



**MURRAY & ROBERTS HOLDINGS LIMITED**

(Incorporated in the Republic of South Africa)

Registration number 1948/029826/06

JSE Share Code: MUR

ADR Code: MURZY

ISIN: ZAE000073441

(“Murray & Roberts” or the “Company”)

**INDEPENDENT BOARD RESPONSE TO FIRM INTENTION ANNOUNCEMENT BY ATON GMBH (“ATON”) AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

**IMPORTANT NOTICES TO MURRAY & ROBERTS’ SHAREHOLDERS**

Capitalised terms used in this preamble have the same meaning as the body of the announcement

\* The board of directors of Murray & Roberts have constituted an Independent Board in accordance with the Companies Act.

\* Following the Independent Board’s review of the firm offer letter received from ATON, the Independent Board hereby provides its views and further guidance to Murray & Roberts shareholders:

- the Offer is opportunistic and made at a time of unprecedented share price weakness as a consequence of low liquidity, declining valuations of its legacy peers in the Construction sector and halting of the Company’s share buy-back programme in 2017;

- the cash offer price of ZAR15.00 per Murray & Roberts’ share materially undervalues the Company based on its prospects;

- the rationale presented by ATON for the Company and South Africa is weak in a number of material respects.

- at the proposed Offer Price, the Independent Board is of the view that the prospects of ATON successfully delisting Murray & Roberts is very low;

- scenarios where ATON accretes its shareholding but does not delist Murray & Roberts presents risks to Murray & Roberts’ shareholders and ATON, including conflicts of interest, strategic misalignment and reduced strategic flexibility and potentially casts the Company adrift into a protracted period of uncertainty as ATON gradually increases its shareholding and attempts occasionally to delist the Company; and

- it is not clear how ATON proposes to manage the dilution of Murray & Roberts’ B-BBEE ownership credentials and the potential resultant impact on material contracts and employment;

\* Accordingly, the Independent Board advises that it will be recommending to Murray & Roberts’ shareholders to not accept the Offer, when made. No further action should be taken by Murray & Roberts’ shareholders in connection with the Offer.

## 1. INTRODUCTION AND INDEPENDENT BOARD

Shareholders of Murray & Roberts are referred to the cautionary announcement released by Murray & Roberts and the firm intention announcement released by ATON (“Firm Intention Announcement”) on SENS on Monday, 26 March 2018 in relation to ATON’s firm intention to make a general offer to Murray & Roberts’ shareholders (“Offer”) at cash offer price of ZAR15.00 per Murray & Roberts share (“Offer Price”).

In accordance with the requirements of the Companies Act, 71 of 2008 (“Companies Act”), the board of directors (“Board”) of Murray & Roberts has constituted an independent board (“Independent Board”) comprising the following independent non-executive directors:

- Suresh Kana (Chairman)
- Ralph Havenstein
- Alex Maditsi
- Diane Radley

## 2. INDEPENDENT BOARD REVIEW AND FURTHER GUIDANCE FOR SHAREHOLDERS

The Independent Board has completed its review of the firm offer letter received from ATON (“Firm Offer Letter”) together with its advisers. The views of the Independent Board are summarised below:

### 2.1. Offer price

ATON acquired the majority of its existing minority shareholding of approximately 29.9% in the Company at or around ZAR15.00 per share. In November 2017, ATON voted down the requisite resolution necessary for the Company to continue its on-market share buy-back programme, when the majority of the Company’s shareholders were supportive of the initiative. This action compounded by a period of low liquidity and declining valuations amongst the Company’s legacy peer group in the listed Construction sector has precipitated a period of unprecedented weakness in the Murray & Roberts’ share price. ATON is now seeking to acquire control of the Company at the same price it acquired a minority shareholding whilst promoting a substantial premium to the current share price as the central reason why Murray & Roberts’ shareholders should find the Offer attractive.

It is the Independent Board’s view, supported by the analysis of its financial adviser, that the proposed cash offer price of ZAR15.00 per Murray & Roberts’ ordinary share for full control of the Company materially undervalues Murray & Roberts based on its prospects. The Independent Board will accordingly be recommending to the Company’s shareholders that they do not accept the Offer as construed, once it is formally made to them. The Independent Board will obtain a fair and reasonable opinion in due course and thereafter, formally publish its recommendation to shareholders as it is required to do in terms of the Companies Act.

