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10 April 2018

**Flowgroup plc**

(“Flowgroup”, the “Group” or the “Company”)

**Proposed sale of Flow Energy Limited**

Flowgroup announces that it has entered into a conditional sale and purchase agreement to sell its main subsidiary, Flow Energy Limited (“Flow Energy”), to Co-operative Energy Limited (“Co-op Energy”) (the “Sale”).

### **Key points**

- Sale of Flow Energy for a headline purchase price of £9.25 million, subject to adjustments to reflect the crystallisation of payments to suppliers, working capital and other matters
- In addition, the net cash balances on Flow Energy’s third party collateral deposit accounts as at Completion will be remitted to the Company as soon as practicable following Completion
- A general meeting of the Company is to be held to approve the Sale (requiring an ordinary resolution); the General Meeting is expected to take place in the second half of April 2018. The Sale is also conditional on the execution of a revised supply agreement between Co-op Energy and Shell in respect of the future terms of energy supply by Shell to Flow Energy
- The Board has concluded that the Sale represents the best realistic course of action available to the Company under its current constraints; proceeds of the Sale are expected to return a value to ordinary shareholders of £nil
- £2.1 million of outstanding FEL Working Capital Loan Notes are expected to be repaid to Palm and Lombard Odier in full from proceeds of the Sale; returns to Palm and Lombard Odier in respect of the Company Convertible Loan Notes (current nominal value £16.7 million) are expected to be significantly impaired under all likely scenarios following Completion
- A circular will be despatched to Shareholders as soon as practicable, containing, inter alia, notice of the General Meeting
- Flowgroup has also agreed the sale of its microCHP boiler technology and intellectual property to iGEN Technologies Inc. (“iGEN”) for an upfront consideration of CAD 25,000 (circa £14,000) in cash with potential royalty payments of up to CAD 1,411,000 (circa £789,000) in the event iGEN is able to successfully commercialise the microCHP technology

### **Summary terms of the proposed sale of Flow Energy**

The Board announces that it has entered into a conditional sale and purchase agreement with Co-op Energy for the sale of the entire share capital of Flow Energy, its domestic energy supply business, for a headline purchase price of £9.25 million subject to adjustments to reflect the crystallisation of payments to suppliers, working capital and other matters. In relation to working capital, the consideration is subject to an adjustment on a pound for pound basis to the extent actual Net Working Capital at 30 April 2018 is less than or more than target Net Working Capital at 30 April 2018 (such adjustment to be calculated through a

completion accounts process). The adjusted cash consideration will be funded from Co-op Energy's existing resources.

In addition, the net balances on Flow Energy's third party collateral deposit accounts as at Completion will be remitted to the Company as soon as practicable following Completion. The gross cash proceeds (net of transaction fees) will be: i) used to procure the repayment to Palm and Lombard Odier of the FEL Working Capital Loan Notes, and ii) distributed amongst the Company Convertible Loan Note holders, Palm and Lombard Odier, and other creditors of the Company in line with the strategy following Completion set out below.

The Sale is conditional on Shareholder approval (requiring an ordinary resolution) at a general meeting of the Company expected to be held in the second half of April 2018. The Sale is also conditional on the execution (prior to the date of the General Meeting) of a revised supply agreement in respect of the future terms of energy supply by Shell to Flow Energy on substantively the same terms as have been agreed between Shell and Co-op Energy and appended to the sale and purchase agreement governing the Sale.

Co-op Energy is a domestic energy supply business based in Warwick and is a wholly owned subsidiary of The Midcounties Co-operative.

The Company's total liability under all warranties and indemnities in the sale and purchase agreement will be £1, as the purchaser will take out appropriate warranty and indemnity insurance cover.

Following Completion, unless an appropriate opportunity to undertake a reverse takeover as set out in AIM rule 14 is pursued, the Company intends to consider options available to it to effect the distribution of the proceeds of the Sale to the Company Convertible Loan Note holders and other creditors of the Company.

