



TO ALL KNOWN CREDITORS

11 February 2021

Ref: MC/AJ/AK/SB/NR/HP

Direct Line: 020 3727 1079

Direct Email: [prezzo@fticonsulting.com](mailto:prezzo@fticonsulting.com)

Dear Sir/Madam,

**Prezzo Limited and Prezzo Holdings Limited – Both in Administration, Together (the “Group”)**

Andrew Johnson, Ali Khaki and I of FTI Consulting LLP (“FTI”) were appointed as Joint Administrators (the “Joint Administrators”) over the Group on 10 February 2021. Please note that we are authorised by the Institute of Chartered Accountants in England and Wales to act as Insolvency Practitioners.

**Purpose of this letter**

The term “pre-packaged sale” refers to an arrangement under which the sale of all or part of a company’s business or assets is negotiated with a purchaser prior to the appointment of the administrators, and the administrators effect the sale immediately on, or shortly after, appointment.

The purpose of this letter is to inform creditors of the Group, in accordance with Statement of Insolvency Practice 16 (“SIP16”), of the background in relation to a pre-packaged sale and to demonstrate to creditors that such a pre-packaged sale has been undertaken with due regard to the interests of creditors.

**Purpose of the Administration**

The purpose of an administration is to achieve one of the following statutory objectives (in order):

- (a) rescuing the company as a going concern; or
- (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
- (c) realising property in order to make a distribution to one or more secured or preferential creditors.

Given the situation set out further below, in particular the quantum of the Group’s debt and its funding requirements, we concluded that it was not possible to rescue the Group as a going concern and, as non-preferential-unsecured creditors would not receive a better return than they would have in a winding up, it was decided that statutory objective (c) should be pursued.

The transaction enables objective (c) to be achieved as the realisations enable both a distribution to be made to the secured creditor and, on the basis of current information, enable a distribution to both the first-ranking (employees) and second-ranking (HM Revenue & Customs (“HMRC”)) preferential creditors. The transaction

provided the best outcome for creditors of the Group, and was to the advantage of all classes of creditors other than non-preferential-unsecured creditors who were not disadvantaged as a consequence of the transaction.

On 10 February 2021, immediately following our appointment, we sold substantially all of the business and assets of the Group (the "Transaction") to Prezzo Trading Limited (the "Purchaser"). Prezzo Trading Limited is an entity ultimately owned by Cain International LP ("CI"). Further details on the Transaction, are described below and in Appendix I.

### **Background to the Administration**

Founded in 2000, Prezzo is a well-known restaurant group in the Italian Casual Dining market, currently operating 178 leasehold restaurants throughout the UK.

After a period of expansion and market under performance, the Group underwent a CVA in 2018 to rationalise the estate leaving a core of profitable sites, as well as a restructuring of its balance sheet. Following this restructuring, new leadership was put in place to lead a turnaround and rehaul its strategy, focusing on people, food & drink, environment, customer & brand and operations.

Prior to the COVID-19 pandemic, the Group had made progress against its turnaround plan. However, in line with the rest of the hospitality industry, the Group has faced unprecedented disruption as a consequence of the COVID-19 pandemic.

At the outset of the COVID-19 crisis, the Group was put into hibernation, furloughing the majority of its staff, limiting outgoing payments to a minimum and engaging in discussions with key stakeholders (e.g. HMRC and landlords). Between March and July 2020 home delivery capacity was doubled to expand the Group's 'Dine at Home' channel. Notwithstanding the actions taken by management, the ongoing headwinds resulted in a £14m forecast funding requirement and as a result an independent M&A advisor was engaged to run a sales process in June 2020.

The M&A process saw 58 parties contacted with 21 parties signing NDA's and accessing additional information made available to them. Four parties entered discussions with management with the process ending with two offers. Both offers were similarly structured and ultimately the CI offer was accepted and transacted.

CI agreed to purchase the Group on 2 December 2020 and completed the transaction on 16 December 2020. The consideration included a material discount for the Group debt facilities which totalled £57m and a nominal amount being paid for the Group equity ("the December transaction").