### 2.2. Rationale

The Independent Board notes the rationale provided by ATON for considering the Offer. The Independent Board does not agree with ATON’s views on the benefits for the Company and South Africa in a number of material respects, specifically:

#### 2.2.1. Underground Mining:

- As stated in the Company’s interim financial results presentation, the Underground Mining platform reported strong performance with growth in its order book, revenue and operating profit compared to the previous comparable period. The Underground

Mining platform also achieved significant improvement in operating margin. All of the global operating regions, including Africa, Australasia and the Americas contributed towards this.

- The recent improvement in commodity prices and increased investment activity by the Company’s mining clients will further support the near-term prospects of the business. The Company is well-positioned to secure new opportunities that would significantly increase the order book in the near term. These opportunities could, however, potentially be jeopardised by the Offer.
- The combination of the Murray & Roberts Underground Mining platform and Redpath Mining Inc. (formerly J.S. Redpath Holding) (“Redpath”) presents limited strategic rationale at the current time and would in any event have to be accomplished post the Offer, if implemented. Exploratory discussions between Murray & Roberts and ATON during 2015 in relation to a combination of Redpath and the Underground Mining platform ceased because Murray & Roberts could not reach agreement with ATON regarding the proposed transaction structure and relative value. It is the view of the Independent Board that the current combined market share of these businesses may reduce post a possible combination.

#### 2.2.2. Oil & Gas

- Muted activity in the oil and gas sector has had a negative impact on the revenue growth of the Oil & Gas platform. However, the Company has managed to maintain good profitability in a challenging and competitive environment.
- Brownfield operations and maintenance opportunities are expected to be the main source of earnings from the Oil & Gas sector for the Australian region until about 2021. New greenfield opportunities are expected to be in Papua New Guinea as energy producers are progressing work associated with new liquefied natural gas facilities.
- Murray & Roberts is currently expanding its international operations with a planned acquisition in the USA. Complementary markets previously serviced by Clough Limited, a Murray & Roberts’s subsidiary incorporated in Australia, such as the mining and infrastructure markets in Australia present significant opportunities.

#### 2.2.3. Power & Water

- The power sector in South Africa presents few new opportunities, with the Power & Water platform in this sector underpinned by the Kusile and Medupi projects.
- There are, however, an increasing number of new opportunities in the water treatment sector in South Africa with this segment yet to achieve scale. It will in time materially contribute to Murray & Roberts earnings.
- The Power & Water platform is continuously looking to replenish its order book with particular focus on prospects in complementary markets such as mining, pulp and paper, chemicals and energy in sub-Saharan Africa.

#### 2.2.4. Capital allocation and non-core assets

- The Company adopts a disciplined approach to capital allocation focused on generating returns for the Company’s shareholders both in the short- and long-term.
- In 2017, the short-term capital allocation strategy for the Company involved increasing the Company’s effective shareholding in Bombela Concession Company (RF) (Proprietary) Limited (“BCC”) to 50% and in the absence of other return enhancing opportunities, returning capital to shareholders via a share repurchase programme.
- Murray & Roberts is currently in the process of pursuing both organic and acquisitive opportunities, which the Board believes will have the potential to add significant value. The Board will, however, continue to adopt a disciplined and deliberate approach when evaluating these initiatives.
- It is unclear which of Murray & Roberts’ businesses or markets would be identified by ATON as non-core. With respect to BCC, the Independent Board believes that the annuity income provided by the additional investment creates a value underpin

in a cyclical operating environment. The Independent Board is firmly of the view that a breakup of the Murray & Roberts' group would inevitably destroy value and negatively impact employment.

#### 2.2.5. Management capacity and knowledge transfer

- It is unclear to the Independent Board how ATON will add capacity and facilitate skills transfer to the Company's existing operational experience and capabilities, specifically in the Oil & Gas Platform.

#### 2.2.6. Impact of empowerment and employment

- Murray & Roberts is committed to a number of broad-based black economic empowerment (B-BBEE) initiatives in South Africa and is an accredited Level 4 B-BBEE Contributor with economic interest ownership by existing Murray & Roberts B-BBEE shareholders and black women of approximately 54.7% and 18.9% respectively.
- The Company's support for B-BBEE programmes and the promotion of social and economic development of previously disadvantaged communities and individuals is particularly important in the context of the Company's underground mining operations in South Africa.
- The Independent Board notes with concern the significant risk of dilution to the Company's B-BBEE ownership profile on a flow through basis, with potentially severe implications for the Company's current mining contracts and its ability to secure future mining contracts in South Africa. It is again not obvious from the Firm Offer Letter how ATON proposes to address this post the Offer, if implemented in any of its forms.
- Finally, Murray & Roberts is currently a significant employer in South Africa, with approximately 10,700 employees. The impact of the Offer on material contracts of the Company and therefore the Company's employees, is a significant concern for the Independent Board.