The Company has Company Convertible Loan Notes in issue with a nominal value, including accrued interest, of £16.7 million (before taking account of accelerated interest amounts of £2.9 million arising on the conversion of the Company Convertible Loan Notes into Preference Shares or a change of control of Flowgroup). The Company Convertible Loan Notes (and the Preference Shares) rank in priority to the Ordinary Shares and it is therefore expected that the distribution to Shareholders will be £nil under all likely scenarios following Completion.

The effect of the Sale will be to divest the Company of all of its main trading business, activities and assets. In accordance with AIM Rule 15, the Company is required to seek to cancel the admission of the Ordinary Shares if it does not propose to complete a reverse takeover within six months of Completion. If the Company does not complete a reverse takeover, the Board would propose a resolution to cancel the admission of its Ordinary Shares to trading on AIM.

### **Background to and reasons for the Sale**

On 30 November 2017, Flowgroup announced that it had taken a view that the Group should maintain a total number of customer fuel accounts of just under 250,000, a level above which regulatory payments by Flow Energy would increase significantly. At the same time, the Board highlighted that the Company might require additional short term seasonal working capital funding.

On 21 February 2018, the Company announced that the Board had concluded that such additional funding was required and that a temporary funding facility of up to £5.0 million had been agreed and provided to Flow Energy in the form of the FEL Working Capital Loan Notes by Palm and Lombard Odier, until 31 August 2018. Drawn amounts under this facility will total £2.1 million at Completion.

The team at Flowgroup has made significant progress since the fundraising announced on 24 May 2017, improving the operational efficiency of the business, delivering substantially all the anticipated cost savings and bringing forward profitability to the year commencing July 2018. Over the same period, the team has maintained outstanding levels of customer service (the Company was ranked in the top 2 per Which? energy supplier rankings at January 2018) and improved the quality of Flow Energy's customer base, improving gross margins and routes to market, while significantly downsizing the microCHP business and minimising other non-Flow Energy costs.

While the Group has continued to trade in line with the Board's expectations, the headwinds facing challenger suppliers, in particular the impact of the Government's price cap and the significant number of new entrants to the market pursuing aggressive pricing strategies, have continued to strengthen.

The response of the "big six" energy suppliers to Government policy developments is considered likely by the Company's management to be, in many instances, to lower their standard variable tariffs. This would lead to an erosion of the differential between the prices challenger suppliers are able to offer and the tariffs being offered by the big six. The Board believes this would be likely to have a significant adverse impact on consumers' propensity to switch suppliers. In addition, the recent very cold weather, while beneficial to earnings given the Group's hedging strategy, also increases the peak funding requirements of the business. This arises as the revenues from the additional energy consumption are recovered through the direct debit cycle over the next 12 to 18 months, while the supply costs of the additional energy consumed are paid for by Flow Energy in the short term.

The Board has continued to work with its advisers on the strategic positioning of the Group and its financing requirements, but it has become clear that in order for the business to continue to operate in the near and medium term, it would need to raise substantial additional capital. Palm and Lombard Odier have separately indicated to the Board that they are not in a position to provide additional funding to the Group and so are supportive of a sale of Flow Energy. The Board has also been advised that an equity fundraising would not be feasible in the current circumstances.

The Board has had discussions with Co-op Energy as well as with a number of other potentially interested parties. In the context of the factors set out above, and its obligation to consider the interests of all stakeholders (including those of Shareholders and creditors), the Board has reluctantly concluded that the sale of the Flow Energy business to Co-op Energy and the subsequent closure of the remainder of the Group is the only realistic course of action open to the Company, and unanimously recommends that Shareholders vote in favour of the resolutions to be proposed at the General Meeting.

