

Strictly Private & Confidential

# Cupral Group Limited

Tees Valley Capital Grant Scheme appraisal report - 13/11/2020



**STRICTLY PRIVATE AND CONFIDENTIAL**

UMi Commercial Limited,  
Spectrum 6,  
Spectrum Business Park,  
Seaham,  
SR7 7TT

**Our ref:** JH / NB / MF  
**Date:** 13 November 2020

Dear Madam

**Cupral Group Limited Tees Valley Capital Grant Scheme ("TVCGS") Grant Application Appraisal**

In accordance with our engagement letter with UMi Commercial Limited ("UMi"), dated 7 November 2016, we attach our limited scope appraisal report in connection with Cupral Group Limited's TVCGS Grant Application.

**Sources of information**

Our work has been based on:

- Visits to the Company's premises and discussions with Michael Fox, Executive Chairman of Cupral Group Limited and Carl Wright, advisor to the company.
- Review of the two years audited accounts to 28 February 2019
- Review of management forecasts for the four years ending 31 December 2023.

**Scope of work**

The scope of our review and areas of particular emphasis are detailed in our engagement letter dated 7 November 2016 and summarised in this report. Overall, the procedures undertaken by us in preparing this report did not constitute an examination made in accordance with generally accepted auditing standards. We do not therefore express an opinion on the financial data referred to in this respect.

In addition, the scope of our enquiries has been limited to the specific procedures set out in our engagement terms. Whilst we may have identified issues during our work concerning areas outside our scope, such findings cannot be regarded as representing all matters that you may regard as significant.

**Disclaimer on post-date events**

This report is issued on the understanding that the Company's management have drawn to our attention all matters of which they are aware concerning the financial position of the Company or the proposed project which may have an impact on our report up to the date of signature.

We have no responsibility to update this report for events and circumstances occurring after that date but will be pleased to discuss any further instructions as may be required.

We accept no responsibility for any financial forecasts or budgets ("Forecasts"), or for the ultimate realisation of such Forecasts. The bases and assumptions of such information have been determined by and are the sole responsibility of the applicant. Since any Forecasts and the assumptions on which they are based relate to the future and may be affected by unforeseen events, and in particular the future impact of the current coronavirus pandemic, UNW LLP will not provide any opinion as to how closely the actual result achieved will correspond to Forecast. Accordingly, UNW LLP accepts no responsibility for the ultimate accuracy and achievability of the Forecasts.

Since the Forecasts relate to the future, actual results are likely to be different from the projected results because events and circumstances frequently do not occur as expected, and the difference may be material.

Any oral or draft reports which we might provide will not constitute our definitive opinions or conclusions. These will be contained solely in our final signed report, which shall be expressed as such.

**Use of this report**

This report, including the Appendices, should be read in its entirety as some matters that may be significant to you may not be included in the Executive Summary. This report has been prepared solely for use by UMi for the purpose of considering the TVCGS grant application. The information herein is not to be copied, distributed or published in any way either in whole or in part without our prior written consent, nor is it intended to be a substitute for any representations you may wish to seek from the business.

The terms of reference for this report, included in our engagement letter, have been established by you and we will not accept responsibility to any other party to whom this report may be shown or into whose hands it may come. Our report may be shown to your professional advisers solely for the purpose of advising you in relation to the TVCGS grant. They should be shown our engagement letter, the terms of which will apply, and they must form their own professional opinions.

If we can be of any further assistance, or if you require any additional information or explanation on the matters raised in this report, please do not hesitate to contact us.

Yours faithfully

UNW LLP

UNW LLP

UMi	UMi Commercial Limited
GBER	General Block Exemption Regulation (EU Commission Regulation (EU) No 651/2014)
GGE	Gross Grant Equivalent
TVCGS	Tees Valley Capital Grant Scheme

UNW Contacts

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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## Summary of findings

	<div> <div>Strength of application</div> <div>Weak Strong</div> </div>	Comment
State aid compliance	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	Well within state aid limits.
Additionality	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	A start-up operation with significant initial costs. A funding gap argument has been presented alongside reasonable project risks.
Management, financial reporting and internal controls	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	A strong management team has been assembled with a considered plan for financial reporting and internal controls.
Viability and funding	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	Significant start-up risks. Start up costs being funded via debt including director's loans. Without grant, the cash position will be stretched with no overdraft availability. Once operational, the directors expect additional short term working capital funding to be available or obtaining better trading terms with suppliers and customers if needed once the business is trading.
Deliverability	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	Good management team. There is a lead time on the equipment and the project jobs are forecast to pay above regional averages which will assist with recruiting staff.
Review of employment impacts	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	Average project job salary of £47,250 which compares favourably with regional averages. A cost per job of £12,500 is reasonable for jobs of this calibre. We recommend that terms and conditions of all project jobs are submitted at first claim stage to ensure that they are in line with those on the application.
	<div> <div>Significant</div> <div>Limited</div> </div>	
Potential COVID-19 impact on the Project	<div> <div></div> <div></div> <div></div> <div></div> <div></div> </div>	We are advised that COVID-19 has impacted slightly on copper demand.

### State Aid measure

### Regional investment aid

#### Aid intensity (limit)

19.49% (45%)

#### Amount of grant approved by panel

£500,000

#### Amount of grant recommended

£500,000

### Scoring Key

- Serious weaknesses in application which could give grounds for rejection
- Below average application where mitigating factors can still justify approval
- No major weaknesses or strengths
- Stronger than average application
- Strong evidence to back up compelling arguments

## Recommendations for offer and monitoring

## Offer letter targets

The quarterly phasing of the capital spend, grant and project jobs is outlined in the table below.

