

# Conference call transcript

27 March 2018

## INVESTOR CALL

### Operator

Good afternoon ladies and gentlemen welcome to the Murray & Roberts investor conference call. All participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Ed Jardim, Group Investor Relations and Media Executive. Please go ahead sir.

### Ed Jardim

Good afternoon and thank you for taking the time to attend this investor call. I have on the call with me Suresh Kana, Chairman of the independent board of Murray & Roberts, Ralph Havenstein who is the lead independent non-executive director and independent board member, Henry Laas, our group Chief Executive, and financial advisor from Deutsche Bank, Simon Denny. We are calling regarding the announcement that was released earlier this afternoon. The board of Murray & Roberts met yesterday and constituted an independent board to evaluate the Aton offer. The independent board has a view on the Aton offer, and this has now been communicated to Aton and the market. The purpose of this call is to take you through the independent board's response and answer any questions that you may have regarding this announcement. I will now hand over to the Chairman, Suresh Kana.

### Suresh Kana

Thank you. Good afternoon everyone and thank you for making the time this afternoon. As Ed has described the independent board met yesterday. We have carefully reviewed the correspondence we have received from Aton together with our advisors and our view on the Aton offer is very clear. As Chairman of the independent board I want to take you through those views and answer any points of clarification that you may have. Firstly, the offer price. Aton acquired the majority of its existing shareholding at or around R15 per share. In November last year Aton voted down the continuation of our on-market share buyback programme where the majority of shareholders were supportive of continuing it. This action compounded by a period of low liquidity and declining valuations among the company's legacy peer group in the listed construction sector has precipitated a period of unprecedented weakness in the Murray & Roberts share price. It is the independent board's view therefore that the proposed cash offer price of R15 per Murray & Roberts ordinary share is opportunistic and materially undervalues Murray & Roberts based on its prospects.

With respect to the rationale provided by Aton the independent board does not agree with Aton's views on the benefits for the company in a number of material respects. Given its importance we have outlined our analysis of their rationale in some detail in the announcement, so we will not attempt to go through it all now. Of course we would be happy to engage during the question time if you have any further questions. The mechanisms proposed by Aton to implement the offer present risks to the Murray & Roberts shareholders and to Aton. The offer contemplates three possible outcomes from an Aton perspective, namely outcome one could be Aton acquired Murray & Roberts and delists the company. Outcome two, Aton acquires between 50% plus one ordinary share and up to a maximum of 90% of the company. And outcome three, Aton simply acquires additional shares and accretes its shareholding up to below 50% in the event that the offer fails or is withdrawn.

Our assumption is that any of these outcomes would be acceptable to Aton. The independent board is of the view that the prospect of Aton successfully delisting the company at the proposed offer price is very low. We are therefore focussed on the risks to Murray & Roberts shareholders in the other more likely scenarios where the company remains listed. We believe these scenarios introduce material conflicts of interest between Aton and

the company. It heightens the potential for strategic misalignment and reduced strategic flexibility. It prejudices minority shareholders through the above factors and by further reducing the liquidity in Murray & Roberts shares. And it casts the company adrift into a protracted period of uncertainty as Aton gradually increases its shareholding and attempts to delist Murray & Roberts, as it ultimately must do in order to carry out its strategic agenda as outlined in the rationale.

In light of the independent board's assessment of the likely outcomes above we are of the view that the offer is not in the best interests of the company or its shareholders and that the opportunity for shareholder value creation is higher under the status quo. In terms of regulatory risk there is no basis that we can see to substantiate Aton's conclusions that the offer does not give rise to competition concerns. As a consequence of these views the independent board is not willing to cooperate with Aton to implement the offer as it is construed. We therefore recommend to you and other shareholders to not accept the offer once it is formally made. I would welcome your reaction and happy to answer any clarification questions.

**Ed Jardim**

Judith, we are now ready for questions.

**Operator**

Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question you're welcome to press star and then one on your touchtone phone and that will place you in the question queue. If you however decide to withdraw the question you're welcome to press star then two on your touchtone phone to remove yourself from the question queue. Just a reminder, if you would like to ask a question you're welcome to press star and then one. We have a question from Nqobile Dludla of Reuters.

**Nqobile Dludla**

Hi, how are you doing? Hello.

**Suresh Kana**

Hi, how are you doing?

**Nqobile Dludla**

I'm good, yourself.

**Suresh Kana**

Good. Good.

**Nqobile Dludla**

Just a quick one on the offer price and the valuation. You mentioned that the offer price materially undervalues the firm. In Murray & Roberts own view what would be a fair value?

**Suresh Kana**

At this point in time the independent board has appointed independent advisors to do a fair and reasonable valuation for us and opinion for us. We are awaiting that and once we receive that we have done our own work but we need to review the position overall. So we're not in a position to give an indication as yet, but once we get the fair and reasonable opinion we will communicate with the market and our shareholders.

**Nqobile Dludla**

All right. Thanks.

**Operator**

The next question comes from Mohammed Dorat of Ashburton.

**Suresh Kana**

Hello Mohammed.

**Mohammed Dora**

Hi, how are you?

**Suresh Kana**

Fine. How are you doing?

**Mohammed Dora**

Fine thanks. I have a question regarding Aton's potential shareholding given that it will be quite significant even if they don't buy any more shares or continue with their strategy. How do you see that affecting management decisions, the strategy of Murray & Roberts going forward, assuming the company is not acquired?

**Suresh Kana**

Henry, do you want to deal with that?

