

Subject: FW: Thoughts regarding the last offer and a new option - A potential solution that's not just a bandaid

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To: [REDACTED]

Priority: High

Attachments: Results 2015.jpg

AGRIZZI REQUESTS TO "TURNAROUND" AGO 12 HOURS AFTER SENDING DISAPRAGING EMAIL TO DARCY HERMANN

Brian,

"Not for distribution"

From the onset, I must highlight, that the Group of Companies is indebted to me as per a settlement contract, and because of a vested interest, I would like to raise the proposal, this is in no way intended to question Gavin Watson management style, ability or integrity, but a mere proposal to look at the alternatives to ensure continuity and save potential jobs

In terms of the last offer made in respect of the guys – "musketeers" – I don't think that it's going to fly at all, perhaps let's consider another approach.

At this stage let's be cognizant of Gavin's vulnerability and sensitivity to the matter, the risks facing the group that are apparent. Perhaps we have to look at the problem more holistically. I agree it's his business and he has a right to do whatever he feels is best, the fact remains sometimes one needs advice from someone such as yourself, and I trust your judgement in this. If you think for a minute it's not attainable don't bother with it, and scrap the proposal, but just maybe there might be some merit in it.

The challenge is quite simply as you stated the company hasn't got money at the moment, it's a reality that there has been a shift, let's for the sake of the business put ego's, blame and bitterness aside and look at the reality.

I gave it some thought, Gavin Watson is in a quandary, the Company has made losses in the 2016/2017 year, my calculations are that the losses must be sitting at about R55 Million if not more, the 2017/2018 figures are probably going to be even worst potentially a R85 Million loss, in this instance the balance sheet and the assets actually don't mean too much at all, the fact is the only way they can sustain the losses is by taking the Ntsibinthle dividend contributions of R70 Million per annum into the endless pit!, this is probably what has been done to keep it afloat.

The fact is if you look at the past performance compared to the last 18 Months, the problem is quite simply a fundamental management skillset and focus problem, the economy has nothing to do with it. The losses aren't because of Copper Rod, my payout (which is reflected in a loan account) but actual trading losses as a result of a group that has unfortunately just grown too fat, and needs to be trimmed to the bare bones, and refocused something I proposed in November 2016.

The 2015/2016 costs include the revamp of Lindela, the houses, Biorganics etc. costs that came to well over R30,000,000 yet we still accommodated the costs and posted a trading profit of R112,000,000, had no overdraft and paid handsome bonuses to all staff. The actual pre-tax trading results were as follows;

Signed of financials – See attached
(All stated Pre Tax)

- Feb 2015 – R272,000,000 (Includes a re-evaluation of Ntsibinthle R195,000,000.) – Actual Profit R 77,000,000.00

- Cash in the bank – R61,000,000 No overdraft
- Feb 2016 – R112,000,000 (Includes a re-evaluation of Head Office Properties R35,000,000) – Actual Profit R77,000,000.00
 - Cash in the bank – R71,000,000 No overdraft

Forecast

(All forecasted on previous results and stated Pre Tax)

- Feb 2017 – (R55,000,000) Loss – To be signed off
 - Overdraft R50,000,000
- Feb 2018 – (R85,000,000) Loss Forecasted
- *The business actually declined in profits R132,000,000 – Shocking to say the least only attributable*
- *Cash reduced from R71,000,000 to an Overdraft of R50,000,000 – decline in R126,000,000*

NOTE: A forecast was sent to FNB in June 2017 that the 2017 trading profits would be R54,000,000 profit as opposed to the actual trading loss of R55,000,000 which is further concern on whether facilities will be continued in 2018.