	2019	2020	2021
Operating income	1,000	1,000	1,000
Depreciation and amortization	200	200	200
Provision for doubtful accounts	100	100	100
Change in accounts payable	50	50	50
Change in accounts receivable	(50)	(50)	(50)
Change in inventory	(50)	(50)	(50)
Change in prepaid expenses	(50)	(50)	(50)
Change in deferred revenue	50	50	50
Change in other non-current assets	(50)	(50)	(50)
Change in other non-current liabilities	50	50	50
Change in cash and cash equivalents	100	100	100

We have phased the payment of the grant as per the forecasts submitted by the company. We recognise that the first grant payment will be before the project jobs are recruited. This is because the plant acquired has a five-month lead time, and therefore payment will be defrayed on the deposit, and the HP agreement will be entered into prior to a need for staff recruitment.

We also note that the company has assumed monthly payments of grant and we recommend that the June 2021 quarterly payment shown above of [REDACTED], is released monthly if the company needs this to support its working capital.

The forecasts assume the first grant payment will be made in November 2020 and recruitment of staff will commence in January 2021 with ten staff. We believe there is minimal risk of the project jobs not being created subsequent to the first payment of grant.

### Offer letter conditions

We recommend that any offer of TVCGS contain the following conditions.

- UMi Monitoring Officers visit the company's premises once the lease is signed and the project assets are in situ to ensure the infrastructure is suitable for the needs of the business.
- Evidence of hire purchase funding of not less than [REDACTED] showing that the company will have ownership of the assets at the end of the term is sought prior to the first payment of grant.

- Evidence of an invoice discounting facility of not less than [REDACTED] and/or 80% of gross debtors is provided prior to the first payment of grant.
- Evidence of contracts or heads of terms must be provided for all customers that the company trades with prior to the first payment of grant.
- Prior to the first payment of grant, evidence of director's loans of not less than [REDACTED] has been provided.
- Prior to the second payment of grant, evidence of further director's loans of not less than [REDACTED] has been provided.
- Director's loans cannot be withdrawn from the business for the project monitoring period unless prior permission from Umi has been obtained.

## Monitoring recommendations

If any of the assets are purchased on HP, UMi should ensure that they obtain written confirmation that the option to purchase fee will be paid at the end of the lease period. Also, UMi should confirm that the HP finance does not include any RGF funding.

## Executive summary

Section	Findings	Page
Background	<p>The application is from Cupral Group Limited, a start up operation. The project that the grant application relates to is the establishment of a copper processing facility. This will be located on Tees AMP.</p> <p>Total project costs are expected to be [REDACTED] with the creation of 40 new jobs.</p>	13
State Aid	<p>Grant has been requested under Regional Aid exemptions set out in Article 14 of GBER. The project will be located within an assisted area with a maximum allowed intervention of 45% for a small company. The GGE shows that grant of £500,000 will result in aid intensity of 19.49% which is well within the limit.</p> <p>The company shareholders hold various shareholdings in other businesses. Our report shows that these do not impact on the company's small status under the SME definition.</p> <p>The company has filed accounts for year ended 28 February 2019 which showed net assets of [REDACTED]. However, as the company was not trading at that point we have also taken the view to assess the SME status based on the forecasts to the end of the first financial year. This shows turnover of [REDACTED], total assets of [REDACTED] and 40 full time members of staff. The turnover figure forecast for the end of the first year will breach the limits for a small company. Based on the exchange rate at 6 November 2020 of £1 = €1.11 the total asset figure is [REDACTED]. Therefore, the total assets and employment forecasts show that the company would still be defined as small.</p> <p>We conclude that the applicant has small status as per the SME definition.</p> <p>The company was incorporated on 22 February 2019 and has not traded to date. As such the GBER regulations regarding a firm in financial difficulties do not need to be applied as the company has been trading for less than three years.</p>	15
Additionality	<p>This is a significant project for this company to undertake. The management team, detailed in the management, financial reporting and internal controls section of this report, show a wealth of experience in this sector.</p> <p>That said it is a new start operation with significant initial costs and whilst we recognise the management team's level of experience it is not without risks.</p> <p>We also recognise the directors' contribution to the project with loans of £600,000 and deferral of remuneration until April 2021.</p>	188



There is a quantifiable reason for the grant request based on there being a funding gap although the cash levels within the business will still be down to [REDACTED] in the early stages of operations even after payment of grant. This is a concern in relation to viability, see comments below

We believe there is a need for the grant and that £500,000 is the minimum to sanction this project as it delivers the minimum headroom the directors feel comfortable with.

Management, financial reporting and internal controls	<p>The directors' CVs show a range of experience in this sector and others. There appears to be a good level of operational and financial experience including negotiation of finance raising.</p> <p>The financial reporting is robust for a start-up company with forecasts as outlined in our review of financial projections and timescales section of this report.</p> <p>We have no reason to doubt that the management team is capable of delivering a project of this scale, in this sector.</p>	20
Financial performance and position	<p>Cupral Group Limited was originally incorporated on 22 February 2018 as Tees Aluminium Limited.</p> <p>Annual accounts were filed for the year ended 28 February 2019 which show net assets of £1.</p> <p>Our review of FAME shows that Tees Aluminium Limited with company number 11220506 changed its name to Cupral Group Limited on 30 July 2020.</p> <p>As such we are viewing this as a new start operation in the Tees Valley area and that there is no meaningful historical financial information to review.</p>	22
Review of financial projections and timescales	<p>This is an ambitious project with significant start-up costs. The forecasts have robust assumptions but highlight that the cash position will be stretched especially in the early stages of the project.</p> <p>The invoice discounting facility will also be used to almost its maximum drawdown. We believe that this offers further risk to the ongoing viability position of the company. The directors have indicated that they believe further short-term working capital facilities would be available once the company starts trading.</p> <p>Michael Fox has advised that the company would like to pursue a blended customer base as opposed to that which is presented in the application which shows only Mitsubishi, this will help to spread the commercial risk</p> <p>Evidence of a full funding package must be provided prior to any payment of grant.</p>	23

Review of employment impacts

The project is expected to create 40 new jobs with an average salary of [REDACTED], which is well above the regional average.

