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TO ALL KNOWN CREDITORS

21 May 2020

Ref: RHK/CGJK/ST/SPIC01

Email:
spicersadministration@uk.ey.com

Dear Sirs

Spicers Limited (in Administration) (“Spicers” or “the Company”)

Trading names: Spicers

Principal trading address: c/o The Spicers-OfficeTeam Group Limited, Unit 4, 500 Purley Way, Croydon, Surrey, England, CR0 4NZ

On 14 May 2020 the Company entered administration and C G J King and I were appointed as Joint Administrators. The appointment was made by the directors of the Company under the provisions of paragraph 22 of Schedule B1 to the Insolvency Act 1986. I attach formal notice of our appointment for your information.

As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the administration.

Sale of the business

On 14 May 2020 we completed a sale of certain of the Company’s assets to Paragon Data Analytics Limited (“Paragon”) for a total consideration of £996,021 plus VAT.

In accordance with Statement of Insolvency Practice 16, a detailed explanation of the transaction is set out below.

Background

The Company traded as a business to business supplier of office supplies and stationery products across the UK. The Company operated from eight locations across the UK and employed approximately 320 people across the UK.

Along with OfficeTeam Limited (“OfficeTeam”), ZenOffice Limited (“Zen”) and Spicers (Ireland) Limited (“Spicers Ireland”) the Company was part of the Spicers Office Team Group (“the Group”) which was headquartered in Croydon, England.

OfficeTeam Limited (“OfficeTeam”) traded as a business to end customer supplier of office supplies and stationery products across the UK with its own storage and logistics capabilities through OfficeFleet. We were also appointed administrators to OfficeTeam on 14 May 2020.

Zen provides business supplies and managed print services. Zen is wholly owned by Stat Company Limited (“STC”) which in turn is a wholly owned subsidiary of OfficeTeam. Zen continues to trade and is not in any insolvency proceedings.

Spicers Ireland had provisional liquidators appointed on 1 May 2020.

Trading conditions leading up to the Group’s insolvency

The Group’s and the Company’s trading performance had declined in recent years due to structural changes in the traditional office supplies market, as a result of a shift towards digital and the increasing penetration of online retailers. This had resulted in a decline in demand for some of the Company’s more traditional products and a highly competitive price sensitive market. As a result, management had taken action to reduce costs to remain competitive and invest in building its digital capabilities but these had not been sufficient, and a more significant restructuring was required to make the Group and the Company more competitive.

Against a background of continuing losses, the need for investment and the impact COVID-19 had on the business it was concluded in late March 2020 that the Group (including the Company) should be marketed for sale to find a partner with the ability to invest in the business.

The COVID-19 enforced lock-down had a significant effect on the business with a reduction in orders from businesses and dealers and an interruption in its supply chain. The net result was a c.50% like-for-like decline in orders and sales.

Initial introduction to the Group

We were introduced to the Group in February 2020 to carry out a review of the Group (including the Company) for its bankers.

Pursuant to an engagement agreement dated 17 February 2020, EY performed a review of the Group’s cash flow forecasts given an increasing reliance on and limited headroom within the invoice discounting facility.

The scope was subsequently broadened to develop a contingency plan in the event that a buyer for the Group including the Company was not found.

Pre-appointment considerations

Accelerated marketing process

On 25 March 2020, the Group engaged Alix Partners Corporate Finance Limited (“Alix Partners”) to assist management with conducting an accelerated sales process to identify a purchaser for the Group as a going concern.

A list of 58 potential purchasers was agreed with Groups management and Better Capital (the Group’s ultimate shareholder). This list consisted of six tier one office/business suppliers (i.e. direct competitors), 28 tier two financial or other strategic parties (consisting of special situation / turnaround private equity firms and indirect competitors) and 24 tier three other parties (where it was considered they might have an interest in certain of the Group’s assets).

The accelerated sales process commenced on 27 March 2020, with Alix Partners and management making contact with each of the potentially interested parties to provide an overview of the business, its prospects, other information and to request indicative offers by Friday 10 April 2020.

