “Date of Appointment”) the Companies entered Administration and Daniel Christopher Hurd and I were appointed as Joint Administrators. The appointment was made by the Companies’ Directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986. Formal notice of our appointment is attached. As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the Administration.

On 18 January 2024, immediately following our appointment, we completed a sale of the businesses and certain assets of the Companies (including 100% of the shares held in a subsidiary of RLL, RAW2K Limited) comprising the Companies’ metal processing operations (“Metals Division”), to Global Ardour Recycling Limited (“GAR”) for a total consideration of c.£15m. In accordance with Statement of Insolvency Practice 16 (“SIP16”), a detailed explanation of the transaction is set out in this letter.

RLL’s trading subsidiaries, Recycling Lives (Environmental Services) Limited (“RLES”) and Recycling Lives Compliance Services Limited (“RLCS”), which form the Recycling Lives Services division (“RLS”), are not in Administration, were not part of the aforementioned sale and continue to trade.

We are currently advancing discussions for a sale of RLS which we hope to complete within the next two weeks. On completion of the RLS sale, we will issue a further notification to the creditors of the Companies providing a detailed explanation of this second sale in accordance with SIP16.

To ensure creditors have the fullest information on the sales of both the Metals Division and RLS, we propose issuing our Joint Administrators’ Statement of Proposals concurrently with the notification to the creditors of the sale of RLS, assuming completion does not deviate from currently anticipated timelines.

Overview

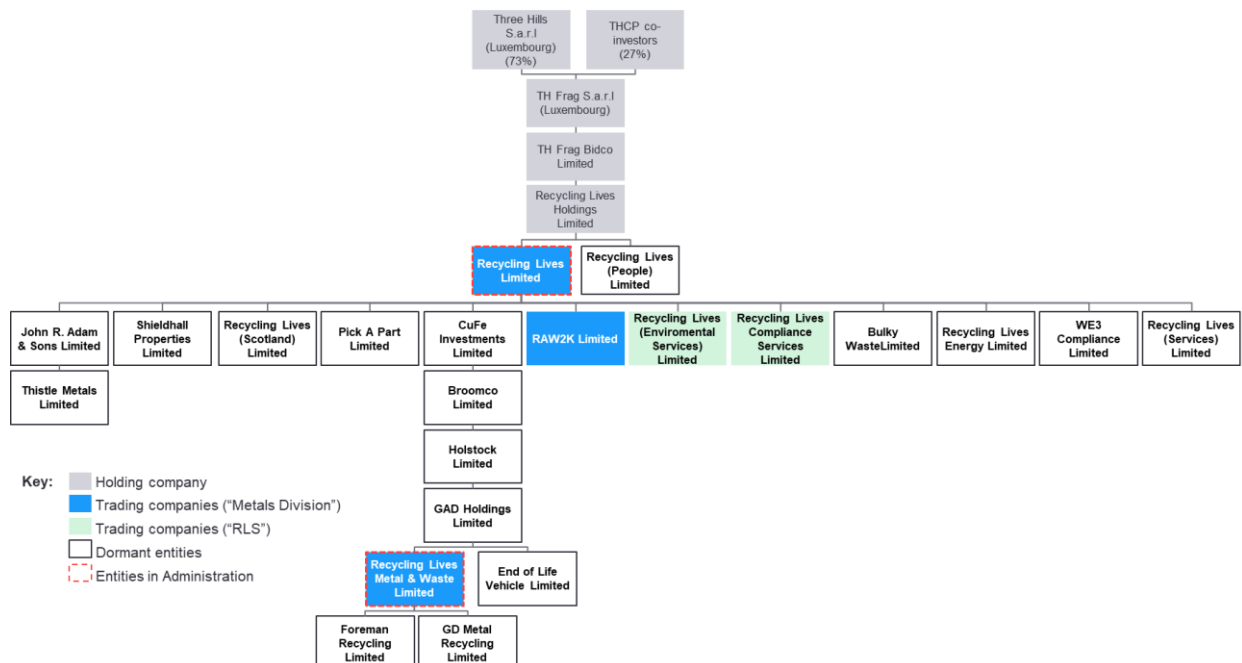
The Companies are part of a group (the “Group”) which traded as one of the UK’s largest recycling and waste management businesses, headquartered in Preston. RLL operated from one main processing facility in Preston, with seven feeder sites (“Satellite Sites”) geographically spread across the UK (Birkenhead, Bury, Durham, Erith, Falkirk, Northampton and Walsall) and a training facility in Leyland. RLMW traded from a single main site in Hitchin. The Companies employed 325 staff at the Date of Appointment (with a further 12 staff employed by RAW2K Limited).

