



MATUSON

ASSOCIATES

**MEGATRON SA (PTY) LIMITED
FIRST MEETING OF CREDITORS**

DATE: 26 August 2016

MEGATRON SA (PTY) LTD (“MEGATRON”) BUSINESS RESCUE: FIRST MEETING OF CREDITORS

Agenda

- Welcome
- The Business Rescue Process
- Background
- Financial Position
- Prospects of Rescuing Megatron
- Actions to Date
- Liquidation vs Business Rescue
- Proof of Claims
- Ratification of Appointment of the Business Rescue Practitioner
- Creditors’ Committee
- General
- Conclusion

THE BUSINESS RESCUE PROCESS



THE BUSINESS RESCUE PROCESS

About Business Rescue

Business Rescue involves proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for –

- the temporary supervision of the company, and of the management of its affairs, business and property;
- a temporary moratorium on the rights of claimants against the company or in respect of property in its possession.

Primary Objective of Business Rescue

The development and implementation of a plan that either:

- **A)** Rescues the company by restructuring its affairs, business, property, debt and other liabilities and equity in a manner that maximizes the likelihood of the company continuing its existence on a solvent basis, OR;
- **B)** If that is not possible, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.

BUSINESS RESCUE PROCESS

Commencement of Business Rescue Proceedings

On 12 August 2016, Megatron was placed under supervision and commenced business rescue proceedings pursuant to an order granted by the High Court in terms of Section 131 of the Companies Act, 71 of 2008 (“the Act”)

Appointment of Business Rescue Practitioner (“BRP”)

Barry David Kaganson was appointed as the business rescue practitioner of Megatron in terms of Section 131(5) of the Act.

Objectives of the First Meeting of Creditors

The main objectives of today’s meeting are as follows:

- The BRP needs to express an opinion as to whether he believes there is a reasonable prospect of rescuing Megatron;
- Appointment of a Creditors’ Committee;
- Receipt of Claims from Creditors; and
- Ratification of the appointment of the BRP.

BUSINESS RESCUE TIMELINE

Key Dates

The table below details the key dates for the business rescue of Megatron:

	Event	Date
1	Commencement of Business Rescue Proceedings	12 August 2016
2	Appointment of Business Rescue Practitioner	12 August 2016
3	First Meeting of Employees	22 August 2016
4	First Meeting of Creditors	26 August 2016
5	Publish Business Rescue Plan	16 September 2016 *
6	Meeting to Consider Business Rescue Plan	5 – 10 days thereafter

* *The publication of the Business Rescue Plan may be extended should the holders of the majority of the creditors voting interests allow it.*