Of the parties approached, 23 expressed an interest and entered into non-disclosure agreements and received the process letter and information document. A further 13 parties confirmed that they were not interested on the basis of a combination of having limited interest in the sector, the extent of the Group's losses, not looking to invest in the UK or due to focussing on their own portfolio companies. Only two parties stated that the transaction timeline was too short. No response was received from the other parties.

Indicative offers

By 10 April 2020, the Group had received four offers. The offers, which were all subject to due diligence, are summarised as follows:

1. Confidential Party 1 ("CP1"): 70p in the £ for certain of the stock of Spicers and OfficeTeam which was free of Retention of Title claims. It was envisaged that this offer would be transacted through a pre-pack insolvency sale. Management concluded that this offer would only be attractive as part of a closure and was determined to be a fall-back option.
2. Confidential Party 2 ("CP2"): £1 for each of the entire Group equity and the Better Capital secured loan of c.£7.85m, including accrued interest. CP2 did not provide details on how they would re-capitalise the business going forward. It was concluded that this offer did not address the issues faced by the Group as it would not be able to continue operating without a capital injection into the business. In addition, Better Capital considered that this undervalued their loan and they were unwilling to sell it for £1. As a consequence, this offer was not capable of progression.
3. Confidential Party 3 ("CP3"): £1 for each of the entire Group equity and the Better Capital secured loan of c.£7.85m, including accrued interest. CP3 indicated that it was willing to inject additional capital of up to £20m. Whilst this offer had the potential to address the issues facing the Group, Better Capital considered this undervalued their loan and they were unwilling to sell it for £1. As a consequence, this offer was not capable of progression.
4. Confidential Party 4 ("CP4"): CP4 submitted an offer to acquire certain of the business and assets of OfficeTeam and Zen, excluding debtors and the freehold property owned by Zen, for £5m. It was envisaged that this offer would be transacted through a pre-pack insolvency sale. Following the offer, CP4 obtained legal advice on the TUPE implications of its offer and subsequently withdrew.

Notice of intention to appoint administrators

With no satisfactory offer that would have allowed the Group, including the Company, to continue operating as a going concern and following detailed consideration of the financial position, the directors concluded on 20 April 2020 that EY should be engaged to prepare for an insolvency of the Group and to explore a sale for the business and assets of the Group, including the Company, as part of the preparations.

The directors filed notices of intention to appoint an administrator in respect of Spicers and OfficeTeam on 23 April 2020. This was to provide protection from creditor action through an interim moratorium whilst the proposed Joint Administrators continued to explore a sale of the business and assets of the Group, including the Company.

The notices of intention to appoint an administrator in respect of Spicers and OfficeTeam were renewed by the directors for a further 10 business days on 8 May 2020 to enable the ongoing discussions with an interested party to conclude.

Further marketing by the proposed Joint Administrators

On 20 April 2020, the proposed Joint Administrators began contacting parties who had submitted an offer in the marketing process to assess their interest in a business and assets sale rather than a share sale and qualify their offer for further negotiations.

CP3 re-confirmed an interest in exploring a business and assets offer and were provided with access to a detailed data room to assist them in forming an offer. CP3 withdrew their interest after determining that the businesses needed more investment and that the profitability was likely to be less than anticipated. In addition, the wider COVID-19 macroeconomic environment also impacted on their appetite to invest.

Concurrently, the proposed Joint Administrators entered discussions with CP1 regarding their offer to acquire stock. This resulted in an offer to acquire certain stock of Spicers, OfficeTeam and Spicers Ireland for 70p in the £ and £10,000 for the 5 Star brand owned by Spicers. The offer excluded stock subject to retention of title. The proposed Joint Administrators negotiated and agreed a sale and purchase agreement with CP1 which was capable of being implemented immediately upon appointment. This was held in abeyance whilst negotiations with other parties continued.

Several other enquiries were pursued with competitors, previous employees and suppliers, including CP2. These parties all either withdrew their interest following an assessment of the businesses and assets or were discounted on the basis that their interest was less favourable financially for creditors. In addition, separate marketing was carried out for Zen and Spicers Ireland.

