MEDIA & PUBLIC RELEASE

Halom Investments decided not to participate in MMA Offshore equity raising due to concerns about leadership, capital structure and pricing of transaction

Halom Investments (**Halom**) was the largest shareholder of MMA Offshore Limited (**MMA** or the **Company**) with an 18% equity interest, leading the cause for change in the Company's leadership, prior to MMA's $97m equity raising.

Halom decided not to participate in the Company's equity raising. We explain why below.[1]

Rationale for not participating in MMA equity raising

1. No faith in MMA board and management to deliver substantial earnings growth, given their recent track record[2]

- The enterprise value of MMA implied by the equity raising is ~**20x current EBITDA**.[3]
- MMA's net debt will remain at **~11x current EBITDA**. Net debt may continue to climb as MMA is generating negative cash flow[4], unless there are other ways to generate cash for reducing debt. However, if further vessel sales were pursued in present market conditions, they would likely be executed at heavily discounted prices. This destroys value and erodes future earnings capacity.

[1] The matters in this release are based solely on generally available public information and our observations. This information does not constitute legal, tax, investment, accounting or financial product advice or opinion and must not be relied upon as such. Recipients (and other users) should consult with their own legal, tax, accounting or financial advisers as to the accuracy and application of the information and should conduct their own enquiries in relation to such information. No representation or warranty, express or implied, is made as to the fairness, accuracy, adequacy, reliability, completeness or correctness of the information, opinions and conclusions in this release. The information in this release has been prepared in good faith, but to the maximum extent permitted by law, neither Halom nor its respective directors, employees, agents or advisers, accepts any liability, including, without limitation, any liability arising out of fault or negligence, for any errors or omissions in such information, including the financial calculations, projections and forecasts contained in the information, and any loss arising from the use of this release.

[2] We note that Peter Kennan was only recently appointed to MMA's Board and is only responsible as a director for actions taken since his appointment.

[3] Implied equity value of $171.6m (+) net debt of $193.6m = $365.2m enterprise value, divided by $18m of FY17 EBITDA from continuing operations.

[4] MMA's operating cash flow minus capex was negative in the past two financial years, being ($34.127m) in FY17 and ($51.84m) in FY16. Source: MMA's FY17 financial report, cash flow statement, p7.

- **For investors to just break even** over the next three years, we estimate MMA will need to generate EBITDA of at least $56.5 million per annum by FY20, compared to $18 million[5] in FY17 (**a 314% increase**)[6].

- **To realise appropriate returns** for the risk investors are taking in MMA shares, we estimate MMA's EBITDA would need to reach at least $75 million per annum by FY20 (**a 416% increase**). Click here to read our presentation with more detail on this point.

- Halom has yet to see any reasonable turnaround proposition being presented by MMA. It has released limited forward looking strategies to realise sustainable returns through-the-cycle.

- We are not convinced that MMA's Board and CEO, during whose oversight[7] the company experienced a massive collapse in shareholder value (e.g. a ~95% share price decline), are now positioned to deliver the returns required to justify participating in the equity raising.[8]

2. Questionable value proposition for $97 million capital raising

- MMA's equity raising is being conducted alongside an 'amend and extend' of its debt. This is not a holistic approach to solve the company's balance sheet problems in an optimal manner to realise long term value for shareholders.

- In Halom's view, MMA has simply taken more money from shareholders without a compelling value proposition.

- We are also cognisant that the last time MMA raised equity was to buy Jaya for $550 million, with that value now having been mostly wiped out.

- Halom considers that participating in this equity raising would have been a 'wait and hope' investment. As a substantial shareholder, Halom wants the best for MMA and its shareholders but with no faith in its stewardship, Halom's view is that MMA will remain constrained by a bloated capital structure and lack of strategic direction. We fear shareholders may experience further value deterioration.

[5] From continuing operations.

[6] Our analysis conservatively assumes only a $20 million annual cash utilisation, compared to MMA's actual negative operating cash flow minus capex of ($34.127m) in FY17 and ($51.84m) in FY16. Source: MMA's FY17 financial report, cash flow statement, p7.

[7] With the exception of Peter Kennan who was recently appointed.

