Epsom & Ewell Property Investment Company Ltd

Shareholder Annual Review

Covering the accounting period

1 April 2021 - 31 March 2022

Table of Contents

Appendices

Shareholder Annual Review

1. Background

Epsom & Ewell Borough Council (the “Shareholder”) established EEPIC (the “Company”) on 19 September 2017 following an Extraordinary Council meeting of the same date.

Epsom & Ewell Borough Council is the sole shareholder of EEPIC and the Company is therefore a 100% wholly owned trading company of the Council.

The objectives and anticipated annual activities of EEPIC are defined in the Company’s Business Case and Annual Business Plan respectively.

At its Strategy & Resources Committee meeting held on 25 September 2018, the Shareholder suspended any further out-of-Borough commercial property investment acquisitions until further government guidance or case law is published. This is necessary to ensure the Shareholder can comply with Statutory Guidance on Local Government Investments introduced from April 2018.

The guidance aims to restrict the ability of Local Authorities to purchase out of Borough investment properties, through the following clause 46:-

“Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”.

The guidance means that future out-of-Borough acquisitions that are funded by borrowing and where the intention is purely to profit from the investment, would not meet the requirements of the guidance in terms of borrowing.

However, there could be circumstances where out-of-Borough investments may be acceptable if, for example, the property was close to the Shareholder’s boundary and the main purpose for the investment was not for profit, but for regeneration.

The guidance does not affect EEPIC’s existing property acquisitions.

2. Property portfolio

The Company holds two high quality, well located commercial property investments:-

- The Cobham Centre, Globe Park, Fourth Avenue, Marlow SL7 1TF

A high quality HQ office building let for 20 years from 29 September 2016 to Chelton Ltd – a world leader in the design and manufacture of aviation communication systems and navigation antennas. The current rent is £1,866,823.55 pa and subject to annual fixed uplifts of 2.5% pa (the rent will increase to £1,913,494.14 from 29 September 2022). The rent is guaranteed by Cobham PLC.

The building is situated on the well-established Globe Park which is the premier office location in Marlow, situated in the heart of the Thames Valley on the border of Berkshire and Buckinghamshire.

It is a highly desirable and affluent commercial and residential location by virtue of its close proximity to Henley and the River Thames together with excellent communications to London and the wider South East area. This combination has attracted a wide range of major multi-national corporate occupiers to Marlow including TNT, Dun & Bradstreet, Veolia, Allergan, Data Select, Emerson Network Power and HPS Group.

The Cobham Centre provides high quality HQ office accommodation with an ancillary R&D facility providing a total area of 80,974 sq ft (7,523 sq m).

- Venture House, 2 Artlington Square, Downshire Way, Bracknell RG12 1WA

A high quality HQ office building let for 10 years to Bracknell Arlington Square Centre Ltd trading as the serviced office provider, Regus. The current rent is £1,770,300 pa and is guaranteed by Regus PLC for a period of 1 year following tenant default during the lease term.

A Deed of Variation between EEPIC and Regus was completed on 23 December 2020 (as reported to the Shareholder Sub-Committee on 24 November 2020) and varied the existing lease. As explained in section 3 (page 7), the remaining length of the lease increased from 5 years to 10 years, in exchange for an initial 15 month rent free period (spread over 30 months at half rent).

Developed between 1992 and 2008, Arlington Square is Bracknell's premier office location comprising four self-contained office buildings set within landscaped grounds.

2 Arlington Square provides high specification Grade A office accommodation over ground and three upper floors, totalling 88,537 sq ft.

IWG (International Work Group) PLC, formerly Regus, is a multinational corporation that provides a global serviced office workplace. IWG PLC includes the British serviced office brands MWB Business Exchange Plc, HQ and Regus.

Regus operate each of their serviced office locations as standalone businesses and their business model becomes profitable when a building in its portfolio reaches 50% occupancy level.

A good performing Regus building would be expected to maintain 60% - 70% occupancy level and where this occurs in their portfolio, they typically remain at the location long term. Regus has confirmed that since 2008, 2 Arlington Square has consistently maintained occupancy in the 60% - 80% range, making it their Thames Valley flagship office complex.

