# Cleansing Materials IFC Introduction

7th July 2020

Travelex worldwide money

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# Executive Summary

**The Ad Hoc Committee supports the proposal (the "Proposal") made to recapitalise the leading global foreign exchange franchise**

**Situation update**

- The Group has recently faced and continues to face significant challenges, both operational and balance sheet related:
  - Malware attack in January 2020
  - Covid impact on Group trading
  - Near term liquidity shortfall, risking events of default under the RCF and SSNs and prospect of Group-wide insolvency

**Group reorganisation**

- In response, the proposed restructuring will split the Group into two: Initial Fundco (IFC) and Optional Fundco (OFC) to protect the most resilient parts of the business and warehouse the retail operations that are forecast to have a slower recovery
  - IFC: Wholesale, Outsourcing, APAC region, MET region, Nigeria, Brazil and ATM businesses
  - OFC: UK Retail, NAM and European retail
- The Proposal would enable the group to move forward and prosper - leveraging its core USPs: convenience, reliability, efficiency with an unparalleled global supply & distribution network

**Financial restructuring**

- In order to implement the Group reorganisation, the Group requires the support of its financial creditors to provide new liquidity and a comprehensive balance sheet restructuring
  - £84m new money needed to fund IFC and provide sufficient liquidity headroom throughout the period
  - Full equitisation of the Senior Secured Notes (SSNs) and par reinstatement of RCF lenders; new group controlled by SSNs
- To support interim liquidity until transaction closing, certain Ad-Hoc Committee ("AHC") members have committed £15m bridge funding
- 66.7% of SSNs supportive and locked-up already, lock-ups being sought to achieve maximum support for the transaction

**Governance**

- Existing Travelex management team will continue to lead the franchise leveraging a strong track record within the foreign exchange industry, supported by THM Partners as Chief Restructuring Officer
- Corporate structure will be amended to improve dialogue between a committed shareholder base on key strategic matters
- Priority will be executing on a newly agreed strategy focused on returning to profitability and capturing value from organic growth opportunities and cost management

**Platform to stabilise and increase profitability for value**

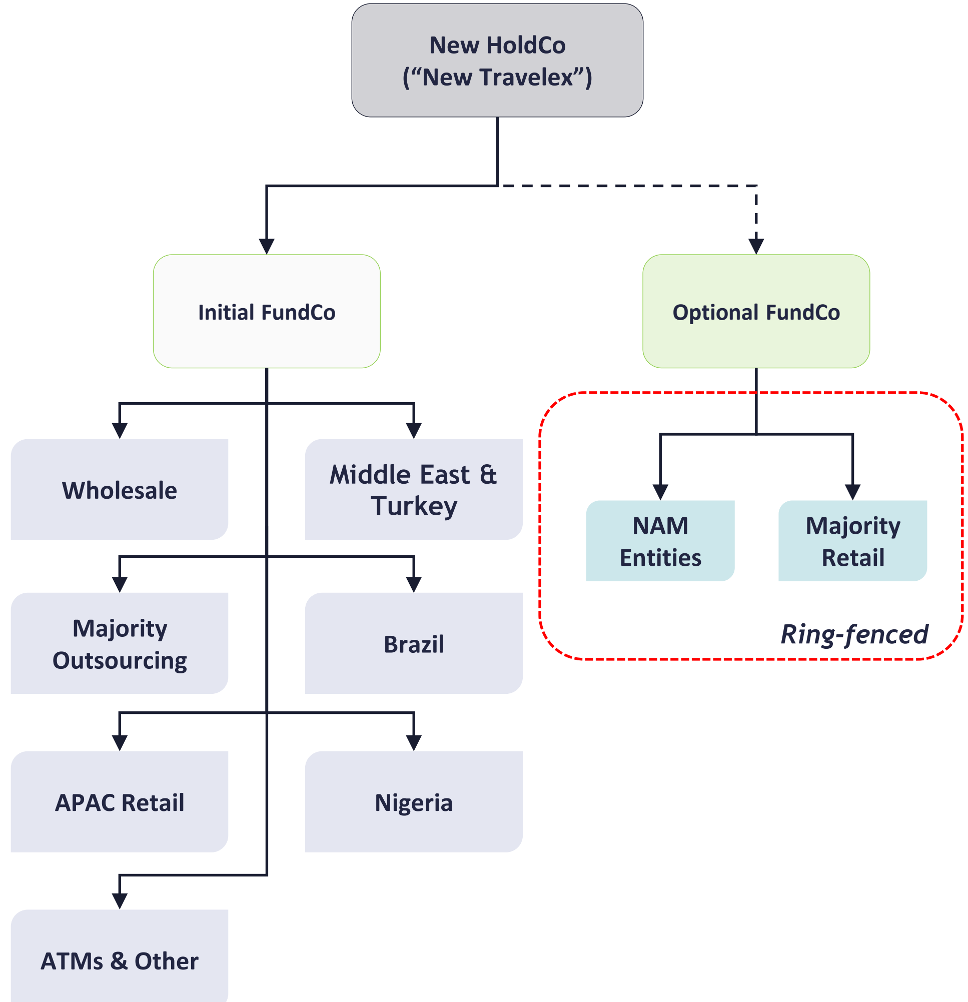
- Competitively positioned with unrivalled global forex brand, unique multi-channel proposition, full suite of FX services and extensive licences
- Opportunity to develop wholesale and outsourcing operating models through optimising network, operations and suppliers
- Shift to sustainable airport retail proposition by actively engaging with landlords through recovery period
- Deliver on ATM / Self-Serve potential, retaining profitability from retail ATM operations with favourable working capital and cost dynamics

