

MGW Engineering Pty Ltd (Administrators Appointed) (Forefront Services)

Second Meeting of Creditors

26 July 2021



McGrathNicol



FOREFRONT

Leading through our people

Agenda

- **Introduction**
 - Meeting formalities
 - Purpose of meeting
- **Administrator's Report**
 - The Voluntary Administration and reasons for failure
 - Administrators' actions to date
 - Administrators' sale process
 - Investigations
 - Proposed Deed of Company Arrangement
 - Expected return to creditors
- **Administrators' recommendation**
- **Questions**
- **Resolutions**

Formalities

- Open meeting
- Administrator Chairperson: IPR 75-50
- Introductions:
 - Barry Kogan (Administrator)
 - Louise Mann (McGrathNicol Director)
- Attendance register – meeting via Zoom/Teleconference
- Quorum: IPR 75-105
- Time and place convenient: IPR 75-30
- Administrators' report to creditors pursuant to IPR 75-225 (the Administrators' Report)
- Proofs of debt and proxies
- DIRRI
- Voting

Purpose of meeting

Creditors to resolve one of the following:

- 1 Forefront Services be returned to the Director**
- 2 Forefront Services enters into a Deed of Company Arrangement**
- 3 Forefront Services enters into liquidation**

Creditors may also resolve that the meeting be adjourned for a period of up to 45 business days

Voting

Due to the extraordinary circumstances regarding the COVID-19 pandemic, ASIC have advised that all votes should now be carried by poll rather than on the voices.

How to vote



Votes will be conducted via a poll for each resolution proposed at the meeting.
There may be an adjournment for specific resolutions whilst votes are counted.

Voting via proxy



General proxies: creditors holding general proxies will be individually asked if they are "In favour of", "Against" or "Abstain" for each resolution.
Special proxies: we already have your creditor's vote (provided in advance).

How the resolution is passed



When more creditors vote for it than vote against it AND When those who vote for it are owed a greater amount of money than those who vote against it
Where there is a deadlock, the Chairman exercises a casting vote in accordance with IPR 75-115