During this process the proposed Joint Administrators were approached by Paragon who expressed an interest in acquiring certain of the business and assets of OfficeTeam and Zen. This enquiry led to Paragon submitting an offer (which is described in further detail below) for the business and assets of OfficeTeam, the shares in STC (to acquire Zen) and was widened to include Spicers stock, its plant and machinery at the Smethwick warehouse property and its 5 Star brand on 5 May 2020.

Alternative options considered

Project Gloria

In addition to the wider marketing process, management, in conjunction with Better Capital, explored making an offer for the business and assets of OfficeTeam and Zen as well the 5 Star brand and certain of the stock owned by Spicers. This proposal was known as Project Gloria and was submitted to the proposed Joint Administrators on 21 April 2020.

Following detailed discussions and the subsequent interest expressed by Paragon, the Project Gloria offer was withdrawn on 5 May 2020.

Trading in administration

The proposed Joint Administrators also considered the outcome from trading Spicers in administration as a benchmark for offers. However, we formed the opinion that it was not financially viable to trade the business and offer the business for sale as a going concern during the administration due to a number of significant risks, including, but not limited to:

- incurring further losses and depletion of the value realised from stock due to the high costs associated with holding the stock whilst it was being sold through;
- securing ongoing support of key trading suppliers on acceptable terms;
- potential ransom demands in connection with the above;
- significant retention of title claims over the existing stock which would impact on the net value achieved from selling stock;
- uncertainty over the length of time the COVID-19 lockdown period, and associated reduction of demand for the Company's stock, would extend for;
- the impact of COVID-19 on the interest in the business and on the realisable value of the stock; and
- the costs that would be incurred.

These factors, and the significant uncertainty associated with trading during the COVID-19 pandemic, were considered to adversely impact on the value for the benefit of creditors and it was concluded that this strategy was highly likely to result in a significantly lower recovery for creditors compared to achieving a pre-packaged insolvency sale. As it was determined not financially viable to trade, no requests were made to fund working capital.

It was therefore considered to be in the best interests of creditors for the business and assets to proceed with a pre-packaged insolvency sale, to maximise asset values and limit the dilution impact that holding and establishment costs would have had on asset realisations.

As a consequence, in the lead up to our appointment as Joint Administrators on 14 May 2020, we negotiated with CP1 and Paragon to agree transactions that could be executed immediately upon our appointment.

Compared to the CP1 offer, the Paragon offer avoided incurring the holding costs of the stock whilst it was collected by CP1 and for the Smethwick warehouse which also benefited from receiving rent under the Paragon offer. In addition, the stock was assessed as having the risk of substantial Retention of Title claims. As a consequence, the Paragon offer was considered financially superior for the creditors.

Consultation with major creditors

The secured creditors were consulted throughout the process and consented to the transaction.

No direct consultations took place with other creditors given the number of creditors and the fact that the outcome pursued resulted in the best financial outcome for the secured and unsecured creditors.

A number of key suppliers (and therefore creditors) were consulted by management as part of the Project Gloria proposal and were aware of the impending insolvency of the Group and the likely prospects for the Company.

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).
- c) To realise property in order to make a distribution to one or more secured or preferential creditors.

The objective being pursued is 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).

The sale of the Company's business and assets enables this objective to be achieved through delivering a better outcome to creditors than would have been achieved through a winding up. The outcome achieved through the sale is the best available outcome for creditors in the circumstances.

Marketing of the business and assets

As noted above, an accelerated sales process was undertaken by the Group with assistance from Alix Partners. This was continued by the proposed Joint Administrators in the lead up to our appointment.

The situation was also publicised in the press and enquiries from other interested parties were received and as a result the process was widely known to potentially interested parties.

We are of the opinion that the marketing process undertaken complied with the 'Marketing Essentials' set out in the Statement of Insolvency Practice 16.

Valuation of the business and assets

Jones Lang LaSalle ("JLL") (led by Allan Wilson, MRICS) were instructed to value the freehold property owned by the Company located in Smethwick, West Midlands. They have confirmed their independence and that they carry adequate professional indemnity insurance.