# Overview of Proposed Reorganisation

- The Group reorganisation allows the most resilient parts of the business to transfer to the new structure whilst retaining optionality over other operations through OFC

**New Travelex Business Plan**

| Initial FundCo | Optional FundCo |
|---|---|
| **Group**<br>▪ Central services<br>**UK**<br>▪ Wholesale & Outsourcing<br>**APAC**<br>▪ Retail & Wholesale<br>**Brazil**<br>▪ Retail, banking and other<br>**Middle East & Turkey**<br>▪ Retail<br>**Nigeria**<br>▪ Retail & Wholesale<br>**ATMs & Other** | **UK**<br>▪ Retail<br>▪ Other operations<br>**Europe**<br>▪ Retail<br>**North America**<br>▪ Retail & Outsourcing |




- The above table sets out a summary of the Group allocations arising from the restructuring transaction as follows:
  - New Travelex comprising the Wholesale and Outsourcing business (excluding NAM), the entire APAC group together with the standalone Brazilian business, Nigeria and JV entities in MET
  - IFC companies will be acquired via credit bids and transferred to a new structure. Certain IFC entities to obtain regulatory approvals prior to transfer to the new IFC group structure
  - OFC principally contains the UK Retail, European Retail and NAM businesses, which will be warehoused under the existing group structure until profitability is restored

# Strategic Highlights – Initial FundCo

**Restructuring transaction provides a platform to stabilise its operations and increase profitability to generate sustainable value**

**Competitively Positioned**

- Unrivalled global forex brand with a unique multi-channel proposition, full suite of FX services and extensive financial services licences
- Competitors exiting the market provide an opportunity to increase market share selectively

**Development of Wholesale & Outsourcing model**

- Optimise wholesale network, operations and suppliers to leverage benefits from UK vault move / site rationalisation and wholesale infrastructure acquired through UOB in APAC
- Improve service proposition to customers and tighten pricing – building further trust with both long-standing and new partners

**Sustainable airport retail proposition**

- Through restructuring and OFC construct, renegotiate contracts with airports and landlords
- Build on competitive position demonstrated by airport contracts retained on attractive terms in 2019 (Heathrow, Atlanta, Dubai, Doha, Bahrain, Frankfurt) and continued progress in 2020 (Changi)
- Aim to increase variable rental component and remove guarantees / seek alternative downside passenger number protection

**Deliver on ATM / self-serve potential**

- Retain profitability from retail ATM operations with favourable working capital dynamics, due to cash leasing, and reduced rental / staff costs
- Opportunity to expand proposition with broader self-serve models including click & collect for outsourcing partners

**Optimise business backbone**

- Continue to rationalise application estate and move to SaaS model where practical
- Improve efficiency of support functions both onshore and offshore

