

# Proposed Acquisition of the AMR Group

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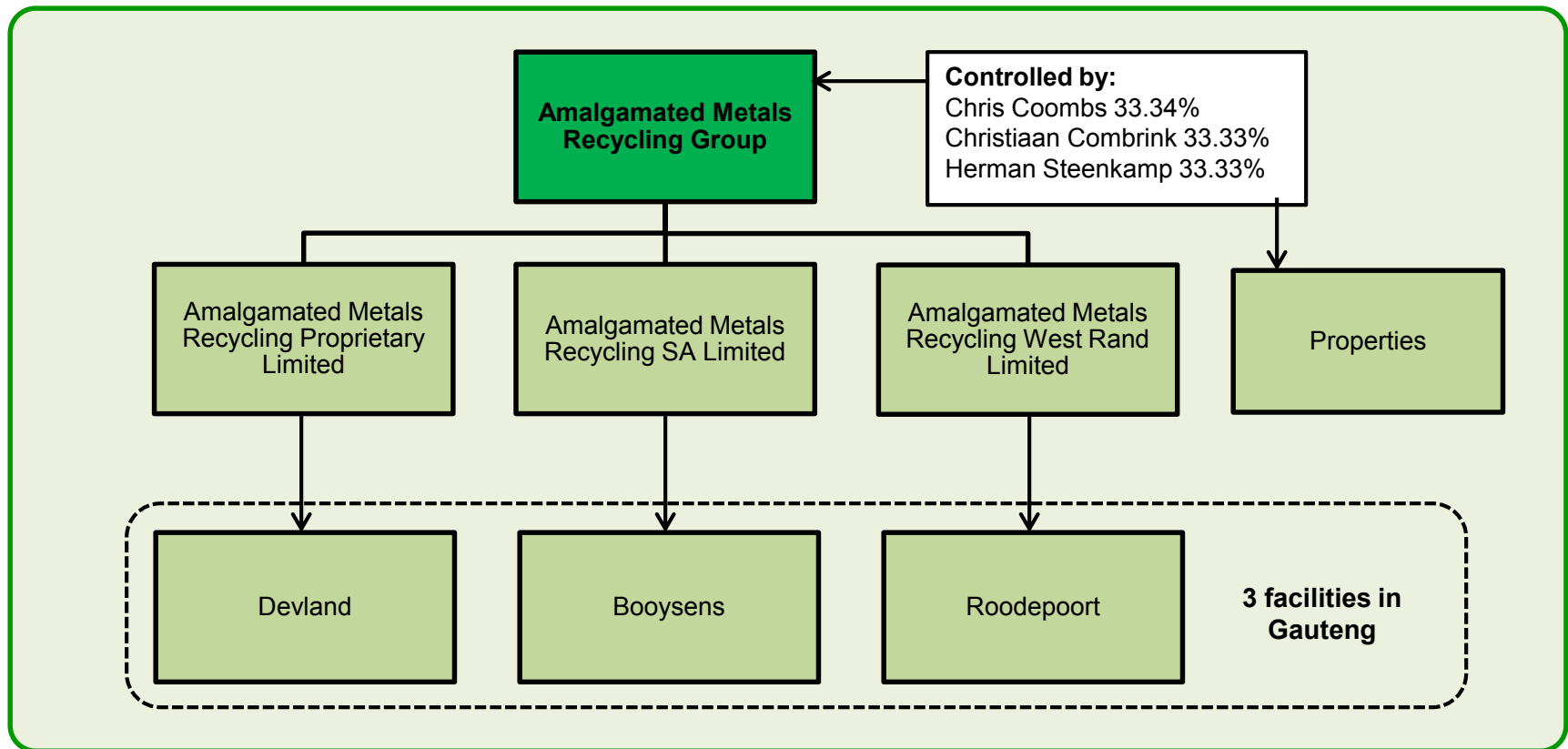
# Amalgamated Metals Recycling Group

The Amalgamated Metal Recycling Group are licensed scrap metal dealers who provide a competitive service locally whilst also exporting a significant amount of materials. The group comprises of three companies: Amalgamated Metals Recycling Proprietary Limited, Amalgamated Metals Recycling SA Proprietary Limited, Amalgamated Metals West Rand Proprietary Limited, collectively known as the “AMR Group” or “AMR”. These companies operate from three locations which are located in Devland, Booyens and Roodepoort.

As scrap metal merchants, AMR trades in ferrous and non-ferrous metals. AMR collects, sorts and processes all forms of ferrous metals (iron and steel) and non-ferrous metals (aluminum, copper, zinc, stainless steel, lead, nickel, brass, tin, bronze, etc). In excess of 65% of revenue is generated by exports, and products are typically priced against LSE spot prices.



# AMR Group Structure



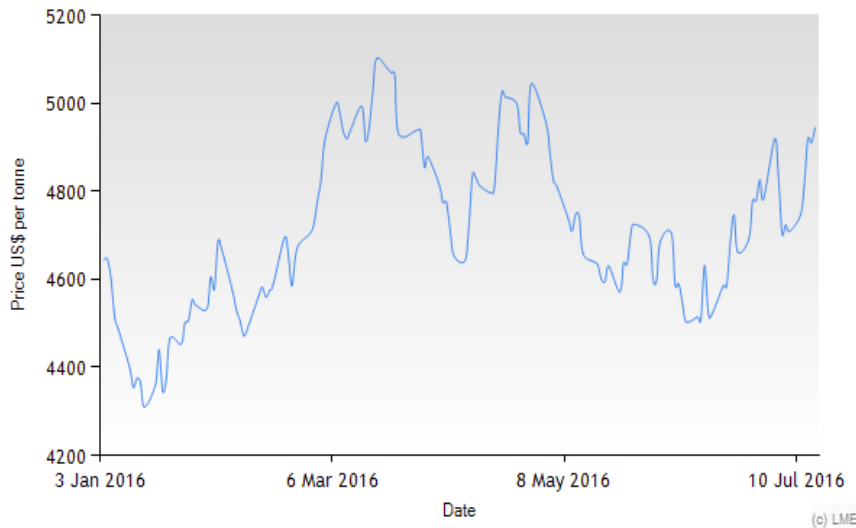
# AMR Group- Audited Income Statement (aggregated)

R'000	Feb 2014	Feb 2015	Feb 2016
Revenue	1 854 907	2 097 437	1 921 465
Gross profit	126 725	169 509	204 170
<b>Gross profit margin</b>	<b>6.83%</b>	<b>8.08%</b>	<b>10.63%</b>
Operating profit (EBIT)	52 755	70 104	85 920
<b>Operating Profit Margin</b>	<b>2.84%</b>	<b>3.34%</b>	<b>4.47%</b>
<b>Net profit</b>	<b>39 476</b>	<b>52 589</b>	<b>53 530</b>
Net profit margin	2.13%	2.51%	2.79%

- The above results are based on audited and management accounts. Future results will benefit from reduced executive bonuses compared to 2016, as well as lease rental expenses which will be internalised;
- The AMR group is characterised by high turnover and relatively low margins; and
- Gross and net profit margins have steadily been increasing to 10.63% and 2.79% respectively.

# AMR – Copper Price

Copper Price (2016)



Copper Price ( 5 year trend)



- Copper prices have been volatile historically, but has also trended in a relatively ZAR/pound range around R32.50

	<u>\$ price per pound</u>	<u>ZAR per pound</u>	<u>ZAR per ton</u>
To Aug 2016	2.20	R 32.58	R 71 665
FTY Feb 2016	2.36	R 31.87	R 70 122
FTY Feb 2015	2.97	R 32.58	R 71 671
FTY Feb 2014	3.25	R 32.45	R 71 386

## The Deal – Project Copper

*Insimbi Refractory and Alloy Supplies Limited (“Insimbi” or “the Purchaser”) will acquire 100% of the issued shares in the Amalgamated Metals Recycling Proprietary Limited, Amalgamated Metals Recycling SA Proprietary Limited and Amalgamated Metals Recycling West Rand Proprietary Limited (collectively, “the AMR Group”) and all of the shareholders’ loans against the AMR Group, in one indivisible transaction (“the Transaction” or “the Acquisition” or “Project Copper”). Insimbi will as an integral part of the Transaction, also acquire the three properties at which the AMR Group operates (“the Property Transaction”).*



## Project Copper – Key Risks

In contemplation of the transaction the following risks were considered:

- Industry regulation and government intervention;
- Management succession;
- Management's long term commitment;
- Commodity pricing cycle;
- Insimbi's competitors' "buying" behaviour post acquisition; and
- Ongoing strengthening of ZAR against US Dollar.

We believe these risks can be adequately addressed in the post acquisition integration phase.

## Project Copper – Vendor Commitment

The key terms to address vendors' commitment to the new Group include:

- R50 million of purchase price is settled in Insimbi shares
- Profit warranties. An aggregate of R 90 million net profit after tax needs to be achieved over three years
- NAV warranted at R152 million (excluding Property values of R34 million)
- Restraint of trade of five years
- The executive directors of the AMR Group have entered into employment agreements to be tied in post the Transaction and will participate in a profit bonus pool in terms of which, if the AMR Group reports an audited EBITDA in excess of R 55 million per financial year, executives will receive 6% share of EBITDA
- Pre-acquisition Interim Retained Income advanced as directors' loan to company
- Chris Coombs will join the Insimbi board of directors.