**Deliverability**

TOMRA the equipment supplier has advised that the lead time from order to commissioning will be a maximum of 5 months and the application states that the other project expenditure can be concluded within this timescale. Michael Fox believes that a delay to the timing of the expenditure has a low risk possibility.

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Through the appraisal Michael Fox has also advised that he does not believe that the project jobs will be difficult to recruit as there is no specific skill set required.

The main risk to deliverability lies with the tight funding in the first year of the project, however we believe the team is experienced enough to be able to mitigate this through careful management of working capital

**Management representation letter**

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## Background

### Company background and project summary

Cupral Group Limited (“Cupral” or “the company”) is a start-up operation that is currently under development. Cupral was originally incorporated on 22 February 2018 with a previous name of Tees Aluminium Limited however it never traded.

The project that the grant application relates to is the establishment of a copper processing facility.

We have been advised that regulations have recently changed in China in that there are certain products that are being prohibited from being imported. As a result, there is a large surplus of scrap copper granules in the UK and Europe. We have been advised that this figure is circa 4 million tonnes per annum in the EU alone.

Recycled granules come in two forms:

- Clove – this contains 99.5% copper and is unalloyed and uncoated
- Cobra – this contains 98% copper content with other metal impurities at 0.5%-1%.

This project will establish a processing facility in the Tees Valley that will take in cobra granules and upgrade them to clove grade granules. This will make poor grade scrap into furnace ready materials.

These processed granules can then be sold to copper smelters and refiners.

We are advised that there is a large market for clove granules. The plant's output is expected to be 99.5% copper. Copper of this grade meets the requirements of many manufacturers of copper-based products – only copper wire requires higher purity.

At full capacity, the proposed plant could process 33,000 tonnes per annum. This represents circa 15% of the UK annual scrap copper availability and less than 3% of the total European market.

At the time of the application, it was advised that the output from the site would be sold to large metal traders, with Mitsubishi Corporation's European Mineral Resource Division expected to be the largest customer. At that time, an outline agreement had been reached with Mitsubishi to take the majority of the processed output.

We have been advised that Mitsubishi has said that it would take all of the output from the plant, however Michael Fox, Chairman of Cupral Group Limited, has stated that he would prefer to operate with a more blended customer base.

During the appraisal period, we have been advised by Michael Fox, that there have been developments in the conversations with the customer base and that there has been advanced discussions with Euro Alloys who have declared an intention to take up to 1,500 tonnes per month of the 2,750 tonnes capacity.

The project is to be located at Unit 9, Tees AMP and we have been sent a site map and heads of terms. The heads of terms show a lease length of 10 years incorporating a 5 yearly upward only rent review.

The initial rent is to be [REDACTED] per square foot plus VAT on the gross internal area of the building which equates to [REDACTED] per annum plus VAT.

Total project costs will be £2,550,000. The main project expenditure will be [REDACTED] on a TOMRA optical sorting machine. We are advised that TOMRA is the preferred supplier of the equipment needed for processing the copper. TOMRA is based in Norway and the world leader in optical sorting with 60% market share and over 6,000 machines worldwide. We have been advised that TOMRA machines can be used to sort a variety of products including food, plastic and glass. Whilst there are other TOMRA machines in the UK, there are no copper sorting TOMRA machines.

The project is expected to create 40 new jobs with an average salary of [REDACTED].

We have been unable to visit the company's premises as negotiations are ongoing for this and therefore, we cannot confirm that the business infrastructure will be suitable for the needs of the business. Due to COVID-19 restrictions we have only been able to meet with the company's Chairman, Michael Fox, via video call.

We recommend that UMi Monitoring Officers visit the company's premises once the lease is signed and the TOMRA project assets are in situ to ensure the infrastructure is suitable for the needs of the business.

### Impact of COVID-19

We have discussed with [REDACTED], the impact of COVID-19. He has stated that he does not consider that COVID will impact on the business.

He has advised us during the appraisal period that demand for copper has also experienced a slight dip but there is still construction work, manufacture of electric

vehicles and telecommunication infrastructure requirements, which is contributing positively to demand levels.

## State Aid

### Regional investment aid

#### Location

The project will be located at Unit 9, Tees AMP, Riverside Park, Middlesbrough, TS2 1QW which is in Middlehaven ward. This is an Assisted Area under the map which came into force on 1 July 2014.

#### SME status

The shareholding of the company is shown in the table below.

Name	Shareholding
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████
██████████	██████████

The application advises that there are no further businesses owned or controlled by the shareholders. However, during our appraisal we have been advised that the shareholders have the following other business investments.