### **2.3. Offer mechanism**

In the Independent Board's view, the mechanism proposed by ATON to implement the Offer, presents risk to both the Company's shareholders and ATON.

The Offer contemplates three possible outcomes from an ATON perspective, namely:

- 2.3.1. ATON acquires the entire issued share capital of Murray & Roberts other than those shares already owned by ATON and its subsidiaries, and delists the Company; or
- 2.3.2. ATON acquires sufficient ordinary shares to increase ATON's shareholding to a shareholding of between a minimum 50% plus 1 ordinary share and up to a maximum of 90% of the entire issued share capital of the Company; or
- 2.3.3. ATON simply acquires additional shares to accrete ATON's existing shareholding up to below 50% of the entire issued share capital of the Company, in the event that the Offer fails or is withdrawn.

The Independent Board assumes that any of the outcomes would be acceptable to ATON.

The Independent Board is of the view that the prospects of ATON successfully acquiring all the ordinary shares in the Company that it does not already own and delisting Murray & Roberts at the proposed cash offer price is very low.

The focus of the Independent Board has therefore been on the risks to Murray & Roberts' shareholders, including ATON, inherent in each of the scenarios set out in 2.3.2 and 2.3.3

above, where ATON appears content to potentially increase its shareholding without acquiring the entire share capital of the Company. In these scenarios, we are particularly concerned that ATON's position will:

- i. introduce material conflicts of interest between ATON and the Company;
- ii. heighten the potential for strategic misalignment between the executive management and the Board and thereby reduce strategic flexibility for Murray & Roberts;
- iii. prejudice minority shareholders as a consequence of i. and ii. above as well as diluting the B-BBEE ownership profile above and by further reducing the liquidity in Murray & Roberts' shares on the JSE; and
- iv. cast the Company adrift into a protracted period of uncertainty as ATON gradually increases its shareholding and attempts occasionally to delist Murray & Roberts, as it ultimately appears it must do in order to fully carry out the strategic agenda outlined in the Offer.

In light of the Independent Board's assessment of the likely outcomes above, the Independent Board affirms its view that the Offer as presented is not in the best interests of the Company or its shareholders and that the opportunity for shareholder value creation is higher for the shareholders under the status quo.

#### **2.4. Regulatory**

The Independent Board is of the view that there is no basis in the Firm Offer Letter or the Firm Intention Announcement to substantiate ATON's conclusion or to provide comfort to Murray & Roberts' shareholders that the contemplated acquisition of shares pursuant to Offer or otherwise does not give rise to competition concerns.

#### **2.5. Cooperation**

Based on the views outlined above, the Independent Board would not be willing to cooperate with ATON to implement the Offer as construed. Accordingly, the Independent Board will not recommend that the Board enter into the implementation agreement as proposed by ATON. The low offer price, in conjunction with the risks presented in execution, make the Offer particularly unattractive for Murray & Roberts' shareholders.

### **3. APPOINTMENT OF INDEPENDENT EXPERT**

Murray & Roberts' shareholders are advised that the Independent Board has appointed BDO South Africa Services (Proprietary) Limited as independent expert in accordance with the Companies Act, to prepare and issue a report as to whether ATON's proposed offer is fair and reasonable.

### **4. GUIDANCE FOR SHAREHOLDERS AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT**

Murray & Roberts' shareholders are advised that, as at the time of this announcement, no offer has been made by ATON. ATON has indicated its intention to post an offer circular to Murray & Roberts' shareholders on Thursday, 5 April 2018. The Independent Board will cause its recommendation along with a fair and reasonable opinion to be set out in a response circular to be sent to Murray & Roberts' shareholders as soon as practicable after that date.

Importantly, no action should be taken by Murray & Roberts' shareholders in connection with the Offer in line with this announcement.

As all information pertaining to the Offer is now in the public domain, Murray & Roberts' shareholders are advised that they no longer need to exercise caution when dealing in the Company's securities.

## **5. RESPONSIBILITY STATEMENT**

The Independent Board accepts responsibility for the information contained in this announcement and certifies that, to the best of its knowledge and belief, the information contained in this announcement is true and nothing has been omitted which is likely to affect the importance of the information.

## **6. CONFERENCE CALL**

A conference call will be held at 16h00 today, 27 March 2018. Details are as follows.

Johannesburg (Telkom) - 010 201 6800

Johannesburg (Neotel) - 011 535 3600

Australia (Toll Free) - 1 800 350 100

USA and Canada - 1 508 924 4326

Participants to ask to be joined into the Murray & Roberts Holdings Limited call.

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27 March 2018

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