Tongaat Hulett Limited Business Rescue Proceedings

BRP/Shareholder Engagement

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Meeting Agenda

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1. **Welcome and apologies**
2. **Background**
   i. General
   ii. Tongaat Hulett specific
3. **Sum of the Parts**
4. **PCF and Working Capital**
5. **Further Complications**
6. **Project Totum**
7. **Status Quo**
8. **Discussion**

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Background - General

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- **Accounting irregularities (exposed 2019)** well publicised - significant role in filing for business rescue (“BR”)
- BRPs and management **cooperating with authorities** in investigations
- BRPs are <u>**forward looking**</u> - working towards a plan focused on saving jobs and optimising returns to stakeholders
- BR <u>**is not**</u> **“business as usual”**
    - By definition, underlying company is in **financial distress**
    - Amounts **owed as at commencement** dealt with in the BR plan
    - Gaining and maintaining **“liquidity”** during BR a constant hovering sword
    - **Market** knows company is distressed – and treats it as such (dozens of speculative, opportunistic and unfunded proposals)
    - **Trade counterparties** know company is distressed – and treat it as such (critical creditors/CoD terms)

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Background – General Continued

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- Chapter 6 of the Companies Act ("Act") sets framework of **rules and regulations that have to be adhered** to
- The Act specifically requires that BR "**balances the rights and interests of all relevant stakeholders"**
- Company law and insolvency law - **creditors rank ahead of shareholders**. Where insufficient funding to settle creditors – shareholder ranking results in downside risk:
  - **equity contributions** (the concept of "limited liability")
  - but **unlimited rights to the upside** once all creditor obligations met

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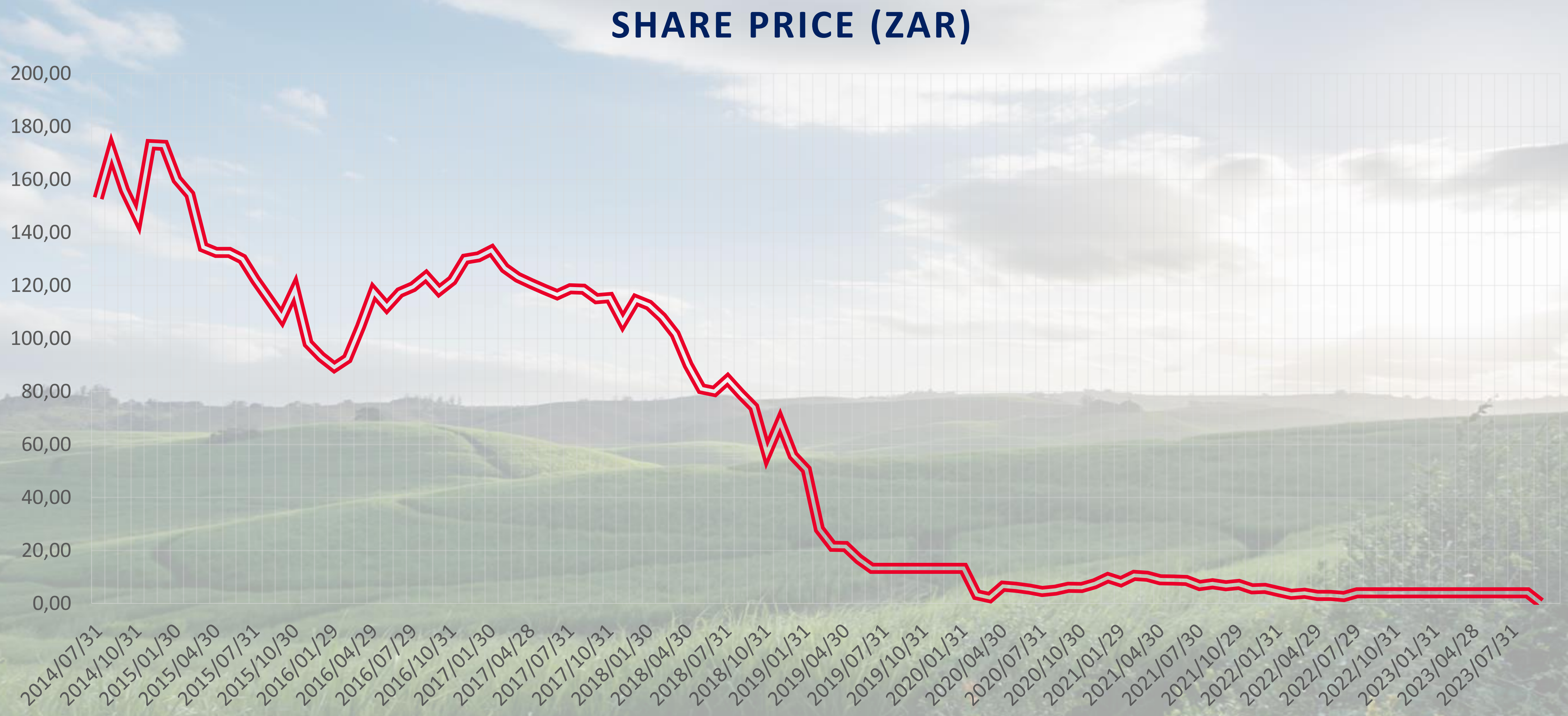
SHARE PRICE ANALYSIS



Background – Tongaat Hulett

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- **Company in severe financial distress at BR commencement in October 2022:**
  - Operations **suspended due to lack of funding**
  - 2022/23 crushing season needed to be completed/funded
  - Critical off-crop capex/maintenance programme needed to be completed/funded
  - Borrowings forecast to increase from **R6.6bn in March 2022 to R8.1bn in March 2023**
  - SA Sugar cashflows then forecast to be **negative R0.5bn in FY2024 and negative R0.3bn in FY2025**

- **Bank facilities exhausted:**
  - Borrowings amounted to **R6.9bn in October 2022**
  - Lender Group holds **security over virtually all of the assets** of the company
  - **No borrowing capacity** - no unencumbered assets

No funding -> No BR

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DEBT PROFILE ANALYSIS

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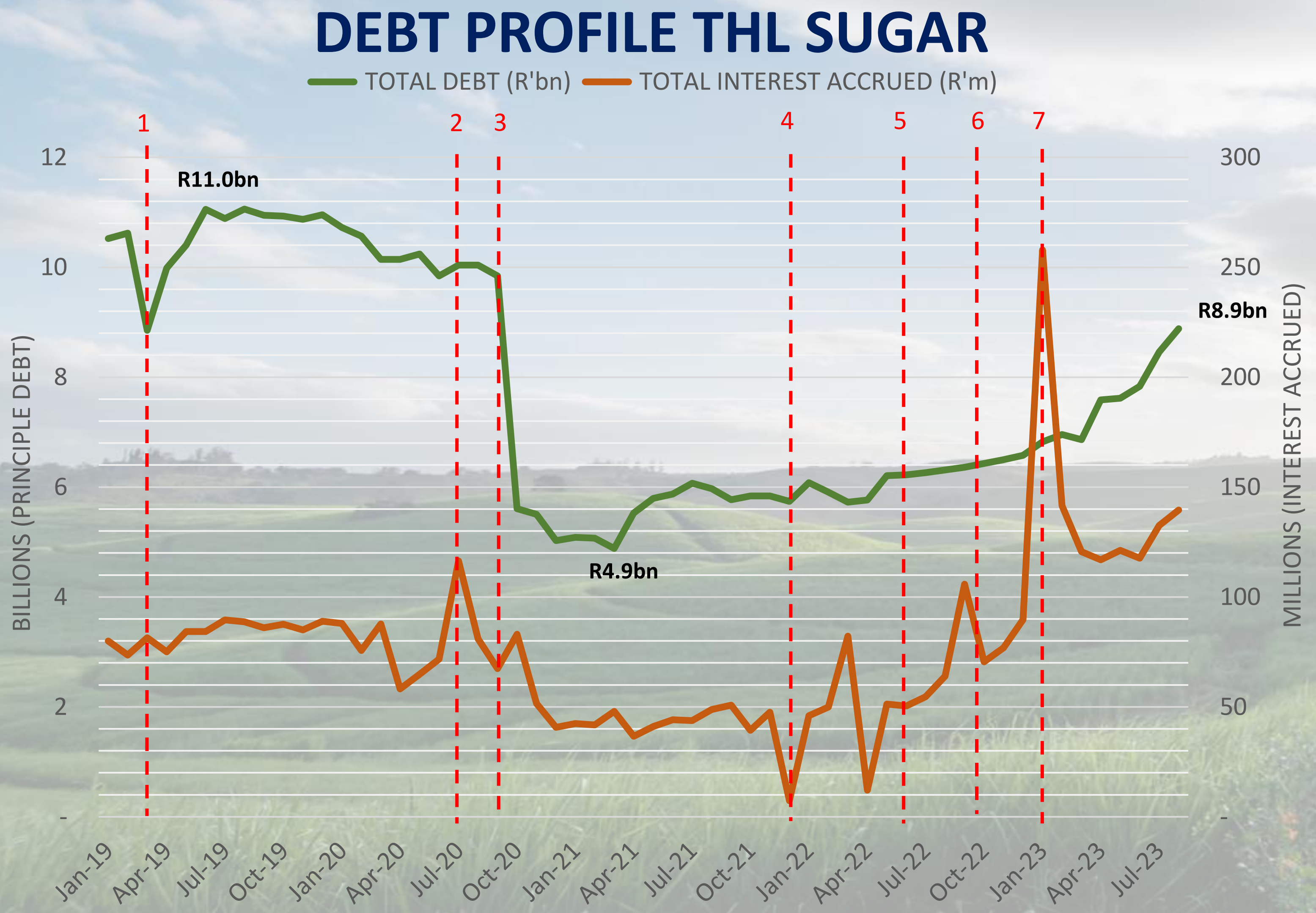

1. Reduction in debt as a result of carry over finance and export proceeds received.
2. Peak in interest as a result of an initial restructuring - IFRS adjustment (technical)
3. Starch business sold R4.1bn (net)
4. Reduction in interest as a result of a second restructuring - IFRS adjustment (technical)
5. CRO appointed
6. BR commenced
7. Retrospective step-up in interest - NOT cash-paid
   i. IDC PCF interest is paid monthly

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Background – Tongaat Hulett Continued

- **By October 2022 Multiple initiatives to restructure Tongaat had already failed:**
  - New management team sought to turn Tongaat around **since March 2019** (concurrently dealing with the accounting irregularities)
  - With c.**R12bn in debt facilities**, Lenders had attempted to facilitate a turnaround in March 2019
  - A **CRO appointed in June 2022** to develop a restructuring plan. Plan rejected by Lenders.

- **Shareholders approved equity recapitalisation proposed by Board in January 2022**, but TRP waiver challenged and equity recapitalisation failed

SA sugar cashflow negative, TH Property cashflow negative (neutral at best), funds in Mozambique locked in by local lenders, Zimbabwe not releasing any material cash, bank facilities in South Africa frozen – and hundreds of millions of rands of immediate obligations to be met

Sum of the Parts (THL Company)

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- Realisable value of company's **assets materially less than its liabilities**
- Liabilities at the commencement of **BR = c.R10.1bn** (LG Debt and Creditors)
- Net value of assets:
  - **Balance Sheet**: at October 2022 assets c.R5.9bn vs liabilities c.R10.1bn = negative equity value **c.R4.2bn**
  - **Liquidation estimate:** at October 2022 realisable assets (incl debtors, inventory and cash) net c.R4.0bn = negative equity value **c.R6.1bn**
  - **September 2023 forecast:**
    - Kagera proceeds = c.R3.6bn (plus assumption of PCF currently c.R1.7bn)
    - THD proceeds = c.R0.6bn
    - BR claims = c.R11.5bn
    - Negative equity value = **c.R5.6bn**

No prospect of there being an excess of asset value over liabilities which would produce a positive return to shareholders (even if it were to be broken up)

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PCF and Working Capital

- Cash was **urgently needed** to recommence operations (LG facilities frozen)
- Without PCF, TH would be **in liquidation before rescue** got off the ground
- Initial PCF from **Lenders of R900m** - short-term stability, enabled restarting of Mills and Refinery
- Subsequent **increase to R1.2bn - raised from IDC** (Lenders PCF repaid), enabled funding of working capital requirements to end of June 2023, including off-crop programme
- Subsequent **increase to R1.725bn from IDC** - enabled funding of working capital requirements to October 2023
- Working capital funding requirement/cycle for Tongaat Hulett is c.**R1.7bn per annum**
- IDC holds security over bank accounts, inventories and debtors of SA Sugar – any solution needs to deal with this
- **Without provision for future working capital funding – any proposed solution for TH would face a fatal flaw**

IDC PCF facility and underlying security must be catered for in any proposed solution

Further Complications

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- **Social and economic catastrophe** threatening KZN was unprecedented:
  - Estimated direct and indirect job losses **= c.2500 employees + further c.23,000 indirect jobs** in some of the most rural areas in KZN
  - c.43% of TH sugarcane from independent farmers, over **15 000 of which are small-scale farmers and co-operatives**
  - TH produced **c.R29bn of output within the SA economy, contributing c.R11bn to the GDP** (based on direct, indirect and induced impacts)
  - BRPs had to consider the **need to save SA operations** (the "balanced approach") as composite part of any solution

- Sugar industry regulated – BRPs have been **facing legal challenges** from administrator and fellow market participants

- Thousands of TH's sugar suppliers are small scale growers – **needed to be protected** (notwithstanding the moratorium, and cashflow crisis, BRPs had to find a way to pay them)

A concomitant focus on avoiding a socio-economic catastrophe had to be incorporated in the Business Rescue proceedings

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Further Complications Continued