Administrators' actions to date



Statutory obligations



Continuing to trade the business on a 'BAU' basis



Asset realisation



Employees



Creditors

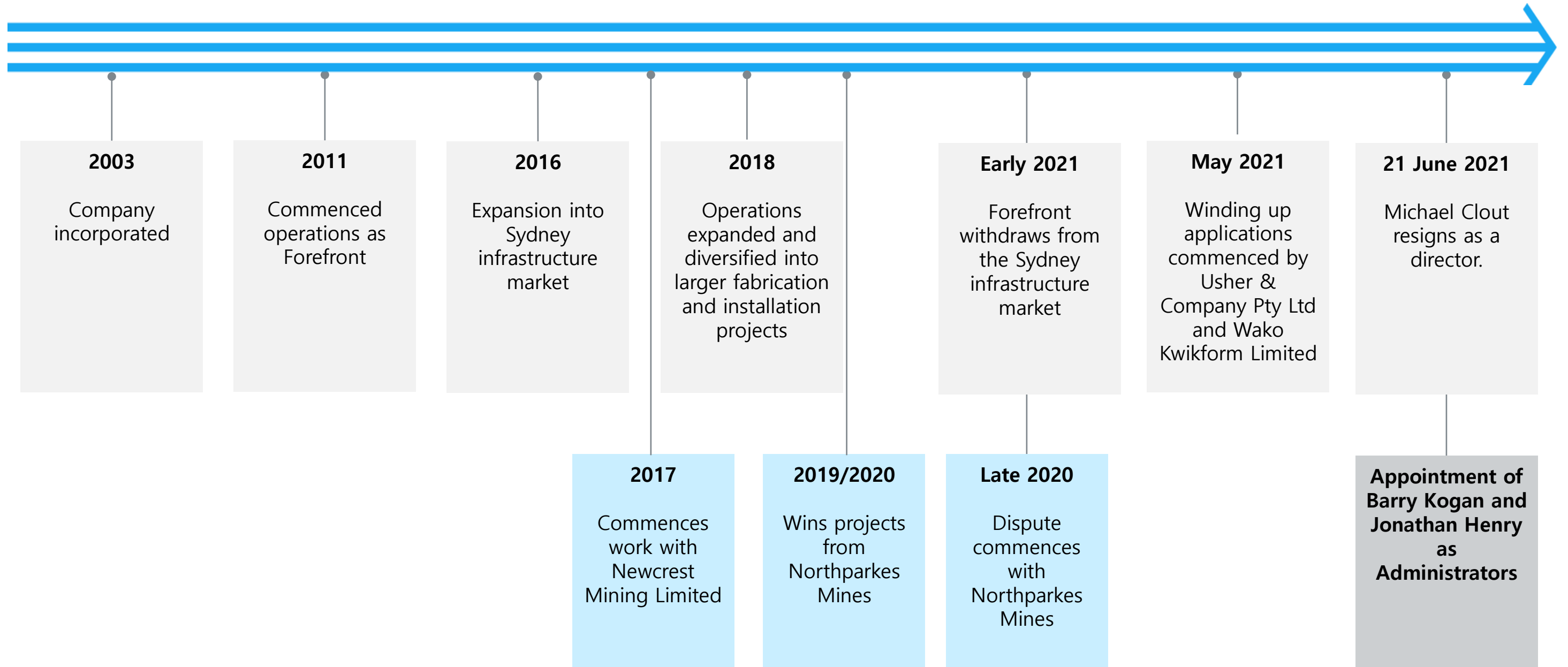


Sale & DOCA proposal



Investigations

Historical timeline



Financial performance

Statement of Financial Performance				
(\$,000)	FY18	FY19	FY20	FY21 YTD
Revenue				
Revenue	22,176	36,279	42,075	37,081
Cost of goods	(16,405)	(27,783)	(31,539)	(38,335)
Gross profit/(loss)	5,771	8,496	10,535	(1,254)
Administrative and trading expenses				
Administration and trading expenses	(1,937)	(2,846)	(4,812)	(3,608)
Employee costs	(2,720)	(4,118)	(4,502)	(5,856)
Depreciation and amortisation	(317)	(580)	(598)	(651)
Tax expense	(430)	(45)	(275)	(123)
Interest paid	(447)	(896)	(1,224)	(2,209)
Total administration and trading expenses	(5,851)	(8,486)	(11,411)	(12,446)
Other income including government incentives	71	153	846	3,789
Net profit/(loss) after tax	(8)	164	(30)	(9,912)
<i>Gross profit margin</i>	<i>26.0%</i>	<i>23.4%</i>	<i>25.0%</i>	<i>(3.4%)</i>
<i>Net profit margin</i>	<i>(0.6%)</i>	<i>(0.0%)</i>	<i>(0.6%)</i>	<i>(26.7%)</i>

Source: 30 June 2018, 30 June 2019 and 30 June 2020 audited accounts and management accounts (21 June 2021)

Due to an increase in costs which were unable to be allocated to projects or overheads, the Company generated a negative gross profit.

Rapid growth in non-recoverable wages and on-costs, rent and workshop costs as well as professional services costs.

Increased trade finance interest costs and penalty interest on outstanding SGC.

Large variance year-on-year due to government COVID-19 stimulus.

Large loss posted for the FY21 YTD reflecting the unsustainable costs incurred by Forefront Services

Financial Position

Statement of Financial Position				
(\$,000)	FY18	FY19	FY20	21 June 2021
Assets				
Current assets				
Cash at bank	1	159	408	673
Bank guarantees	-	80	1,012	564
Inventory	-	58	19	23
Trade, other receivables and WIP	8,343	9,923	9,543	3,589
Total current assets	8,343	10,219	10,981	4,848
Non-current assets				
Property, plant and equipment	1,586	2,578	2,678	3,054
Retentions	430	768	1,174	802
Shareholder loans	625	693	797	853
Other non-current assets	82	285	543	548
Total non-current assets	2,723	4,324	5,193	5,256
Total assets	11,066	14,543	16,174	10,105
Liabilities				
Current liabilities				
Trade creditors	3,130	3,202	4,107	13,475
Tax liabilities	1,677	1,570	2,727	2,538
Other liabilities	281	386	1,867	342
Wages and employee entitlements	799	1,121	770	995
Total current liabilities	5,887	6,279	9,472	17,351
Non-current liabilities				
Long term debt	3,564	4,956	4,017	-
Lease liabilities	1,083	2,091	2,017	1,921
Employee entitlements	239	438	617	693
Total non-current liabilities	4,887	7,485	6,651	2,614
Total liabilities	10,774	13,765	16,123	19,965
Net assets	292	778	52	(9,860)

The Company carried modest cash relative to the size of its operations (i.e. turnover of \$22m to \$42m).

Key assets were debtors which were pledged to financiers, and plant and equipment utilised in operations (subject to finance leases).

Significant increase in trade creditors arising from operating losses and cash constraints following the Northparkes dispute.

This relates to outstanding PAYG, BAS and SGC penalties and Payroll tax liabilities.

Long term debt was cleared prior our appointment, from monies received from Northparkes.

Source: 30 June 2018, 30 June 2019 and 30 June 2020 statutory accounts and management accounts (21 June 2021)

Reasons for failure

Director's reasons for difficulties:

A substantial dispute with Northparkes resulted in the non-payment of substantial sums.

The reduction in cashflow, and legal costs resulted in:

- a constriction of working capital;
- an increase of creditor balances; and
- a number of statutory demands and ultimately winding up petitions filed against Forefront Services.

In or around March 2021, the Directors considered that the Company may become insolvent and commenced taking steps to consider placing Forefront Services into administration.

Administrators' commentary

The Administrators consider the following issues also contributed to the Company's failure:

- low margins;
- few tangible assets capable of leverage;
- Undercapitalisation to carry the additional costs incurred to expand;
- expensive capital providers (i.e. invoice discounting facilities); and
- disputes between the Directors impacting the ability to trade and raise capital.

Investigations

Claims available in a liquidation

Breach of directors' duties



Insolvent trading



Voidable transactions



Unfair preference claims



Defenses available to counterparties



COVID-19 Safe Harbour Provisions



Cost benefit analysis required on any potential return



Administrators' sale process

An expedited sale process was run to investigate third party interest in the business

01.

On 30 June 2021, Administrators placed advertisements in the AFR and the Australian.

02.

The Administrators received interest from four parties and issued Confidentiality Agreements. One party subsequently withdrew.

03.

Following execution of the Confidentiality Agreement, the parties received a process letter and factsheet.

04.

Due diligence materials were compiled and provided in a virtual data room.

05.

On 6 July 2021, the sale process was ceased as three parties had withdrawn their interest and no parties had submitted an EOI.

Proposed Deed of Company Arrangement (DOCA)

DOCA Proposal

Deed Proponent

Anthony Redfern, Director

The purposes of the DOCA

- maximise the chances of the Company remaining in existence;
- continue the employment of approximately 71 employees; and
- result in a better return to creditors of the Company than from an immediate winding up of the Company.

Deed Fund

- VA cash at bank (incl term deposits);
- Any loans except employee loans;
- \$2,555,000 payable by the Company:
 - Lump sum \$1,235,000; and
 - \$120,000 per month for 11 months (Aug 21-Jun 22)
- 5% revenue from Nov 21-Apr 22;
- Trade and other debtors
- Govt rebates and tax refunds
- Any insurance refunds



Control of company remain with Administrators until Control Conditions satisfied (must happen within 3 weeks then Director will take control).

Current Employees remain employed, all entitlements recognised, including years of service with **only** outstanding superannuation paid out of Deed Fund.

Former employees (and those made redundant through VA process) are expected to be paid in full, from Deed Fund.

Essential Creditors: creditors deemed by the Deed Proponent to be essential for the ongoing trade
Ordinary Unsecured Creditors: the remainder of the unsecured creditors of the Company.

The different classes of creditors will be subject to varying dividend rates and priority.

Outcome

		DOCA	Liquidation
Secured creditor	>>	100 c/\$	100 c/\$
Continuing employees (outstanding SGC)	>>	100 c/\$	54.42 – 100 c/\$
Non-continuing employees	>>	100 c/\$	54.42 – 100 c/\$
Essential creditors	>>	20 – 100 c/\$	0 – 2.51 c/\$
Ordinary unsecured creditors	>>	5.70 – 18.74 c/\$	0 – 2.51 c/\$
Other	>>	Business continues, jobs maintained, a more certain and superior return	Business ceases to exist, all jobs discontinued involves increased risk and cost

Advantages and Disadvantages of proposed DOCA

Advantages



A more certain and superior return to creditors



Continuing employees remain employed, including recognition of years of service and all accrued entitlements, with outstanding Superannuation paid from Deed Fund



Non-Continuing employees (former employees) expected to be paid in full from Deed Fund



Avoids time and cost of Liquidator investigations which may not yield excess recoveries

Disadvantages



Voidable transactions and insolvent trading claims which may be available to a Liquidator cannot be pursued under the DOCA.