The Company Convertible Loan Notes are convertible into either Preference Shares or Ordinary Shares. On conversion into either Preference Shares or Ordinary Shares, such Preference Shares or Ordinary Shares would carry votes exercisable at a general meeting of the Company totalling, in aggregate, over 50 per cent. of the Company's then issued share capital.

The holders of Preference Shares are able to vote at all general meetings of the Company as if the Preference Shares had been fully converted into Ordinary Shares, while also ranking in seniority and preference to the holders of Ordinary Shares on a winding up or liquidation of the business.

### **Information on Flow Energy**

Flow Energy is an energy supply business providing gas and electricity to approximately 230,000 domestic fuel accounts. The business is based in Ipswich, UK.

For the year ended 31 December 2016, Flow Energy had audited revenues of £98.4 million and made an audited net loss of £9.2 million. As at 31 December 2016, Flow Energy had net liabilities of £21.7 million.

## **General Meeting**

Due to its size, the Sale is deemed to be a disposal resulting in a fundamental change in the business of the Company pursuant to Rule 15 of the AIM Rules and therefore requires approval by Shareholders at a general meeting. A circular will be posted to Shareholders as soon as practicable containing the Notice of the General Meeting to approve the Sale to be held at the offices of Hogan Lovells LLP, Atlantic House, Holborn Viaduct, London EC1A 2FG which is expected to be held in the second half of April 2018. A copy of this Circular will be made available on the Company's website once it has been posted ([www.flowgroup.uk.com](http://www.flowgroup.uk.com)).

## **Financial effects of the Sale**

The total gross cash proceeds (net of transaction fees) will be: i) used to procure the repayment to Palm and Lombard Odier of the FEL Working Capital Loan Notes, and ii) distributed amongst the Company Convertible Loan Note holders, Palm and Lombard Odier, and other creditors of the Company in line with the strategy following Completion set out below.

## **Sale of microCHP technology and intellectual property**

Flowgroup has also agreed the sale of its microCHP boiler technology and intellectual property (the "mCHP Assets") to iGEN for an upfront consideration of CAD 25,000 (circa £14,000) in cash with potential royalty payments of up to a further CAD 1,411,000 (circa £789,000) in the event iGEN is able to successfully commercialise the microCHP technology. To the extent future royalty payments are received where the Company is no longer in a position to receive such royalties, these would be distributed to the Company Convertible Loan Note holders. The upfront consideration is to be funded from iGEN's existing resources and shall be allocated among the mCHP Assets as follows: Intellectual Property: CAD 1; Patents: CAD 1; and the balance of the mCHP Assets: CAD 24,998. For the year ended 31 December 2016, Flow Products Limited, of which the mCHP business was the primary activity, generated an audited net loss of £17.7 million and had net liabilities of £51.7 million.

## **Strategy following Completion**

Following the sale of Flow Energy and the mCHP Assets, the remaining liabilities of the Continuing Group will be predominantly comprised of liabilities in respect of transaction costs, closure costs, admission cancellation costs and amounts owed to external creditors currently estimated at circa £2.9 million.

Following Completion, unless an appropriate opportunity to undertake a reverse takeover as required under AIM rule 15 is pursued, the Company will consider options available to it to effect the distribution of the proceeds of the Sale to stakeholders. Under all likely scenarios following Completion, the cash distribution to Shareholders will be £nil. The cash distribution to the Group's Company Convertible Loan Note holders (or Preference Share holders, should the Company Convertible Loan Notes be converted into Preference Shares), after repayment of the FEL Working Capital Loan Notes will be materially below the face value of the Company Convertible Loan Notes and/or Preference Shares held by them. The principal creditors and contingent liabilities of the Company following the disposal of Flow Energy will relate to the costs of terminating the remaining activities of the Company and discharging the remaining liabilities relating to the mCHP and Battery businesses.

A copy of this announcement will be available free of charge, subject to certain restrictions relating to persons in any jurisdiction where release, publication or distribution of this announcement would constitute a violation of the securities law of such jurisdiction, for inspection on Flowgroup's website ([www.flowgroup.uk.com](http://www.flowgroup.uk.com)).

