

GoodBox Restructuring Proposal

Dear Creditors and Shareholders of GoodBox,

I write to you in this public letter on behalf of NGi Systems, the key technology supplier of GoodBox since its founding. As you may know, we have filed an Application for an Administration Order against GoodBox, as per the High Court case CR-2022-LDS-000414. As explained in our filing, the reason for this was two-fold:

1. The Board was blocking our attempts to engage with Shareholders to restructure the debts of the company facing us and to support with further cash injection. We sought Administrators to conduct these discussions in good faith, instead of the current Board.
2. We were made aware of what we consider an attempt to defraud NGi Systems, along with all other Shareholders and Creditors, via what we consider an artificially suppressed pre-pack sale of the business assets. We acted to block such a sale and protect the assets of the business and ensure due process to explore higher value options.

We sought to have Administrators appointed to enable a genuine and unbiased attempt at getting all stakeholders around the table to achieve a restructure that is fair to all parties and allow the business to move forward and reach the profitability point which is in sight with the existing order book of the company. We indicated that we are able and willing to fund the operations of the company while this takes place. Our initiative was never shared by the Board with Shareholders. When filed at Court formally, it was further resisted and delayed with claims lacking substantial evidence by Director Francesca Hodgson in her Court filings. These delays unfortunately continue to worsen the financial position of the company, making it harder to conduct the restructuring discussions, destroying value for all stakeholders in the process.

Francesca Hodgson wrote to shareholders on the 15th of June 2022 that she is “seeking all and any routes to preserving shareholder value”.

The following facts, based on court filings, should be considered. Francesca Hodgson has expressed support for the appointment of Administrators that would pursue the asset sale. She failed to engage with our proposals, past and present. Q Invest has confirmed in writing that they are in support of the appointment of the Administrators that would pursue the asset sale. Q Invest is named in a recent article in the Financial Times, that raised concerning questions about the same gateway transaction which, as per the Investor Update from 2022 Q1, was still not resolved to more than one year on. The identity and backers of the proposed buyer of the assets were not disclosed. It is confirmed that the buyers intend to retain at least one director, further details are not disclosed as to who this director might be.

The asset sale is expected to leave shareholders with nothing, considering the £10m debt on the company balance sheet.

Uncertainty around an asset valued at £5.2m has a material effect on the value of the business. We consider this needs to be independently reviewed and scrutinized. We consider this is best done by Administrators acting as officers of the Court who thus have the duty and the right authority to effectively investigate and, if needed, rectify the transaction.

NGi Systems has a verifiable track record of strong support for GoodBox. The technology we built for GoodBox won numerous awards and is successfully powering the services used today by over 2200 clients of GoodBox. On top of this, as investors, we believe in GoodBox and the future of its innovative technology. Our total equity investment in GoodBox stands at over £600,000 completed across three funding rounds at different share prices. We are committed to supporting GoodBox further to help it reach profitability.

The debts owed to NGi Systems by GoodBox stem from large contractual commitments for discounted services and guaranteed engineering capacity agreed in 2018 at the request of the Board. GoodBox was unable to meet its envisaged business plan and was unable to pay for the contracted commitment. This led to a series of contractual renegotiations which the GoodBox Board repeatedly breached, in some cases by acting willfully not in good faith as acknowledged in subsequent agreements in writing. In the latest round of contract breaches, the Board accepted then ignored the resulting charges which generated large amounts of contractual penalties and ignored our offer to engage us to restructure the agreement and outstanding spiraling debts. The Board then continued to, in our opinion, wrongfully trade at our expense. The Administrators acting as Officers of the Court will determine the exact fair value of the debts owed to NGi Systems, all aspects considered, the same as for any other creditor.

The restructuring proposal was intended to be discussed once Administrators were appointed. Considering the delays in this process we decided to reach out directly and present the proposal and its value enhancing rationale. Key to note that based on indications we received, though not formally confirmed, the offer that is to be accepted for the assets and business of GoodBox was for approximately £300,000. We welcome any correction to this number from the Board.