#### ██████████

- Forgham Investments Limited - 50% owned by ██████████, and 50% owned by ██████████. This business is involved in the construction of residential property with net assets of ██████████ in financial year ended 30 April 2020 and one employee within the business.
- MRF Consulting Services Limited - 90% owned by Forgham Investments Limited, 5% owned by Matthew Forgham and 5% owned by ██████████. The last filed accounts for year ended 31 October 2019 show net liabilities of ██████████. This is a company providing advice to a number of metals related companies. We have not been able to ascertain the number of employees within the business but given the net liabilities position we believe this would be limited.
- Crypto Commodity Group Limited - 5% owned by ██████████. Our review of FAME shows that this company is dormant with net liabilities of ██████████ and one employee.

- Sterling Fine Wines Limited - less than 1% owned by ██████████. This is a tax efficient wine investment entity for UK-domiciled residents.
- MG Wendover Investments Limited - 50% owned by Matthew Forgham. We were advised on 9 October 2020 that this will be changed to Forgham Investments Limited prior to a purchase of some land and stables being finalised. Our review of Companies House on 19 October confirms that this change had not been enacted on that date.

Our review of FAME has also shown that ██████████ has 16% shareholding in Tres Corazones, a Spanish tapas restaurant.

#### ██████████

- Argentum Metal Management Ltd. 100% shareholding. The last filed accounts show net liabilities of ██████████ and average employees of 1 in the year ended 31 March 2019.

#### ██████████

- Skulk Ltd. 100% ownership. Our review of FAME shows that at the last filed accounts in year ended 31 July 2019, this business had net liabilities of ██████████ with no employees. FAME also advises that the business is dormant.

Our review of FAME has also shown that ██████████ has 54.5% of Gaia Power Tees Valley. This company has net assets of ██████████9 and no employees.

All shareholders of Cupral also have shareholding in in Tees Aluminium Limited (company registration number 11848140). This is a separate company to the original Tees Aluminium that changed its name to Cupral on 30 July 2020. The company was incorporated on 26 February 2019 and has not filed accounts.

Our review of Companies House verifies that the shareholding of Tees Aluminium Limited is as outlined in the table below.

Name	Shareholding
Michael Fox	43%
Mark Brookes	18%
Matthew Forgham	18%
Stephen Padgett	18%
Jane Stephenson	1%
Sarah Jane Pedel	2%
<b>Total</b>	<b>100%</b>

### Eligibility of costs

The project involves the following costs:

████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████
████████████████████	████	████	████

We can confirm that the above costs are eligible under GBER as they are in respect of investment in tangible assets relating to the setting up of a new establishment.

### GGE

A GGE calculation is attached at Appendix 1. Based on grant of £500,000 and eligible costs of ██████████ we calculate the aid intensity after discounting to be 19.49% which is within the limit of 45% for a small company in Middlehaven ward.

### Sector

GBER Article 13 (a) states that regional aid does not apply to the following sectors:

- Steel sector
- Coal sector
- Shipbuilding sector
- Synthetic fibres sector
- Transport sector
- Energy generation, distribution and infrastructure

In addition, there are restrictions on support to companies operating in the fisheries and aquaculture sector and primary agricultural production.

The company's activities do not fall within any of these sectors and therefore the project is eligible for support under the Regional Aid provisions within GBER.

### Firm in financial difficulties

GBER does not allow aid to undertakings in difficulty, which is defined as "In the case of a limited liability company (other than an SME that has been in existence for less than three years ....), where more than half of its subscribed share capital

We believe that of the companies that the shareholders of Cupral Group Limited have separate ownership of and operate in the same or adjacent market are:

- MRF Consulting Limited
- Argentum Metal Management Limited
- Tees Aluminium Limited

Given the size of these business, in terms of financial performance and numbers of employees, we do not believe this will impact on the SME status of Cupral Group Limited.

The company has filed accounts for year ended 28 February 2019 which showed net assets of £1. However, as the company was not trading at that point we have also taken the view to assess the SME status based on the forecasts to the end of the first financial year. This shows turnover of ██████████, total assets of ██████████ and 40 full time members of staff. The turnover figure forecast for the end of the first year will breach the limits for a small company. Based on the exchange rate at 6 November 2020 of £1 = €1.11 the total asset figure is ██████████. Therefore, the total assets and employment forecasts at the end of the first financial year still show that the company would be defined as small.

We believe that the company is small in line with the SME definition.



has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital.”

As the company was only incorporated on 22 February 2018 and has not traded to date the GBER regulations regarding firm in financial difficulties do not need to be applied, as the company has been trading for less than 3 years. The balance sheet forecast however shows that the company will meet the above definition until 30 June 2021.

Companies House shows that the company is active with no insolvency procedures implemented against the company.

#### **Start date of project**

Provided with the application are prestart trading forecasts. These show that the business will start to incur costs from November 2020. The trading forecasts then show sales from April 2021. However, we recognise that there has been slippage in the project in terms of the timing by one month. Therefore, capital expenditure is due to commence in November 2020 and sales in April 2021.

#### **Relocation**

This is a new start business which was incorporated in February 2018 as Tees Aluminium Limited. However, our review of Companies House show annual accounts were filed for the year ended 28 February 2019 which show net assets of £1.

We can confirm that the beneficiary has not carried out a relocation (as defined in GBER Article 2 point 61(a)) in the two years preceding this application for regional investment aid nor, at the time of the aid application, has it concrete plans to close down such an activity within a period of up to two years after the initial investment for which aid is requested is completed in the area concerned.

## Additionality

### What would happen in the absence of TVCGS funding

We are advised that there is no potential for scaling back the investment needed to set up the proposed processing facility.

In the absence of TVCGS funding the application advises that this project will not proceed therefore without project forecasts have not been supplied.

