

MGW Engineering Pty Ltd (Administrators Appointed) (trading as Forefront) (Forefront)

First Meeting of Creditors

1 July 2021



McGrathNicol



FOREFRONT

Leading through our people

Agenda

- **Introduction**
 - Formalities
 - Purpose of meeting
 - Declaration of Independence, Relevant Relationships and Indemnities (**DIRRI**) and remuneration
 - Purpose of administration
- **Voluntary Administration of Forefront**
 - 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)
 - Louise Mann (McGrathNicol 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 Forefront's future.

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

DIRRI

- DIRRI dated 24 June 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.
- An up-front indemnity payment of \$150,000 has been paid into the Administrators' trust account to meet professional fees, costs and expenses associated with the administration.
- DIRRI tabled.

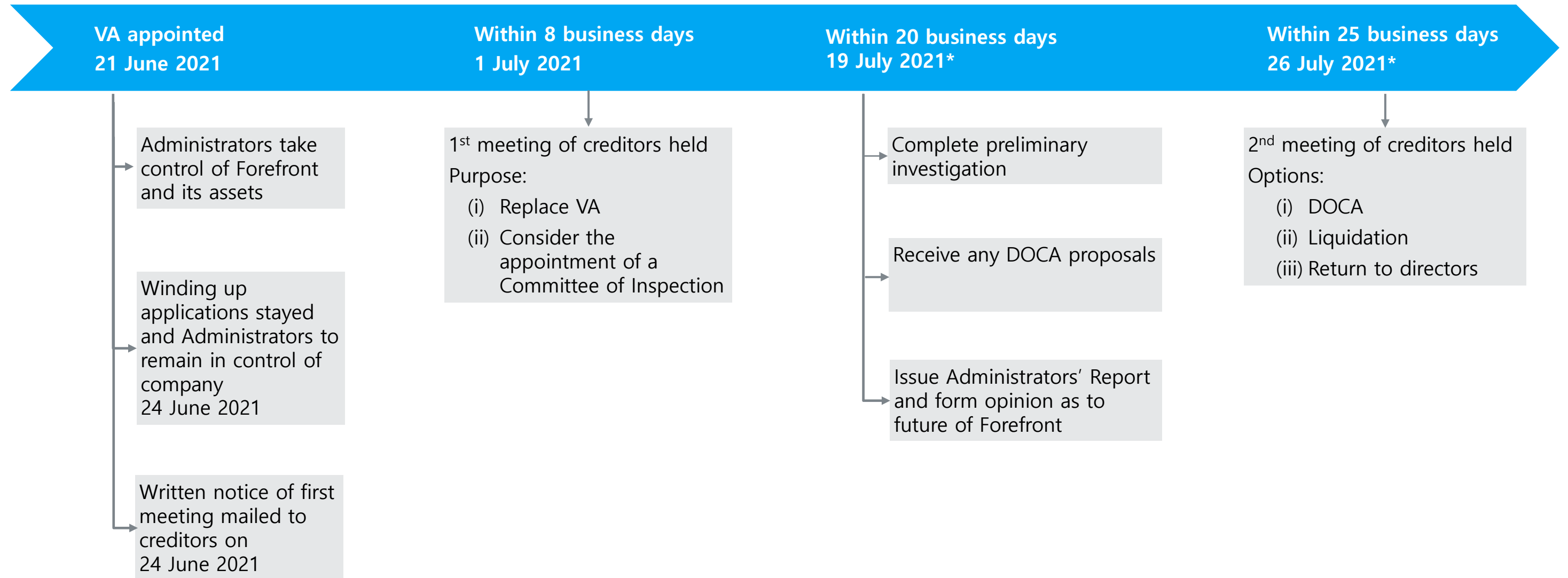
Remuneration

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

Purpose of administration

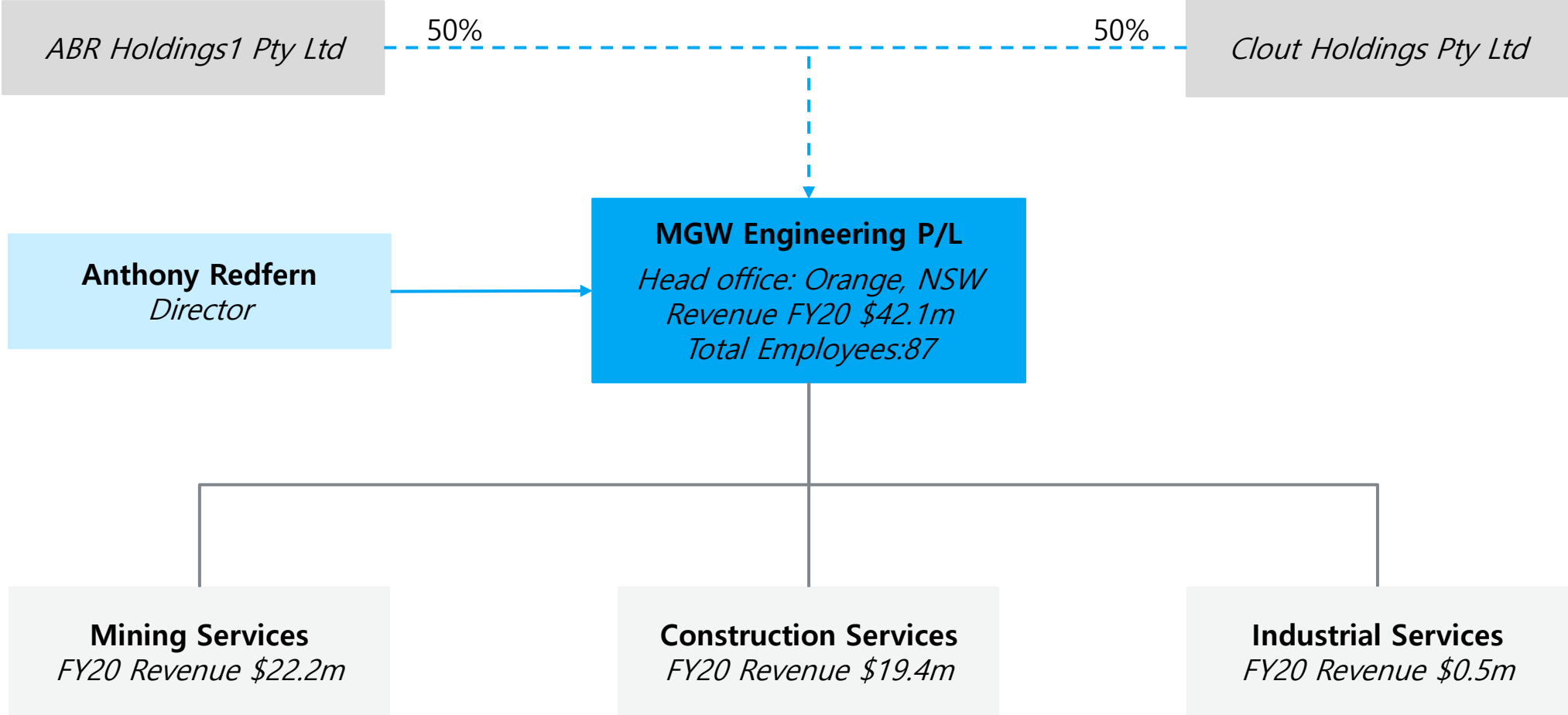
- Directors' powers are suspended and Administrators are in control.
- Voluntary Administration provides moratorium period for investigation and determination of company's future at second meeting of creditors:
 - Return company to Directors;
 - Deed of Company Arrangement; or
 - Liquidation.

Voluntary administration timeline



* Please note that the Administrators intend to move to an expedited timeframe, therefore the Administrators' Report may be issued and Second Meeting of Creditors may be held prior to these dates.

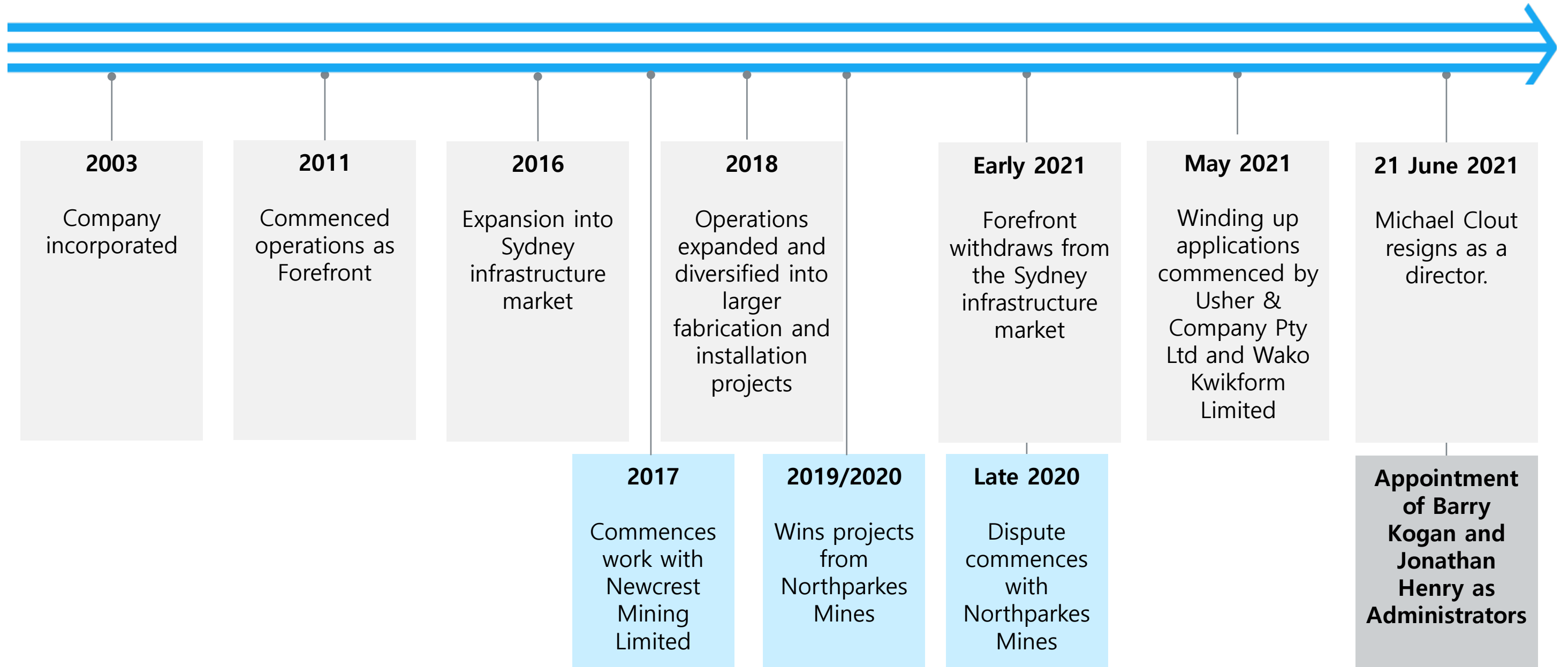
Corporate structure



Key

- Director
- Business Units
- Shareholder

Historical timeline



Forefront financial performance

Summary financial performance

\$A'000	Jun-19	Jun-20	May-21	
Revenue	36,279	42,075	36,160	YTD revenue is similar to the same period in FY20. However, gross profit margin had fallen by 24% due to increase in cost of materials and supplies and equipment
Direct costs of sale	(27,797)	(31,554)	(35,660)	
Gross profit	8,482	10,521	500	
<i>GM %</i>	<i>23%</i>	<i>25%</i>	<i>1%</i>	
Indirect cost of sales	(1,364)	(2,877)	(3,194)	Rapid growth in non-recoverable wages and on-costs, rent and workshop costs as well as professional services costs.
Operating expenses	(5,726)	(6,484)	(7,977)	
EBITDA	1,392	1,160	(10,672)	
Depreciation & amortisation	(584)	(612)	(651)	
EBIT	809	548	(11,322)	Increased trade finance interest costs and SGC charges.
Interest	(896)	(1,224)	(2,207)	
Other income/costs	153	765	1,924	Large variance year-on-year due to government COVID-19 stimulus.
Net Profit before Tax	66	89	(11,605)	
Income tax expense	98	(116)	-	
Net Profit After Tax	164	(27)	(11,605)	

Report on Company Activities and Property (ROCAP)

Director ROCAP	
\$A'000	21-Jun-21
Assets	
Cash and cash equivalents	375,228
Trade and other receivables	4,082,704
WIP and Inventory	1,535,078
Bonds and Term deposits	57,319
Property, plant and equipment	1,075,002
Bank guarantees	1,278,282
Shareholder loan	852,825
Intellectual Property	137,913
Total assets	9,394,350
Trade and other payables	14,305,374
Statutory creditors	2,944,943
Accrued employee entitlements	1,931,210
Total Liabilities	19,181,528
Net assets	(9,787,178)

The Administrators are having these assets valued by an independent valuer, but note that a majority are leased

A demand for these amounts will be sent to the shareholders

This mainly relates to payroll, PAYG and other payroll liabilities

This relates to employee leave entitlements, as well as termination entitlements (if applicable)

Directors' reasons for failure

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

- A irreconcilable and substantial dispute with one of its customers resulted in a significant debt owed to Forefront.
- The reduction in cashflow, as well as the additional legal costs incurred running the legal claims resulted in:
 - a constriction of working capital;
 - an increase of creditor balances; and
 - a number of statutory demands and ultimately winding up petitions issued against Forefront.
- In or around March 2021, the directors came to the decision that the company may become insolvent and started to take steps to put Forefront into Administration.

The Administrators do not dispute the director's reasons for failure, and note that the director approached McGrathNicol to provide pre-appointment planning advice as early as April 2021, however due to a dispute between the director and former director, there was a delay in Forefront entering Administration.

Administrators' key actions since appointment

- Working to stabilise the operations to maximise recoveries and/or the chances of the businesses continuing to operate
- Secured and commenced a detailed review of assets.
- Commenced a detailed review of operational requirements
- Liaised with and issued correspondence to employees, customers and suppliers.
- Contacted and met with key customer contacts
- Commenced a sale and recapitalisation campaign for all or part of the business or its assets
- Obtained briefings on key disputes
- Prepared a detailed cash flow forecast for the initial voluntary administration period
- Attended to all statutory notification obligations
- Convened and prepared for the first meeting of creditors

Sale process

- Soon after appointment, the Administrators arranged for agents to undertake a valuation of the plant and equipment with a view to starting an accelerated sale process.
- The indicative timetable for the sale is as follows:

Indicative sale timetable	
Adverts placed in the Australian and AFR	30 June 2021
Expressions of Interest (EOI)	By 4:00pm (AEST), Tuesday, 6 July 2021
Non-binding indicative offers (NBIO)	By 4:00pm (AEST), Monday, 12 July 2021
Final binding offers (FBO)	By COB Friday, 16 July 2021

- The Administrators are seeking proposals from parties interested in either:
 - Recapitalisation or restructure by way of a Deed of Company Arrangement (**DOCA**); or
 - the purchase of Forefront Services' business or assets.
- During the course of the appointment, the Administrators will continue to run a truncated sale process to ascertain the value of the business and consider whether a sale of the business is the best option for creditors.
- The director has indicated that he intends to propose a DOCA which may offer ongoing employment to staff.

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:
 - i. employees (from certain categories of assets)
 - ii. secured creditors
 - iii. unsecured creditors
 - iv. shareholders
- In liquidation, some avenues of recovery are open to creditors that are not otherwise available.

Employees

- Forefront has approximately 85 employees. 16 employees were made redundant at commencement of Administration, however no further redundancies planned
- The Administrators are responsible for all wages and entitlements accrued post appointment, to be paid from trading surpluses
- For pre-appointment entitlements, employees are afforded a priority under s556 of the Corporations Act
- Employee entitlements recoveries are available from the net proceeds of circulating asset realisations or may be preserved on a transfer of employment if available

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.

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.
- We have been advised that the Director intends to propose a DOCA.
- We expect to receive this proposal in the next week or so, and will report on it prior to the second meeting.

Liquidation

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

- In our report to creditors, we will either recommend the 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 recommend that a committee of inspection is appointed in this respect.
 - there are different creditor groups including employees, secured and unsecured creditors as well as statutory creditors; and
 - A COI would be helpful to the extent that the Administrators need to canvas the views of creditors with the COI acting as a representative body.

Voting

How to vote

Visit voting.mcgrathnicol.com or scan the QR code and enter your voting ID. Each vote and respective proxy will then be counted to determine the outcome.

Voting via proxy

General proxies: proxy holder chooses vote for each creditor they are proxy holder for

How the resolution is passed

When more creditors vote for it than vote against it
AND
When those who vote for it are owed more than those who vote against it
OR, IF EITHER OF THE ABOVE (BUT NOT BOTH),
when the Chairman exercises a casting vote (IPR 75-115)

Resolutions – Committee of Inspection

Resolution – Committee of Inspection (if required)

“That:

Grant Morris representing Southern Steel Supplies Pty Ltd

Andrew Usher representing Usher & Company Pty Ltd

Arthur Zafiriou representing Akzo Nobel Pty Ltd

Richard Andjelkovic representing BOC Limited

Matt Backwell representing IXL Metal Castings Pty Ltd

Julian Stambe representing Lion Services Pty Ltd

Harry Collins representing Bright Dot Pty Ltd

Brade Davidson representing employees

Mitchell Adkins representing One Track Workforce Pty Ltd

be appointed to the Committee of Inspection of MGW Engineering Pty Ltd (Administrators Appointed)”.

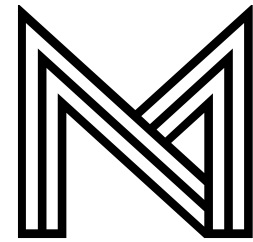
To vote, either:

1. Visit - voting.mcgrathnicol.com

or

2. Scan the following QR code

Q **&** **A**



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