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PROFESSIONAL ADVICE TO THE CONSTRUCTION INDUSTRY
MERGERS & ACQUISITIONS SPECIALISTS

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CARILLION UPDATE

STATEMENT- SEPTEMBER 29TH, 2017.

Following today's statement of interim results by the company, there have been several analysts' and commentators' reports. A **FINANCIAL TIMES** review is attached: "Crisis deepens at Carillion as it reveals £1.15bn loss.
UK construction group considers rights issue and further asset sales to tackle debt"- by Gill Plimmer, FT. 29.09.2017

Despite the declared losses of £1.15bn, including the disclosure of £200m of losses uncovered by KPMG audit of support services projects, there seems some positive side with respect to cash flow. Banking facilities have been increased and bank covenants will likely be met in December and June 2018. Pension deficit is estimated at £711m, but PWC have been appointed by the Trustees and deficit reduction strategies being further explored. Sales proceeds forecasts have been increased to £300m, more than current market capitalisation, while debt is at £845m,

Over several months, www.thinkbigpartnership.com has remained in close contact with EY in terms of discussion of strategic options available to Carillion, and the possible interest of an undisclosed White Knight investor, with global expansion plans, who might consider a Reverse Take-Over of Carillion, and assume the listed PLC status. If guarantees are available to creditors and Pension Trustees by the merged businesses, then a more controlled and robust business restructuring may lay the ground for future new equity issues at substantial enhanced levels, and a positive turnaround and growth strategy delivered, rather than entrenchment., and possible demise. The company's losses focus around four major projects, and the fundamentals of the company's business mix and business model, are sound in the long term, if the debt can be managed.

EY has agreed to assist www.thinkbigpartnership.com in setting up meetings with Carillion management and its advisers. We seek to act as sole agents with respect to offering further information and assistance, with the introduction and negotiations.

Greg Malpass, Managing Partner, Client Adviser
Lefty Panayiotou, Investor Adviser.

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FINANCIAL TIMES REVIEW

Crisis deepens at Carillion as it reveals £1.15bn loss. UK construction group considers rights issue and further asset sales to tackle debt; by Gill Plimmer, FT. 29.09.2017

Quote – "Carillion's woes deepened on Friday as the UK construction company reported a first half pre-tax loss of £1.15bn and said it was exploring a range of options — including a share sale and fresh asset disposals — to tackle its debt-laden balance sheet. Carillion, which employs 50,000 people worldwide and is a major UK government contractor, said revenues for the six months to June 30 were flat at £2.5bn while underlying pre-tax profit fell 40 per cent to £50m. The company also announced a further £200m of losses at its support services arm, which provides building maintenance and cleaning services, including managing military bases for the Ministry of Defence.

The write-downs were in addition to £845m of losses announced in July on a construction deal in the Middle East and three building contracts in Britain for the Aberdeen Bypass and the Midland Metropolitan and Royal Liverpool hospitals. That had already led to the departure of chief executive Richard Howson, a 75 per cent fall in its share price and questions over its future. In a highly unusual move the Cabinet Office intervened on Friday. "Carillion is a major supplier to the government with a number of long-term contracts," it said in a statement. "We remain supportive of their ongoing discussions with their stakeholders and await future updates on their progress." Shares in Carillion, which built London's Tate Modern art gallery, the Channel tunnel and Oman's Royal Opera House, fell 10.5 per cent to 57.5p on Friday, cutting its market capitalisation to about £240m. Keith Cochrane, interim chief executive, said "no one is in any doubt of the challenge that lies ahead". With net debt heading towards £850m by the end of the year, the company admitted it had called on banks to provide extra credit facilities of £140m. It expects to meet debt covenants in December and June next year. Carillion's operations in the Middle East and Canada are already for sale and Mr Cochrane said he wanted to raise up to £300m by also offloading its UK healthcare operations. It has already axed 340 jobs and further cuts were under way to create a "leaner meaner organisation", Mr Cochrane said. He declined to comment on speculation that an unnamed Middle Eastern buyer may be looking at buying all or part of its operations in the region. But he acknowledged that progress on asset sales and the appointment of a new chief executive were a priority to drive any "meaningful reduction in the debt", including a rights issue. There has already been speculation lenders may need to step in and swap their debt for equity, diluting existing shareholdings. The company is also struggling with a pension deficit of £711m before tax. Bobby Kabli, senior restructuring analyst at Debtwire, warned that the debt position may continue to worsen in 2018. "Even near-term forecasts of net debt and profitability are reliant on several factors that include achieving asset sales, cost cutting targets and pension deficit reductions," he said. Carillion has been hit by higher than expected costs on projects in the UK and Middle East, where it has suffered delays to contracts. Rising materials and labour costs have also hit the group, along with rivals Interserve and Mitie. Despite its troubles, Carillion said key contract wins since July were a sign of the underlying strength of the business. This included work on the new HS2 railway as well as work for the MoD looking after 233 UK military establishments."- Unquote