Following the December transaction, the extent and likely prolonged duration of the third national lockdown became apparent. Despite a number of landlords actively engaging in discussions to address arrears and ongoing rent liabilities it became clear these discussions would not be concluded at a sufficient level and in a suitable timeframe to overcome the additional headwinds the third lockdown had presented.

In the face of ongoing uncertainty, CI concluded that they were no longer able to support the business on a solvent basis. However, they also informed the Directors that they were in the process of preparing an offer to acquire the business and assets of the Group by way of a pre-pack sale.

Whilst negotiations over terms of the sale continued, the Directors managed the cash and net creditor position to maximise value in the business for the benefit of the Group's creditors ahead of the proposed transaction.

Since the December transaction, CI have provided c£2.4m of funding in order to provide liquidity that enabled the Group to make business critical payments and ensure the overall position of creditors was not materially worsened ahead of the Transaction. They were not, however, willing to fund another accelerated M&A process.

In any event, and as previously noted, the M&A process in 2020 did not give rise to an offer that redeemed the secured lenders in full. Since the December transaction, the position of the Group and the market has further deteriorated. CI have confirmed they would not countenance an offer unless it provided a material return over and above their initial investment.

The Group also instructed Gordon Brothers International LLC (“GB”) to carry out a valuation of the furniture and equipment held at the Group’s sites. The purpose of the valuation was to ensure that the Transaction provided a better return to the Group’s creditors than would have been the case in a winding up. The ex-situ value provided by GB was £1.2m prior to the costs of realisation, which were expected to be significant given the assets were spread across the Group’s 178 restaurants (at an average asset value of c£7k per site).

### **Transaction**

Immediately following our appointment as Joint Administrators on 10 February 2021, substantially all of the business and assets of the Group were sold to the Purchaser for consideration totalling £5.04m (cash of £2.64m & debt of £2.40m).

We concluded that the Transaction was in the best interests of the Group’s creditors and maximised value in the circumstances, as:

- It ensured that 156 of the Group’s 178 restaurants would remain trading (subject to ongoing discussions with Landlords), minimising business disruption, ensuring continuity for the business and its suppliers, protecting the vast majority of the Group’s employees, preserving 2,550 jobs including the payment of any arrears of wages, holiday pay and benefits for those retained staff.
- The Transaction, both in protecting the jobs detailed above and through ensuring that sufficient value was obtained for all floating charge assets (in excess of what would have been realised on a break-up basis), is expected to result in a full return to the creditors with first-ranking preferential status (employees), as well as a return to HMRC given its status as a secondary-ranking preferential creditor.
- The transaction was supported by the material secured creditors who held c£56m of secured debt.

Further details of the Transaction, its rationale and safeguards, are included in Appendix I.

The acquisition of the Group’s share capital in the December transaction means that CI should be considered a connected party for the purposes of SIP 16.

CI were informed of their ability to approach the pre-pack pool, an independent group of suitably qualified and experienced individuals, in order to obtain their opinion on the pre-pack transaction. However, the Purchaser chose not to approach the pre-pack pool, as per their entitlement.

### **Proposals**

In accordance with paragraph 49(5) of Schedule B1 to the Act, we are currently formulating our proposals which will be sent to creditors imminently and in any event within 14 days of the Joint Administrators’ appointment. A copy of these proposals will be made available at <http://www.fticonsulting-emea.com/cip/prezzo-restaurants>

The Joint Administrators considered sending both the SIP 16 statement and the proposals concurrently, however decided sending the SIP 16 as soon as practicable following the appointment (whilst the proposals were being finalised) offered the greatest transparency to creditors with the proposals to follow in short order.

### **Ethics**

As insolvency practitioners we are bound by the Insolvency Code of Ethics and guided by Statement of Insolvency Practice 1 (SIP 1). Prior to our appointment we considered potential ethical threats in undertaking the

Administration in accordance with the Code, and we did not consider that there were any matters preventing us taking this appointment.

Should you have any queries in respect of the above please contact this office using the details provided.