The Group structure at the Date of Appointment is summarised below. The Group is majority owned (c.73%) by Three Hills S.a.r.l (Luxembourg). The remaining c.27% of the Group’s equity is held by five other minority shareholders (THCP co-investors).

At the Date of Appointment the Group had five main trading entities: i) three entities comprising the Metals Division; and, ii) two entities comprising RLS.

The Metals Division also previously traded from a site in Glasgow under the entities John R. Adam & Sons Limited and Thistle Metals Limited (the “Glasgow Business”). A sale of the business and assets of the Glasgow Business was completed on 22 December 2023 by the Directors of these two entities, prior the Date of Appointment. We understand this was a solvent sale and, consequently, these entities are now dormant. We comment on the chain of events leading to this sale further below.

Shares in RAW2K Limited were included in the sale of RLL business and assets. RLES and RLCS remain solvent and continue to trade.



Circumstances giving rise to the appointment of Administrators

The Group historically traded profitably, generating EBITDA of £11.3m in FY22. However, performance in FY23 was significantly impacted by a number of factors, including:

- ▶ a fire at the Preston site in April 2022 caused damage to the site, significantly impacting operations and limiting trading activity for several months. This put the Group under severe cash pressure, which was exacerbated by a delay in the receipt of the associated insurance claim payment of c.£12m following the fire.
- ▶ as the Group sought to re-establish trading operations following the fire, there were several market pressures suppressing activity in the sector. These included natural disasters and other economic shocks in several of the Group's key trading export markets (primarily Turkey and Pakistan).
- ▶ during this time, the Group continued to seek growth in its operations with the acquisition of the Glasgow Business in July 2022. The Glasgow Business operating model, however, required significant working capital given its reliance on export-led routes to market.
- ▶ in light of difficult market conditions noted above, the Group pursued a trading strategy that focussed on maximising volumes, especially in relation to securing the supply of scrap cars. This strategy has in hindsight been shown to have driven losses in the period due to accelerated margin erosion as a result of market price dynamics and a lack of control in growing the Group's operational footprint, and therefore its fixed cost base.
- ▶ the Group has also been impacted by high inflation in the fixed cost base, in particular fuel and utilities costs during the past 12 months.

In April 2023, the Group engaged EY's Corporate Finance team to assist in preparing for a marketing and sales process of the businesses. This followed an initial introduction of EY's Capital and Debt Advisory team to the Group by THCP in August 2022. However, in light of the Group's increasing liquidity pressure, a decision was taken to focus on stabilising the business and the sale process was paused. EY's Turnaround and Restructuring Strategy team (the team in which the Joint Administrators sit) were engaged in July 2023 to support the Group with certain aspects of this.

During the second half of 2023 the Group's shareholders continued to support Group liquidity with new secured debt funding totalling £23m.

In October 2023, the Group was satisfied that the sale process could be restarted, which we outline in more detail below.

Sale process

During the initial marketing of the Metals Division, 72 parties considered by the Group to be credible potential purchasers were contacted, initially focussing on trade buyers, with financial buyers brought into the process at a later date. The list of potential interested parties was produced with assistance of management, as well as utilising EY's extensive network and buyer research capabilities.

Of these parties, 41 expressed an initial interest and entered into non-disclosure agreements. These parties subsequently received an information memorandum and access to a virtual data room which contained more detailed information on the business. A process letter was also issued outlining key transaction perimeters and timelines.

Management meetings and site visits were held throughout November 2023 with a number of interested parties who remained interested following their full review of the information memorandum and virtual dataroom.

Subsequently, offers received for the Metals Business broadly divided between:

- a. the Glasgow Business – comprising JRA, Thistle Metals and Shieldhall Properties; and
- b. the remaining parts of the Metals Business – comprising RLL, RLMW and RAW2K.

Entering December 2023, continued poor trading performance saw increasing levels of pressure on the Group's cash position, and as such created a need to accelerate the sale process.

At this time, there was a high level of interest in the Glasgow Business from two interested parties, both of whom were looking to complete a deal before Christmas 2023, with initial offers of £11m and £15m. These offers were considered sufficient to allow a solvent sale and provide surplus funds to facilitate the sale of the remaining parts of the Metals Business also through a solvent, controlled process. Consequently, the Directors pursued a sale of the Glasgow Business in December 2023. However, the final offers for the Glasgow business fell significantly short of the initial offers which significantly eroded the previously anticipated timeframes to support a solvent, orderly sale of the remaining parts of the Metals Business.