BACKGROUND



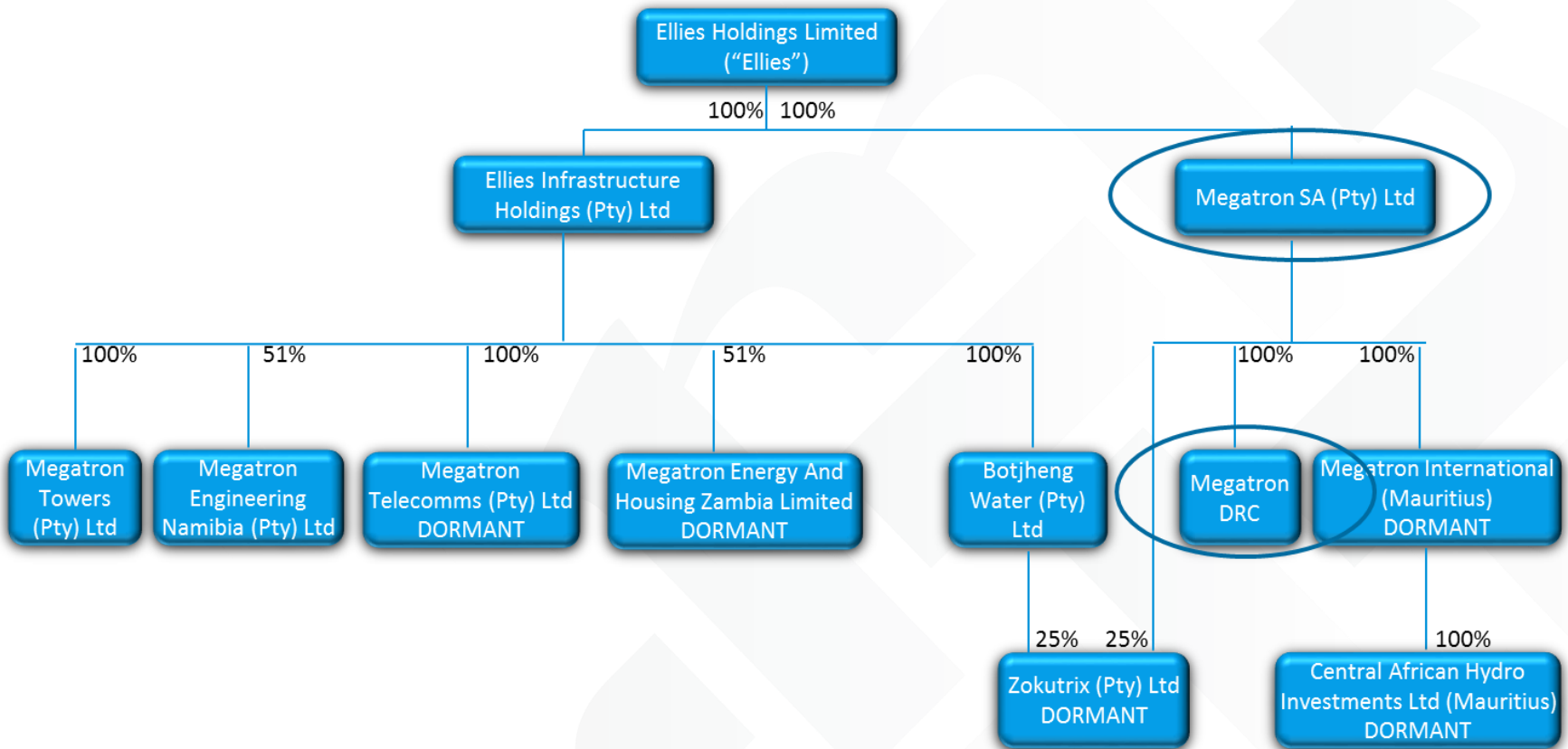
BACKGROUND

EXECUTIVE OVERVIEW

Background

- Megatron forms part of a group of companies that operate as the ‘Infrastructure Division’ of Ellie Holdings Limited (“Ellies”).
- The Infrastructure Division’s business consists mainly of the following business units:
 - Power products;
 - Infrastructure projects

Group Structure



BACKGROUND

REASONS FOR COMMENCING BUSINESS RESCUE PROCEEDINGS

- Megatron has continued to suffer difficult contracting conditions on its design build and turnkey projects as a consequence of the legacy of onerous billing milestones. This resulted in deferred billings and increased contract debtors, in turn causing ongoing challenges in funding working capital. Megatron's revenue was severely hampered by the cancellation of certain projects due to political risk factors. The aforesaid placed pressure on the Megatron's financial position and Megatron continued to make losses.
- Megatron's losses were previously funded by its holding company, Ellies, which advised in its provisional reviewed group results released on 27 July 2016 that the Ellies group would not increase its exposure to Megatron.
- In the circumstances, as Megatron has no further funds available it will not be able to pay its creditors and debts over the immediately ensuing six months.
- As a result of the above and in an attempt to rescue Megatron and to avoid a liquidation, Megatron was placed into Business Rescue.

FINANCIAL POSITION



CURRENT FINANCIAL POSITION

(Source: Management Accounts)

	Megatron SA	
	Apr-16	Jul-16
	R'000	R'000
Non-current assets		
Property, Plant & Equipment	11 114	14 718
Blade Room Land	10 900	10 900
Plant and Equipment	214	3 818
Other Investments		
Other Non-Current Assets	-	12 194
	11 114	26 912
Current assets		
Inventories	-	3 913
Construction Contracts	61 472	65 029
Trade Debtors	62 507	61 607
Tax Receivable	2 330	1 394
Other Current Assets	52 811	3 443
Intercompany Loans	133 763	133 733
Bank and Cash on Hand	8 144	2 494
	321 028	271 614
Total assets	332 142	298 526
Equity and liabilities		
Capital and reserves		
Share Capital and Premium		
Accumulated Profits	53 907	42 134
	53 908	42 134
Non current liabilities		
Long Term Loans Payable	99 675	72 696
Intercompany Loans	92 274	93 841
	191 949	166 537
Current liabilities		
Trade Payables	71 670	83 499
Other Payables	12 307	6 357
Provisions	2 301	-
Bank Overdraft	8	-
	86 278	89 856
Total equity and liabilities	332 142	298 526

