Date: 23 November 2023

Business Rescue Plan intends to restructure and modernise the South African Post Office

The Joint Business Rescue Practitioners, ('BRP's') of SA Post Office, Mr Anoosh Rooplal and Mr Juanito Damons have today published the Business Rescue Plan ('the Plan') for the SA Post Office, which was placed into Business Rescue by the High Court on 10 July 2023.

The Business Rescue Plan aims to stabilise the Company, restore it to solvency and seeks to enable the SA Post Office to operate sustainably as a going concern without total reliance on SA Government funding in the future. Furthermore, the Plan aims to provide a better outcome for creditors than would be the case in the event of liquidation of the Company.

"Our approach in the Plan is to rationalise costs which are currently unsustainable and to assist in restructuring the Post office into an efficient and future-proofed business", says Anoosh Rooplal.

SA Post Office's financial sustainability is a critical concern that demanded attention. The Post Offices' costs have consistently exceeded 200% of its revenue since FY22. Employee costs accounted for 150% of revenue, with inadequate investment into IT systems, fleet management, mail processing centres, depots and the branch network.

After an extensive analysis of the employee base, the Plan proposes to right size the business through the retrenchment of approximately 6 000 of the 11 083 (31 Oct 2023) total employee base. This action will reduce the annual employee cost by approximately R1.2 billion.

"*The organisation however lacks skills and the leadership, management, and technical expertise across the business. This needs to be appropriately strengthened and developed, which is necessary to drive a culture change towards a high-performance organisation*", noted Rooplal.

The branch network rationalisation will yield further cost reductions. This rationalisation will retain an anticipated 600 branches, which will fulfil the SA Post Offices' activities, mandated by the Universal Service Obligations ('USO') and international mail centre requirements.

An independent valuator was tasked to value all 427 SA Post Office owned properties. Although these properties experienced severe maintenance backlogs, many of these properties are in good locations, and could be of interest to property developers.

SA Post Office's revenue segments include postal services revenue, financial services revenue and property rentals as the main sources of revenue as forecasted for FY24 onwards. Certain revenue segments will be given priority focus, including Bulk Mail, which contributes 42% of the revenue base. The Plan proposes investment into dedicated sales and business development teams to revitalise this segment.

Hybrid mail, including the processing of Road Traffic Infringement Notices will also be prioritised. The Post Office has entered a service level agreement ('SLA') with the Road Traffic Infringement Agency ('RTIA'), where it will print and deliver the Infringement Notices through its postal and branch network. Further focus of revenue generation will also be on Motor Vehicle Licensing ('MVL'), with the re-opening of high performing MVL branches.

Revenue streams that have continuously failed to produce value will be phased out. These include Over the Counter ('OTC') payment services, which include the SASSA and cash pay points ('CPP") payments. The Plan anticipates a possible sale of certain SA Post Office branches to the Postbank, which will enable the Postbank to expand its banking network and allow Post Office to focus on more sustainable business segments.

Strategic partnerships will be included the SA Post Office's strategy to bolster capabilities and resources in logistics, operations and information technology. An example is the large depot network that is strategically located throughout South Africa. With additional investment, the network will be attractive to strategic partners such as retailers in the e-commerce space and freight & logistics businesses.

"We are of the opinion that a large accessible market exists and that implementing the Plan could reposition the SA Post Office to reclaim a space in the logistics services sector", noted Rooplal.

The SA Post Office has received a recapitalisation of some R2.4 billion from the Department of Communications and Digital Technology ('DCDT'). A further R3.8 billion allocation by Government is required, as investment capital to repair and modernise the SA Post Office to support this turnaround strategy. With the current allocation of the R2.4 billion, the Plan proposes a dividend award of 12 cents in the Rand, (circa R1 billion), to all pre-commencement Concurrent Creditors.

The BRPs believe that the Plan will, upon implementation, achieve a better return for Creditors and a better outcome for all other Affected Persons, against the result from an immediate liquidation of the Company. Liquidation would result in the loss of all jobs. In a liquidation scenario, and as per the calculation of an independent consultant, a possible Liquidation dividend payable to Concurrent Creditors would be 4.08 cents in the Rand (and which dividend is normally paid out 24 to 36 months later).

"The compromise with creditors will restore SA Post Office to a solvent position. We believe that with the continued support of the joint BRP's over the implementation period of the Plan and through renewed endeavours to institute strong governance and ethical policies, the business can trade as a going concern" concluded Damons

According to the Companies Act, 2008, the creditors will be asked to vote on the Plan on 7 December 2023. A 75% majority vote in favour of the Plan is required for the Plan to be adopted.

ENDS

Louise Brugman 083 504 1186 on behalf of Joint South African Post Office ('SAPO') Business Rescue Practitioners (BRPs), Mr Anoosh Rooplal and Mr Juanito Damons

A copy of the Business Rescue Plan can be found on https://www.postoffice.co.za

Further dialogue with the BRPs and claims can be sent to SAPO.BR@sng.gt.com

Notes to editors

Bulk mail

The bulk mail service is the most practical service for businesses and individuals that post 100 or more items that must have a permit mail impression on the top right hand corner and these items must originate from the same sender, are identical in shape, size and mass category and have the same contents.

Hybrid mail

The transfer of a data file to a central point that is then split and transmitted to a secure printing, packing and posting sites at the closest point of delivery to the customer.

About SAPO

SAPO is presently financially distressed and is unable to honour its financial obligations as and when they fall due. The BRP's were appointed on 10 July 2023.

The appointment was subsequently approved by the Financial Sector Conduct Authority on 14 July 2023 and ratified by the majority of creditors on 24 July 2023. As of 31 July 2023m the Post Office had a negative shareholder equity of R7.9 billion

The 2008 Companies Act sets out two goals or purposes for business rescue. The primary goal is to return the company to its solvent position, in other words, its assets exceeding its liabilities. However, if it is not possible for the company to continue to exist, then the secondary goal should be achieved, which is to provide the creditors and shareholders of the company with a better return than what would result from the immediate liquidation of the company.

SAPO provides traditional postal delivery services, which enables people, especially in remote and otherwise underserviced areas to access communications and government services where they would otherwise be unable to do so. SAPO's services are not limited to traditional postal services. SAPO serves as the South African Postbank SOC Ltd ('Postbank') physical branch network. As one of the paying agents to Post Bank it assists in distributing social grants at some of its branches as well as distribution to beneficiaries of the Extended Public Works Programme that was initiated by the Department of Transport ; it delivers medication to those in need; and facilitates convenient renewal of motor vehicle registration.