On 22 December 2023, following completion of the sale of the Glasgow Business and the Group recognising a worsened forecast liquidity position, the Directors took the decision to accelerate the sale process of the remaining parts of the Metals Businesses with a revised indicative completion deadline of 12 January 2024 communicated to interested parties.

At this time, the Directors also instructed EY to commence contingency planning for a potential insolvency of one or more Group companies, recognising the liquidity position may not allow for a sale to be concluded by the Companies solvently. Concurrently, a new accelerated sale process was commenced for the RLS business.

Accelerated sale of the remainder of the Metals Business

Over the Christmas period, all parties who had previously shown interest in the Metals Division sale process were re-engaged and advised of the revised accelerated sale timeline and potential need for a sale to be completed out of Administration.

Two key parties remained interested in the sales process: GAR and confidential party 1 ("CP1"). A third party who had previously shown significant interest remained involved in the process but it was clear that it would be unlikely to be able to complete within the accelerated timeframes.

Both interested parties showed engagement over the Christmas period, attending regular site visits, multiple meetings with management and progressing final stages of due diligence. Indicative offers were received from both parties in the week ended 5 January 2024, and following a series of negotiations and refinements to the structuring of offers, final offers were submitted c.12 days later.

Throughout this period, the liquidity position of the Group, particularly in the Companies, continued to deteriorate, which was ultimately the primary cause of the insolvency of the Companies. In order to protect the prospects of completing a sale of the business and assets of the Companies, the Directors issued a Notice of Intention to Appoint Administrators on 11 January 2024 in both entities.

Following a period of negotiation with both parties, their final offers were received and are outlined below. Both parties offered for all or parts of the Metals Business with CP1 also offering, as an alternative structure, for a specific part of the Metals Business.

- ▶ GAR – £15.0m for the business and assets of both of the Companies, including the stock, debtors, plant and machinery, freehold properties and shares in Raw2k Limited. This offer included all Satellite Sites and stipulated that all employees of both RLL and RLMW would expect to transfer to the purchaser.
- ▶ CP1 – £14.7m for the business and assets of both of the Companies, including the stock, plant and machinery, freehold properties and shares in Raw2k Limited. This offer specifically excluded the debtors of the businesses and some of the Satellite Sites and the associated plant and machinery.
- ▶ CP1 – £15.3m for the business and assets of both of the Companies and Raw2k Limited, including the stock, plant and machinery, and freehold properties. This offer also specifically excluded the debtors of the businesses and some of the Satellite Sites and the associated plant and machinery.

CP1 – £8m for the business and assets of RLMW only.

We consider that the marketing of the business complied with the 'Marketing Essentials' guidelines set out in the appendix to SIP16.

In respect of the requirement to broadcast the sale process as widely as possible, proportionate to the size of nature of the business, we took into consideration the regulated nature of the business's waste activities and the sector in which it operates and the time available to complete a sale. Consequently, as part of the process to prepare for a marketing of the business, the EY Corporate Finance team prepared a long list of prospective buyers. When the sale process was accelerated, we considered a broadening of the marketing would be unlikely to yield an improved outcome given the extensive buyer research already undertaken and the fact that parties now included both trade and financial buyers.

Furthermore, it is our view that online marketing (also a requirement of SIP16) would not have added any additional value to the process, given that an extensive marketing process was able to be conducted via direct communication. Additionally, it was decided not to broadcast or widely market the business online due to the precarious liquidity position of the Group and significant risk of this worsening to such a degree as to render a sale of the business no longer feasible.

Evaluation of offers

Consideration to alternative scenarios

The Joint Administrators considered the outcomes to each class of the Companies' creditors in each of the offers outlined above. In addition, the offers were also considered in relation to the likely counterfactual scenario, being a wind-down of the businesses in insolvency, which was assessed using prudent assumptions informed by valuation reports provided by the Companies' valuation agents. We give further detail on the external valuations provided later in this letter.

Due consideration was also given to a scenario whereby a period of trading in insolvency could be undertaken to bridge to a sale out of insolvency. This work concluded that it was not appropriate to trade the Companies' business in Administration due to the lack of certainty over whether this would improve the outcome for creditors along with a number of factors that would have likely prevented an administrator being able to undertake a period of trading. The key considerations in determining this were:

- ▶ the requirement for funding in administration, which was not available, given sustained loss-making trading activity in recent history, as well the high likelihood of ransom creditors due to the existing creditor stretch in the business;
- ▶ the Group relied on a vehicle operating licence (in RLL) to support operations - the Joint Administrators could have applied under a Regulation 31 application to transfer the licence, but there was a high risk that limited funding available would give rise to concerns to the Traffic Commissioner and the application would be rejected; and,
- ▶ the sector is a high-risk health and safety environment, and a significant amount of work would have to be undertaken by the Joint Administrators to ensure that machinery was well maintained; and sufficient procedures and policies were in place and being adhered to by the workforce, before taking an appointment.

Comparing final offers

Our analysis (which factored in the economic characteristics of the offers as well as prudent assumptions regarding realisations for assets not included in the offers) indicated that the three final offers delivered an economically similar outcome for the Companies' creditors and were all materially better than an insolvent wind down of the business. The GAR offer was considered to present the least transaction risk for the following reasons:

- ▶ at the date of receiving best and final offers, variations to offers were made up to and in the day prior to the transaction being completed, negotiations with GAR were significantly more advanced with purchase agreements nearly in final form; and
- ▶ the GAR offer included substantially all of the business and assets of the remaining Metals Business, leaving minimal residual asset realisations being required post-transaction and therefore giving a higher certainty of outcome.

Furthermore, the GAR offer, compared to all CP1 offers, meant the non-crystallisation of additional creditors claims, namely primary preferential creditors. The GAR offer also included a solvent sale of the shares in Raw2k which provided a better outcome for the Raw2k unsecured creditors than a pre-pack sale of the business and assets.

Taking the above into account, we concluded:

- ▶ the GAR offer gave far higher certainty of execution due to being further advanced in the legal documentation and including materially all Metals Division assets in the transaction perimeter;
- ▶ the GAR offer provided a better outcome for the preferential creditors of the Companies;
- ▶ the outcome to unsecured creditors was the same under each of the offers; and,
- ▶ secured creditors ultimately held the economic interest in each of the different potential outcomes.

Consequently, as detailed below, we consulted with the Companies' secured creditors.

Consultation with major creditors

The Companies' secured creditors, RBS and THCP, were consulted throughout the sale process both via formal updates in video conferences but also informally (via email or ad-hoc telephone calls) as required.

The outcome for creditors under the GAR offer, in comparison to alternative offers (as outlined above) and a wind-down of the Companies, was outlined to the secured creditors. On 17 January 2024, both secured creditors consented to the GAR transaction proceeding and for the Joint Administrators to be appointed.

Funding

No requests were made to potential funders in respect of funding the working capital of the Companies in insolvency as fixed and floating charge realisations from the transaction proceeds provided sufficient funding for the costs of the Administrations.

Charges

The Companies have the following registered charge(s):

Entity	Date of creation of charge	Date of registration of charge	Details of charge	Name of charge holder
RLL	9 October 2023	13 October 2023	Fixed charge	T H Frag li S.A.R.L
RLL	9 October 2023	13 October 2023	Fixed charge	T H Frag li S.A.R.L
RLL	9 October 2023	12 October 2023	Fixed charge	RBS Invoice Finance Limited
RLL	7 September 2023	20 September 2023	Fixed and floating charge	T H Frag li S.A.R.L
RLL	9 January 2023	12 January 2023	Fixed and floating charge	RBS Invoice Finance Limited
RLL	9 January 2023	10 January 2023	Fixed charge	RBS Invoice Finance Limited
RLMW	7 September 2023	20 September 2023	Fixed and floating charge	T H Frag li S.A.R.L
RLMW	9 January 2023	12 January 2023	Fixed and floating charge	RBS Invoice Finance Limited

Statutory purpose of administration

The purpose of an administration is to achieve one of three objectives:

- a. to rescue the Company as a going concern;
- b. to achieve 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
- c. to realise property in order to make a distribution to one or more secured or preferential creditors.

Given the extensive marketing process undertaken not yielding any viable solvent offers and given the liquidity position of the Group, it was not possible to achieve objective (a). Instead, the objective being pursued is (b). The pre-packaged sale of the Companies' businesses and assets could only be achieved if executed immediately following appointment and required the protection of the Administration moratorium to provide the liquidity run way to a sale. It was unlikely that such an outcome could be achieved given the longer timelines required for a liquidator to be appointed and the lack of protection from creditor action in the lead up to a sale through an alternative liquidation scenario. Further, the GAR transaction led to the TUPE of all employees which would not have been possible if the company were wound up without first being in administration.

