

Group Five Limited Business Rescue Proceedings Meeting with Shareholders

20 June 2019

Business Rescue Practitioners:

Peter van den Steen and Dave Lake

Agenda

- Welcome
- Lead up to the commencement of business rescue proceedings
- Approach to this business rescue
- Key elements of the business rescue process
- G5 Ltd consolidated income statement to 28th Feb 2019
- G5 Ltd – primary assets and liabilities
- G5 Construction balance sheet as at 28th Feb 2019
- G5 Ltd balance sheet as at 28th Feb 2019
- Key elements of the business rescue
- Expected outcome of the business rescue process
- Opinion of the BRPs
- Forensic investigations
- Questions

Lead up to commencement of Business Rescue Proceedings

- The G5 group made losses of **c.R0.8b** in the year to June 2017
- and losses of **c.R1.3b** in the year to June 2018
- A number of G5 Construction's projects were (and are) loss-making
- Working capital could not support the business without new funding
- G5 Construction thus secured bridge funding of R650m in April 2018
 - This facility is currently in default
- G5 Ltd guaranteed this debt and other obligations of G5 Construction
- The Kpone contract resulted in US\$106.5m (R1.5b) being demanded from guarantee providers in late 2018, with G5 Ltd and G5 Construction consequently becoming indebted under counter-indemnity arrangements
- Retrenchment proceedings costing R233m further increased working capital pressures
- Management accounts for the 8 month period to 28 Feb 2019 show that a further **c.R1.8bn** of losses were incurred in the period

- Major losses and negative cash flows were forecast for the balance of the 2019 calendar year
- As a result, in February 2019, G5 sought additional bridge funding from the lending consortium but this was declined
- G5 approached its major shareholders ... who indicated that they would not support a rights offer for G5 Ltd
- G5 Construction was financially distressed – it was clearly unable to meet its current or upcoming financial obligations
- As co-principal obligor with G5 Construction, G5 Ltd was consequently also financially distressed and unable to meet its financial obligations
- The Board of G5 Ltd thus filed a resolution placing the Company into business rescue (as did the Board of G5 Construction) on 11 March 2019 – the fortunes of G5 Ltd and G5 Construction are inextricably linked

Approach to this business rescue

The Act requires the development and implementation of a plan that:

Rescues the company by restructuring its debt and equity in a manner that maximizes the likelihood of the company continuing its existence on a solvent basis;

OR

If that is not possible, results in a better return for the company's creditors or shareholders than would have resulted from the immediate liquidation of the company

Our approach to this rescue is a combination of those two objectives – securing the solvency and continued existence of material parts of the G5 suite of businesses through sale and restructuring processes, whilst at the same time managing down those parts of the business which are not capable of solvency or sale, in order to deliver a better return to creditors than would have been the case under immediate liquidation.

Key elements of the business rescue process

- 1 Maintain liquidity during the rescue process – PCF secured from lenders
- 2 Save as many jobs as possible in the circumstances, whilst delivering a balanced solution to all stakeholders
- 3 Preserve and continue profitable operating businesses
- 4 Deliver projects that are viable – avoid bonds being called
- 5 Restructure operating businesses where they can be saved
- 6 Sale of businesses at appropriate values (avoid fire sales)
- 7 Sale of excess assets (property, vehicles and equipment)
- 8 Reduce ongoing funding requirements by re-positioning and/or terminating business activities that place a burden on the Group, and driving down costs at the centre
- 9 Settle secured debt obligations to reduce the debt and interest burden
- 10 Optimise returns to creditors



Income Statement – Consolidated (G5 Ltd and Construction)