PAST FINANCIAL PERFORMANCE

	Megatron SA		
	2015	2016	2017
	<i>(3 months)</i>		
	<i>R'000</i>	<i>R'000</i>	<i>R'000</i>
Revenue	231 354	109 955	2 750
Cost of goods sold	(309 242)	(110 458)	(6 146)
Gross Profit	(77 888)	(503)	(3 396)
Other income	2 225	5 172	5 448
Operating expenses	(228 205)	(282 296)	(10 205)
Bad debts	(15 293)	(30 845)	-
Consulting fees	-	(14 257)	(735)
Foreign exchange losses	(6 397)	(3 154)	-
Insurance/License	(3 193)	(1 996)	(371)
Legal expenses	(134)	(2 244)	(966)
Research & development	-	(3 515)	(60)
Staff costs	(87 688)	(33 217)	(4 698)
Disposal group	(102 614)	(45 509)	-
Impairment of construction debtors	-	(133 138)	-
Other	(12 886)	(14 421)	(3 375)
EDITDA	(303 868)	(277 628)	(8 153)
Depreciation	(2 654)	(100)	-
Impairment of goodwill	-	(164 946)	-
PBIT	(306 522)	(442 673)	(8 153)
Interest received	10 028	11 665	(1)
Interest paid	(34 040)	(13 058)	(3 612)
PBT	(330 534)	(444 066)	(11 766)

OVERVIEW OF CURRENT SITUATION

■ REASONS FOR POOR FINANCIAL PERFORMANCE

- Losses on numerous projects, on a Loss to Date basis, as follows:

Project Code	Description	Estimate Loss to Date
RSA0005	E02758 - CSP - Concentrated Sola Plant - Khi	25,807,764
NIG0001	E01473 - Kiri Hydro	25,798,646
CDI0001	E03272 - SICOGI HOUSING	24,721,394
RSA0006	E02897 - CSP - Concentrated Sola Plant - Kaxu	11,805,588
GAB0001	E01718 - Gabon Ministry of oil - Rural Water	4,174,506
RSA0007	E03207 - Zuikerbosch WWTW	2,501,368
MOZ0005	E03657 - CTGR Project - Ressano Garcia	1,490,496
RSA0009	E01846 - Fresh Water Facility Pudimoe	962,542
MOZ0003	E02736 - Elsewedy Site Establishment	107,908
LES0002	E01384 - EI Design - Metalong	91,077
		97,461,290

OVERVIEW OF CURRENT SITUATION

- **Performance Guarantees**
 - **Currently quantifying final amounts, will be presented in Business Rescue Plan**

SECURITY

▪ Standard Bank Security

- Pledge and Cession Agreement
 - This includes shares held by Megatron, credit balances, claims, contracts, debts, insurance policies and proceeds
- GNBs over Megatron's movable assets
 - The GNBs have been perfected pursuant to a court order obtained by Standard Bank
- Guarantees and cross suretyships in terms whereof Megatron guaranteed the due, proper and punctual payment and performance of obligations by other companies in the Ellies Group

OVERVIEW OF CURRENT SITUATION

▪ **CONTRACTS AND WIP**

Note on Contracts to be Completed:

▪ **Shilatembo**

- Commenced three years ago
- Requires \$6-\$8m to complete
- Payback based on electricity consumption of Copper Mine in DRC
- Current production low due to depressed product pricing.
- Currently busy with production reengineering process which will reduce unit production cost and get production back up
- Upside post 2020

- **Zuikerbosch** – held by Megatron SA – cost to complete of R2,3m will generate R3.6m in revenue and avoid a performance claim against Megatron SA of R4m. Included in Megatron Business Rescue PCF

▪ **Pudimoe**

Contract with Botjheng Water, Megatron SA is subcontractor. Will complete on prepayment. Botjheng is a major debtor.

OVERVIEW OF CURRENT SITUATION

■ BLADE ROOM:

- Agreement concluded in May 2012 - Turnkey data room project, to be acquired by Data Cloud Solutions
- Total cost of the project (per QS) appears to be approximately R100m (taken to income statement)
- Will attempt to conclude existing transaction if possible or sell to the market – running both in parallel
- State of the art facility
- Low cost operation
- Has value

PROSPECTS OF RESCUING THE COMPANY



PROSPECTS OF A SUCCESSFUL BUSINESS RESCUE

Prospects of a successful Business Rescue result is dependent on a few key variables, namely:

- Completion of certain remaining projects (completion margins and retentions)
- Seeking funding partner or acquirer for Shilatembo
- Realisation of intercompany loan accounts
- Conclusion of property sale of the Blade Room

ACTIONS TO DATE



ACTIONS TAKEN TO DATE

- In the process of securing funding (PCF) to continue operations
- Commenced sale process for Blade Room
- Negotiating realisation of other assets
- Reduced operating overhead to conserve cash
- Obtaining understanding of project pipeline
- Ongoing communication with employees
- Suspension of rental payments

BUSINESS RESCUE VS LIQUIDATION



BUSINESS RESCUE VS LIQUIDATION

MORATORIUM

- The formal moratorium under Business Rescue allows “breathing space” to formulate, propose and implement a Business Rescue Plan.
- During Business Rescue Proceedings, no legal proceeding, including enforcement action against Megatron, may be commenced or proceeded with in any forum, without the written consent of the Practitioner or with the leave of court.