# Project Copper – Rationale

## OPERATIONAL ASPECTS

- Diversified group further with additional revenue streams and client base;
- Insimbi will enter and become a significant player in the scrap metal recycling space;
- Operational leeway;
- Smelter capacity utilisation will be increased; and
- Backward integration into industry value chain.

## FINANCIAL ASPECTS

- Significant ZAR hedge qualities as a large portion (in excess of 65%) of AMR group revenue is export based (in US dollars);
- Exports earn 20% premium to local sales;
- The Acquisition is earnings accretive, with a post acquisition combined group revenue of approximately R 3 billion and a profit after tax of R 80 million (based on normalised Insimbi and AMR Group results for the year ended 29 February 2016); and
- Unlocks value and enhances EPS, NAV and long-term profitability.

## STRATEGIC ASPECTS

- The Acquisition will create a more diverse shareholder spread, which may result in a rerating of the share and Improve / expand shareholder spread for existing and new shareholders;
- Joint contracts in special projects;
- Creates opportunity to Expand to Atlantis (property);
- Consolidate Treasury functions;
- Creates an opportunity to expand existing AMR business throughout the rest of South Africa; and
- Would assist with the succession plan for the enlarged Insimbi group.

## Project Copper – Salient terms

Key terms of Project Copper comprise the following:

- Commitments by the AMR vendors (“**the Vendors**”, “**the Sellers**”) regarding the continuing obligation of the AMR Group and its operations;
- The purchase of the properties;
- The aggregate purchase consideration of R 284.1 million;
- Funding structure (New issue of shares and cash ex acquisition finance facilities);
- Regulatory approval including board authorisation, the JSE Listing Requirements and the applicable competition authorities; and
- Warranties that are normal to a transaction of this nature.

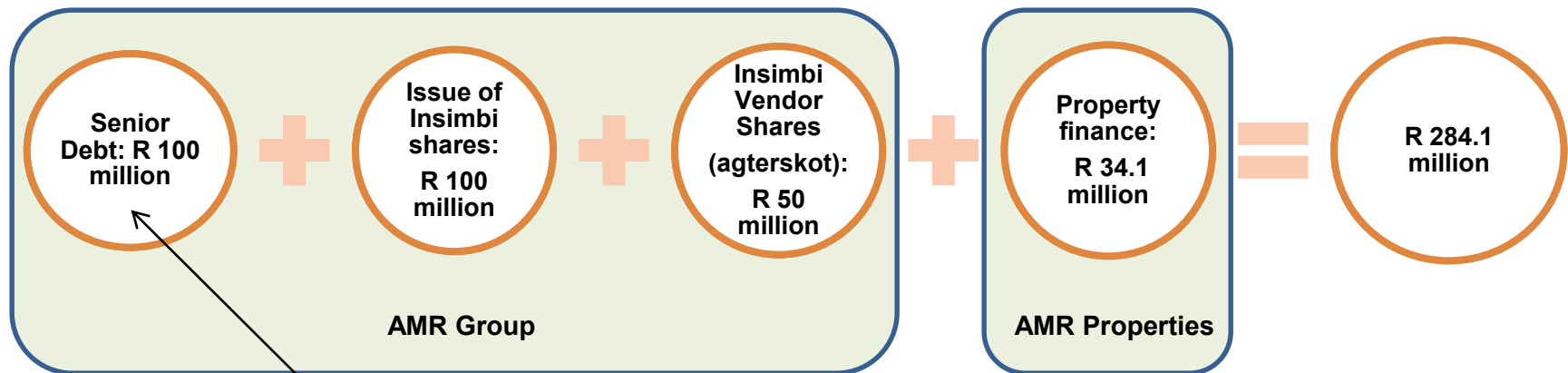
The transaction is conditional on a number key vendor commitments:

- Minimum employment of key employees of the AMR Group for a period of 5 years from the closing date of the Acquisition; and
- Appropriate non-compete undertakings between the Vendors, in favour of the AMR Group and Insimbi, for a period of five years, and post leaving the employment of the AMR Group.

# Project Copper – Purchase consideration and funding the Acquisition

## Funding of the Acquisition

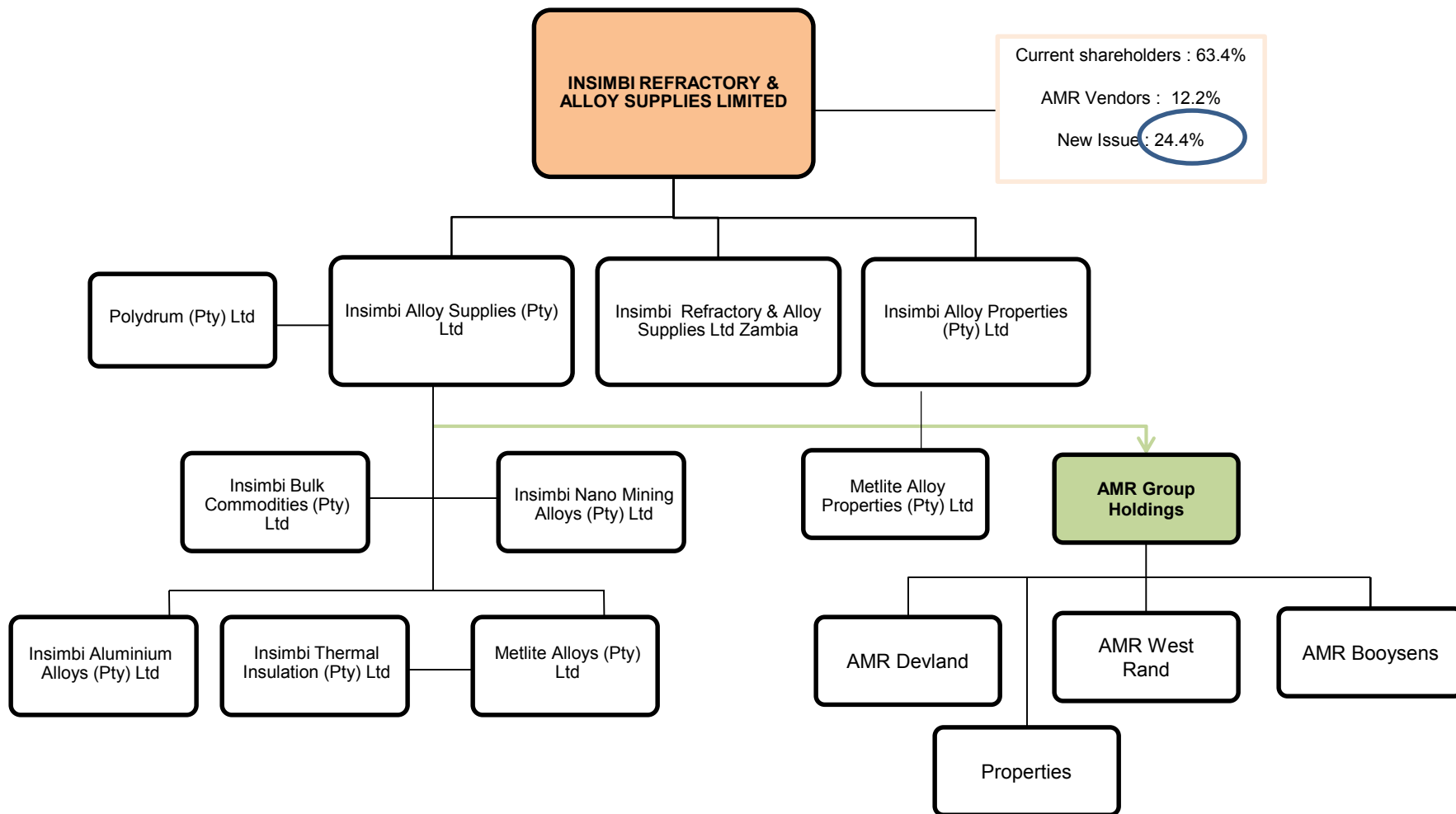
- R200 million will be payable in cash to the Sellers in the following prescribed forms: R 100 million is intended to be funded by senior debt and the balance of R 100 million will be funded by a placement of Insimbi shares;
- R 50 million payable in Insimbi shares, which are to be issued at R1.00 per share; and
- Furthermore, R 34.1 million will be paid in cash regarding the Property Transaction.



Current indicative terms from ABSA:

- ▶ 50% "term loan"
- ▶ 50% "bullet" after 5 years
- ▶ JIBAR + 3.35% (+/- 10%)

# Post Acquisition Structure



# Project Copper – Pro-forma Financial Indicators Income Statement

R'000	Insimbi 2016	AMR Group 2016	Aggregated	Group NAV
Sales	955 106	1 921 465	2 876 571	Pre acquisition: 0.63 Post acquisition: 0.78
Cost of sales	-830 137	-1 717 294	-2 547 431	
<b>Gross profit</b>	<b>124 969</b>	<b>204 170</b>	<b>329 139</b>	EPS
Operating expenses	-80 581	-116 103	-196 684	Pre acquisition: 0.11 Post acquisition: 0.20
Bonus provisions		-9 343	-9 343	
<b>EBIT (Operating Profit)</b>	<b>44 388</b>	<b>78 724</b>	<b>123 112</b>	EBITDA Multiple (@ R1.00/share)
Finance costs	-8 294	-14 479	-22 773	Pre acquisition: 5.5 Post acquisition: 2.9
Other Income		7 196	7 196	
<b>Profit before taxation</b>	<b>36 094</b>	<b>71 441</b>	<b>107 535</b>	PE Multiple (@ R1.00/share)
Taxation	-7 264	-20 003	-27 267	Pre acquisition: 9.02 Post acquisition: 4.99
Effective tax rate	20.13%	28.00%	25.36%	
<b>Net Profit</b>	<b>28 830</b>	<b>51 437</b>	<b>80 267</b>	Indicates value accretive impact
<b>Ratios</b>				
Gross Profit Margin (%)	13.08%	10.63%	11.44%	
EBIT Margin (%)	4.48%	4.10%	4.22%	
NP Margin	3.02%	2.68%	2.79%	

