

EXECUTIVE SUMMARY OF THE CVA

The Company will shortly be proposing a Company Voluntary Arrangement (“CVA”) with its creditors, to deal with its current liquidity problems that have been brought about following the FCA’s proposed changes to the regulatory environment and the COVID-19 pandemic. The Company is seeking to restructure its business through the CVA to address these challenges and avoid the most likely alternative outcome of administration.

All creditors are invited to vote in the CVA and, if approved, will receive a higher payment than would be expected in a forecast administration scenario. Investor creditors are also being offered an alternative equity option, by which they can subscribe for shares in the Company (“Preferred Shares”) instead of receiving a proposed cash payment. The Preferred Shares could offer an increased return in the future over and above the cash payment. The estimated returns to creditors being offered in a CVA scenario (together with return from the loan book sale where applicable), both under the cash and equity options, are included within the below table. These are currently estimated returns with confirmation of the final expected returns for each investor being available on the platform on Thursday 24th September.

Investment type - Wellesley Group of Companies	CVA Loan book sale and/or unsecured claim	CVA Loan book sale and/or unsecured claim	Administration Loan book sale and/or unsecured claim
	Cash basis (p/£)	Equity basis (p/£)	Estimated return (p/£)
The Wellesley Mini-Bonds Series 1	58	73	48
The Wellesley Mini-Bonds Series 2	1	25	nil
The Wellesley Mini-Bonds Series 3	1	25	nil
Wellesley Property Mini-Bonds	84	89	77

Investment type - Other	CVA Loan book sale		Administration Loan book sale
	(p/£)		(p/£)
Peer to Peer Lending	48		44
Property Bonds issued by Wellesley Secured Finance Plc	71		66

Trading History

The Company operates as an alternative financier, providing secured funding to developer borrowers in the UK residential property market. In 2015, following initial lending success, the Company changed its focus from smaller developers and began to target larger more professional developer borrowers for its loans.

Until now, the Company and the Wellesley Group financed this lending through the sale of the following investment products to retail investors:

- Unsecured minibond programme;
- Asset backed minibond programme;
- The P2P platform.
- Listed bond programme issued by Wellesley Secured Finance plc.

The Company traded successfully on loans issued under the updated lending strategy and during this period the directors also began to develop plans to pursue syndicated loans with third parties and leverage proprietary credit origination.

Over the past two years, the Company has funded strategic acquisitions of equity stakes held by SPV entities in the Wellesley Group, via inter-company loans between the Company and each SPV. These investments involved acquiring shares in Urban Exposure plc in late 2019 and early 2020, followed by the acquisition of shares in 1pm plc in May 2020.

Current issues

A number of recent issues have had a material impact on the liquidity of the Company resulting in a significant funding gap, and means that it is no longer in a position to finance its ongoing loan book funding advance obligations at the same time as funding investor maturities across all products.

Covid-19

The unprecedented COVID-19 crisis has added to the cashflow issues for the Company, by stalling the house building market, which has in turn impacted on the ability of some developer borrowers to service their respective loan commitments.

Regulatory changes proposed by the FCA

The regulatory changes recently proposed by the FCA are likely to prevent the Company and its affiliates from raising further finance from retail investors through the issue of bonds. This follows the FCA's introduction of a temporary product intervention which came into effect on 1 January 2020 for a period of 12 months and restricted speculative minibonds from being marketed to retail investors. Whilst introduced as a temporary intervention, in mid-June 2020 the FCA issued a Consultation Paper which announced the intention to make these restrictions permanent and extend the prohibition to also include the sale of listed bonds. If these proposals are implemented (which the Company fully expects to be the case), it will have a profound effect on the business of the Company, making the current business model obsolete.

The speed of the proposed changes to the regulatory framework introduced by the Consultation Paper specifically the inclusion of certain listed bonds will affect the Company's primary source of funding to the business, as it will no longer be able to raise funding from retail investors under its existing investment framework.

Just a few weeks prior to the CP being published the Company had, in conjunction with their professional advisers, produced a full and detailed business plan that evidenced the strong outlook the business had given the post-2015 lending strategy and the proposed syndicated lending strategy.

