

Advisory

Project Poseidon

Phase 2 - monitoring (February results)

*Strictly Private
and Confidential*

1 May 2018

pwc



[Redacted text block]

**Scottish Government
Scottish Procurement
5 Atlantic Quay
150 Broomielaw
Glasgow G2 8LG**

Dear Sirs

We report on Ferguson Marine Engineering Limited (the “Company” or “FMEL”) in accordance with our agreement dated 27 November 2017.

This report has been prepared in connection with the set out purpose as stated in the engagement letter. All sections of the report should be read together.

Save as described in the agreement or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report, and it may not be provided to anyone else.

Yours faithfully

PricewaterhouseCoopers LLP

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Information

The table opposite sets out the monitoring information that management is required to provide under the loan agreement, together with our comment on whether it has been received.

FMEL is forecast to run out of cash in the week ending 21 May 2018.

Information received	Sep – Nov 2017	Dec	Jan	Feb
Personnel changes	Y	Notes provided in respective monitoring reports		N
Profit & loss	Y	Y	Y	Y
Balance sheet	Y	Y	N	Note 1
Cash flow	Y	Y	N	N
P&L comparison v budget	Y	Y	Y	Y
BS comparison v budget		Note 2		
CF comparison v budget		Note 3		
801/2 build report	Y	See previous reports		N
801/2 cost over runs	N	See previous reports		N
Permitted fees	Y	Y	N	N



Note 2 – The projections did not include a monthly balance sheet.

Note 3 – The reporting pack does not include a comparison against budget.

Conclusion

Very limited information was provided in the month; management only provided a profit and loss account which has given us limited scope to comment on financial performance in February. Management is implementing a new financial reporting system which is due to be in use from April 2018. We expect to receive more detailed information when this is implemented.

The forecasts indicate that FMEL will run out of cash in the week ending 21 May 2018. As a result, management is taking actions to preserve cash which is likely to result in further delays to the build of 801/2. Management has not told us the expected delay.

The directors are aware of their responsibilities given the cash position and require a solution immediately, with their only solution still appearing to be through agreement of CPIs.

There has been a series of meetings between the parties involved. We are aware of the ongoing discussions between FMEL and SG to find a solution and SG should continue to support all stakeholders in agreeing this.

Profit and loss account

The table opposite compares the actual profit and loss account for February 2018 to the revised build forecast provided by management.

Profit & loss account: February 2018					
	£ in 000s	Note	Actual	Forecast	Movement
801/2 revenue		1	1,997	2,020	(23)
Other revenue		2	1,061	-	1,061
Gross margin		3	(27)	(161)	134
Selling, general and administrative			(192)	(196)	4
Addback depreciation			84	84	-
EBITDA			(135)	(273)	138
Exceptional items		4	(107)	(75)	(32)
Interest		5	(179)	(179)	-
Depreciation			(84)	(84)	-
Net profit			(505)	(611)	106

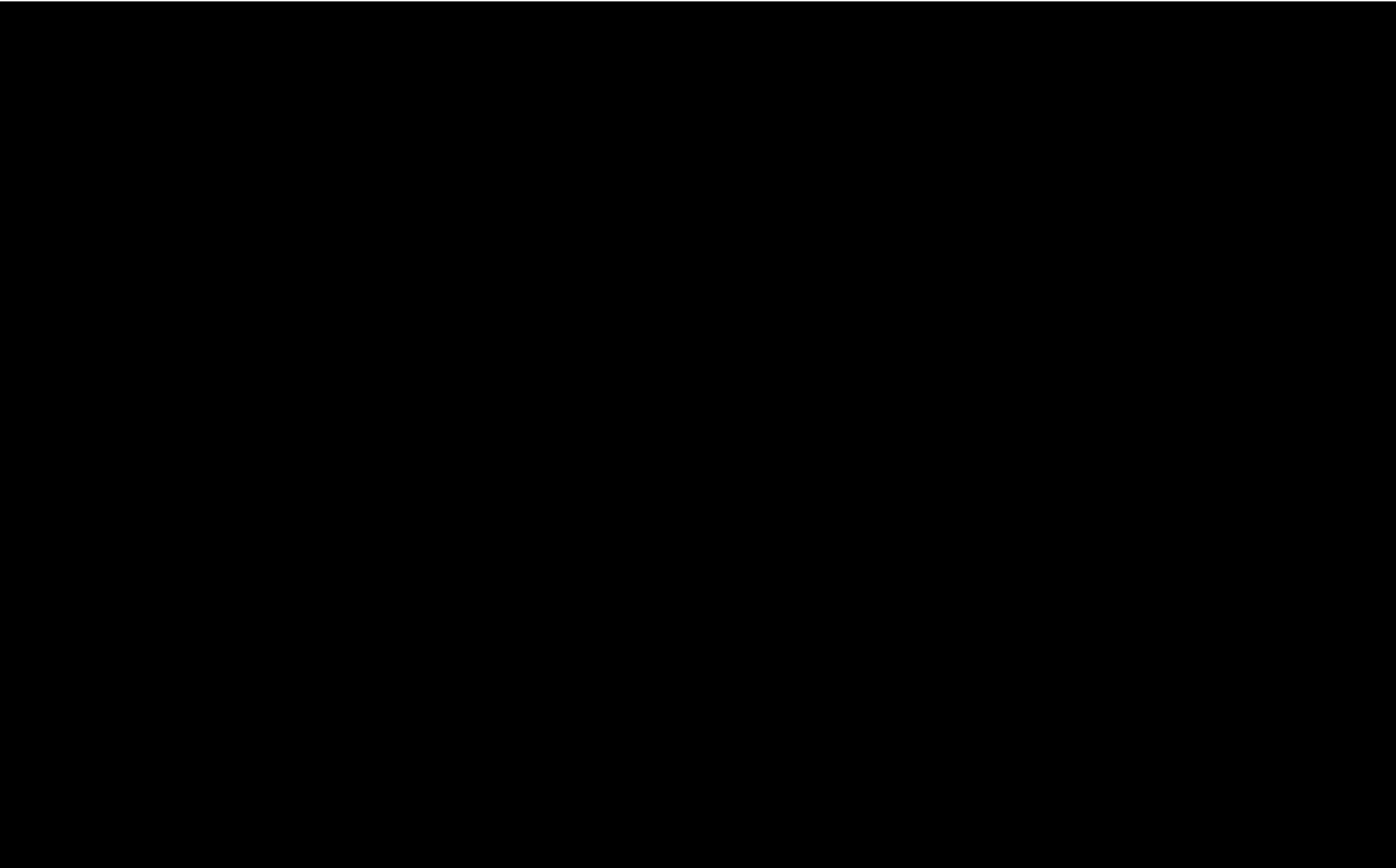
1. Revenue – The £23k variance is broken as over recovery of labour (£20k), over recovery of production overhead (£8k), £50k catch up on production overheads, offset by a change in time of spend on materials (£103k).