### Information provided to verify the need for grant assistance

The application advises that whilst the project is expected to generate profits once established and operational, there is a challenge in securing the full level of funding needed to start production.

In addition to the project expenditure of [REDACTED] there are further working capital and pre-operational spending requirements of circa [REDACTED] showing a total funding requirement of £6m.

The new equipment finance and anticipated debtor book will provide funding of circa £4.9m. This is made up of HP finance for the equipment of [REDACTED] and a maximum drawdown of invoice discounting of [REDACTED]. The shareholders will also be inputting director's loans totalling £600,000.

Thereby total funding will be [REDACTED] made up of HP finance, invoice discounting and director's loans.

The application form advises that the cash flow forecasts show a need for grant funding of £500,000 in order to complete the funding package whilst maintaining sufficient cash headroom to provide protection should any risks that lead to operational issues materialise.

We are also advised of the project risks. These are:

#### Technical – delay in commencement of operations

The project involves the establishment from scratch of an industrial scale copper processing facility. As with any project of this nature there is potential for delay. However, management have assurance from equipment supplier TOMRA that the lead time from order to commissioning will be a maximum of five months. We are advised that the ancillary site work and ERP system development can both be comfortably concluded in this timescale.

#### Technical – operational issues in early phase of project

This is directly associated with the fact that this will be a new facility. Management has mitigated this by partnering with the world's largest optical sorting equipment supplier TOMRA. The only other existing copper optical sorting projects have been delivered by TOMRA to competitors based in France and Germany. Whilst the utilisation of the sorting equipment to sort copper granules is new to the UK, we are advised that the actual processing itself is straight forward and does not utilise heat or any form of chemical reaction and is relatively low on energy usage. To mitigate this risk TOMRA will be guaranteeing operational performance in terms of downtime limits and quality of output.

#### Financial – funding package cannot be secured

As outlined above, the project requires substantial funding to get to the operational phase. Whilst there is significant interest from lenders, nothing can be formally agreed until management confirm the full funding package, which also includes the grant request. The directors are committing personal funds to the project and deferring their remuneration and have advised that should the grant application fail then the funding package will not be deliverable. We are advised that discussions with potential lenders have been promising to date, with an offer having been made by Barclays and indicative terms having been provided by TOMRA. Management are therefore confident that the private sector funding needed to deliver the project can be secured however this is reliant on the grant funding being secured also.

Throughout the application it is also advised that one of the factors that management believes has restricted potential entrants to the copper granule upgrading market is the fact that the customer base for clove granules is geographically diverse. In order to address this, management initially identified the opportunity to partner with Mitsubishi's European metal trading operation. This means that rather than having to source, negotiate with and deliver to customers across Europe, all sales will be made to Mitsubishi. It will then be Mitsubishi's responsibility to source and supply end customers, which they can do via their global metals trading network. Discussions with Mitsubishi have been ongoing for many months and agreements have been reached on all key matters, therefore management consider the risk of failure to reach an agreement to be low.

As part of this, the Investment Panel stipulated that a condition of a grant must be the provision of the contract with Mitsubishi. However during the appraisal

period, we have been advised by [REDACTED] that there is a preference amongst the management team that there should be a blended customer base and as such there are also negotiations progressing with Euro Alloys who have expressed an interest in taking 1,500 tonnes per month. This development lowers the overall project risk from a financial point of view.

In line with this we believe that contracts or heads of terms must be provided for all customers that the company expects to trade with prior to the first payment of grant.

#### **Minimum amount of funding required**

The application is supplemented with two sets of forecasts.

- Pre-start - five months to 28 February 2021
- Operations – to 31 December 2023

The need for grant argument which has been presented relates to the cash flow projections covering both pre-start and operations.

The forecasts covering the pre-start period for the five months to 28 February 2021 outline that the capital expenditure will commence in October 2020.

The pre-start cash flow forecast also assumes grant income totalling [REDACTED] in two tranches of [REDACTED] to be received in November 2020 and a further [REDACTED] in January 2021.

The operations cash flow forecasts show the remaining grant funding of £166,000 received between March 2021 and June 2021.

As outlined above the company will be looking to raise external finance of [REDACTED] and the grant funding is required to complete the funding package.

The minimum cash balance showing on the forecasts is [REDACTED] in April 2021. At this point the forecasts assume that total grant of [REDACTED] will have been drawn down. We note that if the grant is paid quarterly the company will only have received [REDACTED] grant by this date, so we have recommended that the final quarter's instalment of grant is released monthly.

The company does not have an overdraft facility and thereby without the grant there will be a cash deficit. Even with the grant the situation will be tight, and this is further considered later in this report

We have been advised that the company has approached several VC funders during this pre-start period however there is a reluctance to support the project at

this point until the technology and operations have been proven. Therefore there could be another fund raising round for further developments within the business.

## Management, financial reporting and internal controls

### Management team and previous experience

As part of the application the company has supplied CVs for the following key individuals in the project.

██████████ began his career in oil support services in 1981, working for a number of oil support service companies principally based out of Aberdeen.

In 1997 he joined Conpor plc as director to assist in developing floating methanol plants.

Between 1998 and 2005 he was Chief Executive and Deputy Chairman at GTL Resources plc leading the company into the ethanol industry in the US. This role involved significant negotiations of finance raising and joint ventures

Between 2001 and 2004, he was a board member of Tees Valley Regeneration Company.

In 2005 he founded Ensus Limited and took the role of Deputy Chairman. Having developed an ethanol plant in the US he wanted to develop one in Europe to service the growing biofuels mandates in the EU. A site at Wilton was identified that did not require planning permission and he recruited partners to develop the project including some key ex ICI management.