Background to the CVA

As a result of the above factors, the Company needed to find a solution to its liquidity issue and engaged Duff & Phelps Ltd and Shoosmiths LLP as its financial and legal advisors respectively to review the business, assess the situation and prepare an options report. The review focussed on how the Company could find a means to fund the developments to practical completion and thereby improve the outcome for the creditors. The outcome of the review was that the Company's present position was untenable, and action needed to be taken to preserve the business and protect the interests of the investor creditors. These conclusions were shared by the Company to the FCA who continue to be updated about the proposed steps.

The restructuring advice identified that a CVA would provide the best opportunity to restructure the Company's business with a view to continuing its operations and to enable the greatest return to the unsecured creditors including the retail investors. The likely outcome in this scenario would result in a significantly improved outcome than would the alternative likely outcome, of the Company entering administration and/or ceasing all operations.

The directors of the Company were concerned that upon the Company entering administration, Wellesley Security Trustees Limited ("**WST**") would be entitled to take enforcement action on behalf of the investors and take control of the loan book. Without having any funds, or access to funding, WST would need to run a distressed sale of the loan book which, given current market conditions and the time required to complete a due diligence process during which ongoing funding requirements were not certain to be assured, would, in the opinion of the Company, lead to a reduced outcome for the investors who had direct and secured investment in the loan book .

To avoid this, the Company recently marketed the loan book for sale to third parties as well as a subsidiary of the Company, Cloverleaf 376 Limited (“**Cloverleaf**”). This resulted in the acquisition of the loan book by Cloverleaf. Full details of the marketing process and the loan book sale are included in the CVA proposal. The sale has protected the interests of the various entitled classes of secured creditors by securing a higher offer than that considered available in an administration and WST enforcement scenario. Further it is expected that Cloverleaf’s run off of the loan book will generate additional returns which will in turn be available to the Company to support the successful delivery of the CVA proposal.

The CVA proposal has been formulated by the directors and will soon be launched. The proposed terms provide a means to maximise the return to unsecured creditors, which combined with the loan book sale will deliver the best overall outcome for the creditors and investors alike.

CVA process overview

A CVA is a formal procedure which enables a company to agree with its unsecured creditors a composition in satisfaction of its debts or a scheme of arrangement of its affairs which can determine how its debts should be paid and in what proportions. A CVA requires the approval of 75% (seventy-five per cent.) or more in value of the company’s creditors to approve the arrangement.

If a CVA is validly approved, it binds all unsecured creditors who were entitled to vote (whether or not they so voted) or would have been so entitled had they received notice of the CVA.

The terms of a CVA are formulated to provide a better outcome to unsecured creditors when compared to the alternative option of administration or liquidation for a company.

The financial offering being proposed by the company under its CVA is made according to each class of creditor, such that all creditors within a class will be treated equally under the terms of the CVA.

The CVA process is overseen by external financial and legal advisors. Insolvency practitioners are engaged by the company to act firstly as the nominee, whose role is to oversee the initial stage of the process where the proposal is prepared by the Company and the voting process. Once a CVA has been approved by the creditors, the nominee will usually take the role of supervisor of the CVA, who oversees the CVA to ensure that the company complies with the terms of the arrangement.

The information provided to the creditors in the CVA documentation includes a detailed review of the financial outcome to creditors in the event of administration, which is set out in an estimated outcome statement. This analysis provides a comparison for each creditor class as to their likely payment from the company should the CVA be approved, or if it fails to gain the necessary support, in the likely alternative scenario of administration.

Before the CVA process can commence, the nominee reviews the directors’ proposal and must prepare a report to confirm whether in the nominee’s judgement the CVA has a reasonable prospect of being approved by the creditors and implemented by the company.

Provided that the nominee has reported that the CVA does have a reasonable prospect of success, the proposal is put to a vote of all unsecured creditors. Given the number of investors eligible to vote in the CVA and in light of the current COVID-19 restrictions in place, voting in the Company’s CVA will take place electronically rather than at a physical meeting. Investors will be able to vote using the Company’s on-line platform and should be aware that once a vote has been cast, it cannot be changed.

The CVA will be passed if at least 75% (by debt value) of participating creditors vote in favour of the CVA Proposal. If passed, the CVA Proposal will be binding on all unsecured creditors regardless of whether they voted against it or did not participate in the vote.

If the CVA is not passed, it is expected that the Company and certain other Wellesley entities will likely enter an administration process. In such circumstances, the directors expect that the overall return to creditors will be materially less than that proposed in the CVA.

The CVA process will be launched on 24 September 2020. The latest date for the creditors to cast a vote via the electronic voting will be 13 October 2020.