

YPO PROCUREMENT HOLDINGS LIMITED	REPORT TO YPO PROCUREMENT HOLDINGS BOARD 15TH JANUARY 2025
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SUBJECT: EDTECH IMPACT SHARE DISPOSAL UPDATE

REPORT OF: HEAD OF FINANCE

1. PURPOSE OF REPORT

1.1 To present the Board with an update on the disposal of the shares held in EdTech Impact Limited

2. BACKGROUND INFORMATION

2.1 YPO Procurement Holdings Limited (YPO PH) acquired a 30% shareholding in EdTech Impact in 2018 for £450K.

2.2 This investment has been fully impaired in the YPO PH accounts as of 31 December 2023, due to the financial performance and position of EdTech Impact.

2.3 Mike Forshaw, the majority shareholder of EdTech Impact has made an offer to buy YPO PH's shares for £50K.

2.4 This offer has been agreed in principle and a Heads of Terms for the Share Purchase Agreement has been prepared and agreed.

2.5 The reasons for disposing of the shares are outlined in section 3.

2.6 At the time of writing this report the final share purchase documents are being drawn up and agreed between the solicitors representing YPO PH and Milke Forshaw.

2.7 A summary of the Heads of Terms is included in section 4 and a further detailed report will be circulated once the final documents are ready.

3. SHARE DISPOSAL BACKGROUND

- 3.1 **Financial performance of EdTech Impact** – The financial performance of EdTech Impact since 2018 has not materialised as per the projections included in the due diligence carried out before the investment. Whilst annual sales growth has been achieved the company has struggled to turn this into a profit-making business. As of the 31st of August 2023, the Balance Sheet of EdTech Impact shows a net liability position of (£238K) and retained losses of (£688K). Future forecasts are ambitious and with cash balances of £4K available it is believed further cash injections would be needed to achieve any future growth. As detailed further in the report, YPO has already injected significant amounts of cash into the business with no return and therefore a line needs to be drawn and attention turned to recovering as much as possible from this investment, being the £50K share disposal and recovering the loan amount in full.
- 3.2 **Impairment of Investment** – The 30% shareholding was acquired in 2018 for £450K. Due to the financial performance detailed above the investment has been subject to scrutiny from the External Auditors of YPO PH, as at the 31st December 2023 the investment has been fully impaired and a zero valuation recognised on the Balance Sheet of YPO PH. Whilst marginal, the disposal proceeds of £50K will reverse some of the historical losses recognised.
- 3.3 **Loan amount owing to YPO** – As detailed above and in section 4 there is an amount owing to YPO PH from EdTech Impact. Like the investment, the recoverability of this debt has been scrutinised and as of 31st December 2023 the debtor balance has also been fully impaired. Disposing of the shares and drawing up a separate loan agreement provides additional security against the loan. The presence of the loan liability on the Balance Sheet of EdTech Impact was also seen to be detracting potential investors and therefore the £50K offer is deemed as the best value that could realistically be achieved in the near future, this opinion is further supported by PWC, who have carried out an external review of the market before the offer has been accepted. An anti embarrassment clause and debenture has been built into the share purchase agreement should Michael Forshaw benefit from further outside investments within the next 3 years or default on the repayment of the loan.
- 3.4 **YPO EdTech Strategy** – YPO has committed to its own EdTech Strategy with it's first product launch in Learning Box with more initiatives to follow in the next 5 year strategy being developed. YPO sees this having surpassed the existing relationship with EdTech Impact which should now come to a natural close. Much has been learned about the Edtech industry through this partnership and any future relationship should be built through a commercial arrangement rather than a shareholding. To date no commercial relationship is in place between YPO and EdTech Impact, and nothing committed to as part of this arrangement but disposing of the shares allows us greater agility in the future.

4. SUMMARY OF HEADS OF TERMS

- 4.1 Mike Forshaw to buy YPO PH's 30% shareholding in EdTech Impact for £50K.
- 4.2 An anti-embarrassment clause is to be included in the Share Purchase Agreement, the term of the clause is 3 years immediately following the share purchase.
- 4.3 The anti-embarrassment clause is triggered by events within the 3 years that would give rise to additional consideration owed to YPO PH based on the new value of company following the event. The Trigger events include:
- A sale of all or some of Michael Forshaw's shareholding.
 - An issue of shares by the company to the extent of a change in control.
- 4.4 Should a trigger event occur, any consideration above the £50K share disposal amount will be paid to YPO PH.
- 4.5 As well as preparing the share purchase agreement a new loan agreement is also being drafted for the amounts owed to YPO PH from EdTech.
- 4.6 The key elements of the loan agreement are:
- The loan amount is £325,996.94 plus interest accrued to date
 - Further interest is accrued daily at the Bank of England base rate +1%, this interest is compounded quarterly and then added to the loan amount.
 - The loan repayment date is 31st December 2030.
 - Repayment of the could also be triggered by one of the events outlined above, in respect of a sale of all of some of Mike Forshaw's shareholding to the extent resulting is a change of control of the company.
 - The loan is to be secured by debenture as a share charge over the shares held by the Seller in the Company and a fixed and floating charge over the assets of the Company
- 4.7 The loan agreement will also be amended to retain some of the rights included in the EdTech Impact investment agreement, these include:
- Company matters that currently require the consent of YPO PH as a shareholder will now need consent by YPO PH as a lender.
 - YPO PH will continue to receive financial information, including annual budgets, forecasts and current year financial performance.
 - New warranties will be included in the loan relating to the status of Michael Forshaw.
 - Similar restrictive covenants will appear in the loan and related security.

5. RECOMMENDATIONS

- 5.1 To note the summary of the Heads of Terms and Loan Agreement.

- 5.2 To agree a recommendation to shareholders for the sale of YPO shares in Edtech Impact and give delegated powers to Julie Hawley, Executive Director Finance for YPO along with Chair of the YPO Procurement Holdings Limited to finalise the details of this transaction to completion, including the specific details regarding the loan and debenture arrangements.

SERVICE DIRECTOR: JULIE HAWLEY, DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834969
E-mail address: julie.hawley@ypo.co.uk

CONTACT OFFICER: MATTHEW HIRST, HEAD OF FINANCE

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821740
E-mail address: matthew.hirst@ypo.co.uk