**Henry Laas**

Thank you, Suresh. There are a few outcomes here. In the event that they accumulate shares but don't get to 50% plus one they would not be in a position to really make changes to the board. I assume they would request a position on the board. But in the event they end up with more than 50% then I think they would be in a much stronger position to determine who is appointed as directors of the company and who not. But I think in such a scenario it is going to be difficult for us to express an opinion now because we don't know ultimately what the strategic benefit would be of Aton as a shareholder. We haven't had that level of legal engagement with them. But yes, there are a few outcomes possible here. and as I said depending on whether it is below or above 50% that would determine their ability to materially make changes to the board or not.

**Mohammed Dora**

And as a second question have you engaged with your biggest shareholders and are they supportive of management's recommendation?

**Henry Laas**

We have engaged with them, but we do not have a conclusive position as to whether they're supportive or not.

**Operator**

Thank you. Those questions came from Mohammed Dorat of Ashburton Investments. Ladies and gentlemen, just a reminder, should you wish to ask a question you're welcome to press star and then one. The next question comes from Brent Madel of Rencap.

**Brent Madel**

Good afternoon. Just a quick question just with regards to the independent board's statement today. I'm just trying to get clarity on why their announcement or why their response is released prior to receiving the independent expert's evaluation or valuation of Murray & Roberts. Why not wait for that expert advice first before giving a response? Why was it necessary at this stage to give the response first?

**Henry Laas**

The board has done its own analysis of what the value would be and has also obtained input from its financial advisor on this transaction. The fair and reasonable that we will receive from the independent expert will just be another data point that we will consider in this. But based on the work the board has done itself and the work that has been undertaken by the financial advisor this is the position of the independent board.

**Brent Madel**

If I can just ask a second question. I suppose the relevance is really where the territories cross over between Murray & Roberts and Red Path. Is there in principle a competition issue here in the fact that effectively your competitor has a stake in you? How do you look at that from a competition perspective assuming that the offer doesn't go ahead and they remain as a material shareholder?

**Henry Laas**

There is certainly an overlap as far as the mining business is concerned. There is no overlap in oil & gas or in power & water. But in the mining space there will be material conflicts of interest between Aton and the company. There are markets, geographic regions where we compete against each other. And South Africa is one of those regions. Indonesia is the second one. Mongolia is a third one. Australia is the fourth one. The US is the fifth one and the sixth is Canada. So there are broad geographic areas where we have overlap. And there would have to be a process should Aton acquire more than 50% of the shares in total of regulatory approvals required getting approvals from the competition authorities in the various jurisdictions.

**Brent Madel**

Thanks very much.

**Operator**

Ladies and gentlemen, just a reminder, should you wish to ask a question you're welcome to press star and then one. We have a question from Jovan Jackson of Tantalum Capital.

**Jovan Jackson**

Hi guys. I just wanted to know, was there any clarity with regards to Aton's offer with regards to what they would do post the acquisition should you guys have accepted the R15? Are they paying you guys R15 per share because the synergy is obviously in underground mining? What was their intention with power & water and oil & gas? Do you have that kind of detail at the moment? Any light on that for us?

**Henry Laas**

Jovan, it's Henry here. There is no further information that we have other than what has been disclosed in their announcement.

**Jovan Jackson**

Okay. But, Henry, looking at their investments is there anything else they would be interested in except for your underground mining?

**Henry Laas**

There is no overlap between any of the other businesses. So the underground mining business is the only business where there is an overlap. But in Aton they do have other investments also other than mining. So if they were to be successful I don't know what they would view as core or not.

**Jovan Jackson**

Okay. Perfect. Thanks guys.

**Operator**

The next question comes from Murray Connellan of HSBC.

**Murray Connellan**

Good afternoon everyone. I was just hoping for some clarity around the statement that the independent board is operating under the assumption that potentially Aton would be willing to essentially take as much of the company as it possibly can at R15 a share and that it would do so regardless of what proportion of the shareholder vote it would get. I was wondering whether that was expressly mentioned in the letter that you received from Aton, and whether they would be willing to for example take a stake of say 60% if that was the proportion of the shareholders that would be willing to part with their shares at R15.

**Suresh Kana**

Simon, do you want to deal with this question?

**Simon Denny**

Yes, certainly. Thanks, Chair. Good afternoon. What we know is only what we can read in the firm intention announcement and the letter that has been provided. The offer is conditional on them reaching a minimum

acceptance level of 50% plus one share. But it does detail that they would be seeking to acquire up to 100% if they're required to do, and should they reach 90% that they would enforce the ability that is available to them to squeeze out the remaining minorities. They also have reserved the right that in the event that the offer fails, i.e. that they do not get to the 50% plus one share, that they can still accept the shares that have in fact been tendered. And as a consequence of that the independent board came to the assessment that Aton must be comfortable under any of those scenarios. Clearly a first prize of acquiring 100% of the business and delisting it, which as the Chairman has outlined appears to be very low probability based on the offer price that has been put on the table, to arrive at a position where they end up owning between 50% plus one share and up to 90%, within that range, and then potentially simply accreting their significant minority shareholding up to a higher level but below the 50% threshold.

**Murray Connellan**

Thanks very much.

**Operator**

Ladies and gentlemen, just a final reminder, should you wish to ask a question you're welcome to press star and then one.

**Suresh Kana**

As we have no further questions thank you very much for your time. And as things develop once we have the fair and reasonable and we form our own opinion we will communicate with you and keep you in the loop with whatever information we need to share with you as it comes along. Thank you very much for your attendance.

**Operator**

Ladies and gentlemen, that concludes today's presentation. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT