

Data Republic Pty Ltd (Administrators Appointed) (Data Republic)

First Meeting of Creditors

18 May 2021



McGrathNicol



Agenda

- **Introduction**
 - Formalities
 - Purpose of meeting
 - Declaration of Independence, Relevant Relationships and Indemnities (**DIRRI**) and remuneration
 - Purpose of administration
- **Voluntary Administration of Data Republic**
 - Background and operations
 - Financial position and performance
 - Directors' reasons for failure
 - Administrators' actions since appointment
 - Sale process
 - Liquidation vs Deed of Company Arrangement
- **Questions**
- **Resolutions (Committee and replacement of Voluntary Administrators)**

Formalities

- Open meeting
- Administrator Chairperson: IPR 75-50
- Introductions:
 - Barry Kogan (Administrator)
 - Rob Smith (Administrator)
 - Louise Mann (Director)
- Quorum: IPR 75-105
- Attendance register
- Voting
- Time and place convenient: IPR 75-30
- Proofs of debt and proxies

Purpose of meeting

- Convened under Section 436E of the Corporations Act to:
 - determine whether to appoint a Committee of Inspection to the Company, and if so, who are to be the Committee's members; and
 - consider the removal of the Administrators and appoint an alternative Administrator who has consented to act
- This meeting has no authority to consider any other business
- At the second statutory meeting, a decision is made regarding Data Republic's future

Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) and remuneration

DIRRI

- DIRRI dated 11 May 2021 - distributed with notice of meeting
- DIRRI is available for inspection
- We remain of the view that we are free of any potential conflict of interest
- No indemnity or up-front payment of fees
- DIRRI tabled

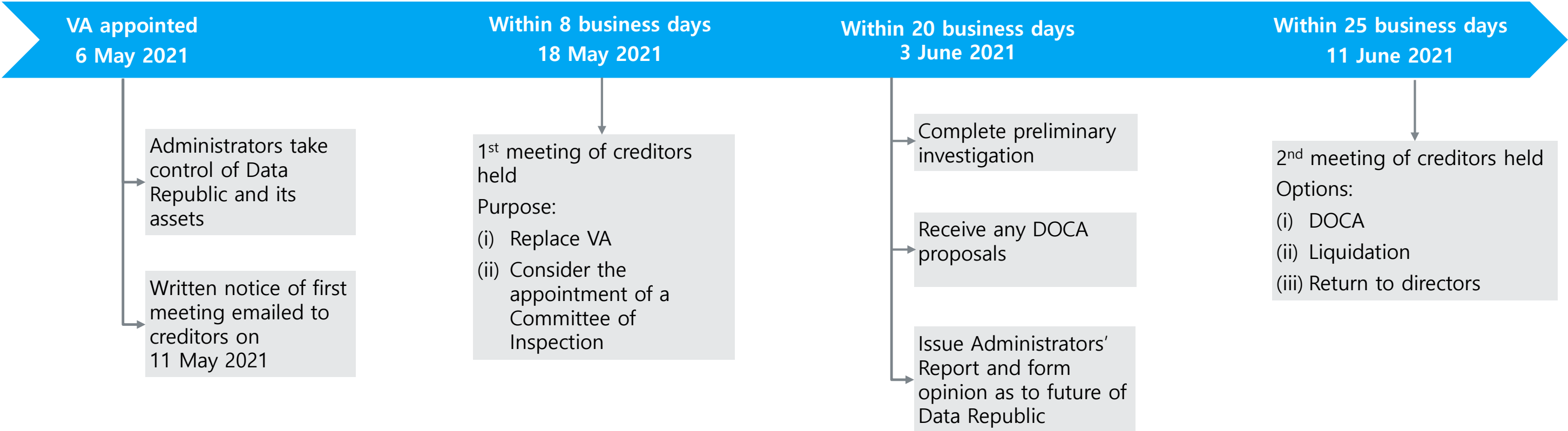
Remuneration

- Schedule of rates provided with meeting information
- Comprehensive remuneration report will be provided prior to the second meeting of creditors