The restructuring proposal has two phases. Phase 1 achieves a debt-free company by bailing in Creditors, supplier debts and Administration costs. It also settles all historical disputes and puts in place a lean contract for technology services. Phase 2 then recapitalizes the business at a very attractive valuation. The solvent, debt-free, contractually unencumbered GoodBox can then be returned to normal trading.

This proposal has been pre-aligned with existing key investors of GoodBox and one expression of interest was received from a like-minded North American payments company to fully fund the recapitalization of the GoodBox as proposed here.

Phase 1 Proposed Post-Restructuring Cap Table:

- Existing Shareholders: 10%-15%
- Convertible Loan Note Holders: 30%-50%
- Shares for Key Staff and New Management: 15%-20%
- Funders of Administrations Costs and Operating Expenses: 10%-20%
- NGi Systems (debts and contract restructuring): 10%-20%

Other small Creditors are intended to be paid in full, from the funded operating expenses during the restructuring.

Should there be any finding of value under-delivery from the transaction involving Q Invest, the Administrators are expected to net off any counterclaims, this will reduce the resulting shareholding of Q Invest and proportionally increase the shareholding of the other groups.

Concerns were raised that it would not be possible to trade the business under Administration as the FCA might revoke the registration and key suppliers may terminate contracts. We believe there is a reasonable likelihood that these concerns can be overcome. The FCA was informed of the court filing which included the intent to trade under Administration and raised no objections. FCA rules specifically allow Administrators to trade the business if they consider it is best value for Creditors and can be done in a compliant manner for customers. Key suppliers are aware that GoodBox is insolvent, as this is a matter of public record in the court filing and referenced by the Financial Times. There were no terminations by key suppliers. NGi Systems suspended services but still supported to address critical issues. Suppliers have no reasonable grounds to terminate if the business operations under Administration are funded and their invoices are fully paid. Additionally, Administrators can compel suppliers to continue supply under reasonable commercial terms. The existing contracts are deemed to be commercially reasonable as they were freely negotiated and accepted by both parties.

The net operating expenses under Administration are expected to be £50,000 per month based on our estimations and confirmed by estimations of the CEO, as attached. Begbies Traynor, the insolvency advisors of the Board put this number at £100,000 per month, though without substantiation. Additionally, administration costs of up to £30,000 per month are expected.

We consider that the restructuring can be achieved in up to 10 weeks, generating costs of up to £350,000 with conservative estimates. These costs would be funded via a convertible senior debt instrument created through the funding agreement with the Administrators. This debt would be converted to equity targeting a preferential conversion as indicated under the "Funders of Administrations Costs and Operating Expenses" bracket. The resulting equity ownership will depend on the actual amounts incurred. The Administrators will be requested to set the final numbers within the guidelines of the proposed cap table based on fairness for all parties. NGi Systems is able and willing to fully fund these restructuring and operating costs but is also happy to allow others to step in to take on part of these costs by co-financing the convertible secured debt instrument that will be used to fund the restructuring.

Phase 2 of the Proposed restructuring will inject new capital of £1.5m, with a post-restructuring, pre-money valuation of £2m of the debt-free, contractually unencumbered business. This valuation is expected to be highly attractive considering over £3m worth of working technology in the business, £0.5m in devices stock and a gateway worth up to £5.2m. GoodBox was able to attract investor interest at a pre-money valuation of £11m in 2022 Q1, with the £9m debt in place, so the proposed valuation for a debt-free and contractually unencumbered business can be considered a bargain. NGi Systems will exercise full pre-emption unless the opportunity is to be offered to strategic new investors.

Value Test for Creditors: In the proposed plan, Creditors would have a confirmed value recovery of £600,000 to £1,000,000 in the indicated equity range once Phase 2 is implemented. This is far higher than the nominal £300,000 expected from the asset sale from which substantial costs need to be deducted for Administration of the sale and to then close the old legal entity, perform any potential investigations and handle Creditor disputes. Key to note that it was always the intention of the Convertible Loan Note to be converted into equity, so this proposal falls in line with that intent, while the asset sale does not. It can comfortably be expected for the solvent post-money company to be worth over £5m considering recent investor interest at £11m with the debt still on the balance sheet. A post-restructuring valuation of £5m would yield a value to creditors of £850,000 to £1,400,000. In addition to this, holding equity has further upside in an imminently profitable business. A competitive asset sale would need to be positioned at over £1,500,000 to be credible for consideration, remembering that administration costs of a sale need to be deducted from this amount.