Yours faithfully

For and on behalf of the Group – In Administration,



**Matthew Boyd Callaghan**

Joint Administrator

*The affairs, business and property of the Group are being managed by the Joint Administrators. The Joint Administrators act as agents of the Group and without personal liability.*

*Matthew Boyd Callaghan, Andrew Johnson and Ali Khaki are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales, under section 390A(2)(a) of the Insolvency Act 1986.*

*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>.*

*FTI Consulting LLP ("FTI") uses personal information in order to fulfil the legal obligations of our Insolvency Practitioners under the Insolvency Act and other relevant legislation, and also to fulfil the legitimate interests of keeping creditors and others informed about the insolvency proceedings. You can find more information on how FTI uses your personal information on our website at <https://www.fticonsulting-emea.com/~media/Files/emea--files/creditors-portal/cip-emea-forms-info/cip-data-privacy.pdf>.*

## Appendix I

### Information regarding the sale of the business and operating assets of Prezzo Limited and Prezzo Holdings Limited (“the Group”) on 10 February 2021; as required by the Statement of Insolvency Practice 16 (“SIP16”)

Prezzo Limited and Prezzo Holdings Limited (Both in Administration) (together “the Group”)

This appendix sets out the matters as required by SIP16

#### *Initial introductions and pre-appointment matters*

<p>1. The source of the Joint Administrators’ initial introduction</p>	<p>FTI were initially introduced to the Group by a landlord with whom one of the Joint Administrators had dealt with previously and who leased sites to the Group. The initial introduction to the Group was made on 18 December 2020.</p> <p>For the avoidance of doubt neither FTI or the Joint Administrators had had a previous relationship with the Group ahead of the options workstream in December 2020 (detailed below).</p>
<p>2. The extent of the Joint Administrators’ involvement prior to the appointment</p>	<p>FTI was engaged to complete both an options paper, looking at solvent and insolvent options, and to conduct contingency planning and short-term cash flow work for the Group. The initial engagement commenced on 22 December 2020.</p> <p>The Contingency Planning (“CP”) workstream was required for circumstances where a solvent refinancing could not be achieved. In circumstances where a solvent solution was not possible it was likely that an administration would be required and that the CP advisors would take the appointment given their knowledge of both the Group’s financial position and structure.</p> <p>FTI did not act in a managerial capacity for the Group and all decisions of the Group in relation to the relevant transactions were independently undertaken by the Group’s Directors.</p> <p>The above workstreams were led by Matthew Callaghan who has been appointed as one of the Joint Administrators.</p>
<p>3. Alternative course(s) of action considered by the Joint Administrators and the possible financial outcome(s) of the alternative course(s) of action</p>	<p>Alternative options compared with the potential outcome from the Transaction were:</p> <p><b>Consensual restructuring (bi-lateral negotiations)</b></p> <p>Following the December transaction, the extent and duration of the third national lockdown became clear. Nonetheless, the Group has made numerous efforts to complete a consensual restructuring with an attempt to negotiate agreeable terms with its landlords. However, as a result of the increasing funding requirement (c£14m) and the ongoing uncertainty, CI were no longer able to support this strategy and continue to fund the business on a solvent basis.</p>

***A pre-packaged sale following a valuation exercise and marketing carried out prior to the Group's administration;***

There was insufficient liquidity in the Group to provide the necessary time or funding to run an additional accelerated M&A process following the conclusion of the previous one in December 2020. No process is expected to have provided a better return to the Group's creditors than the Transaction, for the reasons set out below:

- CI had expressed their willingness to purchase the Group, via a credit bid as the secured lender, and were have confirmed they would not countenance an offer unless it provided a material return over and above their initial investment; and
- The market has deteriorated since the independent M&A process in 2020 (which concluded less than two months ago). Therefore even in circumstances where there was liquidity to run an additional accelerated M&A process, a return acceptable to CI is unlikely to have been achieved.

We also considered whether a short marketing process post the appointment of the Joint Administrators could be run in which interested parties from the previous M&A process were approached.

In our view this was not a viable option for the following reasons.

- Any post appointment marketing process would have caused increased uncertainty and a likely further detrimental impact to Group value.
- As above the Group has an immediate funding requirement and would likely have insufficient available funds to meet post administration expenses (e.g. rental liabilities and employee costs).
- The Group's secured lender would not have been supportive of such a process, and there would have been a risk that they withdrew their existing offer. This would lead to an increased likelihood of liquidation.

***Break Up/ Liquidation comparable;***

An estimated outcome comparison has been completed to compare the return from the transaction to the return in a break-up scenario, which clearly demonstrates the following:

- The overall realisations for the Group's creditors from the Transaction are expected to significantly exceed the comparable amount in a break up/liquidation, both as a consequence of additional consideration and the additional costs associated with realising the Group's assets in a break up/liquidation.
- The sale of the business will save 2,550 jobs, significantly reducing the first-ranking preferential claims and this should ensure all first-ranking preferential creditors are paid in full. In a liquidation and as a result of the volume of associated

	<p>redundancies, we have estimated the preferential employee claims to be c£3m. This would have resulted in a significant shortfall to the first-ranking preferential creditors.</p> <ul style="list-style-type: none"> <li>- As a consequence of the reduced first-ranking preferential claims we expect a significant dividend to be payable to the second-ranking preferential creditors. In a liquidation no return would be expected to the 2<sup>nd</sup> ranking preferential creditors.</li> <li>- Landlord claims have been mitigated by preserving the immediate ongoing trade of 156 sites.</li> <li>- Whilst non-preferential unsecured creditors are not expected to receive a distribution in either a break up scenario or the Transaction, we understand that continued support from a number of suppliers to the Purchaser will be required and that the Purchaser will be looking to discuss ongoing arrangements with a number of the Group's existing suppliers as a consequence.</li> <li>- A better outcome is expected for all other classes of creditor compared to a shut down as a result of the Transaction.</li> </ul>
<p>4. Whether efforts were made to consult with major creditors</p>	<p>The Group's creditors include:</p> <ul style="list-style-type: none"> <li>- The secured lenders, who have three facilities totalling c£57m covered by full fixed and floating charge security. CI hold substantially all of the secured debt;</li> <li>- Unsecured creditors in relation to the Group's lease liabilities e.g. rent-free periods and landlord contributions;</li> <li>- Unsecured trade creditors;</li> <li>- HMRC (both unsecured and second-ranking preferential following the reintroduction of UK crown preference);</li> <li>- Employee arrears (wages, holiday and benefits); and</li> <li>- Intercompany payables.</li> </ul> <p>We consulted extensively with CI alongside their legal and financial advisors and they have confirmed that they are supportive of the transaction, in their capacity as the majority secured lender.</p> <p>Given the sensitivity around the transaction and the potential impact to value had the transaction become public knowledge, a decision was made not to consult with any creditor other than CI in relation to the transaction.</p>

<p>5. Details of requests made to potential funders to fund working capital requirements</p>	<p>As mentioned above, access to further liquidity was needed for the Group to continue to trade as a going concern.</p> <p>Pre-appointment discussions were held between the Group and CI in an attempt to satisfy the liquidity requirement, however CI withdrew its support for a consensual solution in late January 2021, given the developments outlined above.</p> <p>In conclusion and as detailed above, based on recent comparable transaction multiples, the Joint Administrators did not consider that the working capital funding requirement was available to the Group absent the Transaction. Therefore, it was in the best interests of the creditors of the Group to enter into the Transaction.</p>
<p>6. Charges registered against the Group, including the date these were created</p>	<ol style="list-style-type: none"> <li>1. Fixed and Floating debenture made on 20 August 2018</li> <li>2. Security Succession Deed dated 25 February 2015</li> </ol>
<p>7. Details of any transactions involving the acquisition of the business or business assets from an insolvency process within the previous 24 months and whether the Joint Administrators were involved</p>	<p>N/A</p>