He successfully secured £160m of senior debt facilities with SG and Calyon and secured private equity investment from Carlyle and Riverstone for the full £90m equity amount.

We are advised that the private equity owners decided not to expand into other locations so ██████████ left to pursue other ventures.

In 2007 he founded Gaia Power Limited developing a 50 MWe Biomass Power Station in the Tees Valley. We are advised that this project has gone through numerous iterations and is now owned by Copenhagen Energy Partners.

From 2011 to 2017 he founded and developed small scale distributed heat solutions securing a long-term steam supply contract with a refinery. This business was sold to Equitix.

He then went on to found Tees Aluminium/Cupral Group Limited

Between 1997 and 2005 Matthew was one of the eight initial people to set up Koch Metals.

He then went on to be Managing Director at Dresdner Bank in London between 2005 and 2007. He was hired to set up a base metals trading/derivatives business.

Between 2007 and November 2017 he was Senior Managing Director at Macquarie Bank, London. He identified, developed, and directed the implementation of the base metals physical business strategy and was Global Sales Head for all base metals physical and financing businesses.

Matthew is also:

- Non-Executive Director of Sterling Fine Wines Limited.
- Non-Executive Independent Board Director of GF Financial Markets (UK) Limited.
- Board Director and acting CEO of Tres Corazones Limited.
- Board Director of WRAP (Wendover Resettlement Assistance Programme)
- Director of MRF Consulting Services.

Between 1992 and 2000 Mark was Commercial Director at Cookson Aluminium/Distributorcap where he had overall responsibility for raw material purchases and product sales from manufacturing facilities in UK, France, Australia and South Africa.

From 2000 to 2004 he was Regional Operations Director at Hays DX with responsibility for multi -site operational performance of seven service centres.

In 2004 he became Managing Director at Aleris Recycling Europe until 2013 with responsibility for all operational and financial activities within the division with revenues of ██████████ and 620 employees across six manufacturing plants across Europe producing over 500,000 tons of aluminium alloys.

Since 2013 he has been Managing Director of Argentum Metal Management.

### Financial reporting and internal controls

The application advises that the company will be appointing ██████████ as Finance Director should the project proceed. Stephen has over 20 years' experience in accounting and corporate finance and has been a CEO, COO and

FD of publicly listed businesses in the UK. He has completed over [REDACTED] of project financing activity, [REDACTED] of public and private equity transactions, and several business financial restructuring transactions. At Supporta plc, he led the growth of the business from £9m turnover to £65m in two years and from a loss-making position to a 10% profit margin operation with almost 3,000 staff across the UK.

The recruitment plan also includes the appointment of an accountant and sales/purchase ledger clerk. These individuals will be responsible for day to day transaction processing, management accounts preparation, payroll processing and KPI reporting. They will also administer the invoice finance facility and will be primary contacts for grant claims and monitoring information. Key KPIs will include average selling price, average purchase price, purity of output, processing rates, downtime and staff turnover.

Initially board meetings will be held weekly to ensure project delivery is achieved and that the commencement of operations is delivered to plan. This will then move to a monthly meeting to consider operational, strategic, financial (including review of previous month's management accounts), HR and health and safety matters. All four directors will be based at the plant and will be actively involved in the running of the business.

## Financial performance and position

Cupral Group Limited was originally incorporated on 22 February 2018 as Tees Aluminium Limited.

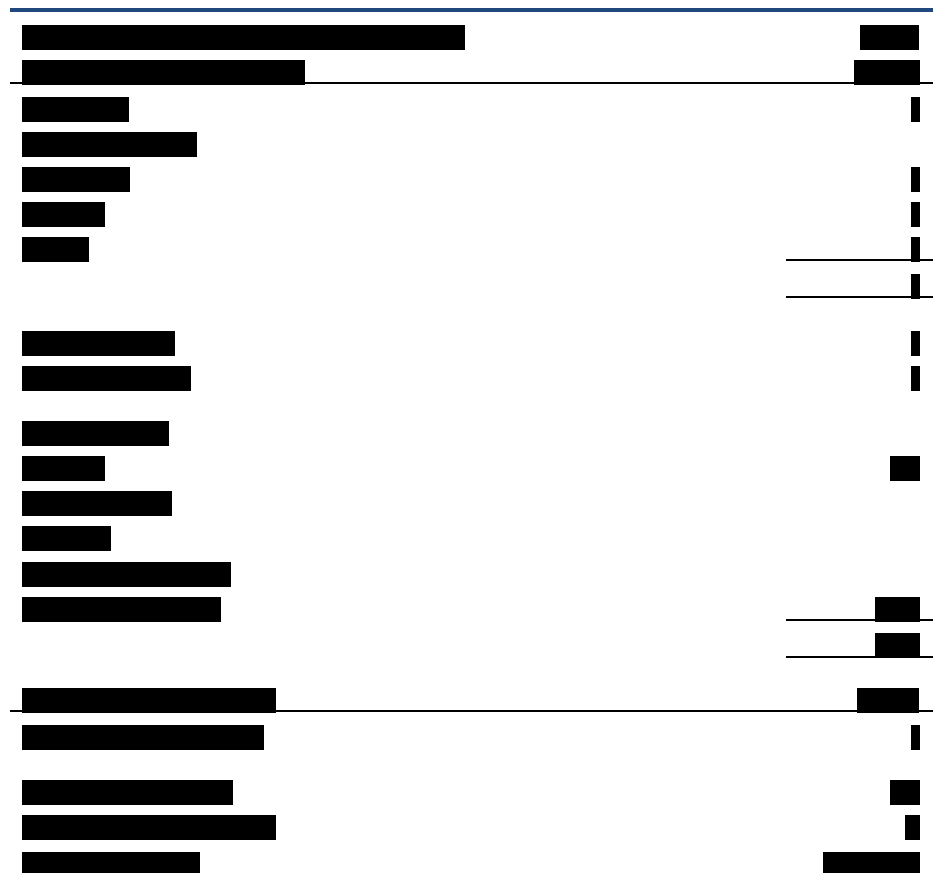
Annual accounts were filed for the year ended 28 February 2019 which show net assets of [REDACTED]

Our review of FAME shows that Tees Aluminium Limited with company number 11220506 changed its name to Cupral Group Limited on 30 July 2020.