This property was excluded from the sale to Paragon, however, Paragon has been granted a licence to occupy the property for up to 12 months whilst the Joint Administrators pursue a sale of the freehold property.

The principal asset included within the sale was the stock and the plant and machinery located at the Smethwick warehouse. Gordon Brothers Limited (led by Neal Weekes, assisted by James Acton BA (Hons) DipSurv MRICS and Josh Chivers MRICS) was instructed to provide advice on the realisable value of these assets. They have confirmed their independence and that they carry adequate professional indemnity insurance.

They indicated that, in the current environment, there would be limited parties interested in acquiring the stock and it may be necessary to wait until the lockdown restrictions are lifted. They estimated that the stock could realise c.15p in the £. In conjunction with the costs of holding the stock, this would have resulted in a net cost to the administration of disposing of the stock.

Gordon Brothers Limited valued the plant and machinery at £450,000 in situ and £125,000 ex situ. As the Paragon offer was the only alternative to an ex situ realisation and also provided additional recovery benefits for the creditors by minimising the impact of the substantial holding costs, it was accepted.

The Joint Administrators did not obtain a valuation for the 5 Star brand prior to the transaction. However, given the marketing process that was undertaken prior to the transaction and other offers received, we are satisfied that the market has been tested and that market value has been obtained.

The transaction

As previously stated, the sale was completed on 14 May 2020. Further details of the transaction are given below:

The purchaser and related parties

The purchaser is Paragon Data Analytics Limited, now renamed as OT Group Limited (“OT Group”).

The Purchaser has no connection to the Company.

We are not aware of any directors, former directors or associates of the Company who are involved in the financing, management or ownership of the Purchaser. The Purchaser has advised that it will retain certain of the existing management team.

We are not aware of any guarantees given by the directors of the Company for amounts due from the Company to a prior financier, or that a prior financier is financing the new business.

The assets

The assets sold comprise the following:

Description of asset	Purchase consideration (£)
Five Star Trademarks	50,000
Spicers Stock	821,021
Spicers Mezzanine and Racking	125,000
Total	996,021

The transaction is in respect of certain of the business and assets of the Company.

As part of the sale, the Joint Administrators agreed to grant OT Group a licence to occupy the Smethwick property for a period of up to 12 months.

OT Group will collect the trade debtors for a fee. The fee is structured as follows:

- 5% fee up to 65% of the debtor book;
- 10% fee between 65% and 85% of the debtor book; and
- 20% fee thereafter.

Due to the age of the ledger and the significantly better net recovery to creditors from the sale this fee was accepted as it was a condition to the offer.

Sale consideration

The sale consideration was £996,021 plus VAT which was paid upon completion.

The sale proceeds have been apportioned as follows:

Category of asset	Allocated to fixed charge realisations	Allocated to floating charge realisations	Total
	£	£	£
Five Star Trademarks	50,000	-	50,000
Spicers Stock	-	821,021	821,021
Spicers Mezzanine and Racking	-	125,000	125,000
Total	50,000	946,021	996,021

The consideration has been allocated between the fixed and floating charges in accordance with the existing registered charges.

Significant assets not included in the sale agreement

The assets that have been excluded from the transaction include all other assets owned or used by the Company, including, but not limited to:

- the trade and other debts due to the Company prior to the completion of the transaction;
- cash in the Company's bank upon completion of the transaction;
- any stock in the possession of the Company which is or may become subject to a retention of title claim;
- any other deposits or refunds due to the Company;
- all rights and interests of the Company in its properties (other than the grant of the interest created by the licences);
- the freehold warehouse property at Smethwick; and
- the trading name of Spicers Limited, its website, and customer lists and any other intellectual property (apart from the Five Star Trademarks).

Administrators' proposals and remuneration

In accordance with paragraph 49(5) of schedule B1 to the Insolvency Act 1986, we have prepared our Statement of Proposals. The proposals have been delivered to all creditors at the same time as this letter and give an indication of the likely dividend prospects.