Value Test for Shareholders: Shareholders will be fully wiped out in the event of any asset sale, considering the over £10m of debt of the company. A 10% retention in the resulting business is a net superior result.

Other Considerations: The original innovation-oriented spirit of the business is maintained and no customers are lost by forcing them onto alternatives that might not be as innovative as the technology currently in place.

Use of funds for the £1.5m raised:

- £0.4m operating expenses until break even
- £0.6m working capital for hardware stock (driven by manufacturing MoQ)
- £0.3m tap-on-phone implementation
- £0.2m reserve capital

We strongly believe that this proposal is of superior value for all stakeholders concerned. This will be circulated to all Shareholders and all Creditors.

We request replies with confirmations of support from either Shareholders or Creditors. We also request letters of intent to participate in funding either the Administration costs or the investment in the debt-free, contractually unencumbered business with the pre-money valuation of £2m. Please specify the quantum of investment intended in the letters submitted.

All replies to Daniel.Jecan@ngi.systems

Best Regards,

Daniel Jecan
Managing Partner
NGi Systems



An appendix with calculation examples for potential investors is on page 4. Additionally, attached to this letter are:

1. The article from the Financial Times from the 17th of June 2022. It can also be read [here](#).
2. The monthly cost breakdown from the CEO.
3. Historical offer of Fundraising Support to the Board and warning about the debt spiral if not actioned. This was not presented by the Board to Shareholders and the offered voluntary moratoriums were not taken up.
4. Demand to the Board to voluntarily place the business under administration for restructuring to preserve value for Shareholders. This was also not communicated to Shareholders.

Appendix of Investment Calculation Examples

Notes:

1. The proposal is not completely fixed, there are ranges proposed which will have to be locked in after negotiations.
2. The detailed terms and conditions and updated articles of incorporation to be adopted are also pending.
3. Assumptions are stated for each calculation example, if these are changed, the results will change accordingly.
4. The parameters below are considered fixed under this proposal, but even these may vary somewhat in the end:
 - a. pre-money valuation of the debt-free, contractually unencumbered business of £2m
 - b. additional new capital raised of £1.5m
5. Companies with a subscription-based business model, are valued at 12x - 16x Annual Recurring Revenues
Source: <https://www.saas-capital.com/blog-posts/2021-private-saas-company-valuations/>
6. GoodBox has been operating a market validated SaaS-like pricing model for over 18 months.
7. GoodBox is expected to reach profitability in the next 6 months based on the revenue trend and business plan.
8. Similarly, GoodBox is expected to have reached Annual Recurring Revenues of over £1m by the end of 2022.
9. Our £5m valuation is very conservative relative to the soon reachable market expected range of £12m - £16m.

Example 1: Contribution to the Phase 2 new capital injection

Assumptions:

1. A contribution of £50k is made as part of the £1.5m new capital that is raised
2. The value of the solvent, debt-free business is £5m

The resulting equity stake for the contribution would be $\text{£50k} / (\text{£2m} + \text{£1.5m}) = 1.43\%$

The value of this equity stake after restructuring would be $1.43\% * \text{£5m} = \text{£71.5k}$

Example 2: Contribution to the Phase 1 Administration costs

Assumptions:

1. A contribution of £50k is made as part of the Administration costs
2. The total cost of the Administration is £250k
3. The agreement is to convert the Administration costs to 15% of the debt free pre-money equity
4. The value of the solvent, debt-free business is £5m

The pre-money equity stake for the contribution would be $(\text{£50k} / \text{£250k}) * 15\% = 3\%$

The Phase 2 post-money equity stake would be $3\% * \text{£2m} / (\text{£2m} + \text{£1.5m}) = 1.71\%$

The value of this equity stake after restructuring would be $1.71\% * \text{£5m} = \text{£85.5k}$