[8] Source: Bloomberg, IRESS. Share price decline from A$4.076 on 28 February 2013 to A$0.185 on 11 September 2017.

3. Poor corporate governance without refreshed leadership and oversight

- In September 2017, Halom raised substantial concerns regarding the governance of MMA and lack of accountability for prior decisions contributing to destruction of shareholder wealth. Halom's proposal included the removal of two directors (former Chairman Tony Howarth and Managing Director Jeff Weber) and the appointment of two new directors to MMA's Board at its AGM *(as articled in its Member's Statement & ChangeForMMA.Com).*

- This was important because MMA's directors[9] had served an average tenure of 9.5 years. This period included a top-of-the-cycle acquisition and subsequent questionable strategic decisions to sell assets at the bottom of the cycle.

- Refreshed oversight was needed to create long term value.

4. Takeover Panel's declaration of unacceptable circumstances

- Two weeks before the AGM to consider Halom's resolutions, MMA launched a $97 million equity raising with an institutional placement component of 30% of current shares outstanding at the time.

- The institutional shares were to be allotted one day before the record date for voting at the AGM, while retail shares were due to be allotted thereafter.

- Halom applied to the Takeovers Panel, alleging the capital raising appeared designed to ensure that the incumbent directors were able to maintain control of the MMA board and that it distorted the voting power of current MMA shareholders, particularly given that MMA had only 3 weeks earlier stated publicly that it had enough cash for the entirety of FY2018.[10]

- The Takeovers Panel made a **declaration of unacceptable circumstances** on 27 November 2017 in relation to MMA's equity raising, stating:

  "The timing of, and the quantum of new shares issued under, the placement and the institutional entitlement offer will have the ***effect of disenfranchising part of the share register of MMA****."*[11] *(emphasis added)*

[9] At the time of Halom lodging its notices, and therefore excluding Peter Kennan, who was recently appointed.

[10] Refer to statements of Andrew Edwards, MMA's new Chairman, in its AGM Notice:

> *"Our cash flow forecast for FY2018 supports the view that the Company will have sufficient liquidity to service the debt facility over this FY2018 period." (AGM notice, p19)*
>
> *"The Company is stable with sufficient runway to progress an orderly, structured and timely balance sheet solution." (AGM notice, p20)*

[11] Takeovers Panel, Media Release, *MMA Offshore – Declaration of Unacceptable Circumstances and Undertaking,* 27 November 2017, http://www.takeovers.gov.au/content/DisplayDoc.aspx?doc=media_releases/2017/057.htm&pageID=&Year=.

- In its final reasons, the Panel went on to say:

  *"**The distorting effect** in this case of a timetable that allowed voting of the accelerated, but not retail, component of the Equity Raising **was clearly unacceptable**."*[12] *(emphasis added)*

5. Halom's efforts to refresh the leadership and strategy of MMA were undermined by the equity raising which was conducted in an unacceptable manner

- Halom considers that its efforts to refresh the leadership and strategy of MMA were undermined by the timing and structure of the equity raising ahead of the AGM.
- Halom remains confident it would have been successful at the upcoming AGM, had MMA not raised capital and brought about dilution of existing shareholders at the time and in the manner it did.
- Halom is not prepared to increase its already substantial investment in MMA while it is overseen by a Board and management team which have conducted an equity raising in an unacceptable manner, especially when compounded with the other concerns Halom has raised about governance and (lack of) accountability to shareholders at MMA.

Halom therefore did not participate in the equity raising. Halom is also withdrawing its requisitioned resolutions that were to be moved at MMA's forthcoming AGM. Halom does not expect its nominees to sit on a Board which launched an equity raising in a manner found by the Takeovers Panel to involve "unacceptable circumstances" and having regard to the other concerns Halom has raised about governance and (lack of) accountability to shareholders of MMA.

Halom thanks other shareholders of MMA for the overwhelming support it received throughout its Change For MMA campaign and hopes that improved governance, accountability and strategic leadership will one day be restored at the Company.

***** ENDS *****

[12] Takeovers Panel, Reason for Decision, MMA Offshore Limited [2017] ATP 21, paragraph 19.