- The above AMR results are normalised for unusual repairs and maintenance, director bonuses, market related salaries; and
- Pro-forma figures include imputed provisions for acquisition finance facilities.

# Project Copper – Pro-forma Financial Indicators

## Balance Sheet

R'000	Insimbi Alloy Supplies	AMR Group	Consolidated
<b>Assets</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	9 815	65 183	74 998
Intangible Assets	8 414		103 706
Associates; group loans	67 445	739	68 184
Other financial assets	18 012		18 012
Deferred Tax	931	-1 691	-760
	<b>104 616</b>	<b>64 231</b>	<b>264 140</b>
<b>Current Assets</b>			
Inventories	77 005	24 248	101 252
Trade and other receivables	133 920	97 300	231 220
Other financial assets	484	0	484
Cash and cash equivalents	3 344	35 499	38 843
	<b>214 754</b>	<b>157 047</b>	<b>371 799</b>
<b>Total Assets</b>	<b>319 370</b>	<b>221 278</b>	<b>635 939</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	0	-	150 000
Reserves	7 679		7 679
Retained income	121 181		121 181
	<b>128 860</b>	<b>189 709</b>	<b>278 860</b>
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Acquisition finance			135 000
Other financial liabilities	13 928	13 686	27 614
	<b>13 928</b>	<b>13 686</b>	<b>162 614</b>
<b>Current Liabilities</b>			
Loans from group companies	1 606		1 606
Other financial liabilities	46 209	119	46 328
Current tax payable	2 156	1 919	4 075
Trade and other payables	126 598	15 845	142 443
Bank overdraft	13	-	13
	<b>176 582</b>	<b>17 883</b>	<b>194 465</b>
<b>Total Liabilities</b>	<b>190 510</b>	<b>31 569</b>	<b>357 079</b>
<b>Total Equity and Liabilities</b>	<b>319 370</b>	<b>221 278</b>	<b>635 939</b>

NAV (R'000):

Pre acquisition: 128 860

Post acquisition: 278 860



NAV/SHARE:

Pre acquisition: 0.54

Post acquisition: 0.72



Working Capital Ratio:

Post acquisition: 2.6x

Debt to Equity (excluding OD)

Post acquisition: 0.75:



Indicates value accretive impact

## The Insimbi Business

**Insimbi Refractory and Alloy Supplies Limited (“Insimbi” or “the Company”)** provides the steel, aluminium, cement and foundry industries with resource-based commodities like ferrous and non-ferrous alloys, as well as refractory materials, by integrating the supply, logistics and technical support function.

Insimbi has developed its core expertise with the ability to source and provide global industrial consumers with the required commodity. The company provides a complete financial solution to commodity transactions and in so doing facilitate the transport, insurance, quality control, financing and hedging of the materials in transit from the producer to the end user – in addition to their role as a marketing agent.



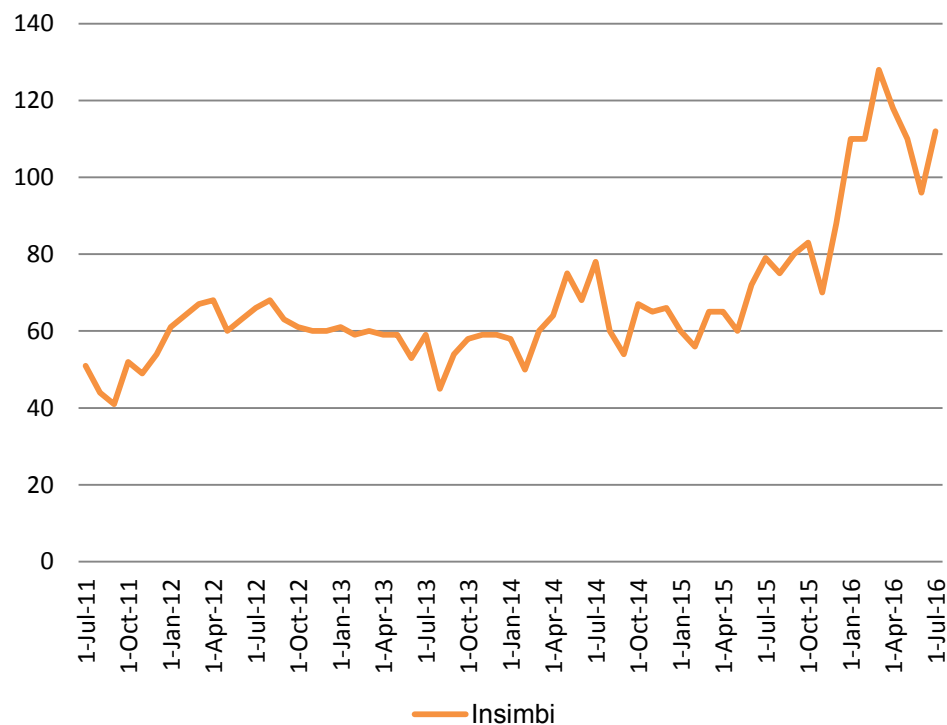
## Insimbi- Key Financials (2016 FY)