**Continue to grow beyond core**

- Retain optionality to expand in payments / International Money Transfer market through UK Wire licence and partnerships in UK and NAM
- Growth opportunity in Brazil with FX bank licence, strong SME payments proposition and digital assets

# Overview – Initial FundCo

## Snapshot

- The impact of separating the Consolidated Initial FundCo divisions and allocated overheads has been illustrated within the financials shown. The business plan has been underpinned by the CRO (THM Partners)
- The Group is forecast to be heavily loss making in FY20 but is forecast to return to profitability in FY21 and FY22; the break-even EBITDA point is reached in Q420 as the outsourcing and APAC retail business are forecast to see trading pick up and cost saving measures continue to generate EBITDA improvement. FY20 FCF includes proceeds of insurance partially covering the impact of the cyber attack
- 67% of the IFC Group EBITDA contribution[1] FY20 forecast is derived from retail and outsourcing, increasing to 82% in FY21, emphasising the exposure of the IFC Group to the travel industry
- Assumed rapid recovery within Wholesale division by resumption of trading to Banknotes customers following transaction close and delayed recovery for Outsourcing and Retail in line with expected recovery for Global Travel. Recovery assumptions verified by independent Commercial Due Diligence provider review

## Overview of Projected Financials - Base Case

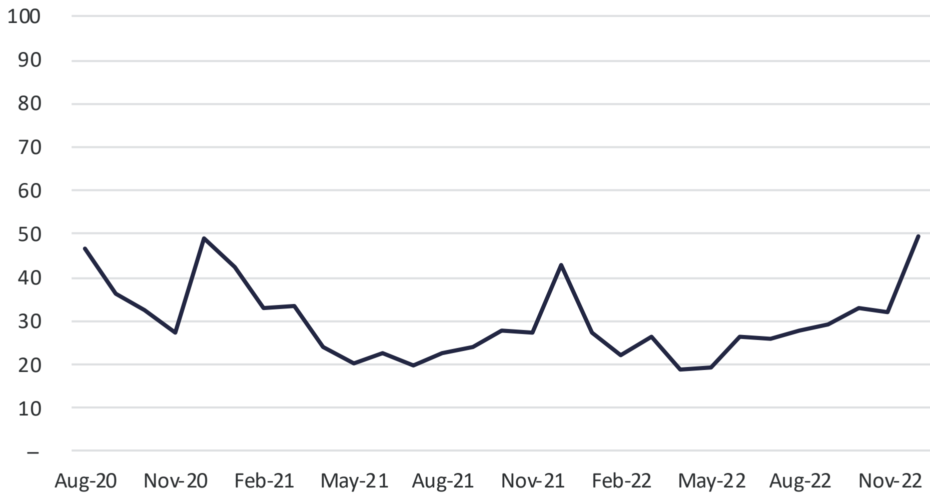
| £'m | FY19 Actual | FY20 Forecast | FY21 Forecast | FY22 Forecast |
|---|---|---|---|---|
| **Net Revenue** | **445.8** | **190.7** | **365.1** | **415.7** |
| Distribution Costs | (35.3) | (16.0) | (25.0) | (28.2) |
| Rent | (94.0) | (35.4) | (80.3) | (96.3) |
| Payroll & Staff Costs | (130.2) | (108.1) | (117.2) | (126.4) |
| Other Costs | (127.7) | (85.0) | (102.2) | (113.2) |
| **EBITDA** | **58.6** | **(53.7)** | **40.4** | **51.7** |
| JV | (7.8) | (5.0) | (10.7) | (12.9) |
| Capex | (30.8) | (10.3) | (12.8) | (12.8) |
| Tax | (5.9) | (6.2) | (2.2) | (6.4) |
| Movement in NWC | 3.5 | (16.4) | (7.6) | (4.5) |
| Others | (23.4) | (37.1) | (1.6) | (2.3) |
| **Unlevered FCF** | **(5.6)** | **(128.8)** | **5.5** | **12.8** |

| **Upside Case:** | | | | |
|---|---|---|---|---|
| EBITDA | 58.6 | (49.8) | 55.8 | 67.0 |
| **Unlevered FCF** | **(5.6)** | **(115.7)** | **20.3** | **29.7** |