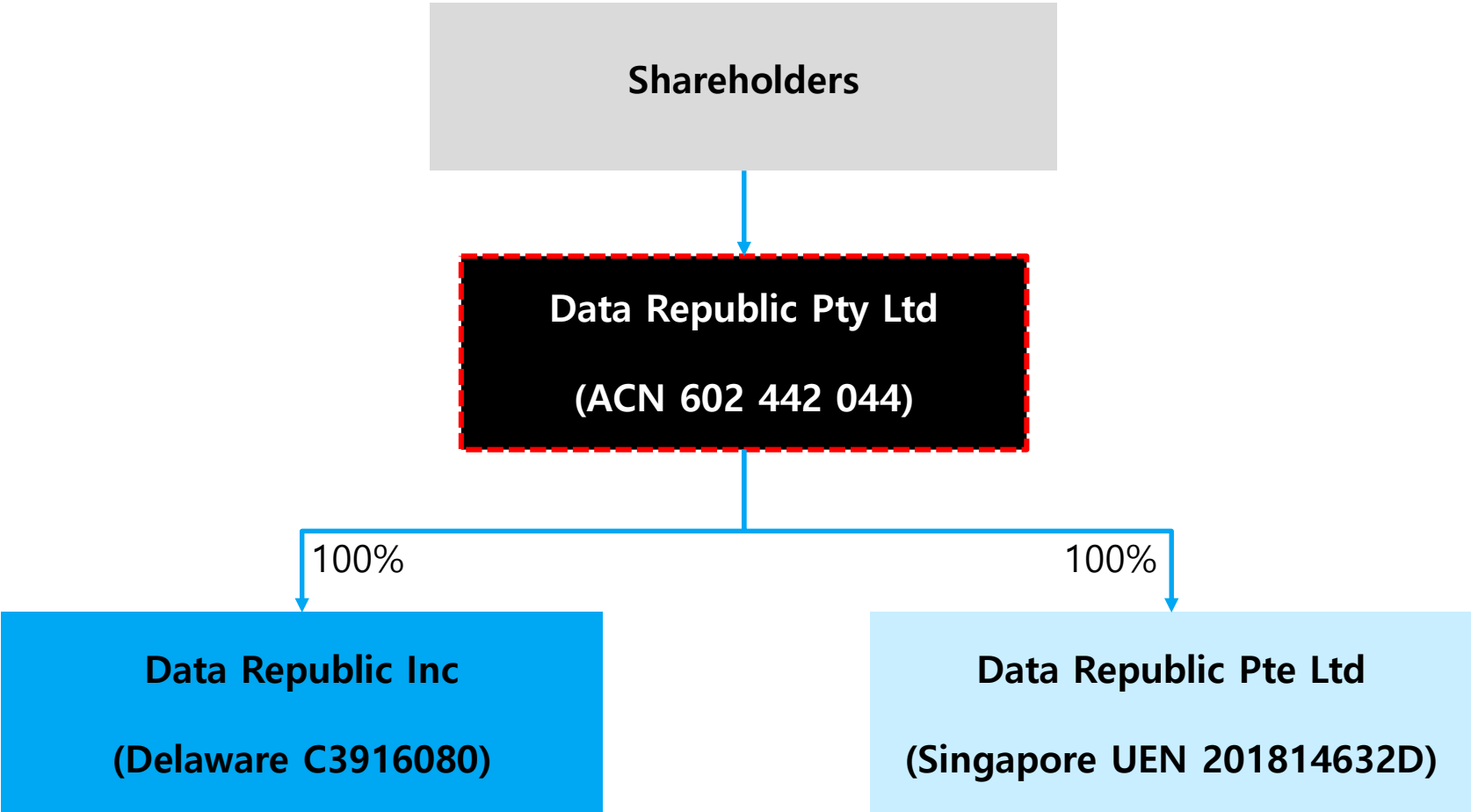
Purpose of administration

- Directors' powers are suspended and Administrators are in control
- Voluntary Administration provides moratorium period for investigation / determination of company's future at second meeting of creditors:
 - Return company to Directors;
 - Deed of Company Arrangement; or
 - Liquidation