<b>SHARE PRICE:</b>	<b>R 1.14 (as at 26 August 2016)</b>	<b>DIVIDEND YIELD:</b>	<b>3.95 %</b>
<b>ISSUED SHARES:</b>	<b>260,000,000</b>	<b>LAST DIVIDEND:</b>	<b>3 cps</b>
<b>MARKET CAP:</b>	<b>R 296.4 million</b>	<b>RETURN ON EQUITY:</b>	<b>19.25 %</b>
<b>EPS:</b>	<b>12.42 cents</b>	<b>GROSS PROFIT MARGIN:</b>	<b>13.08 %</b>
<b>P/E RATIO:</b>	<b>9.18</b>	<b>NET PROFIT MARGIN:</b>	<b>3.02 %</b>
<b>NET ASSET VALUE:</b>	<b>58.48 cps</b>		



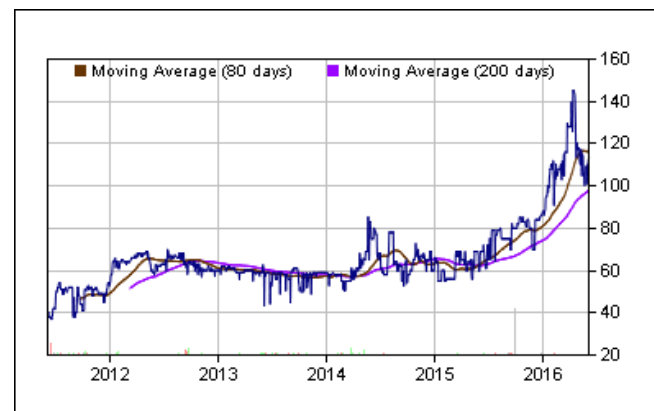
# Insimbi - Share Performance

## INSIMBI 5 YEAR PERFORMANCE

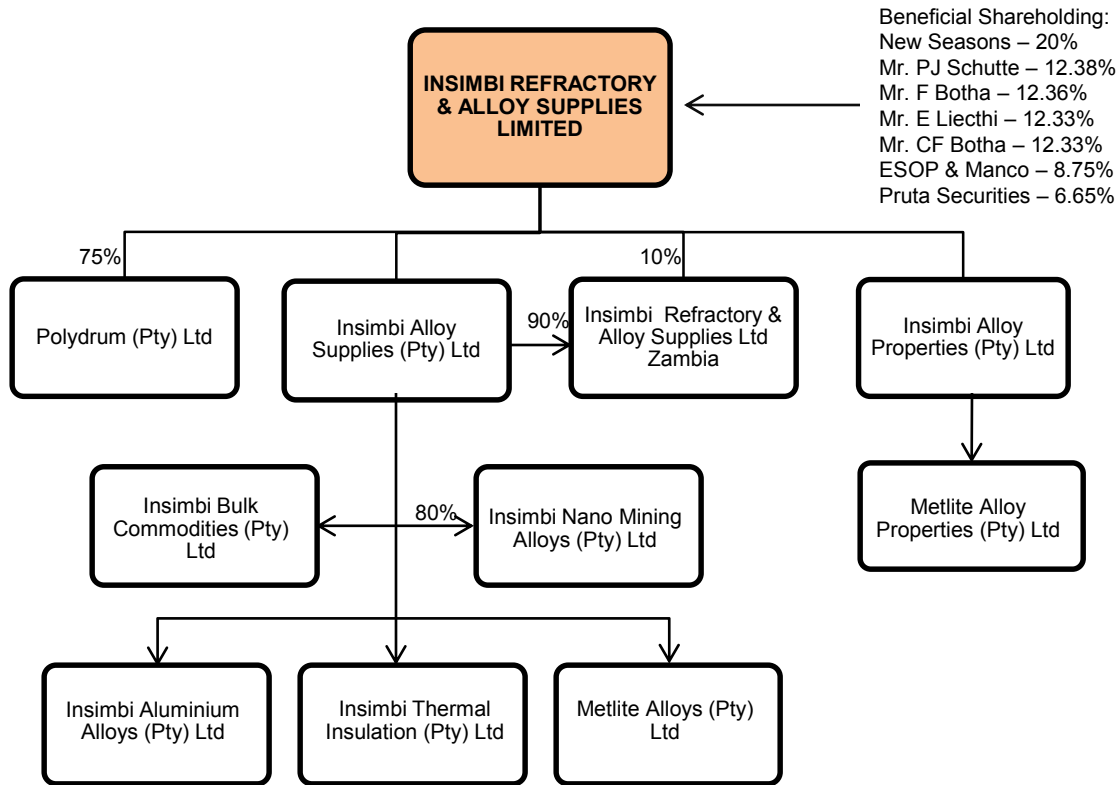


### Insimbi volume weighted average price (VWAP) – as of 20 July 2016

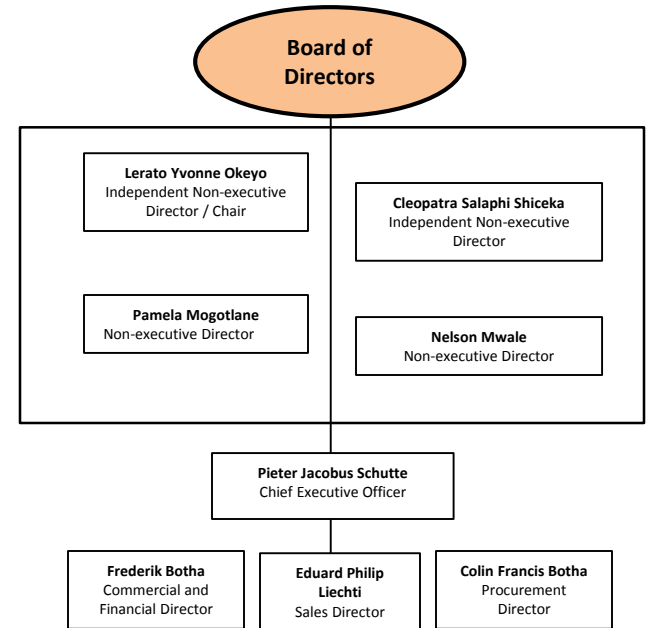
30 Day VWAP	102.66
60 Day VWAP	105.87
90 Day VWAP	116.04



# Insimbi- Company and Shareholding Structure



Beneficial Shareholding:  
 New Seasons – 20%  
 Mr. PJ Schutte – 12.38%  
 Mr. F Botha – 12.36%  
 Mr. E Liechti – 12.33%  
 Mr. CF Botha – 12.33%  
 ESOP & Manco – 8.75%  
 Pruta Securities – 6.65%



**Chris Coombs will be invited to join the Board post acquisition**

## Insimbi - Business Segments

Insimbi's business model has four distinct segments which complement each other while providing Insimbi's business model with an inherent diversification. This has proven to be resilient and sustainable through various commodity and trading cycles experienced over Insimbi's operational life, spanning back to the 1970's.

- **Steel:** This segment focuses on the supply of a wide range of alloys, including non-ferrous alloys, to the steel and stainless steel industry locally, regionally and globally; with a specific focus on the needs of South African producers but with a growing customer base in other emerging market countries.
- **Foundry:** This segment focuses on the supply of a diverse range of alloys and ancillary raw materials, e.g. foundry sand, ceramic ducting, to ferrous and non-ferrous foundries across the board, including heavy-duty foundries, automotive foundries, electroplating specialists etc. It is closely aligned with the steel segment in terms of the products supplied.