*(1) EBITDA contribution pre overheads*

# Projected Initial FundCo Liquidity Following Transaction Closing

**Projected Medium-Term Liquidity[1] (£m) – Base case**




**Projected Medium-Term Liquidity[1] (£m) – Upside case**


- The Group has identified a number of mitigants and upsides which reduce the May-21 and Apr-22 funding requirement per the base case and which are set out in the upside case, illustrated above

- A key driver of the upside case is the inclusion of additional EBITDA that would be generated by bringing across the entire ATM business into IFC; the base case assumes a more prudent assumption with only a small portion of the business transferring across. Additionally, there are certain cost saving measures identified which are considered less certain in their achievability and as such included only in the upside case

*(1) Following transaction close for Initial Fundco. Liquidity defined as cash balance (in regions excluding Brazil, Middle East & Turkey and Nigeria), and undrawn facilities. Min. liquidity buffer estimated by management at £18m consisting of estimated intra-month volatility and regional minimum cash balance. Excluded regions balance of c.£50m projected for Aug-20, based on management estimates*

*Note: The forecasts have not been adjusted for any transaction tax costs*

# Proposal Terms

| | |
|---|---|
| **New Money Notes** | ▪ £99.2m New Money Notes (senior secured), comprising £84m cash plus cashless issuance premium of 12.5% (£10.5m) and cashless backstop fee of 5% (£4.7m)<br>▪ Interest: PIK – 7.5% cash/PIK toggle – 5.0%<br>▪ Term: 5 years, bullet<br>▪ Call protection: 103, 102, 101, years 1-3 respectively<br>▪ Backstop providers: certain AHC and other participating SSNs<br>▪ New Money Notes to be listed on Irish or equivalent stock exchange |
| **Equity** | ▪ New Money Notes to receive 100% of New Holdco equity, subject to dilution by Equity Warrants, Backstop Warrants and MIP<br>▪ Stapled to New Money Notes |
| **SSNs** | ▪ Fully equitised<br>▪ To receive Equity Warrants equivalent to 17.5% of restructured equity in New Holdco<br>▪ Right to participate in the New Money Notes on a pro rata basis |
| **RCF** | ▪ £59.6m, reinstated at par as Reinstated Term Loan (£50m) and a new guarantee facility (£9.6m, of which £7.7m currently issued)<br>▪ Ranking: Super Senior Secured |
| **Operating facilities** | ▪ Certain ordinary course operating facilities to be made available by existing RCF lenders and other third parties, including FX dealing lines, intraday facility, cash leasing and consignment stock<br>▪ Ranking: super senior, senior to new Reinstated Term Loan |
| **Bridge funding** | ▪ AHC to provide up to £30m in aggregate principal amount during the period to completion, initial commitment of £15m in cash<br>▪ To be repaid using proceeds of New Money Notes at completion<br>▪ Bridge funders to receive Equity warrants equivalent to 2.5% of restructured equity in New Holdco, exercisable upon an exit |

# Key Milestones

| | |
|---|---|
| **Transaction Announcement** | ▪ 7 July 2020<br>  ▪ £15m Bridge funding in place at this date |
| **Document Execution** | ▪ Various Milestones during July for the legal agreements to be drafted and / or executed:<br>  ▪ 20 July 2020: New money backstop agreement<br>  ▪ 24 July 2020: Key transaction documents to be in agreed form<br>  ▪ 31 July 2020: Key transaction documents to be signed and held in escrow<br>▪ Noteholders being asked to sign up to Accession Letter by 15 July 2020 in order to facilitate quick execution<br>  ▪ Requires submission of holdings in advance of this date |
| **Longstop Date** | ▪ 05 August 2020 |

# Estimated Liquidation Analysis Comparison

- The Group has conducted an indicative stakeholder recovery analysis, as at 3 July 2020, under an insolvency outcome under which SSNs would recover 4-6% of the face value of their existing claims. Providers of the revolving credit facility (RCF) would recover an amount lower than the face value of their existing claims

