

How Ocean Informatics - a cash-strapped IT healthcare business - was saved using a Deed of Company Arrangement

Using a Deed of Company Arrangement as part of a company restructure is a proven way of supporting organisations to stay afloat and pay their creditors and employees. This recent case study outlines how BRI Ferrier worked with one Australian IT business to overcome the difficulties of poor cashflows, an unhealthy reliance on debt and a lack of management direction.

Company background

Since 1998, Ocean Informatics have been in the business of developing information technology (IT) for the health industry. They have clients in both the public and private sectors in Australia and overseas. Their focus is on developing best practice systems for sharing health records at local, national and international levels. The aim of their platform is to support clinicians to deliver improved patient care.

Ocean Informatics operates from offices in Australia and the United Kingdom. The company has an annual turnover of around \$3 million. It employs around ten people, including experienced IT engineers with a strong clinical background.

Ongoing trading losses led to internal disputes

The company had a history of trading losses, not uncommon with IT development businesses. Its high cost structure was disproportionate to turnover, where the payroll and overhead costs were unsustainable. This, combined with a lack of strategic management of the operational and financial aspects of the business, led to the company being placed into voluntary administration in late 2017.

To keep the company trading, the management team sought relief from related-party creditors

by way of debt to equity conversions on various occasions.

In mid-2017, disputes arose between the board of directors and senior management and contractors. This led to the resignation of key senior management and the termination of certain contractor agreements. The debts owed to these parties were subsequently called up causing an acute cashflow shortage and the appointment of a Voluntary Administrator.

In addition, an application to wind up the company was in progress upon the appointment of the Administrator.

The key issues

- ▲ With severe cashflow problems, the company was likely insolvent and could not continue as is.
- ▲ Pending litigation threatened to cause the company to cease trading and be wound-up.
- ▲ The recent loss of senior managers meant that the organisation lacked strategic and financial direction.
- ▲ The Company was in desperate need of restructuring, both financially and operationally.

The strategy

Working with BRI Ferrier, [Peter Krejci](#), [John Keenan](#) and their team, sought to restructure and save the business via a sale or a recapitalisation using a Deed of Company Arrangement. They negotiated a limited indemnity funding arrangement to overcome the lack of cashflow and support the company's operations while the restructure was explored during the Voluntary Administration period.

The outcome

Using the Voluntary Administration process followed by a Deed of Company Arrangement, the BRI Ferrier team explored a **sale of the business** and then introduced a **strategic partner** through which the business was recapitalised and management restructured.

Based on this injection of funds, the following actions supported the business during this process:

- ▲ a **new share capital structure** was created;
- ▲ some of the existing **creditors converted their debt for equity**;
- ▲ **new management was appointed** in the business; and
- ▲ a range of **cost reduction measures were actioned**.

Through the Deed of Company Arrangement, the existing litigation against the company was settled, without incurring further significant expense. The business returned to solvency and was able to continue to trade and employ a skilled team to support its customers.

Also, compared to a likely negative outcome under a Liquidation strategy, the **estimated return to creditors was substantially improved** under the Deed of Company Arrangement.

“BRI Ferrier did a good job, it was crisp and clinical. We now have a recapitalised and restructured business with reduced overheads moving forward.”

**Dr Sam Heard - Clinician & Director,
Ocean Informatics**

How BRI Ferrier can help

BRI Ferrier can assess your current situation and advise on a path forward to minimise further risk.

Early intervention is often the key for a successful restructure of your business. BRI Ferrier will develop and implement a restructuring strategy that is in the best interest of all stakeholders.

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