THE BUSINESS RESCUE PLAN

- The Business Rescue Plan will be approved if:
 - a) it is supported by the holders of more than 75% of the creditors’ voting interests that are voted, AND
 - b) the votes in support of the proposed plan include at least 50% of the independent creditors’ voting interests if any, that are voted.

BUSINESS RESCUE VS LIQUIDATION

	Business Rescue	Liquidation
Employees	<p>While employees continue to be employed by Megatron they receive FULL SALARIES AND BENEFITS.</p> <p>Employees will receive FULL SALARIES AND BENEFITS from the commencement of the Business Rescue to the date of implementation of the plan or termination of the Business Rescue proceedings or termination of employment.</p>	<p>Employment contracts suspended on liquidation.</p> <p>Employees receive capped severance in terms of the Insolvency Act. Maximum of R28 000 per employee.</p>
Realisation of Assets	Maximum value is preserved and realised.	Assets are usually sold at distressed prices
Timing	<p>8 – 12 MONTHS</p> <p>Payment made to creditors in terms of the waterfall as and when funds permit.</p>	<p>18 – 24 MONTHS</p> <p>Payment of dividend could take between 18 – 24 months after L&D account confirmed by Master.</p>
Fees	In Business Rescue the fees are significantly less and are based on a set tariff or by agreement.	In a liquidation, fees are based on fixed percentages of the gross value of assets realised, irrespective of the third party costs incurred in achieving such realisations.

PROOF OF CLAIMS



PROOF OF CLAIMS

■ Claims

- Outstanding amounts for services rendered and goods delivered prior to 12 August 2016, the date of commencement of Business Rescue, are in the moratorium.
- A claim form will need to be submitted for such amounts. These Claims will be reconciled to the Megatron's records and any discrepancies investigated.
- The payment of these amounts will be dealt with in terms of the Business Rescue Plan.
- The claim form is available at the following link
www.matusonassociates.co.za/megatron

CONCLUSION BY BRP



CONCLUSION OF THE BRP

It is the view of the BRP that, notwithstanding inevitable risks and challenges, there is a reasonable prospect of rescuing Megatron, based on the following:

- Availability of assets to be realised for value
- Post-Commencement Funding.
- The business rescue process will achieve a better result than that of liquidation.
- Based on our experience of liquidations, it is more likely that value will be preserved and extracted under business rescue subject to the BRP being able to fast track the process and minimise the cash burn.

Opinion

- The BRP is of the opinion that there is a reasonable prospect of rescuing Megatron. Various options will be investigated, together with input from management, shareholders and creditors.

CONCLUSION OF THE BRP

Should the BRP at any time conclude that there is no reasonable prospect for Megatron to be rescued, the BRP must advise affected persons and apply to court for an order discontinuing the proceedings and placing Megatron into liquidation.

Termination of Business Rescue Proceedings

- The Plan proposed is rejected and proceedings are not extended
- The Court orders the conversion of the business rescue proceedings into liquidation
- The BRP concludes that Megatron is no longer in financial distress
- The BRP files a notice of substantial implementation of the approved Plan

WAY FORWARD – CREDITORS

- Business Rescue could be a “PART B” – i.e. a wind down
- May be chance of recapitalisation and turn-around
- Must achieve a better result for creditors than a liquidation

RATIFICATION OF APPOINTMENT OF PRACTITIONER



RATIFICATION OF APPOINTMENT OF BRP

- In terms of s131(5) if the court makes an order placing the company under supervision and commencing business rescue proceedings and a further order appointing the practitioner, the appointment of the practitioner is subject to the ratification by the holders of a majority of the independent creditors' voting interests at the first meeting of creditors.
- Voting & Results

CREDITORS' COMMITTEE



CREDITORS' COMMITTEE

Functions, Duties and Membership of this Committee

A committee, appointed in terms of S147 of the Companies Act, may -

- Consult with the BRP about any matter relating to proceedings
- Receive and consider reports relating to proceedings

Members need to be independent creditors or an authorised agent of an independent creditor

GENERAL



GENERAL

- The BRP will communicate timeously with all creditors in writing, as required.
- The BRP will meet with the Creditors' Committee as and when required – all creditors will be advised of these meetings and will see full discussion agenda items.
- Creditors may refer any queries to the BRP.
- Queries can be directed to the Practitioner at megatron@matusonassociates.co.za
- Questions



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