Voluntary administration timeline



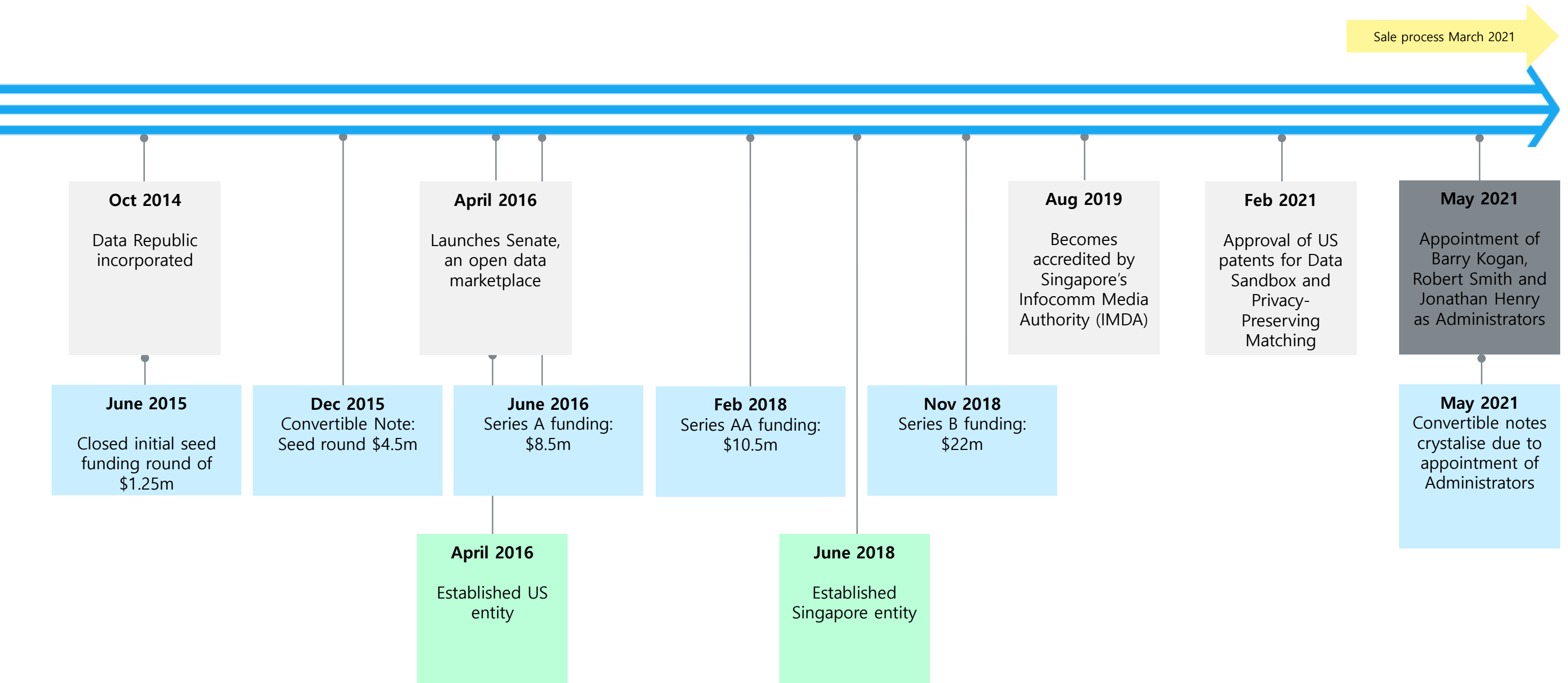
Simplified corporate structure



Key

-  Shareholders
-  Australian entity
-  US entity
-  Singaporean entity
-  Administrators appointed