Both properties are located within the prosperous Thames Valley and offer the following income profiles:-

	Purchase	Price	Rent	Income Yield
Marlow	13/10/17	£31,000,000	£1,866,823.55 (2.5% pa uplift)	5.64%
Bracknell	20/11/17	£25,500,000	£1,770,300 (Jan 26 Rent Review)	6.5%
Total		£56,500,000		

3. Property and financial management

Day to day property management is currently provided by the Shareholder's Property Services Team and includes property inspections, service charge administration, general tenant liaison and asset management strategy.

The Company retains the option to appoint an external managing agent should Directors consider this to be in the best interests of the Company. Whilst no such appointment is being considered, the Directors will continue to monitor the existing arrangement at its quarterly board meetings.

2021/22 highlights:-

- Full-year profit before tax, excluding property revaluations, of £1.40m (prior year £1.453m)

- £0.60m dividend paid to the shareholder (prior year £0.87m)

- £0.9m retained earnings at 31 March 2022 (£0.465m at 31 March 2021)

- The rent payable for Marlow (The Cobham Centre) increased from £1,821,291.27 to £1,866,823.55 with effect from 29 September 2021. This represents the annual 2.5% fixed rental increase as per the terms of the lease. The next rental increase to £1,913,494.14 is due from 29 September 2022.

- No capital expenditure or repairs incurred in the financial year

- Property valuations have increased by £0.9m over the year.

- EEPIC's cash balance at 31 March 2022 was £1.25m (£0.97m prior year)

- The 2021/22 external audit was completed by William & Co within the agreed budget.

The Bracknell tenant is Bracknell Arlington Square Centre Ltd trading as the serviced office provider, Regus.

The pandemic has had a major short-term operational impact on the Regus serviced offices business model. Long-term, Regus remains well capitalised and is ideally placed to gain from the future flexibility occupiers will demand as the traditional office environment adjusts to increased remote working and different ways of connecting people.

A Deed of Variation between EEPIC and Regus was subsequently completed on 23 December 2020 as reported to the Shareholder Sub-Committee on 24 November 2020 and made the following variations to the existing lease:-

- Remaining length of the lease increased from 5 years to 10 years, in exchange for an initial 15 month rent free period (spread over 30 months at half rent). The headline rent payable under the existing lease does not change; remaining at £1,770,300 per annum.

- The existing lease allowed for the rent to be reviewed on 15 January 2021. This date was moved to January 2026 in line with the 5 year lease extension.

- Following a corporate restructuring of its business (and as part of the proposed lease variation), Regus Holdings plc replaced Regus plc as EEPIC's new lease guarantor. The new company provides EEPIC with the same level of financial guarantee that the Company previously received. The new lease guarantor had already been accepted in other lease re-negotiations by major landlords including Columbia Threadneedle, Crown Estate, Langham Estate and Orchard Street.

- The current rent becomes £885,150 pa equating to a half rent quarterly payment of approximately £221,000 for 30 months from September 2020. The lease is now subject to an upwards only rent review on 15 January 2026.

- The additional 5 year lease term doubles the unexpired term of the existing lease with no change to the level of rent. The rent generated by the additional 5 year term equates to £8,851,500 (annual rent of £1,770,300 x 5 years) and ignores any additional rent that might be generated by the rent review process. The 15 month rent free period proposed to be granted equates to £2,212,875 (£1,770,300 pa x 15 months). The net benefit to EEPIC is an additional income stream totalling

£6,638,625. This provides the Shareholder with long-term assurance that the Company can meet its Shareholder objectives.

- Accounting standards (FRS102) require that the 15 month rent free period must be spread evenly over the whole 10 year lease term in the statutory accounts. Consequently, reported income and retained earnings for 2021/22 are higher than the actual rent collected in the year.

The Marlow tenant is Chelton Ltd and in 2022 achieved 75 years of trading, having been first established in 1947. Chelton defined the avionics industry with a number of world firsts; from novel static discharger designs, radio silent tuneable antennas through to the first airborne mission critical public safety radio.

