

POUNDLAND - A PRE-ARRANGED RESTRUCTURING PLAN

Poundland is a well-known brand and a staple of the British high street. Poundland operates its business through its network of c. 800 stores across the United Kingdom, the Republic of Ireland and the Isle of Man (operating under the Dealz brand in the Republic of Ireland and the Isle of Man). Set against an increasingly challenging UK retail landscape, Poundland's performance has worsened in recent years which led to its former parent, Pepco Group N.V. ("**Pepco**"), selling Poundland to 1903 Peach Bidco Limited ("**Bidco**"), an affiliate of Gordon Brothers LLC, in June 2025 and Poundland's subsequent restructuring plan under Part 26A of the Companies Act 2006 (the "**RP**"). The Part 26A restructuring plan is a tool which has been perceived as facing numerous challenges following the Court of Appeal's decision in Re Petrofac ([2025] EWCA Civ 821) but, for the reasons set out below, we consider that Poundland is a good example of the merits of the tool, including the ability for shareholders to retain equity where it is justified.

OVERVIEW OF THE SALES PROCESS

Pepco announced at its Capital Markets Day on 6 March 2025 that, due to the recent trading performance of Poundland and the lack of synergies with the wider Pepco group, the Pepco board was actively evaluating all strategic options to separate Poundland, including via a sale, during the course of 2025.

Pepco appointed Teneo Financial Advisory Limited ("**Teneo**") to act as its financial adviser and a competitive sales process for Poundland, run by Teneo, was launched in April 2025. A significant number of potential bidders were approached from a diverse pool of private equity funds with portfolio companies within the discount retail sector or with expertise in restructuring situations, select trade parties and family offices with experience in discount retail.

A number of indicative non-binding offers were received by the end of April 2025, and the sales process continued through April and May 2025 with the most competitive of these offers. Following the submission of further non-binding offers and negotiations during May and June 2025, Pepco and Bidco agreed the terms of the sale of Poundland on 12 June 2025. The terms of the RP formed a key part of the discussions with the bidders during the sales process, and were agreed with Bidco alongside the sale documentation, with all relevant Pepco and Gordon Brothers entities, along with Poundland, entering into a restructuring support letter at completion of the sale.

The practice statement letter ("**PSL**") launching the RP was posted to creditors shortly after completion of the sale, on 12 and 13 June 2025. Following the convening hearing on 8 July 2025, the RP was sanctioned by Norris J at the sanction hearing on 26 August 2025. Norris J subsequently published his reasons for sanctioning the RP on 24 October 2025.

Poundland engaged FTI to prepare the relevant alternative report, who determined that the relevant alternative to the RP was a trading administration of Poundland whereby its stock on hand would be sold and there would be a piecemeal realisation of its remaining assets.

INTERESTING FEATURES OF THE RP

- **“Pre-arranged” RP:** The RP is novel in that its terms were negotiated and agreed with Gordon Brothers - and a restructuring support letter was agreed - prior to the sale of Poundland, and all of the offers for Poundland that were received during the sales process anticipated a restructuring. The PSL was also posted to creditors on the same day and the next day after the sale completed. From the perspective of Pepco, who Norris J accepted was a *“responsible owner and seller”*, this provided comfort that Poundland would be supported post-sale as it sought to implement its turnaround strategy. It also allowed the RP to be distinguished from the concerns expressed by Snowden LJ in Re Petrofac regarding the marketing of the exit financing; as Norris J commented, *“The eventual allocation results not from some arbitrary choice by Pepco but from a robust and competitive sale process focussed upon the purchaser willing to provide the most post-sale finance to support the business in its attempted preservation”*.
- **Landlord engagement:** Due to the ongoing sales process, Pepco’s public listing and Poundland’s large and diverse landlord base (which increased the risk of the sale being leaked), Poundland was unable to engage with landlords on the terms of the RP prior to the launch of the PSL. However, Poundland had sought to negotiate consensual adjustments before the RP was launched and there was significant engagement with Poundland’s material landlords and the British Property Federation (BPF) after the PSL was launched, causing Norris J to comment that *“Poundland has made serious attempts to engage, in particular, with its landlords”*. This appears to show some flexibility on the nature, timing and extent of the creditor engagement that is required prior to the launch of a restructuring plan, where the plan company is able to articulate the rationale for the approach taken.
- **Upside sharing:** Upside sharing mechanics appeared in CVAs previously but have not until recently been a common feature of Part 26A restructuring plans. Applying the now-discredited *“Virgin Active approach”*, where the views of unsecured creditors do not carry significant weight provided that they are left in a better position than under the relevant alternative, there would have been no need to offer landlords any share of the potential upside created through the restructuring plan. However, upside sharing mechanisms were features of both Poundland’s and River Island’s recent restructuring plans and may become more common in the future following the Court of Appeal’s decision in Re Petrofac as a way to seek to ensure that the benefits of the restructuring are being shared fairly amongst plan creditors. In the Poundland case, the upside sharing mechanism - which was revised following the convening hearing to make it more generous towards unsecured creditors - provided for a proportion of EBITDA over a minimum threshold to be paid to unsecured creditors, with that proportion ratcheting up as EBITDA increased.
- **Allocation of benefits report:** Following its use in the Independent Building Merchants Group’s inter-related restructuring plans, Poundland engaged FTI to provide an allocation of benefits report which sought to quantify the contribution made and benefit received by each creditor class. However, at the sanction hearing, Norris J noted the limitations of such a report, including that it does not take account of all the beneficial aspects of the RP and *“treats the repayment of new money advanced on market terms (or indeed, at below market rates) as a benefit received under the plan”*. It will be interesting to see if similar reports are produced as evidence in future restructuring plans or whether plan companies adopt different approaches to demonstrating that their restructuring plan provides a fair allocation of restructuring benefits. One potential approach - rather than seeking to quantify contributions and benefits - could have been for an expert to provide a qualitative view of whether the benefit being received by each creditor class as compared with the contribution being made was reasonable in their opinion.
- **Retention of equity:** A key focus in designing the RP was in ensuring there was sufficient contribution from Bidco and from Pepco to justify Bidco retaining its equity stake in Poundland (albeit diluted through the issue of shares to Pepco and management) and in Pepco being issued a minority equity stake in Bidco through the RP. Norris J took a commercial and holistic view in concluding that there was *“no basis for holding that...the allocation of equity is unfair vis-à-vis the landlords and other creditors”*. He accepted that through its contribution, which included providing a substantial overdraft facility at a preferential rate, Pepco had *“subordinated its financial interests to its desire to preserve the business”* and therefore had a *“strong voice in the allocation of any benefit”*. In Bidco’s case, Norris J placed weight on funding advanced to create liquidity runway, even though this was provided before the RP, and on the availability of Gordon Brothers’ turnaround expertise at no cost in supporting Poundland’s turnaround efforts. This serves as a useful reminder that there remains considerable flexibility under Part 26A restructuring plans for shareholders to retain their equity position where justified by the circumstances, a feature which sets it apart from restructuring mechanisms in the US and Europe.