Historical timeline



Statement of financial position

Statement of Financial Position			
\$	30-Jun-20	30-Apr-21	
Assets			
Cash and cash equivalents	5,193,672	2,256,437	This shows a 57% decrease in cash and cash equivalents, due to monthly cash burn exceeding revenue
Trade and other receivables	886,642	67,811	
Prepayments	290,727	132,183	Vendor prepayments
Term deposits	100,000	100,000	
Property, plant and equipment	837,282	807,772	
Investments	5,822	5,822	
Loans	6,770,393	7,440,394	Loan to US and Singaporean subsidiaries
Total assets	14,084,538	10,810,419	
Liabilities			
Trade and other payables	477,673	379,306	
Accrued employee entitlements	375,277	435,818	Excludes redundancy and notice (total entitlements of c.\$1.38 million)
FBT tax liability	6,695	17,295	
ROU Liability	705,685	705,685	
Deferred income	1,592,577	590,705	Prepaid platform licenses
Total Liabilities	3,157,907	2,128,809	
Net assets	10,926,631	8,681,610	

NB: Data Republic Pty Ltd only

Statement of profit or loss

Statement of Profit or Loss			
\$	FY20	YTD FY21	
Revenue	2,184,604	1,601,439	Further reported revenue from Singapore and US entities of \$2.3m
Cost of goods sold	(1,317,437)	(530,665)	Majority of COGs relates to data hosting services
Gross Profit	867,167	1,070,774	
<i>Gross margin</i>	<i>40%</i>	<i>67%</i>	
Administrative, financing and sales expense			
Rent	(217,487)	(531,735)	
Professional services	(941,590)	(904,355)	
General and administrative expenses	(109,947)	(3,207)	
Salaries and wages	(8,173,326)	(5,373,595)	Salaries and wages are the highest expense of the company representing c.70% of total expenses
Software	(1,159,557)	(1,061,430)	
Depreciation and amortisation	(485,883)	(54,613)	
Total expenses	(11,087,790)	(7,928,934)	
Other income	2,059,343	2,511,876	Majority of other income relates to R&D grants and refunds
Other non-operating expenses	(40,558)	(36,548)	
Net profit/(loss) before tax	(8,201,838)	(4,382,833)	

Note 1: FY20 results to 30 April 2021

NB: Data Republic Pty Ltd only



Report on Company Activity and Property (ROCAP)

Director ROCAP	
\$	05-May-21
Assets	
Cash and cash equivalents	2,054,478
Trade and other receivables	71,837
Prepayments	132,183
Bonds and Term deposits	300,000
Property, plant and equipment	74,200
Investments	5,822
Loans	7,436,322
Intellectual Property	40,000
Total assets	10,074,842
Liabilities	
Trade and other payables	421,240
Accrued employee entitlements	519,752
Total Liabilities	940,992
Net assets	9,133,850

The directors indicate that only \$36,750 may be recoverable

These are unlikely to be recovered

The Administrators are having these assets valued by an independent valuer

Loans to US and Singapore entities, unlikely to be recoverable

Convertible Notes (equity) of \$2.2m are not disclosed in the Directors' ROCAP, however we understand are classed as creditors in a VA

Whilst the Directors' ROCAPs disclose net assets, with the additional Convertible Notes, employee entitlements and the lack of recoverability of intercompany loans, the Company is balance sheet insolvent (subject to the sale outcome).

Directors' reasons for failure

The directors provided the following reasons for the decision to place the company into Administration:

The decision to place the company into Administration was taken after the directors had exhausted capital raising options and unsuccessfully pursued an M&A outcome, the most progressed and likely of which was withdrawn on 5 May 2021.

Although the business has cash to continue funding ordinary operations until July 2021, there was the likelihood that it could not pay all creditors as they fell due, therefore the Board formed the view it was prudent to use Voluntary Administration as an interim process to restructure the company (ie this is not a liquidation).

The Administrators note that as is often the case for start-ups, Data Republic was a loss making business requiring ongoing support from shareholders.

Once fundraising efforts were unsuccessful, this rendered the company insolvent or likely to become insolvent, leading to our appointment.