4. Balance Sheet Asset Valuations

To comply with its financial reporting obligations, the Company is required to have its investment property portfolio valued on an annual basis. The basis of valuation for investment properties is fair value and is the same as market value.

At the request of the Shareholder (to provide consistency with their instruction to value the Shareholder's directly owned property), external valuations were undertaken by Wilks Head & Eve, a respected London firm of Chartered Surveyors.

Wilks Head & Eve were not involved in either of EEPIC's property acquisitions and can therefore provide an independent, external assessment of the two property assets.

	Valuation @ 31/12/21 (last year's valuation) £	Purchase Price / Date £	Variance (since purchase) £
Marlow	33,996,100 (33,571,500)	31,000,000 13/10/17	+2,996,100
Bracknell	25,525,400 (25,044,700)	25,500,000 20/11/17	+25,400
Total	59,521,500 (58,616,200)	56,500,000	+3,021,500

Whilst the Company's business case is specifically to hold property long term (to smooth out gyrations in the UK property market), it is welcome that Bracknell has recorded a 2% capital increase on last year's valuation and Marlow has recorded a 1.3% increase.

Directors should also note that EEPIC's portfolio (i.e. both properties together) has recorded capital growth in excess of £3m since purchase.

5. Company Accounts

The Company's accounts are externally prepared by Williams & Co, an Epsom based firm of Statutory Auditors.

The accounts are attached at Appendix A for the year ended 31 March 2022.

Financial highlights include:-

- Property portfolio of £59.5m
- Gross profit of £3.32m
- Profit before tax (excluding property revaluations) of £1.396m
- Dividend paid of £603,000

Williams & Co continue to provide the Company with a first class accounting service at a competitive price. It is therefore envisaged that Williams & Co will be retained by the Company to prepare future year-end accounts.

6. Shareholder Approval

At its Shareholder Sub-Committee meeting held on 23 November 2021, the Shareholder received and noted EEPIC's Report to Shareholder and Annual Review.

In accordance with the Shareholder Agreement, the Shareholder approved the following:

- Annual Business Plan 2022-2023
- Appointment of Richard Appiah-Ampofo (the Shareholder's Senior Accountant) as Company Secretary
- Replacement of the Chief Legal Officer with the Director of Corporate Services as the correct individual for Shareholder related communication

7. Tenant Corporate Activity (Bracknell) – IWG plc

On 7 June 2021, IWG released a Covid-19 trading update stating;

"*Whilst we have continued to see strong recovery in some of our markets since our first quarter trading update, including positive occupancy momentum in the US, the overall improvement in occupancy across the whole Group has been lower than previously anticipated as a result of the prolonged impact of COVID-19, including continuing lockdown restrictions and the emergence of new variants of the virus in some markets. Accordingly, this will delay the anticipated recovery in our business and, given the operational gearing of the*

Group, is expected to have a significant impact on the Group's results for 2021, with underlying Group EBITDA for 2021 now expected to be well below the level in 2020."

The trading update sent IWG plc shares down by 15% and closed on 7 June 2021 at 310.00p.

On 2 November 2021, IWG released its Third Quarter Trading Statement for the period ended 30 September 2021 under the banner;

"Trading continues to strengthen during Q3
Positive cash-flow from operations
Review of digital and platform strategy underway
Accelerating run-rate into 2022"

The IWG Board has undertaken a preliminary review to assess the strategic and commercial rationale for separating the digital and technology assets of the Group into a separately identified and constituted business. Similarly, the potential to more broadly leverage the intellectual property of the Group, together with the ownership structure of the property portfolio, is the subject of further review to fully assess the options available to reorganise the assets of the Group.

On 8 March 2022, IWG announced its annual results for the year ended 31 December 2021 under the banner;

"*The last year has proven beyond all doubt that people around the world wish to work flexibly. With the widespread and accelerating adoption of hybrid working, the structural growth opportunity is clearly defining the runway that lies ahead of us. IWG is a business in the right place at the right time*."