As such we are viewing this as a new start operation in the Tees Valley area and that there is no meaningful historical financial information to review.



We have been supplied with forecasts covering the pre-start operation for the five months to 28 February.



The monthly profit and loss breakdown shows that the company will incur expenses from October 2020.

The order for the TOMRA optical sorting equipment is expected to be placed in October 2020 with site works to be completed in November and December 2020.

The profit and loss account for this period shows there will be recruitment of key employees in January 2021 onwards with plant operatives and yard operators employed in February 2021 for training ahead of the start of production in March 2021.

Other pre-start costs include legal and professional fees, insurance, premises costs and market data costs.

We recognise that there will be some slippage in the timing of the project from that shown on the application as the company is awaiting the grant decision before starting the project.

[illegible]

The trading assumptions that underpin these are:

- Trading will commence in March 2021 initially with 35% capacity, ramping up to 90% capacity by July 2021. It is further assumed that 90% capacity is the standard monthly operating level.
- The plant capacity is 100 tonnes per day.
- There will be 330 days production on 24/7 basis with allowance for downtime for maintenance.

- Sales will be pegged to London Metal Exchange (“LME”) prices and output will be sold at 94% of prevailing LME price. Current LME price is circa \$6,500 per tonne.
- There will be an invoice finance facility in place from commencement of trade in March at 80% of gross debtor book.
- Purchases will also be pegged to LME with materials costs at 87% of LME price.

The forecast balance sheet shows that stock is low relative to purchases at

The explanation of stock flow is outlined below.

- Cupral will be responsible for sourcing raw materials (copper granules) via supply agreements with scrap metal merchants. Key suppliers are likely to be European Metal Recycling ('EMR') and Sims Metal Management plus smaller scrap yards.
- The copper granules will be purchased from the metal merchants by the end customers, principally Mitsubishi and Euro Alloy, not Cupral.
- The copper granules will be transported from the supplier site to the Cupral facility.
- On arrival the unprocessed materials will be stored in a ring-fenced part of the site operated by a third-party logistics provider, Pacorini Global Services. Any materials within this ring-fenced site belongs to the customer and not Cupral.
- Cupral will draw unprocessed materials from the site throughout production. This is the point of purchase for Cupral and will trigger a purchase invoice to acquire the materials from the customer.
- The materials will be run through the plant at a rate of circa 90 tonnes per day.
- Upgraded granules are then returned to another part of the ring-fenced area and this is the point of sale for Cupral and a sales invoice will be raised. Ownership then transfers back to the customer.
- The level of stock at any point in time is the granules that are, in the Cupral processing system

There is not forecast to be growth within the business from 2022 onwards. This is because the TOMRA machine is forecast to be operating at capacity. We have discussed the longer-term plans for the company with Michael Fox who has advised that, at the moment, there are no plans for additional machinery. However, this will be dependent on the current project and the financials at that



time. The project premises offer a capacity for further machinery so future projects are possible.

### Forecast cash flows

[illegible]

The order for the TOMRA optical sorting equipment will be placed in October 2020 with a £240,000 deposit to be payable on order with the 90% balance to be

funded via TOMRA asset finance over five years. It has been assumed that the repayments will commence in March 2020 when the machinery is in situ and operational hence these are not shown in the table above.

The director's loan receipts are showing as two tranches of £300,000 being received in October 2020 and February 2021. We recommend that the first payment of grant forecast in November 2020 of [REDACTED] is not released before evidence of director's loans of not less than [REDACTED] has been provided.

Before the second payment of grant, evidence of further director's loans of [REDACTED] must be received.

The annual cash flow forecasts to 31 December 2023 are outlined in the table below.

Category	Item	Value	Unit
Category 1	Item 1.1	100	kg
	Item 1.2	200	kg
	Item 1.3	300	kg
	Item 1.4	400	kg
Category 2	Item 2.1	500	kg
	Item 2.2	600	kg
	Item 2.3	700	kg
	Item 2.4	800	kg
Category 3	Item 3.1	900	kg
	Item 3.2	1000	kg
	Item 3.3	1100	kg
	Item 3.4	1200	kg
Category 4	Item 4.1	1300	kg
	Item 4.2	1400	kg
	Item 4.3	1500	kg
	Item 4.4	1600	kg
Category 5	Item 5.1	1700	kg
	Item 5.2	1800	kg
	Item 5.3	1900	kg
	Item 5.4	2000	kg
Category 6	Item 6.1	2100	kg
	Item 6.2	2200	kg
	Item 6.3	2300	kg
	Item 6.4	2400	kg
Category 7	Item 7.1	2500	kg
	Item 7.2	2600	kg
	Item 7.3	2700	kg
	Item 7.4	2800	kg
Category 8	Item 8.1	2900	kg
	Item 8.2	3000	kg
	Item 8.3	3100	kg
	Item 8.4	3200	kg
Category 9	Item 9.1	3300	kg
	Item 9.2	3400	kg
	Item 9.3	3500	kg
	Item 9.4	3600	kg
Category 10	Item 10.1	3700	kg
	Item 10.2	3800	kg
	Item 10.3	3900	kg
	Item 10.4	4000	kg

The lowest cash balance is forecast in April 2021 in the second month of trading operations. The cash flow forecasts have assumed that £426,000 of grant will

have been paid by April 2021, which will require the final quarter grant to be released monthly.. The company has advised on the application that there is no incumbent bank and thereby no overdraft facility.

As the cash flow is tight around April 2021 we have enquired of management what alternative means of funding is available should a deficit exist. They have advised that they are confident of managing the cashflow once operational, through obtaining better trading terms with suppliers and customers and if needed they believe they would be able to obtain short term working capital facilities, as by the time the funding is needed they will have a better trading track record.

#### Status of finance arrangements

The project finance package will consist of:

- Asset finance of [REDACTED] representing 90% loan to value on the proposed [REDACTED] equipment cost. The equipment supplier, TOMRA, have agreed to provide this funding over a five-year term. We have seen correspondence from TOMRA to the company advising that the finance request had been granted. We were advised by Michael on 9 October 2020 that the terms of the agreement were still being negotiated but that the company would own the equipment at the end of the term. We recommend that Monitoring Officers seek evidence of finance funding of not less than [REDACTED] showing that the company will have ownership of the assets at the end of the term.
- Invoice finance facility of up to £3m at 80% of gross debtors. A quotation has been received from Barclays in respect of this facility with these terms. The balance sheet forecast shows a maximum invoice finance liability of [REDACTED] 5 for several months to December 2023. We recommend that Monitoring Officer seek evidence of an invoice discounting facility of not less than [REDACTED] and/or 80% of gross debtors prior to the first payment of grant. It is our understanding the Barclays is aware that there is chance for a low number of customers and hence debt concentration.
- Directors loans of £600,000. We recommend that the first payment of grant forecast in November 2020 of [REDACTED] is not released before evidence of director's loans of not less than [REDACTED] has been provided. Before the second payment of grant, evidence of further director's loans of [REDACTED] must be received.
- The panel requested that the director's loans were not withdrawn from the business during the terms of the grant. We have discussed this with [REDACTED] as the director's loans are showing on the balance sheet

until December 2023. [REDACTED] I would be keen to withdraw the loans prior to this time. However, we cannot ignore the panel's request and thereby we recommend that these director's loans cannot be withdrawn from the business during the project monitoring period without the prior permission of UMi.

#### Material risks

This project is not without risks. As outlined in the additionality section of this report, there are both operational and financial risks principally due to this being a start up with significant costs.

The risks have all been mitigated.

#### Deliverability

TOMRA the equipment supplier has advised that the lead time from order to commissioning will be a maximum of 5 months and the application states that the other project expenditure can be concluded within this timescale. [REDACTED] believes that a delay to the timing of the expenditure has a low risk possibility.

Through the appraisal [REDACTED] has also advised that he does not believe that the project jobs will be difficult to recruit as there is no specific skill set required.

Management has advised that there will be some slippage in the project timing as the project cannot proceed until the grant is approved. However, with the exception of this we have no reason to doubt that the project will not be delivered as per the forecasts.

The main risk to deliverability lies with the tight funding in the first year of the project, however we believe the team is experienced enough to be able to mitigate this through careful management of working capital

[illegible]

The application shows that all project jobs will be recruited by April 2021. The job recruitment profile as per the application is outlined in the table below:

Management have indicated that the above recruitment forecast is based on the business plan submitted with the application, which remains on track with the exception of possible slippage of one month to allow for the grant approval. However, they have also stated that given the inherent uncertainties associated with a start-up operation, there is potential for some roles to slip back in some scenarios.

This is a new start project and there are no safeguarded jobs associated with this project.

We are advised that there are other TOMRA machines within the UK, but with none being used for copper processing and that this project is a first for the UK.

The new environmental regulations which have been introduced in China have resulted in surplus scrap copper in the UK and Europe. This is seen as an opportunity for the company to take advantage of first mover position in the UK.

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Given the marketplace we do not believe that displacement is a concern with this project.

**Previous grant offers**

None

## Management representation letter

### Cupral Group Ltd

PRIVATE AND CONFIDENTIAL

UNW LLP  
Citygate  
St James' Boulevard  
Newcastle Upon Tyne  
NE1 4JE

Dear Sirs,

**Cupral Group Limited**

We confirm to you that the appropriate directors and management of Cupral Group Limited have read and considered your draft findings on the Tees Valley Capital Grant Scheme grant appraisal performed on Cupral Group Limited and that the factual content does not contain any material error or omit any material matters, of which the directors and management of Cupral Group Limited are aware.

We can confirm that without a Tees Valley Capital Grant Scheme grant of £500,000 we would not go ahead with the investment project set out in the report.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed

Name

**For and on behalf of  
Cupral Group Limited**

13-Nov-2020

Date

Appendices

GGE calculation ..... 31

GGE calculation

Name of company:	Cupral Group Limited		
Location:	<input type="text" value="Tees AMP"/>		
Size of company:	Small	<input type="text" value="x"/>	Maximum GGE <input type="text" value="45%"/>
	Medium	<input type="text"/>	
	Large	<input type="text"/>	
Discount rate	<input type="text" value="1.27%"/>		