- The return to providers of the RCF are primarily driven by the realisation of cash balances within 'debenture' entities, over which the RCF lenders have first ranking fixed and floating charge debentures. Realisations of inter-company debtor balances due to such entities also improves the RCF lenders outcome. The higher RCF lender outcome assumes a sale of Travelex's brand and trademarks

- Net fixed and floating charge asset realisations in the 'debenture' entities are estimated to be insufficient to extinguish the RCF lenders exposure, therefore the SSNs only returns are via unsecured claims for the quantum of their exposure, submitted against the unsecured assets of the debenture and guarantor entities (per their security)

- The material unsecured assets of the entities subject to the SSNs debentures include an assumed sale of Travelex Limited's equity in the Brazilian business and the proceeds from an insurance claim across the debenture entities. The key unsecured assets of the entities that guarantee the SSNs exposure include cash, inter-company debtor balances that may deliver a return, and insurance claim proceeds

# Appendix

# IFC Group Overview

| | Wholesale & Outsourcing | Retail | Brazil | MET & Other |
|---|---|---|---|---|
| **Financial overview (FY19)** | ▪ Revenue £151m /33.9% total<br>▪ EBITDA* £47.9m /47.7% total | ▪ Revenue £145m /32.6% total<br>▪ EBITDA* £26.0m /25.9% total | ▪ Revenue £58m /12.9% total<br>▪ EBITDA* £5.6m /5.5% total | ▪ Revenue £92m /20.7% total<br>▪ EBITDA* £20.9m /20.8%% total |
| **Description** | ***Wholesale***<br>▪ Supply of banknotes to a wide range of central and commercial banks as well as commercial customers<br>▪ Complete vault-to-vault offering for large wholesale orders in more than 60 currencies<br>▪ Revenue is generated from charging a margin on the volume of banknotes delivered<br>▪ Leveraging scale to agree low margins that clients are unable to source directly<br>▪ Secure logistics corridors are critical and the complexity of ensuring secure supply presents high barriers to entry<br>▪ Rigorous compliance procedures are essential and unattractive to large banks<br>▪ Cost leadership focused on automation and capitalising on global network of vaults<br><br>***Outsourcing***<br>▪ Integrated supply solution to major banks and partner retailers for their entire FX currency needs<br>▪ Strong CIT relationships allow partner to focus on their core business<br>▪ Travelex can leverage its retail experience to provide relevant reporting and help train staff on how to drive value<br>▪ Involves value-added activities such as the “pick and pack” of individual orders<br>▪ Revenue is typically generated through a combination of fixed management fees, transaction and supply fees, and profit share arrangements | **Stores and >1,000 ATMs**<br>**Airport**<br>▪ Customers making unplanned purchases who value convenience and are less price sensitive (margins are higher)<br>▪ Product focus is FX and VAT refunds (in certain airports)<br>▪ Rent is high and typically revenue or turnover based<br><br>**Non-airport**<br>▪ Customers making pre-planned transactions prior to departure (some stores also target in-country tourists)<br>▪ Planned nature of transactions mean that margins are lower than airports but transaction values are higher<br><br>**Online**<br>▪ Store pick-up and home delivery in a limited number of countries | ▪ The Group acquired 49% of the Brazil business in 2013, with the remaining 51% acquired in 2015<br>▪ It operates as a standalone business within the Group<br>▪ Leader in Retail foreign exchange in Brazil (not dependent on airports, rather on premium shopping centres)<br>▪ High growth Wholesale offering to FX brokers and banks<br>▪ Provides international payments and holds a banking license<br>▪ Growth potential with a focus on new sales relating to digital assets, market niches and high income segment | **Middle East**<br>▪ UAE, Oman and Bahrain subsidiaries and Qatar JV<br>▪ Operates 73 locations<br><br>**Turkey**<br>▪ 75% owned subsidiary formed in 2014<br>▪ Operating from 11 sites, 10 of which are in airports<br><br>**Nigeria**<br>▪ Smaller operations focussed on supply to local bureau to change operators |
| **Core markets** | ▪ Global** | ▪ APAC | ▪ B2B foreign currency transfers<br>▪ B2C fx services | |

**EBITDA is pre-unallocated overheads. MET & Other EBITDA of £20.9m includes UK (90%), APAC and ME&T overheads **Excluding Latam*