Companies and Intellectual Property Commission
Republic of South Africa

Form CoR 125.1

About this Form

- This form is issued in terms of section 132 and 141 of the companies Act, 2008, and Regulation 125 of the Companies Regulations, 2011.
- This Notice and the attached report must be published to every affected person, and to-
  a) The Commission, if the business rescue proceedings were started by the company; or
  b) The court, if the proceedings were ordered by the court.
- A report and Notice must be issued at the end of the first three months of the business rescue proceedings, and at regular monthly intervals after that

Contacting the Commission

The Companies and Intellectual Property Commission of South Africa

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Business Rescue Status Report

Date: 14 November 2020

Customer Code: IAN B03

Concerning

(Name and Registration Number of Company)

Name: Consolidated Steel Industries

Registration No: 2006/031549/07

The above named company commenced business rescue proceedings on 13 July 2020.

Because the business rescue proceedings have not concluded within three months, the appointed business rescue practitioner provides the attached report in terms of section 132 (3).

Kindly refer to the report annexed below.

Name and Title of person signing on behalf of the Practitioner:

Dr Sello Mkhondo

Authorised Signature:

SMkhondo

This form is prescribed by the Minister of Trade and Industry in terms of section 223 of the Companies Act, 2008 (Act No. 71 of 2008).

11 December 2020

CONSOLIDATED STEEL INDUSTRIES (PTY) LIMITED
(In Business Rescue) ("CSI" or the Company")

SECTION 132(3)(A) REPORT TO AFFECTED PERSONS
FOR THE MONTH ENDED 30 NOVEMBER 2020

The Company's directors and duly appointed Business Rescue Practitioners ("**BRP's**") have pleasure in submitting their report on the trading performance and financial position of Consolidated Steel Industries for the month ended 30 November 2020 ("**1st Monthly Report**").

INTRODUCTION AND BACKGROUND

CSI is one of South Africa's market leading industrial conglomerates comprising two distinct principal business units, namely:

- Global Roofing Solutions ("**GRS**"), one of the oldest and largest metal roofing and roofing accessory manufacturers in South Africa that services the construction, roofing and hardware merchanting industries in South Africa and Sub-Saharan Africa; and until recently,
- Stalcor, one of the top three 'Tier 1' distributors of stainless steel and aluminium products in South Africa, servicing customers in the fabrication sector and steel merchants.

The ravaging economic effects of the Covid-19 Lockdown exacerbated by an already recessionary South African economy, systemic challenges in local steel production and a delicately capitalized CSI balance sheet gave cause for the directors of CSI to place the Company into Business Rescue on 13 July 2020, whereafter the duly-appointed BRP's assumed operational control over the CSI business.

Within 5 weeks of being placed into business rescue, the BRP's published the CSI Business Rescue Plan ("**BR Plan**") on 18 August 2020, which was subsequently approved by more than 98% of creditors on 9 September 2020. As part of the approved plan, a post-commencement finance ("**PCF**") facility of R257 million was negotiated with CSI's biggest creditor to help ensure continuity of operations while the company implemented its 'back-to-basics' restructuring and business re-engineering.

The principal purpose of this report is to provide monthly feedback and insight as to the progress made in the implementation of the approved BR Plan, which highlighted the following key elements:

- Gross profit/margin maximisation
- Cost cutting
- Recovery of creditors funds
- Operational separation and restructuring
- Potential division/asset sales

TRADING AND SALES MARGINS

Sales revenues for the month

CSI's sales revenues during November 2020 amounted to R98.8 million, comprising GRS sales of R58.9 million (forecast: R59,5 million) and Stalcor sales of R39.9m (forecast R49.6 million). This represented an achievement of 90.5% of forecast revenue for the month.

It is important to note that a decision was taken during late October 2020 to accept an offer to sell all Stalcor inventories to a trade buyer at an average price of approximately 78% of book value, effective from 1 November 2020. This included a significant amount of slow-moving inventory. Accordingly, the Stalcor sales revenues for the month of November 2020 represent a 'winding down' of Stalcor's traditional business, as opposed to a normal trading month characterized by ongoing trading stock replenishment.