Current concerns;

A simple analysis will tell you that 65% of the business is Catering Services, 20% Security and Lindela, the balance is made up of Youth Development Centers and other smaller offerings. The facts are as follows;

1. Kgwerano is going into contract termination and is in the moment subsidized by the Group
2. The Sondolo IT Department of Justice contract is terminating in the next few months
3. The Security contracts have dwindled and are nearly non-contributory – probably in a loss situation
4. Copper Rod – at best would require a further R100,000,000.00 in raw material and a further R12,000,000.00 Commissioning fee to get it up and running, even then it would probably never recoup the initial capital layout, The forecast a year ago was at R5,000,000 profit, not taking the funding costs into consideration, and the market is now saturated
5. The fact is that Lindela currently only has a maximum amount of 500 people at any one time, chances are the Department of Home Affairs will not keep a centralized operation, and talks have been to decentralize it to border posts, this would mean that the R8,000,000.00 revenue stream would eventually be compromised
6. Prospects of Smart City and the DBSA Facilities Management contract as well as the SAPO security contract are dismal due to the political alliance everyone associates Watson with, in effect Watson has become a political hot potato – we all know it, no one has the guts to tell him

Understanding what Bosasa is good at;

If 65% of the business is Catering related you would expect the company to have specialist skills in the catering sector, currently there are none, and hence the bleeding at the Mines and at Correctional Services, you cannot expect the current situation to improve unless you have operators and experienced ones at that. A simple example, to retain Sibanye with the hope of getting additional business, they have if you analyze the bid submitted effectively cut pricing, a practice that seems to be the norm now at Bosasa. I personally never cut pricing, yet retained existing contracts, it's quite simple clients are resistant to change especially in the food sector, so why change it?

Taking all of this into consideration, one has to look at how to remodel the existing business, so that you can make it lean and operationally sustainable. Just using the Ntsibinthle dividends to float it in the long term is not sustainable. Unfortunately there is only one option left to rescue the business, and I would like to propose what I consider a win-win solution.

At the end of the day, Bosasa has been successful in providing “High Density Accommodation Services” and to a degree “Hi Tech Security Solutions” and that’s where previously we made good money. It was when we started delving in the IT sector, vehicle management and aquaculture etc., all sectors we did not have the skill to manage or understand, whenever Bosasa employed far too many Chartered Accountants things went wrong, a simple fact, when we changed it and made more people operationally accountable and sent them into the field to control soup and bones we made money.

Gavin is set for life – he and his family can have the assurance of receiving the Ntsibinthle dividends for another 26 years if you look at the lifespan of the mine. Just the dividends will contribute an average of R70,000,000.00 per annum post tax. Furthermore what I would like to propose is we look at in conjunction with your continued involvement perhaps an unbundling of sorts, where we then provide Gavin and the Watsons with annuity income derived from the use of the properties and payment in terms of royalties, the benefits of which could well be in excess of R44,00,000.00 per annum, this provides Gavin and the Watson’s with annuity income of well over R110,000,000.00 per annum, significantly more than what they are currently receiving.

Gavin can still continue being involved in the development of deals that when close to conclusion can be incorporated into the business, this however gives him less of the risk exposure he currently has.

What this will also do is provide conservatively an income for the “new management” team an expected R80,000,000 per annum, after we have unbundled the non-profitable operations and optimized those that are contributing. The fundamental being that you now have a focused and skilled team focused on developing a sustainable business.

N10 Brian the fact is that at the moment the Directorate (Darkies), the family and the existing employees merely see Bosasa / African Global as a meal ticket, and security. I’ve known Gavin for 19 years, he is very predictable, ego conscious and hates losing, so we would have to if you think on how best to approach the matter.

The reality is that he has not been able to increase revenue, has depleted the profits and is daily building one massive liability in terms of staff costs and potential long term retrenchment costs.

To turn around the business would take me at most six months, and I would require a relaxation of any payback until the unbundling has been completed, in fact I am so confident, knowing that I have done it on no less than three occasions, pre-empted by bad decisions made by Gavin himself – Sea Ark, Dealstream, F&R PHAKISA – and everytime I have been able to turn it around.

OMIT IF FORWARDING

N10 Between you and me, you are well aware of the fact that he is reliant on the likes of Colleen (Etienne had his own opinion), Lindsay (Incompetent at best) and Louis Passano who has been sequestered more than once, previously fired for bad decisions and hasn’t been able to hold down a job – I don’t want to badmouth but whether you like it or not the Board of Directors (save for Joe Gumede) are merely in it for themselves. By minimizing the existing board to perhaps three, one would see a phenomenal change in attitude and performance.