*Marketing and valuation of the business and assets*

<p>8. Marketing activities conducted; and</p> <p>9. Valuations obtained of the business or the underlying assets</p>	<p>A full M&amp;A process was conducted by independent advisors between July and December 2020. This process reached a wide audience with 58 parties contacted and 21 parties signing NDA's and accessing additional information made available to them. Four parties entered discussions with management with the process ending with two offers, both of which offered a nominal amount for the equity and a purchase of the £57m debt at a significant discount.</p> <p>Since last year's M&amp;A process, there has been a worsening of conditions for the hospitality industry as a consequence of the third national lockdown. Therefore, the outcome of any additional M&amp;A process would not be expected to result in a better outcome than that achieved in December 2020.</p> <p>The Group did not have any liquidity, to the extent CI were already funding business critical payments, and CI were unwilling to fund any additional costs to run a further accelerated M&amp;A process.</p> <p>In addition to the above and as detailed previously, CI confirmed that they were interested in acquiring substantially all the business and assets of the Group via a pre-pack administration.</p> <p>Comparable, mid 2020 transactions in the sector traded at c4x pre COVID-19 EBITDA, which would equate to c£10.4m for the Group based on c£2.6m FY19 EBITDA, which is materially lower than the level of the secured debt.</p> <p>GB have also undertaken a valuation of the Group's furniture and equipment. This has provided comfort to the Joint Administrators that they have achieved materially better value in selling these assets</p>
--	--

	through this transaction than would have been achieved in a break up/ liquidation scenario. GB have full Professional Indemnity Insurance.
--	--

*Transaction*

10. The date of the transaction	The Transaction completed on 10 February 2021
11. The identity of the purchaser	Prezzo Trading Limited (Company No: 13150050)
12. Any connection between the purchaser and the Directors, shareholders or secured creditors of the Company	The Purchaser is a company owned by CI. As a consequence of the relationship between the Purchaser and the Group's ultimate shareholder this is considered a connected party transaction in respect of SIP 16.
13. The names of any Directors or former Directors of the Company who are involved in the management, financing or ownership of the purchaser, or of any other entity into which any of the assets were / will be transferred	<p>Karen Jones and Dean Challenger are expected to be appointed as Directors of the Purchaser and will continue to be involved in the day-to-day management of the business.</p> <p>In addition to the above CI Milan is a Corporate Director of both Prezzo Limited and Prezzo Holdings Limited. The Directors of this entity are Jonathan Goldstein and Joseph Stelzer who either directly, or through a corporate directorship, are on the board of the Purchaser.</p> <p>Where applicable the Directors have confirmed that the relevant Section 216 notices under the Insolvency Act 1986 will be circulated.</p>
14. Whether any Directors of the Company had given guarantees for amounts due from the Company to a prior financier and whether that financier is financing the new business	We are not aware of any guarantees provided by the Directors of the Group to the Group's lenders.
15. Details of the assets involved and the nature of the transaction(s)	The Transaction comprised the sale of substantially all the assets in the Group. Full details are provided below.
16. The consideration for the transaction, terms of payment, and any condition of the contract that could materially affect the consideration	The total consideration was £5.04m and the allocation of the consideration by asset and entity is set out in Appendix II.
17. The consideration disclosed under broad asset valuation categories and split between fixed and floating charge realisations (where applicable) and the methods by which this allocation of consideration was applied	As detailed in Appendix II, consideration was allocated by CI based on the Group's latest Balance Sheet and CI's view on the value of goodwill in the Group. The consideration was reviewed for reasonableness by the Joint Administrators and their legal advisors.
18. Any options, buy-back arrangements or similar conditions attached to the contract of sale	N/A

19. Details of any security taken by the Joint Administrators in respect of any deferred consideration.	N/A
20. If the sale is part of a wider transaction, a description of the other aspects of the transaction	N/A

## Appendix II

The consideration disclosed under broad asset valuation categories and split between fixed and floating charge realisations (where applicable):

<b>Prezzo Limited Consideration</b>	
<b>Asset category</b>	<b>Total (£)</b>
<b>Fixed</b>	
Goodwill	3,200,000
Domain Name	50,000
Business Name	290,000
Property	1
Transferred IP	100,000
<b>Total fixed</b>	<b>3,640,001</b>
<b>Floating</b>	
Plant & Machinery & Chattels	1,200,000
Wet and Dry Stock	200,000
Customer contracts	1
Supply contracts	1
Systems	1
Transferred records	1
<b>Total floating</b>	<b>1,400,004</b>
<b>Total fixed and floating</b>	<b>5,040,005</b>