2. [REDACTED]

3. [REDACTED]

4. Exceptional items – No breakdown of spend on exceptional items was provided, and we have asked management to provide this as part of the more detail information required.

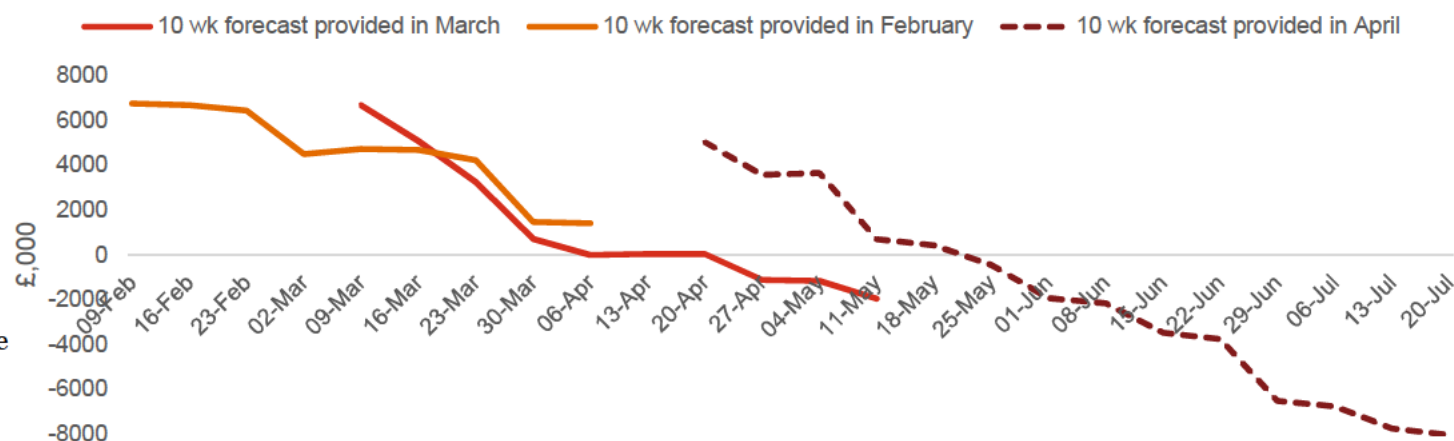
5. Interest – £179k of interest was accrued on the fully drawn down Scottish Government loan. This is in line with our expectations.



Short/Medium term cash flow

FMEL is forecast to run out of cash in the week ending 21 May 2018.

We understand management is looking to mitigate cash expenditure until a solution is found, however this may delay the build of 801/2, the extent of which we have not been told.



The graph above compares the 10 week cash flow forecasts provided by FMEL in February 2018, March 2018 and April 2018. This forecast shows management is expecting that FMEL will have no cash in the week ending 21 May 2018. As a result, management did not renew the contracts of c.100 sub-contractors at the end of April, will manage supplier payments and will limit payments to those necessary to sustain the business in the short term. The cash position is still critical.

Summary of milestones not achieved

Milestone	Amount (£000)	Original milestone date*	Revised milestone date**
801 100% fabrication	1,200	Nov-17	Apr-18
802 75% fabrication	1,200	Oct-17	Apr-18
802 Hull inspection prior to paint	1,200	Nov-17	Oct-18
802 Berth join up	1,200	Nov-17	Oct-18
802 major items	625	Oct-17	May-18
Total	5,425		

* Original milestone date – as per the IBR of August 2017

** Revised milestone date – are based on FMEL’s updated two year projection provided in February 2018.