The distributions to creditors are limited to the Deed Fund. In liquidation, recoveries depend on the outcomes of successful litigation, although presently uncertain and require funding.



A significant proportion of the Deed Fund is subject to a deferred payment arrangement.

Administrators' Recommendation



Enter into a DOCA as it provides a more certain and superior return to creditors than a liquidation

Remuneration resolution summary

Forefront Services - Total remuneration

Resolutions	Amount (\$) (ex GST)
Voluntary Administration	
Actual remuneration for the period 21 June 2021 to 9 July 2021	301,095.50
Estimated remuneration for the period 10 July 2021 to the Second Meeting of Creditors	125,000.00
Estimated remuneration for the period between Second meeting of creditors to execution of DOCA	200,000.00
Total	626,095.50
Deed of Company Arrangement	
Estimated remuneration for the Deed Administrators (allowing for trading period required)	300,000.00
Liquidation	
Estimated remuneration for the period Second meeting of creditors to finalisation of liquidation	500,000.00

** Note: Approval for the future remuneration sought is based on an estimate of the work necessary to reach this milestone. Should additional work be required beyond what is contemplated, further approval may be sought from creditors.*

Q & **A**

Voting

How to vote

Visit link provided for resolution (link will also be copied to Zoom chat) 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)

Voluntary Administrators' remuneration

Retrospective Voluntary Administrators' remuneration

"That the remuneration of the Administrators for the period 21 June 2021 to 9 July 2021, calculated at hourly rates as detailed in the Initial Remuneration Notice dated 24 June 2021, is determined in the sum of \$301,095.50, exclusive of GST."

Prospective Voluntary Administrators' remuneration

"That the future remuneration of the Administrators from 10 July 2021 to the Second Meeting of Creditors is determined at a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at the hourly rates as detailed in the Initial Remuneration Notice dated 24 June 2021, up to an initial amount of \$125,000.00, exclusive of GST."

To vote, either:

1. Visit – <https://forms.office.com/r/u3EHwXTAeQ> (link will be provided in Zoom chat)

or

2. Scan the following QR code:



Resolution – Deed of Company Arrangement

Future of the Company

“That MGW Engineering Pty Ltd (Administrators Appointed) execute a Deed of Company Arrangement and Barry Kogan and Jonathan Henry be appointed Joint and Several Deed Administrators”.

To vote, either:

1. Visit – <https://forms.office.com/r/gNdW23WzWS> (link will be provided in Zoom chat)

or

2. Scan the following QR code:



Resolution – Proposed DOCA remuneration

Prospective Voluntary Administrators' remuneration (from the Second Meeting of Creditors to the execution of the DOCA)

"That the future remuneration of the Administrators from the Second Meeting of Creditors to the execution of the DOCA is determined at a sum equal to the cost of time spent by the Administrators and their partners and staff, calculated at the hourly rates as detailed in the Initial Remuneration Notice dated 24 June 2021, up to an initial amount of \$200,000.00, exclusive of GST."

Prospective Deed Administrators' remuneration

"That the future remuneration of the Deed Administrators of MGW Engineering Pty Ltd (subject to a Deed of Company Arrangement) for the period of the DOCA calculated at the hourly rates as detailed in the Remuneration Report dated 19 July 2021 be approved, up to an initial amount of \$300,000.00, exclusive of GST."

To vote, either:

1. Visit – <https://forms.office.com/r/mwDkzDZKHt> (link will be provided in Zoom chat)

or

2. Scan the following QR code:



Resolution – Committee of Inspection

Formation of Committee of Inspection

"That

- 1. Arthur Zafiriou representing Akzo Nobel Pty Ltd*
- 2. Harry Collins representing Bright Dot Pty Ltd*
- 3. Mitchell Adkins representing One Track Workforce Pty Ltd (In Liquidation) (Receivers and Managers Appointed)*
- 4. Grant Morris representing Southern Steel Supplies Pty Ltd*
- 5. Brade Davidson (a former employee)*
- 6. Jenna Lawson (a current employee)*

be appointed to the Committee of Inspection"

To vote, either:

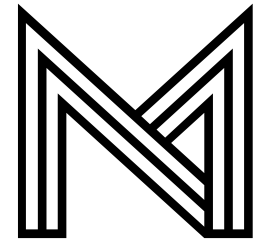
1. Visit – <https://forms.office.com/r/GUg0bX1aUP> (link will be provided in Zoom chat)

or

2. Scan the following QR code:



Q **&** **A**



McGrathNicol