Valuation of the business and assets

Hilco Valuation Services Europe ("Hilco"), who are RICS accredited, originally valued the plant and machinery and property of the Preston and Hitchin sites in October 2022 on a ex-situ basis (in the case of the P&M) and vacant possession basis (in the case of the property).

As the Companies' financial position deteriorated, Hilco were instructed to update its 2022 valuations in October 2023 with further refinements provided in December 2023.

Hilco conducted a SIP16 compliant desktop valuation of the Companies' fixed and floating assets; predominantly property, plant and machinery and stock, and has confirmed its independence and that it holds adequate professional indemnity insurance, in compliance with SIP16 guidance.

For our purpose as Joint Administrators, we have used the latest SIP16 compliant valuations from Hilco. We would note that given the distressed nature of this sale, the Hilco valuations were largely used to inform the counterfactual analysis of a wind-down scenario and act as a reference point for assessing the reasonableness of proposed allocations of sale proceeds in the final offers. We consider that the final offers represent true market value for the business and assets, given the extensive marketing process undertaken. The outcomes of the independent valuations, and the basis for allocating the proceeds using these valuations, are summarised below.

The transaction

Further details of the transaction are given below:

The purchaser and related parties

The purchaser is Global Ardour Recycling Limited.

There is no known connection between the purchaser and the Directors or former directors of the Companies, other than trading relationships held by both RLL and RLMW with the purchaser which we consider were at arms' length.

We are not aware of any guarantees provided by the Directors or former directors in relation to amounts due from the Companies to any prior financiers of the Companies.

The assets

The assets sold comprise the following:

Description of asset	Entity	Valuation £ 000	Basis of valuation	Purchase consideration £ 000
Property (Longridge Road)	RLL	7,445	Vacant possession, 6 months marketing	9,975
Property (Other)	RLL	Not valued		350
Plant and machinery	RLL	6,639	Ex-situ, up to 9 months marketing and removal period, before costs	2,279
	RLMW	4,833	Ex-situ, up to 9 months marketing and removal period, before costs	852
Trade debtors	RLL	Not valued		1,009
	RLMW	Not valued		171
Inventory	RLL	Not valued		255
	RLMW	Not valued		75
Shares in RAW2K	RLL	Not valued		Nominal (£1)
Other assets	RLL	Not valued		Nil
	RLMW	Not valued		Nil
Total				£14,966

Please note that a material proportion of the plant and machinery value in each of the Companies relates to the fragmentisers and pre-shredders at each of the sites. Whilst the Hilco reports do make reference to indicative costs of realisation, following further discussion it is anticipated that these costs could be far higher than initially anticipated for these large items of plant and machinery considering the periods required for marketing and disposal. This was evident in the offers made for the assets by the prospective buyers. Our counterfactual analysis of realisations in a wind-down scenario also supported realisation values lower than the purchase consideration noted above.

Sale consideration

The sale consideration was c.£15m, all of which was paid on completion. We consulted on the VAT status of the transaction with EY indirect tax specialists and concluded that the sale qualified as a Transfer of Business as a Going Concern ("TOGC"), therefore falls outside of the scope of VAT.

The sale proceeds have been apportioned as follows:

Entity	Allocated to fixed charge realisations	Allocated to floating charge realisations	Total
	£ 000	£ 000	£'000
RLL	12,851	1,017	13,868
RLMW	749	349	1,098
Total	13,600	1,366	14,966

Category of asset	Entity	Allocated to fixed charge realisations	Allocated to floating charge realisations	Total
		£ 000	£ 000	£'000
Property	RLL	9,975	350	10,325
	RLMW	-	-	-
Plant and machinery	RLL	1,868	412	2,280
	RLMW	578	274	852
Trade debtors	RLL	1,009	-	1,009
	RLMW	171	-	171
Inventory	RLL	-	255	255
	RLMW	-	75	75
Investments	RLL	Nominal value (£1)	-	0
	RLMW	-	-	-
Other assets	RLL	-	-	-
	RLMW	-	-	-
Total		13,600	1,366	14,966

The allocation of proceeds between the classes of assets shown above are per the final offer received from GAR. An allocation of proceeds on an asset by asset basis between fixed and floating charge realisations has then been made on the basis outlined below:

- Property – relates substantially to the main freehold site in Preston (RLRP) which is subject to RBS's fixed charge security. A small amount of value (c.£350k) was attributed to two smaller industrial sites in Birkenhead and Leyland, which have been referenced against the previous sale prices of those properties, and informally benchmarked against similar properties in their respective areas.