GRS's November 2020 sales forecasts deviated from the BR Plan (R94,4 million) principally as a result of the systemic shortages of steel in the South African market, as first referred to in the quarterly report to CSI Stakeholders for the three months ended 30 September 2020.

Notwithstanding the steel shortages referred to above, GRS has maintained a healthy forward sales order book of over 4,000 tons. The company is expecting imported steel to arrive in early January 2021, which bodes well for better than expected sales during January 2021.

Sales margins

- GRS achieved a Prime GP% by 18.9% for November 2020 in comparison to the 20,8% anticipated in the BR Plan. This negative variance of 1.9 percentage points is attributable to disposal by GRS of its remaining slow-moving inventories, which by 31 December 2020 will substantially all been sold. GRS's sales margins for the remainder of the 2021 fiscal are expected to be higher than those budgeted due to prevailing steel shortages and improved procurement practices.
- Stalcor achieved a Prime GP% of 4.3%. This was achieved despite the sale of all of its inventories at a discount to cost as referred to above.

Cost of sales management

Due to the stock procurement challenges mentioned above, management and the BRP's have instituted additional control mechanisms to mitigate the risk of short supply. A separate control stream has been implemented. This involves regular meetings with the divisional heads to ensure that the supply lines do not materially impact on the cash flow management stream. During late October and early November 2020, strategies were implemented to shift the reliance on local supply to imports. The implementation of this strategy garnered the support of CSI's funders with whom management and the BRP's are in constant contact.

THE STALCOR GO-FORWARD BUSINESS

The BRP's, with the assistance of Deloitte and CSI Management concluded a sale of Stalcor's entire steel inventories, including slow moving and redundant stock, to another trader in the market effective 1 November 2020.

This decision was necessitated by the business of Stalcor being non-cash generative based on current results and future projections. The business model of Stalcor is based on bulk acquisition of steel and aluminium material, then on-selling to customers in smaller quantities without any significant value add to the products. Consequently, the margins are modest and stocking requirements are onerous as this business depends largely on volume-driven economies of scale.

Notably, an attempt had been made to sell Stalcor as a going concern, however, there was little interest in the market for Stalcor as a business, based on the business model.

Ultimately, having lost the advantage of scale prior to Covid-19 lockdown and having worsened by lockdown as well as the company being in business rescue, the negative effects of Stalcor on the overall company performance had to be addressed. Consequently, a sale of the stock and subsequent wind-down was necessitated. The ultimate sale of the Stalcor inventories was concluded at a price in excess of that proposed by other bidders seeking to purchase Stalcor as a going concern.

Following this sale, a section 189 consultation was entered into with the staff, where alternatives to retrenchments were explored. The business unfortunately had to wind down and almost the entire staff of Stalcor elected to be retrenched.

STEEL INDUSTRY CHALLENGES

AMSA supply shortages

Towards the end of October, it became alarmingly apparent to both CSI Management and the BRP's that ArcelorMittal South Africa's (AMSA) production problems, following its wildcat strikes and plant maintenance issues, would lead to critical raw material shortages for GRS in the months of November and December 2020.

AMSA's inability to supply steel resulted in a domino effect felt by steel merchants and fabricators throughout the country. Thus far, AMSA has been by far the major supplier of raw material to GRS, and this delay or loss of supply negatively affected GRS' projected sales by circa R33 million in the month of November 2020. Most of GRS's customers have been negatively impacted, but have been kept abreast of the situation. The delays/backlogs have also had the effect on payments due to creditors according the BR plan.

AMSA has subsequently started addressing the backlogs, and pushing production to meet pent up demand. There is thus some level of improvement in the supplies from AMSA, as being witnessed in the month of December 2020 and following into the new year. This however, has left the industry still reeling and doing their best to cope.