Administrators' key actions since appointment

- Liaised with and issued correspondence to employees, customers, suppliers and investors;
- Commenced public sale campaign;
- Secured technology platform;
- Gained access to the company's accounting records;
- Commenced a detailed review of business and operations;
- Attended to all statutory notification obligations; and
- Convened and prepared for the first meeting of creditors.

Sale process

- Prior to the appointment of the Administrators a sales process had been previously conducted for the global business, including the Australian entity.
- Since appointment, the Administrators have worked in conjunction with management to reinvigorate the sale process, in accordance with the following timetable:

Milestone	Date
Initial expression of interest campaign	7-May-21
Stage One: Expressions of interest	14-May-21
Stage Two: Non-Binding Offers	21-May-21
Stage Three: Final Binding Offers	at this stage 4 June 2021 or earlier

- The Administrators are seeking proposals from parties interested in:
 - recapitalisation or restructure e.g. by way of a Deed of Company Arrangement (**DOCA**); or
 - the acquisition of Data Republic’s business or assets.
- Over 70 parties contacted the Administrators seeking further information on a transaction, as at COB 16 May 2021, 10 EOI’s received.

Potential return to creditors

- It is too early to form conclusive views on the potential return to unsecured creditors
- The order in which different classes of creditors are paid is determined by the Corporations Act
- Generally, the order of priority is as follows:
 - Employees
 - Unsecured creditors
 - Shareholders
- In liquidation, some avenues of recovery may be open to creditors that are not otherwise available

Employees

- Data Republic has approximately 40 employees
- The Administrators are responsible for all wages and entitlements accrued post appointment
- For pre-appointment entitlements, employees are afforded a priority under the Corporations Act

Fair Entitlements Guarantee scheme (FEG)

- In the event of liquidation, if outstanding entitlements exist, employees will have access to the Department of Jobs and Small Business' FEG scheme
- FEG is generally available when:
 - the employer is in liquidation;
 - employment was terminated due to insolvency/liquidation;
 - employees cannot get payment of the entitlements from other sources; and
 - employees were an Australian citizen or the holder of a permanent visa or special category visa that allowed the employee to stay and work in Australia at the time their employment ended.
- FEG covers up to 13 weeks unpaid wages, annual leave, long service leave, up to five weeks payment in lieu of notice and up to 4 weeks redundancy pay for each year completed plus a pro-rata for each part year, subject to certain income limits

Liquidation vs Deed of Company Arrangement

Deed of Company Arrangement (DOCA)

- A DOCA is a binding arrangement between a company and its creditors.
- Very flexible

Liquidation

- At the second meeting, creditors may vote for the liquidation of the Company.
- Voidable transactions can be pursued in liquidation.
- Employees may access the Fair Work Entitlements Guarantee Scheme (**FEG**).

- In our report to creditors, it is likely we will either recommend a DOCA or liquidation.
- The Administrators are preparing for either outcome.

Q & **A**

Resolutions – Committee of Inspection

- Pursuant to Insolvency Practice Schedule (Corporations) (**IPS**) 80-10, creditors may, by resolution, determine whether there is to be a Committee of Inspection.
- Role:
 - consult with the Administrators about matters relating to the administration;
 - receive and consider reports by the Administrators; and
 - approve Administrators' fees
- In this case, we do not recommend that a Committee of Inspection is appointed because there are only a limited number of creditors and it is therefore straightforward to report to and consult with creditors as a collective.

Resolutions – Committee of Inspection

Resolution – Committee of Inspection (if required)

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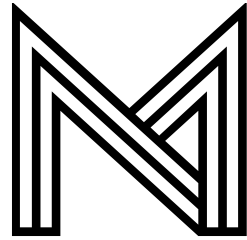
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be appointed to the Committee of Inspection of Data Republic Pty Ltd (Administrators Appointed)”.

Resolutions – Replacement of Voluntary Administrators

- Resolution – replacement of Voluntary Administrators (if required)

“That Barry Kogan, Jonathan Henry and Robert Smith are replaced as administrators of Data Republic Pty Ltd and is/are appointed as Voluntary Administrators of Data Republic Pty Ltd”.



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