- **Refractory:** This segment specialises in the supply of high quality and highly specialised ceramic refractory linings to the cement, paper and pulp, steel and platinum industries.
- **Plastics:** This new segment specialises in the blow moulding of plastic containers for the chemical, agricultural and food industries and which has numerous synergies with Insimbi's existing customer portfolio.

# Insimbi - Business Segments

The company has ten separate divisions that operate from its Wadeville, Germiston head office, as well as branches in Cape town and Durban. In addition the group also has three independent manufacturing companies. The details of which are as follows:

## **Branches:**

- KwaZulu-Natal Division which services the KwaZulu-Natal and Mozambique markets; and
- Western Cape which services the Western Cape markets in all of the above products.

## **Divisions:**

- Refractory Division which services the steel industry's refractory requirements;
- Specialty Division which services the welding and optical industries;
- Steel Division which services the steel industry's raw material requirements;
- Foundry Division which services the foundry industry, both automotive and heavy;
- Non-Ferrous Division which services the aluminium industry;
- Rotary Division which services the cement industry's refractory requirements;
- Mechanical Division which addresses the maintenance needs of primarily, rotary kilns and ancillary equipment in the cement ,lime and DRI industry;
- Powder Coating Division which services the metals finishing industry;
- Export Division which focuses on the company's expansion into Africa and the rest of the world; and
- Fibers Division which supplies fiber into the construction industry.