Put simply – if a person cannot master his own finances at home, chances is they cannot even begin to manage a Companies interests, the added stress of not knowing how you will pay your own creditors would keep me focussed on my worries and not on the business – especially if I have liquidators at the door knocking.

Brian, I don’t want to rub it in that Gavin has made really bad decisions, but do you honestly believe he can rescue the business in its current form, I don’t think so, he is far to gullible and set in his ways. You

cannot build incredible systems that are merely shelved, when the fundamental operational systems aren't in place, you cannot take an approach of endlessly developing solutions such as a Transport Fleet Management system that has cost in three years R40,000,000 without having a client who will buy it, we all know it, yet Gavin will allow that because he believes in it, because he likes the person championing it. Of course the likes of Papa Leshabane will advocate that it's about to be sold to some transport official in the Northern Cape, it's a free trip, R15,000 entertainment and a pillow service for the evening, this has been going on for 11 years – still no contract, despite the millions into dev costs with the Indians.

END OF OMISSION

N11

Let's say Gavin doesn't trust me, or Andries let's hypothetically say that we stole the R30,000,000 he claims (deep down you know we didn't), the answer is then quite simply he still made R77,000,000.00 per annum, as opposed to someone who didn't steal and made a R55,000,000.00 loss, the reality is that the trajectory he is on is fueled by people who have their own interest at heart, and will continue to sustain losses.

Brian, quite simply cost savings have been overlooked due to sentiment;

- quite simply cut out three departments, and curtail expenses in two others that would generate savings of R2,400,000 per month
- dispose of non-contributory divisions / companies generate a saving of R4,800,000 per month
- decentralize certain functions and outsource the coordination would generate R4,100,000 per month
- improved operational efficiencies would generate a further R8,200,000 per month
- negotiations on supplier contracts would generate a minimum R3,800,000 per month
- improve negotiations on client contracts would generate a minimum of R11,700,000 per month

Total R 35,000,000 in efficiencies within the first six months, attainable because we have achieved better before

Give the matter some thought, the benefits are endless, Watson no longer has to live with the Sword of Damocles over his head, an exit will in fact rid him of all the liabilities he has been faced with, and he retains his honor and dignity in the process. The fight has been long and arduous, Gavin is 70 years old and quite simply I don't think he want to focus on the negative, who is out to get him, what surprises are waiting for him and most importantly does he want to live with the constant need to please people and pay them off so that they maybe bring in a good deal? – we all know we haven't seen one come to fruition yet – and it's sad he trusted so many "deals" to come off.

Furthermore the contingent liability is probably already well over the R98,000,000 making Bosasa / African Global the perfect candidate for business rescue.

The alternative is daunting and scary, if the company continues on the trajectory, we know where it will end up, and would probably result in Gavin losing everything in trying to please his current team, they in effect will be worse off for it, and the likelihood is some "Enver Motala" will make a meal of it towards the end, we have to try avert it. Obviously if it came to that I would be first in line bidding to take it over on full risk, I can assure you I will endeavor to offer a plan to the relevant banks.

I would suggest that Brian you form part of the Company as a senior advisor or director to manage and control Gavin's best interest, I think deep down in the last two years something has drastically gone wrong, Gavin knows it, and I'm sure he regrets it, unfortunately his pride and the influence of others has robbed him of his peace, and I actually do feel sorry for him, and maybe this is a way to help him. Perhaps I've had a bit too much cheese this evening, but I am sincere in what I have proposed, this could in effect be a turning point for him, and improve his lifestyle.

Brian, any rational individual would opt for this opportunity, and allow a new wave to take it to new heights, you cannot at this stage evaluate the company as a going concern, and hence my proposal – give it some thought – hopefully I can be of assistance in solving the cause and not just the symptom. As difficult as it might seem to propose to Gavin, let's give it our best, if it fails we know we tried earnestly to resolve it, and save jobs.

In closing – I am sure if we all form a formidable team, with a common goal and purpose we can change the downhill course to destruction to an evolutionary turnaround, that will benefit all.

Bouna Notte