

3 September 2024

Update on the SA Post Office Business Rescue Process

- Post Office stabilizes and envisages a future with further funding

Background to the Business Rescue

On 10 July 2023, the Minister of Communications and Digital Technologies placed the SA Post Office into Business Rescue, as its financial stability had been undermined by unsustainable costs, operational inefficiencies and its failure to modernize.

Specifically, the Post Office faced:

- o declining demand for traditional postal services due to **technological advancements**, and the Post Office's failure to adapt to these developments;
- o its **slow pace of modernisation** and resultant inability to meet financial obligations;
- o failure to **adjust its operational costs** in response to declining sales volumes or update its business capabilities to align with market trends;
- o **an unsustainable cost structure**. The Post Office's **costs** have consistently **been more than 200% of its revenue since FY22**. Employee costs accounted for 150% of revenue, with inadequate investment in IT systems, fleet management, mail processing centres, depots and the branch network;
- o **operational inefficiencies**: poor cash management, inadequate infrastructure, and
- o **reduced asset security**, leading to an increased incidence of robberies at depots, mail centres and branches, which worsened the entity's financial position;
- o **Restrictions on borrowing under the Public Finance Management Act (PFMA)**;
- o Difficulties arising from the **SASSA contract**, which was a loss leader;
- o **Overdue payments to landlords and suppliers**, resulting in various legal applications being instituted.

The appointed joint Business Rescue Practitioners ('BRPs'), Anoosh Rooplal and Juanito Damons had to make quick and difficult decisions to ensure the Post Office could remain open for business. They needed to consider and draft a Business Rescue Plan ('the BR Plan') that would stabilize and support the business and ensure it had a sustainable future. The BR Plan was supported by an overwhelming majority of relevant creditors on 7 December 2023.

Actions taken by the BR Practitioners over the past few months

The Plan is underpinned by strategic drivers that are aimed at stabilizing, surviving and future-proofing the Post Office to ensure it will be sustainable in future.

The Post Office received the full R2.4 billion funding allocation from National Treasury in 2023, which is supporting the current operations and payment of the dividends due to relevant affected parties of the company.

In order to fully implement the approved BR Plan, the Post Office requires a further R3.8 billion in funding from National Treasury, as was stated in the application to the high court to place the Post Office into business rescue. A formal application for this funding allocation has been submitted. A representative BRP team also updated Parliament today on operational changes, successes, risks and possible mitigation tactics as well as the envisaged future of the Post Office, should additional funding not be procured. This does not detract from the work that is currently being done in the business rescue process to protect and grow revenue streams by developing and bringing to fruition proof of concept initiatives.

Over the past year, the BRPs have stabilized the business and made progress on cutting costs. This has included rescaling the business. As a result, about 4 875 people out of a total staff complement of 11 083 were retrenched through a Section 189 process, in consultation with the CCMA. The first tranche of retrenchment packages was paid in June 2024 and the second tranche was paid early on 28 August 2024. The final tranche will be paid in November 2024 as agreed with the CCMA and relevant unions.

Joint Business Rescue Practitioner, Anoosh Rooplal noted, *“we needed to restructure the Post Office not only to align the costs to revenue, but to also have the capacity and renewed infrastructure to grow the business”*.

The capacity of the Financial Misconduct Committee was reinforced, enabling over 250 disciplinary matters to be completed. This had resulted in dismissals, where recommended.

The branch network was rationalized, with 366 Post Office branches permanently closed. When this process is completed, the Post Office will have about 657 branches across South Africa, with 232 sites offering Motor Vehicle Licence renewals through the Department of Transport. The closures will not affect the Post Office's Universal Service Obligation (USO) mandate (which is to provide postal services to all South Africans, regardless of where they live), nor having a presence in all provinces.

Secured creditors supported the write-off of 88% of the amounts owed to them, which has reduced the Post Office's debt burden. By 31 July 2024, 98.6% of all creditors had been paid a compromised 12c in the rand or 12% of the amount owed to them, totaling R842 million. Statutory & payroll creditors (SARS, Post Office Retirement Fund & Medical Aid Schemes) will be paid a further 18 cents dividend upon receipt of the R3,8 billion funding from the Fiscus. The balance sheet was scrutinized and strengthened. The BRPs have decreased the liabilities of the Post Office to R440 million by 30 June 2024 from R8.7 billion on 10 July 2023. As a result, the net asset value (NAV) has improved to a positive R840 million from the deficit of R7.9 billion at 30 June 2023.

Further operational and sales activities were undertaken to support the business. They included migrating the key system applications and hardware to a new data centre, which stabilized the connectivity and IT operations, and comprehensively overhauling the automated sorting capabilities to ensure cost-efficient and effective mail handling in large mail centres. An internal committee was constituted to focus and comply with international postal obligations and as a result international and African mail backlogs have all been cleared. Domestic mail backlogs has been reducing since the commencement of business rescue and mail is moving frequently.

To support the delivery of mail and parcels, a multi-modal approach to 'last mile' delivery has been adopted. A combination of walking, bicycles, motorcycles and vans are being used to optimise routes and delivery. Some 422 leased vehicles have been deployed to move mail and postmen to delivery depots and to make street deliveries.

The road ahead for the SA Post Office

Around the world, post offices have been forced to review their service and product offering. As physical postal volumes decline, digital and ecommerce solutions are becoming the new norm. Parcel delivery has increased through online shopping and the private sector has stepped in to provide efficient delivery.

The South African Post Office, which has been in existence for about 150 years, cannot purely be a commercial enterprise. It has a social mandate. It has to fulfil the Universal Service Obligation ("USO") and ensure that postal services are accessible to all South Africans at an affordable price, regardless of their geographical location and irrespective of whether it is economical to service those areas or not.

In line with the Government of National Unity's intentions to consider private partnerships, the BPs are proactively and reactively considering mutually beneficial partnerships for the Post Office, as laid out in the BR Plan. An internal Investment Committee has been constituted and partnership protocols have been established. Already, one partnership has been agreed, with Ethiopian Airlines in 2023. The partnership has cleared the international mail back log and resumed mail connections to international destinations.

The BRPs are actively pursuing strategic partnerships with various state organs to revitalize the Post Office's operations from government-to-government business, enhance service delivery and unlock new growth opportunities. They are also pursuing partnerships that will help to improve the 'last mile' of delivery, support digital inclusion, and will lead to property upgrades. They are examining opportunities to repurpose buildings and provide built-in services to small retailers in areas where a branch may not in itself be commercially viable.

Rooplal said: *"An important reminder is that the reason and efforts made to restructure this business are based on the fact that the Post Office has a social mandate that requires it to serve all South Africans."*

"While city dwellers have the means to pay for and access communication networks, South Africans living in rural areas have fewer choices. We will not exclude the urban hubs, but we intend to fulfil our social mandate by providing wi-fi, printing, scanning, training and development of internet usage in local townships and rural areas."

The Post Office is able to do this through leveraging its fibre and branch network to provide affordable internet access.

Looking ahead, the Post Office is pursuing relevance and financial sustainability through the delivery of meaningful economic and digital communication access to all South Africans. A number of proof of concepts are being rolled out to support this strategy.

Rooplal concluded, *"We are cognizant of a number of hurdles that the Post Office faces, not least the loss of confidence in its ability to make deliveries, but we are seeing an improvement with our focus on delivery"*.

“We believe, that the Post Office can again play a unique role in South Africa and must be supported. It can be an efficient postal service provider and a lifeline for many South Africans, offering them affordable access to vital communication and financial services.”

ENDS

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On behalf of Joint South African Post Office ('SAPO') Business Rescue Practitioners Anoosh
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