- IDC **generously** provided PCF, which has assisted in avoiding the threatened social and economic catastrophe (if SA Sugar failed)

- Lenders hold **security over all of the Group's material assets** – some subsequently taken as security by IDC to facilitate PCF provision

- *BRPs had to find a solution that simultaneously would:*
  - *be approved by requisite **majority of creditors** (in business rescue law)*
  - *be approved **by IDC** (in terms of PCF agreement and security held)*
  - *be approved **by the Lenders** (in terms of secured creditor status and security held)*
  - ***avoid social and economic catastrophe** in KZN if SA Sugar were to fail*
  - ***assist with continued payment to SASA** by THL - thereby avoiding difficulties experienced by fellow SASA members*

- BRPs were under **tremendous pressure**, from Lenders in particular, to move rapidly and publish a business rescue plan

Multiple moving parts and multiple parties with differing interests that needed to be accommodated in the final solution – pressure was on to get it done

Project Totum

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- Term of PCF (a vital lifeline that kept TH liquid) required that **Sugar assets remained intact** - moratorium on sale (or marketing) of the African subsidiaries individually
    - Agreed to by the BRPs and the Lenders

- BRPs thus ran an urgent accelerated process **("Project Totum")** to dispose of:
    - entire Tongaat group sugar operations (including its head office); or
    - the Tongaat South African sugar businesses

- Potential strategic equity partners (SEPs) that expressed interest were engaged (parties interested in standalone non-SA operations were put on hold)

A comprehensive and professional process was run within the restrictions and realities that were faced by TH and the BRPs

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Project Totum Continued

- Project Totum had **three main phases**:
    - **Phase 1:** Initial engagement - submission of a detail expression of interest (13 selected from the 21 to progress to Phase 2)
    - **Phase 2:** Sharing of high-level information, management presentations and Q&A - submission of further expression of interest (8 selected to progress to Phase 3)
    - **Phase 3:** Detailed due diligence - binding offer phase. Engagements:
        - Detailed virtual data room
        - Management presentation detailed Q&A
        - Site visits across SA, Botswana, Mozambique and Zimbabwe
        - Engagement with key stakeholders (e.g. IDC, grower reps)

- BRPs shortlisted two parties. Both parties offered opportunity to improve offers

- After multi-faceted analysis, Kagera Sugar Limited selected as the preferred SEP

- BRPs consulted continually with IDC and Lender Group (secured creditors) throughout Project Totum

Despite huge pressure the BRPs ran and managed a stringent, independent process to finalise the sales process.

Status Quo

- Heads of agreement **have been signed**

- The structure of the Kagera Transaction is in the form of **separate agreements** for:
  1. SA sugar business operations (including the head office operations)
  2. Shares and claims in Tongaat Botswana
  3. Shares and claims in Tongaat Zimbabwe
  4. Shares and claims in Tongaat Mozambique

- **Kagera will assume IDC facility and all working capital related items**

- Purchase consideration is **R3.56 billion.** Proceeds received will primarily go to the Lender Group

- At best, a **nominal distribution** might be paid to unsecured creditors

- **No residual value available for Tongaat shareholders**

- The BR Plan is expected to be published by no later than **31 October 2023**

Status Quo Continued

- Even if the group were broken up – **creditor claims will far exceed proceeds and still no value for shareholders**

- Gap between realisable value of assets (from credible bidders) and claims against TH is too wide to bridge

- If there were more value to be gleaned from the assets through an alternative process, the **Creditors would directly gain from any uplift in value before shareholders see any realisation**

- Secured creditors have **the dominant BR vote** (c.80%)

Unfortunately, events prior to the commencement of BR, the social imperative to save a KZN economic catastrophe, the extent of the balance sheet shortfall, the composition of the assets, the extent of creditors, the need to raise significant new PCF (working capital), and the rights of secured creditors (Lenders and IDC), leaves TH with debt far in excess of realiseable value of assets and thus shareholders unable to realise value for their investments

Status Quo Continued

- Lots of publicity recently originating from bidders who have either not been selected as the preferred SEP or who missed the transaction timelines

- In line with BR regulation, credible alternative offers may be presented for consideration by Creditors

- The BRPs would welcome input from shareholders after taking into consideration the circumstances and limitations as set out in this presentation

- Currently envisaged that amended BR plan will be published before 31 October 2023

- The creditors vote on the BR plan – they will have the last say

- The proposed business rescue plan does not alter the rights of the holders of any class of the company's securities and therefore if the minimum threshold votes (by the creditors only) to approve the BR plan are achieved the BR plan will be taken as finally adopted (s152(3)(b))*

* Subject to the satisfaction of any conditions on which the BR Plan will be contingent

Creditors will have the last word

Thank You