We also set out our proposals for remuneration and will separately seek approval for the 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 Company before our appointment will rank as unsecured claims. Any sums due to the Company arising after our appointment must be paid in full and without set-off against any debts incurred by the Company prior to our appointment.

The directors are required to submit a statement of affairs to us and you will appreciate that given the limited time since our appointment the full financial position is not yet known.

Should you believe that you are an unsecured creditor and wish to submit a claim against the Company then please email spicersadministration@uk.ey.com, detailing the nature of your claim.

Certain debts due from the Company 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 Company's 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.

Opting out

Under the provisions of Rule 1.39, creditors have the right to elect to opt out of receiving further documents relating to the administration.

If you do elect to opt out you will still receive the following documents:

- Any which the Insolvency Act requires to be delivered without expressly excluding opted-out creditors;
- Notice relating to a change in the administrators, or their contact details;
- Notice of dividend or proposed dividend; or
- A notice which the court orders to be sent to all creditors, or all creditors the particular category to which you belong.

Any election to opt-out will not affect your entitlement to receive dividends, if any are paid.

Unless the Rules provide to the contrary, opting-out will not affect your rights to vote in a decision procedure or participate in a deemed consent procedure, although you would not receive notice of such procedures.

Any opted-out creditors will be treated as opted out in respect of any consecutive insolvency procedure which might follow the administration.

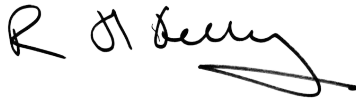
You may opt-out by delivering an authenticated (e.g. signed) and dated notice to me stating that you are electing to be an opted-out creditor in relation to this administration. You may at any time revoke this election by delivering to me an authenticated and dated notice stating that you no longer wish to be an opted-out creditor.

Other matters

If there are any matters concerning the Company's 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 my colleague, Sam Taylor on 020 7951 6984.

Yours faithfully
for the Company



R H Kelly
Joint Administrator

Enc Notice of Administrator's Appointment

R H Kelly is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in Scotland. C G J King is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in England & Wales.

The affairs, business and property of the Company are being managed by the Joint Administrators, R H Kelly and C G J King, who act as agents of the Company only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company 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.

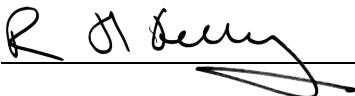
Notice of Administrators' Appointment – paragraph 46(3) of Schedule B1 to the Insolvency Act 1986

Spicers Limited (in Administration)

Name of Court	The High Court of Justice
Court reference number	CR-2020-BHM-000302
Company registered number:	00425809
Nature of business	46650 - Wholesale of office furniture 46660 - Wholesale of other office machinery and equipment
Registered office of company	C/O The Spicers-Officeteam Group Limited Unit 4, 500 Purley Way, Croydon, Surrey, England, CR0 4NZ
Principal trading address (if different from above)	c/o The Spicers-OfficeTeam Group Limited, Unit 4, 500 Purley Way, Croydon, Surrey, England, CR0 4NZ
Any other name under which the company was registered in the previous 12 months	n/a
Any other name(s) or style(s) under which the company carried on business or incurred debts	n/a
Date of appointment of administrators	14 May 2020
Name(s) and address(es) of administrator(s)	Robert Hunter Kelly Ernst & Young LLP, 1 Bridgewater Place Leeds, LS11 5QR Charles Graham John King Ernst & Young LLP, 1 Bridgewater Place Leeds, LS11 5QR
Joint / Administrator(s) IP No(s)	8582 / 8985
Telephone number	020 7951 6984
Name of alternative person to contact with enquiries about the case	Sam Taylor

Notice to all creditors

On 14 May 2020 the company entered administration and Charles Graham John King and I were appointed as Joint Administrators. The appointment was made by the directors of the company under the provisions of paragraph 22 of Schedule B1 to the Insolvency Act 1986.

Signed  _____

Date 21 May 2020

R H Kelly is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in Scotland. C G J King is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants in England & Wales.

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