CSI response to the shortages

It is always a risk to depend on one supplier for the bulk of raw materials. Thus, prior to the above incident, CSI had begun exploring imports to partially augment some supplies, albeit on an experimental basis at that stage.

Having experienced the shock of the shortages, referred to above, GRS has increased the level of imports going forward. The positive effects of this strategy are expected to manifest from about the middle of Q3. Forecasts have been updated to reflect these challenges and new the strategies.

COST REDUCTIONS IMPLEMENTED

Prior to the Covid-19 Lockdown, CSI typically generated *circa* R210 million in monthly revenues against a total manufacturing and overhead cost-base of around R25 million per month, the majority of which were 'fixed costs' in nature.

The BR Plan anticipated that 'post Covid-19' trading activity would reduce to *circa* 60% of pre-Covid levels and, accordingly, the CSI cost base had to be urgently and decisively reduced to stop further losses. Under the guidance and direction of the BRP's, the implementation of this much needed cost-reduction and cost optimization plan was accelerated in July 2020.

We are pleased to again report that through decisive intervention, the monthly cost-base of GRS (in relation to continuing operations) has been maintained at approximately R13,9 million during the month of November 2020, a saving of approximately R6 million compared to the same month in the prior year.

CASH FLOW

The BRP's and CSI management continue to successfully focus on and manage cash flow on a daily basis. In the month to 30 November 2020, the Company continued to achieve close to a 95% accuracy in terms of its budgeted/forecast cash flows and remain confident and committed to the settlement of all remaining 'ring-fenced' historical creditor obligations (amounting to *circa* R125 million) together with the payment, within terms, of all trade payables arising post business rescue.

Regrettably, the impact of below budget sales, increased reliance on imports and the abnormal cost variances associated with the discontinuance of the traditional Stalcor business have resulted in delayed payment expectations pertaining to ring-fenced historical creditors. In this regard, certain payments have been delayed so as to ensure that CSI is able to execute on the Business Rescue Plan. Management and the BRP's remain committed to meeting business rescue creditor repayments in the current financial year and wish to thank creditors for their patience and assistance whilst they navigate the abovementioned challenges.

SALE OF CSI ASSETS

Disposal/discontinuance of non-core operations

The BRP's, with the assistance of Deloitte Corporate Finance ("**Deloitte**") and CSI management have:

- Signed agreements for the sale of Stalcor's Botswana-based subsidiary;
- Signed agreement, subject to fulfilment of regulatory conditions, for the disposal of GRS's Zimbabwean-based operation. It is envisaged that this operation, Global Roofing Solutions Zimbabwe (Pvt) Limited, will continue to exclusively serve the Zimbabwean market with GRS products and services;
- Signed Heads of Agreement for the disposal of GRS's Robertson Ventilation Industries (RVI) after having already begun the managed winding-down of RVI's South African operations. It is intended that GRS will continue to manufacture against order, the Orion ventilation systems, the design and intellectual property rights for which remain the ownership of GRS.

SALE OF GRS

Plans to sell GRS as a going concern or CSI remain ongoing. In accordance with the sales process, the BRP's, with Deloitte's guidance, are currently negotiating with potential buyers on final offers.

If successful, it is anticipated that the sale process will be completed by end of Quarter 3.

CONCLUSION AND APPRECIATION

The business rescue of CSI is still progressing well. The BRP's and CSI Management remain confident of ultimately achieving the financial projections set out in the BR Plan, albeit it slightly delayed as a consequence of the steel shortages and mitigating import strategies referred to above.

CSI is grateful for the continued support of its valued customers, suppliers, financiers, creditors and landlords. The forward sales order book remains an achievable beacon to take the CSI business forward into 2021.

The BRP’s together with CSI management remain committed to maintaining and increasing the momentum of this successful business turnaround so as to maximize the return for all affected persons.

Thank you.

Chris Ransome
Executive Chairman

Andrew Winter
Chief Executive Officer

Ian Fleming
Business Rescue Practitioner

Sello Mkhondo
Business Rescue Practitioner