Attention is drawn to the following key highlights:-

- Revenue maintained £2.228bn (£2.432bn 2020)
- Gross profit / (loss) £81m [(174m) 2020]
- Strengthening trading recovery from April 2021
- Significant increased demand with shift to hybrid working
- During 2020 and 2021, 287 new centres were opened, delivering on our strategy of operating near-to-home centres in commuter areas along with prestige locations in metropolitan zones
- Cash flow improved each month sequentially following Q1

- Adjusted EBITDA of £79.6m for 2021, almost all delivered in H2
- Growth continues into 2022
- High level of revenue visibility driven by a progressive mix-shift towards multi-site and enterprise clients

The Group considers hybrid working is here to stay;

"*The office market has been irrevocably changed by the pandemic, with hybrid working becoming the norm. This has driven a significant increase in interest in partnering with IWG, resulting in a strong pipeline of potential partners to help us move towards our ambition of achieving a network mix between company owned and partnered / franchised of close to 50/50 by the end of 2022. To convert this demand, we have invested faster than initially expected, including growing the number of business development personnel in the field.*

8. Tenant Corporate Activity (Marlow) – Cobham plc

As previously reported, the takeover of Cobham plc by Advent International was completed on 17 January 2020 with shares closing for the final time at 164.60p.

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms; "*it seeks to invest in well-positioned companies and partner with management teams to create value through sustained revenue and earnings growth*."

It should be appreciated that EEPIC's tenant at Marlow is Chelton Ltd, a subsidiary of Cobham and itself a profitable world leader in the design and manufacture of aviation communication systems and navigation antennas. Cobham plc would only become involved as guarantor if EEPIC's tenant became insolvent.

It was announced on 24 November 2020 that Cobham Aerospace Connectivity was under offer to US based TransDigm Group Incorporated. The deal is understood to be worth $965m and is subject to regulatory approvals.

TransDigm announced on 5 January 2021 that it had completed substantially all of its acquisition of Chelton Ltd, t/a Cobham Aerospace Connectivity. Its press release stated;

"*Cobham Aero Connectivity is headquartered in Marlow, UK. CAC is a leading provider of highly engineered antennas and radios for the aerospace end market. The products are primarily proprietary with significant aftermarket content and have a strong presence across major defense platforms as well as select commercial applications. The Company generated approximately $225 million in revenue for the fiscal year ended December 31, 2020. Nearly*

60% of CAC's revenue is derived from international sales and over 70% of CAC's revenue comes from the aftermarket. The Company has a strong presence across a diverse range of both helicopters and fixed wing aircraft. The Company operates from two primary facilities in Marlow, UK and Prescott, Arizona. CAC employs approximately 760 people."

TransDigm Group, through its wholly-owned subsidiaries, is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all aircraft in service today.

Chelton announced on 21 March 2021 that it had been selected by Boeing to develop and deliver the next generation Ultra High Frequency SATCOM Mobile User Objective System (MUOS) conformal antennas. The equipment upgrade will be for approximately 319 aircraft with testing due to begin in Autumn 2021.

On 15 September 2021, Chelton announced;

"It was proud to be joining Leonardo's Team AW149 UK, bringing together smart thinking, technological excellence and future vision to the avionics and systems suite of this Leonardo aircraft.

The AW149 is a safe, agile and robust platform, which can be reconfigured for a wide range of demanding missions in the most severe operational environments. Chelton's antennas and avionics are designed, built and tested in the UK to the highest standards, ensuring they are ready to perform to the demands of any mission."*

** The Leonardo AW149 is a multi-role helicopter.*

On 29 November 2021, Chelton opened a new facility at Redhill Aerodome to support its life saving research and development (R&D), including IED detection and radio for public safety applications.

The Mayor of Reigate & Banstead officially opened the facility at the inaugural ceremony along with representatives from humanitarian mine clearance charity The HALO Trust.

The new facility does not affect EEPIC's property which remains the main HQ site for operations.

Appendix A

EEPIC Financial Statements

For the Year Ended 31 March 2022