Slaughter and May worked with Pepco, Poundland, Teneo and the counsel team of Tom Smith KC, Georgina Peters and Madeleine Jones in the design phase of the RP prior to completion of the sale. Following the sale and launch of the PSL, Slaughter and May worked with Ryan Perkins and acted for Pepco in its capacity as secured and unsecured creditor of Poundland, and as the future holder of a minority equity stake in Bidco following the sanction of the RP.

THE TERMS OF THE RP

Plan Creditor	Compromise pursuant to the RP
1903 Partners LLC (an affiliate of Bidco) as lender under the working capital facility	The maturity date was extended by three years and the limit of the facility was increased from £80 million to £95 million.
PEU (Tre) Limited as lender under a term loan facility agreement	The maturity date was extended by five years and the creditor consented to the removal of a cap on drawings under the working capital facility.
PEU (Tre) Limited as lender under a number of unsecured loans	c. £253.4 million of unsecured loans were capitalised in exchange for 30% equity in Bidco and the creditor provided an up to £30 million overdraft facility to Poundland.
Class A landlords	Rent payment terms were amended to monthly in advance (unless the lease provided for turnover rent).
Class B landlords	Rent compromised by 15% / 30% / 45% / 60% / 75% depending on categorisation in exchange for a compromised property liability payment and, if eligible, a share of any upside sharing payment.
Class C landlords	Rent reduced to nil in exchange for a compromised property liability payment and, if eligible, a share of any upside sharing payment.
DC landlords	Rent compromised in full following Poundland or the landlord serving an exit notice. The landlord will receive a compromised property liability payment and, if eligible, a share of any upside sharing payment.
The compromised property liability payment paid to the relevant landlords comprised: (i) an amount equal to 2-8 weeks' worth of rent, service charge and insurance (depending on the categorisation of the lease), plus (ii) 170% of the landlord's estimated administration return, plus (iii) the amount (if any) needed to top up (i) and (ii) to £500, less (iv) all amounts received under the plan.	
Business rates creditors	Claims for the current rating years and any arrears for previous rating years were compromised in full in exchange for a compromised liability payment and, if eligible a share of any upside sharing payment. The compromised liability payment to each business rates creditor was equal to the aggregate of (i) 170% of their estimated administration return, plus (ii) the amount that would be paid by Poundland during the period in which the relevant store would be traded in the relevant alternative, plus (iii) an amount equal to the business rates payable for the period beginning on the date after which the store was expected to be vacant in the relevant alternative and ending on 31 March 2026, plus (iv) the amount needed (if any) to top (i), (ii) and (iii) up to £500, less (v) all amounts received by the business rates creditor under the plan.
General creditors	Claims compromised in full in exchange for 170% of their estimated administration return (subject to a floor of £500) and, if eligible, a share of any upside sharing payment.

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