## MAR

The information contained within the announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

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### **Notice to all investors**

*Smith Square Partners LLP ("Smith Square"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively as financial adviser to Flowgroup and no-one else in connection with the Sale and will not be responsible to anyone other than Flowgroup for providing the protections afforded to clients of Smith Square nor for providing advice in connection with the Sale or any matter referred to herein. Neither Smith Square nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Smith Square in connection with this announcement, any statement contained herein, the Sale or otherwise.*

*Cenkos Securities plc ("Cenkos") which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting solely for Flowgroup in relation to the Sale in its capacity as Nominated adviser and broker and no-one else and will not be responsible to anyone other than Flowgroup for providing the protections afforded to clients of Cenkos nor for providing advice in relation to Flowgroup or any other matter referred to in this announcement.*

### **Forward-looking statements**

*This announcement contains "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "anticipates", "expects", "may", "will", "could", "would", "shall", "should" or similar expressions or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.*

*These forward-looking statements include all matters that are not historical facts and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things, Flowgroup's results of operations, financial condition, prospects, growth, strategies and the industries in which Flowgroup operates.*

*Forward-looking statements speak only as of the date of such statements and, except as required by applicable law, Flowgroup undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. The information contained in this announcement is subject to change without notice and Flowgroup, Smith Square and Cenkos do not assume any responsibility or obligation to update publicly or review any of the forward-looking statements contained herein, save as required by law, regulation or the AIM Rules.*

## **Definitions**

The following words and expressions shall have the following meanings in this announcement unless the context otherwise requires:

“AIM”	the market of that name, operated by the London Stock Exchange
“AIM Rules”	the rules for AIM companies as published by the London Stock Exchange from time to time
“Board”	the Board of Directors of the Company
“Cenkos Securities”	Cenkos Securities plc
“Circular”	the document detailing the Sale to be posted to Shareholders along with the Notice of General Meeting
“Company Convertible Loan Notes”	Convertible Unsecured Loan Notes issued to Palm and Lombard Odier as part of the Company’s May 2017 fundraising which carry a 7.5% paid in kind (or PIK) coupon (payable quarterly) and are convertible into an equivalent number of Preference Shares of £1 each
“Completion”	completion of the Sale
“Continuing Group”	the assets and liabilities of the Group which remain following the sale of Flow Energy and the mCHP Assets
“Co-op Energy”	Co-operative Energy Limited
“Directors”	the directors of the Company
“FEL Working Capital Loan Notes”	Funding facility loan notes provided by Palm and Lombard Odier to Flow Energy in February 2018 to support its working capital needs
“Flowgroup” or the “Company”	Flowgroup plc
“Flow Energy”	Flow Energy Limited, the main operating subsidiary of the Company
“General Meeting”	General Meeting of the Company expected to take place in the second half of April 2018
“Government”	Government of the United Kingdom
“Lombard Odier”	Lombard Odier Investment Managers Group (LOIM) in respect of funds or accounts managed by LOIM entities
“Net Working Capital”	the net working capital of Flow Energy
“Notice of the General Meeting”	the notice convening the General Meeting which will be despatched to Shareholders as soon as practicable from the date of this announcement
“Ordinary Shares”	ordinary shares of 0.1 pence each in the capital of the Company
“Palm”	Palm Global Small Cap Master Fund LP, Palm Active Energy LP, and Provincial House Estates Limited (UK)
“Preference Shares”	zero coupon preference shares of £1 each in the capital of the Company that shall each have the right to convert into

“Sale”	approximately 83.33 new Ordinary Shares at the date of this announcement
“Shareholders”	the proposed sale of Flow Energy holders of Ordinary Shares
“Shell”	Shell Energy Europe Limited, the principle energy supplier to Flow Energy