- ▶ Plant and machinery – relates substantially to large assets at RLRP and Hitchin (pre-shredders, fragmentisers and downstream equipment). Allocation between fixed and floating charge is based on advice from CMS Cameron McKenna Nabarro Olswang LLP.
- ▶ Trade debtors – RLL and RLMW debtors are subject to RBS fixed charge security. Proceeds of £1.2m are apportioned between RLL and RLMW based on October 2023 book values.
- ▶ Inventory – all inventory is understood to be a floating charge realisation in both RLL and RLMW. The purchaser allocated 50p in the £ against the book value of stock, which the Joint Administrators accepted this based on Hilco’s valuation of stock being 22-70% prior to the cost of realisation.
- ▶ Investments – relates to shares in RLL subsidiary RAW2K, which are subject to RBS fixed charge security. The GAR offer allocated only £1 to this asset on the basis that its net working capital plus cash was broadly zero.

Significant assets not included in the sale agreement

The following material assets owned by RLL were excluded from the transaction:

- ▶ Shares in RLES and RLCS;
- ▶ Freehold property at Essex Street, Preston, utilised by the RLS entities – valued at £1m by Savills;
- ▶ Two leased premises utilised by the RLS entities and associated plant and machinery;
- ▶ Intellectual property rights and plant and machinery of an Energy for Waste pilot plant located at RLRP;

The only material remaining assets owned by RLMW are a single leased premise previously utilised by RLES and associated plant and machinery at that site;

We are currently in the process of negotiating a sale for the RLS business which is expected to realise the remaining assets of the Companies, as outlined above. These assets, and the strategy for realisation will be discussed in more detail when we send the notification of the sale to the creditors alongside the Joint Administrators’ Statement of Proposals.

Administrators’ proposals and remuneration

In accordance with Paragraph 49(5) of schedule B1 to the Insolvency Act 1986, we will prepare our proposals in due course.

The proposals will be made available to all creditors and will give an indication of the likely dividend prospects. At this time, we will also set out our proposals for remuneration and will seek approval for their basis. The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Insolvency (England and Wales) Rules 2016 (the Rules). Further information is given in the Association of Business Recovery Professionals’ publication ‘A Creditors’ Guide to Administrators’ Fees’, a copy of which may be accessed from the web site of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides>, or is available in hard copy upon written request to the Joint Administrators.

Creditors' claims

Please note that debts incurred by the Companies before our appointment will rank as unsecured claims against the Companies. Any sums due to the Companies arising after our appointment must be paid in full and without set-off against any debts incurred by the Companies prior to our appointment.

The Companies' Directors are required to submit a statement of affairs to us, this has been requested and you will appreciate that the full financial position is not yet known.

Should you wish to submit a claim together with your supporting documentation and banking information, you can do so by accessing the creditor portal at www.ips-docs.com. Individual login details for the creditor portal were provided in our initial letter to creditors, however, if you are unable to access the portal or have not received login details, please contact one of my colleagues using the details provided at the top of this letter.

Alternatively, a hard copy proof of debt form can be downloaded from www.ey.com/en_uk/recycling-lives-limited-and-rlmw-realisation-limited and emailed to me, with supporting documentation, to the email addresses stated above.

Certain debts due from the Companies may be preferential in accordance with section 386 of the Insolvency Act 1986. If you consider that you have a claim in this category, please advise me immediately. If you hold any security for your claim or you consider that you have title to any assets in the Companies' possession, please forward details to me as soon as possible.

You may be entitled to VAT bad debt relief on debts arising from supplies more than six months old. This procedure does not involve the Administrators and claims should be made directly to HM Revenue and Customs.

Other matters

If there are any matters concerning the Companies' affairs which you consider may require investigation and consequently should be brought to our attention, please forward the details to me in writing as soon as possible.

If you require any further information or explanation, please do not hesitate to contact us using the details provided at the top of this letter.

Yours faithfully
for the Companies



S J Woodward
Joint Administrator

Enc. Notice of Administrator's Appointment

S J Woodward and D C Hurd are licensed in the United Kingdom to act as an Insolvency Practitioner by the Institute of Chartered Accountants in England and Wales.

The affairs, business and property of the Companies are being managed by the Joint Administrators, S J Woodward and D C Hurd, who act as agents of the Companies only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the UK General Data Protection Regulation (as incorporated in the Data Protection Act 2018), depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Companies may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.