

EMAIL FROM LEGAL ADVISOR TO AGRIZZI SUBSEQUENT TO BOARD MEETING

From:: Angelo Agrizzi <angelo@angeloagrizzi.com>
Sent:: Monday, 19 March 2018 1:48 PM
To:: [REDACTED] >
Subject:: Re: The Board's response to your proposal of 7 March 2018

[REDACTED] – My comments BELOW in the body of your mail, and see the email to Prof [REDACTED] I copied you into

See original offer again – attached that will clarify all the questions posed.

In addition to the comments below

The proposed plan was sent to you, it's pretty conclusive, I then had a long chat with Prof [REDACTED] who clearly indicated to me that Gavin wasn't interested, "Too much pressure from the black directorate" – I then responded to you with a detailed email, copying you in on the discussions with prof, where I specifically told you that it is evident the proposed transaction is **stillborn!** None the less I don't know why pursuant to my mail to you, you still saw fit to have a meeting which was supposed to take place on the Monday, then the Wednesday then the Friday and which supposedly took place today.

Once more [REDACTED] – it's exactly what it is – a lot of games being played, The guys must do what they want to do going forward, I'm not about being played for time by yourself less by Gavin Watson, there just is no reason to carry on playing games, **An offer is on the table, take it or leave it, if you don't want to do it, let's leave it, perhaps I will pick up what's left later on.**



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From: [REDACTED]
 Date: Monday, 19 March 2018 at 12:53
 To: "angelo@angeloagrizzi.com" <angelo@angeloagrizzi.com>
 Subject: The Board's response to your proposal of 7 March 2018

Dear Angelo

I met with the African Global Board this morning when I presented your turnaround proposal of 7 March 2018.

The meeting took place in an acceptably appropriate business-like environment, lasted 1.5 hours, and several questions were raised, which I set out below.

Would you please be good enough to respond to these questions, and on receipt of your response, the Board will make and communicate a decision to you.

1. Who comprises and forms part of the management team that you refer to, and does this include Frans Voster, Leon van Tonder and Andries van Tonder? Are you personally also part of the 'management team'? **ME, PERSONALLY I WOULD HEAD UP THE TRANSACTION AND YES IT WOULD INCLUDE THE AFOREMENTIONED WITH THE ADDITION OF CERTAIN OF THE ROLE PLAYERS THAT PREVIOUSLY WERE EMPLOYED BY THE COMPANY**

2. How do you envisage making a difference, and on a practical level, how do you envisage turning the business around? **THE PROPOSAL FORWARD TO YOURSELF IS I WOULD SAY VERY COMPREHENSIVE AND PERHAPS YOU SHOULD REFER BACK TO IT, THE TURNAROUND WOULD MOST DEFINITELY INVOLVE SOME SEVERE CHANGES, AND AS INDICATED IN THE DOCUMENT INVOLVE UNBUNDLING OF NON -PROFIT GENERATING ENTITIES – PRACTICALLY IT HAS BEEN DONE ON A FEW OCCASSIONS BEFORE, WITHOUT HAVING PROCURED NEW BUSINESS, BUT BY ENSURING EFFECIENCIES ARE OPTIMISED, I RE-ITERATE THE FACTS WERE IN FACT ALLUDED TO IN THE DOCUMENT**

3. How do you envisage running the business and what is the role of the existing Board going forward? **THE INTENT IS TO EFFECTIVELY MANAGE THE BUSINESS WITH COMPETENT AND FOCUSSED INDIVIDUALS, IF THE DIRECTORS HAVE THE ABILITY THEY WILL MOST DEFINITELY FORM PART OF IT, COUPLED WITH LUCRATIVE INCENTIVES AS SET OUT IN THE PROPOSAL**

4. If your baseline figures (2017 loss of R55m & R50m overdraft) are wrong, how do you envisage achieving the savings you say you will achieve within a 6-month period? As a fact I am told that your baseline figures are wrong, and the question arises, where did you get your figures from? – **CORRECTION – THE ATTAINED PROFITS FOR 2016 -2017 SHOUKLD REFLECT A PROFIT OF R50,000,000.00 YOU WILL RECALL THAT DURING THIS FINANCIAL PERIOD UP AND UNTIL DECEMBER 2016, THE GROUP HAD AN ACCUMULATIVE PROFIT OF R75,000,000 WITH A POSITIVE BANK BALANCE, THIS WAS DEPLETED DURING JANUARY AND FEBRUARY 2017, WITH THE RESULTANT FIGURES BEING A REDUCED PROFIT OF R50,000,000 THE FACT THAT THE BUSINESS IS NOW FORECASTED FOR A LOSS FOR THE PERIOD FEBRUARY 2017 TO FEB 2018 OF AN ESTIMATED R50,000,000 LOSS INDICATES A LACK OF OVERSIGHT AND ABILITY, A NEGATIVE R100,000,000 TURNAROUND SINCE THE DEPARTURE OF PIVOTAL EMPLOYEES AND LEADERSHIP, I THINK THE RROR IS MERELY A TYPO ON THE YEARS. THE FACT REMAINS IS THAT ACCORDING TO MY CALCULATIONS FEB 2018 IS ACTUALLY IN A LOSS, WITH A DEFINATE NEGATIVE BALANCE IN THE BANK.**

5. Given that new deal flow would be critical to any turnaround, what new deal flow do you envisage bringing in, or is your turnaround limited to existing catering / security contracts only? **BRIAN – QUITE SIMPLY IF I WAS TO GIVE YOU THE DETAIL I WOULD BE GIVING YOU THE ADVANTAGE, THE PROPOSAL MAKES PROVISION FOR COMMERCIALY VIABLE GARUNTEES, MORE SO THAN WHAT THE GROUO CURRENTLY HAS, AUGMENTED BY A PREVIOUS TRACK RECORD THAT IS IMPECCABLE**

6. What is the cost of your management team? Will you be charging a fee, or will your fee be determined by a percentage of savings achieved? Do your team members come back as full-time employees or are they on a 6-month / 12-month contract or are they consultants employed by the company.

██████ – IT SEEMS THAT PERHAPS THE INTENT HAS NOT BEEN COMMUNICATED, I REFER BACK TO THE PROPOSAL, IT ENTAILS GAVIN WATSON RESORTING TO TAKING A BACK SEAT, ILL RE-ITERATE IN BRIEF;

EXTRACT FROM PREVIOUS MAIL

“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

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 SHOULD READ 2017/2018 year, my calculations are that the losses must be sitting at about R55 Million if not more, the 2017/2018 SHOULD READ 2018/2019 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 to 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 to 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;

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.

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.

█, 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.

Please let me have your response as soon as circumstances permit to facilitate a Board decision.

Kind regards

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