(R'000)	Unaudited eight months ended 28 Feb 2019	Audited 30 June 2018
Revenue - continuing operations	4 889 674	7 348 456
Operating loss before fair value adjustments	(1 576 148)	(1 453 446)
Fair value adjustment relating to investment in service	-	(32 618)
Profit on disposal of joint operations and subsidiary	-	59 067
Operating loss	(1 576 148)	(1 426 997)
Share of equity accounted profits [^]	44 302	189 654
Finance costs	(119 488)	(77 270)
Finance income	-	37 580
Loss before taxation	(1 651 333)	(1 277 033)
Taxation	(79 653)	(88 324)
Loss for the period from continuing operations	(1 730 986)	(1 365 357)
Profit/(loss) for the period from discontinued operations	(37 257)	57 210
Loss for the period	(1 768 243)	(1 308 147)
Allocated as follows:		
Equity shareholders of Group Five Limited	(1 785 732)	(1 355 850)
Non-controlling interest	17 489	47 703
	(1 768 243)	(1 308 147)

Losses	R'000
2017	772,645
2018	1308,147
2019 (8 mths)	1768,243
Total	3849,035

G5 Ltd – primary assets and liabilities

Non-operational holding company – only two directly held subsidiaries: Everite & G5 Construction

- G5 Ltd guaranteed bond-related obligations for the G5 Group amounting to c.R4bn
- G5 Ltd has further provided billions of Rands in parental guarantees
- The R650m bridge loan (guaranteed by G5 Ltd) is in default
- In terms of the 2018 bridge funding agreements, proceeds from any disposal of Everite have been ceded/pledged to a ringfenced security vehicle for the benefit of HSBC amongst other persons – no surplus realisable value is envisaged for G5 Ltd from its **Everite** investment
- At the time of the bridge loan, G5 Construction ceded/pledged its European assets as security for the bridge loan and all bonds (incl. c.R1,5bn relating to Kpone which has been called plus another c.R100m subsequently)
- It is highly unlikely that **G5 Construction** (in business rescue) will be able to settle all of its own obligations, let alone deliver any value to its shareholder (G5 Ltd)

Financial Position – G5 Construction

(R'000)	Unaudited eight months ended 28 Feb 2019	Audited 30 June 2018
ASSETS		
Non-current assets		
Property, plant and equipment and investment property	709 757	757 870
Equity accounted investments	965 861	989 911
Investments – service concessions	47 443	969
Other non-current assets	165 594	214 317
	1 888 655	2 011 426
Current assets		
Other current assets	2 294 911	2 370 752
Non - current assets classified as held for sale		
	70 216	85 679
Total assets	4 253 782	4 467 857
EQUITY AND LIABILITIES		
Capital and reserves		
Equity attributable to equity holders of the parent	(1 347 702)	322 874
Non-controlling interest	27 221	27 061
	(1 320 481)	349 935
Non-current liabilities		
Interest-bearing borrowings	179 720	180 236
Other non-current liabilities	244 246	207 820
	423 967	388 056
Current liabilities		
Other current liabilities	4 439 220	4 986 650
Overdraft	687 292	-1 268 360
	5 126 512	3 718 290
Liabilities associated with non - current assets classified as held for sale		
	23 785	11 576
Total liabilities	5 574 264	4 117 922
Total equity and liabilities	4 253 783	4 467 857

Positive:
We aim for greater value to be realised

- Negatives:**
- Monthly losses: R50m to R100m
 - Bonds crystallised: R100m+
 - Retrenchment costs: R100m+
 - Claims multiples of R100m

Book NAV already negative

Financial Position – G5 Ltd

Everite:

Zero value after rehab costs and HSBC pledge

G5 Construction:

See previous slide

(R'000)