## **Manufacturing entities:**

- Insimbi Aluminium Alloys;
- Polydrum;
- Insimbi Nano Milling; and
- Metlite Alloys.

## Insimbi – Historic Financial Performance

R'000	FY 2014 (Audited)	FY 2015 (Audited)	FY 2016 (Audited)
<b>Revenue</b>	<b>938 980</b>	<b>958 016</b>	<b>955 106</b>
<b>Gross profit</b>	<b>101 089</b>	<b>111 902</b>	<b>124 969</b>
<i>Gross profit margin</i>	<i>10.77%</i>	<i>11.68%</i>	<i>13.08%</i>
Other Income	2 758	1 246	2 638
Operating expense	-68 503	-72 926	-83 219
<b>Operating profit (EBIT)</b>	<b>35 344</b>	<b>40 222</b>	<b>44 388</b>
<i>Operating Profit Margin</i>	<i>3.76%</i>	<i>4.20%</i>	<i>4.65%</i>
Investment revenue	314	251	78
Finance costs	-6 684	-7 026	-8 372
<b>Profit before taxation</b>	<b>28 974</b>	<b>33 447</b>	<b>36 094</b>
Tax	-8 680	-7 666	-7 264
<b>Net profit</b>	<b>20 294</b>	<b>25 781</b>	<b>28 830</b>
<i>Profit margin</i>	<i>2.16%</i>	<i>2.69%</i>	<i>3.02%</i>

The 2016 year end was challenging mainly due to the global and particularly, the local steel industry's continued decline. However, despite this, Insimbi continued to generate profits and sustained strong cash flows.

Insimbi achieved this by responding proactively to the weaker market conditions and implemented certain operating and cost reduction initiatives that had a positive impact on the total performance of the group and although operating expenses are up by 14% or R10 million on the previous corresponding period, when one excludes non-recurring expenses of approximately R4.0 million (mainly Evraz write off) and the operating expenses associated with the acquisition in August 2015 of Polydrum Proprietary Limited of approximately R7.0 million, the comparative operating expenses have in fact decreased by R1.0 million compared to the 2015 financial year.

# Insimbi - BEE Profile

## ESOP and ManCo

Insimbi recently embarked on a share repurchase of 13 000 000 shares to facilitate the implementation of an employee share ownership program (“ESOP”) and management share participation plan (“ManCo”) in which eligible employees of Insimbi collectively obtained an approximate 8.78% indirect shareholding interest in Insimbi.

## New Seasons

On 7 June 2016, the four founding executive directors of Insimbi, as part of a Insimbi’s broader strategic BBEE initiative, sold equal portions of their shareholding in Insimbi to New Seasons Investment Holdings Proprietary Limited (“New Seasons”). New Seasons is an established black owned and managed investment holding company and is a level 1 BBEE contributor. This sale amounted to 52 million shares, equivalent to 20% of the issued share capital of Insimbi.

The impact of the ESOP and ManCo transactions combined with the sale of founding executive directors shares to New Seasons has resulted in a broad based black ownership in Insimbi of over 28%. It is estimated that Insimbi will have a level 4 BEE score based on the new BEE codes.

## Shareholder Base (pre and post transaction)

<b>Insimbi Shareholding</b>	
Insimbi Exco	128 424 300
ESOP & ManCo	22 835 887
New Seasons	52 000 000
Minority Shareholders	56 739 813
<b>Insimbi Pre-transaction total shares outstanding</b>	<b>260 000 000</b>
<b>Newly issued shares ex Project Copper</b>	
Newly placed shares	100 000 000
Shares issued to vendors	50 000 000
<b>Insimbi post-transaction total shares outstanding</b>	<b>410 000 000</b>
ESOP & ManCo shares	22 835 887
<b>Shares issued for reporting purposes</b>	<b>387 164 113</b>

## Next Steps

Project Copper represents an opportunity to invest in:

- A share that should re-rate on conclusion of the transaction.
- An industry with direct exposure to the recycling space where there is sufficient supply of materials to export.
- A diversified non-ferrous metals player which provides a rand hedge.

If you would like to proceed, the next steps are:

- A combined entity with significant opportunity to unlock synergies such as a group treasury function, expand into new geographies and expand on key senior management of Insimbi.

**Submission of  
Expression of  
Interest (“EOI”)**

- Quantum of shares
- Value per share
- Any further info required



**Share allocation  
& refund of  
excess  
applications**



**Flow of funds  
and transfer of  
shares to  
investors**

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