Unaudited eight months ended 28 February 2019 Audited 30 June 2018

ASSETS

Non-current assets

Investments – subsidiaries

Other non-current assets - Claim relating to secured obligations

Estimated recovery = nil

534 755

534 741

663 314

Total assets

1 198 069

534 741

EQUITY AND LIABILITIES

Capital and reserves

Equity attributable to equity holders of the parent

534 618

534 618

Current liabilities

Other current liabilities

138

123

Secured obligations

Liability due to Lombards arising from Kpone

663 314

663 452

123

Liabilities associated with non - current assets classified as held for sale

Total liabilities

663 452

123

Total equity and liabilities

1 198 069

534 741

Key elements of the business rescue

- PCF has been raised from banks, ensuring liquidity and staving off liquidation
- The BRPs are working towards the production of a business rescue plan aimed at preserving value in G5 Ltd and G5 Construction by:
 - Mitigating the potential contagion that may result if the cross-guarantees and counter indemnities of the G5 Group are enforced
 - Managing and driving down cash spend on head office costs
 - Actively managing the construction portfolio to avoid the cancellation of contracts and bonds being pulled (c.R2.2b of bonds)
 - Realising cash from the sale of functioning subsidiaries and divisions
 - Restructuring and realising value from non-functioning subsidiaries
 - Realising value from other asset sales (i.e. movable, immovable and financial assets)
 - Settling creditors in terms of the statutory order as provided by Chapter 6
 - Dealing with the residual tail of matters which will take time to resolve

Expected outcome of the business rescue process

- Everite sale proceeds due to G5 Ltd, net of environmental and other liabilities, will all flow to HSBC in terms of the cession / pledge
- G5 Construction liabilities expected to materially exceed its realisable assets
- As a result of cross-guarantees, parental guarantees and other security instruments entered into by G5 Ltd, material G5 Construction shortfalls will become liabilities of G5 Ltd
 - Full settlement of these liabilities is not foreseen at this time
- A rights offer is not feasible nor expected to create value to shareholders at this stage
- The disposal of G5 in its entirety is not feasible given the distressed state of the business, quantum of debt and lack of forward construction book
- Whilst we estimate that 80% of the business rescue process and value realisations will be completed within 1 year of commencement of the business rescue proceedings, the balance of residual matters (e.g. litigations, guarantees, retentions, international claims, etc.) are likely to take significantly longer to fully resolve

Expected outcome of the business rescue process

- Significant subsidiaries and divisions of G5 Construction are being returned to solvency through restructurings and/or disposals to third parties
- Parts of the G5 Construction business are in a controlled wind down phase
- A better return to **creditors** is expected than under liquidation given:
 - measured sales processes
 - restructuring of certain businesses
 - saving of contracts and avoiding the crystallisation of contingent liabilities
 - cost containment
- The business rescue process is considered the only possibility of returning any value to **shareholders** ...

... however, at this time we are of the view that it is a very unlikely outcome that the shareholders of G5 Ltd will receive any value back on their investments

Opinion of the BRPs

The Practitioners are of the opinion that there is a reasonable prospect of achieving a successful Business Rescue and to provide value to creditors.

However, given that it is highly unlikely that all creditors will be made whole, it is expected that no value will flow to shareholders through the Business Rescue Process

Forensic investigations

- Business Rescue is a forward-looking process: BRPs are not provided with the investigative powers given to liquidators (e.g. S417 enquiries)
- In terms of the Companies Act, as soon as practicable after appointment, the BRPs must investigate the company's affairs, business, property, and financial situation, and consider whether there is any reasonable prospect of the company being rescued – this has been done, and is continually being evaluated
- If compelling evidence of wrongdoing prior to the commencement of business rescue proceedings is presented to BRPs, the BRPs can look into this
 - to date, no compelling evidence has been provided or found to justify the expense, cost and delay of a forensic investigation
- The BRPs will consider further investigations when appropriate / able to do so: Presently the BRPs are fully engaged with addressing value diminution and performing critical operational and rescue related activities
- Should this approach be considered insufficient by shareholders, shareholders are invited to suggest an alternative approach which, if approved by the BRPs, will allow for an investigation at shareholders expense



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STRATEGIC ADVISORS

Metis Strategic Advisors (Pty) Ltd – 2015/220685/07
PO Box 412361, Craighall, 2024 | www.metis.co.za
Directors: Dave Lake, Peter van den Steen & Trevor Murgatroyd