

Insimbi Industrial Holdings Limited
(Formerly Insimbi Refractory and Alloy Supplies Limited)
(Incorporated in the Republic of South Africa)
(Registration number: 2002/029821/06)
Share code: ISB ISIN: ZAE000116828
("Insimbi" or "ISB" or "the Group")

ACQUISITION OF GROUP WRECK INTERNATIONAL NON-FERROUS PROPRIETARY LIMITED ("GROUP WRECK" or "the COMPANY")

INTRODUCTION

Shareholders are hereby referred to the cautionary announcement issued 22 August 2018, and are advised in terms of Section 9 of the JSE Listing Requirements, that Insimbi has extended an offer to the shareholders of Group Wreck, namely Ella Rose Property & Investments Pty Ltd, Repo Metals Holdings Pty Ltd and Angelo Solimene ("the Vendors"), who have agreed to the key terms of the proposed transaction, which will see ISB acquiring control of Group Wreck subject to fulfilment of all suspensive conditions relating to the proposed acquisition.

EFFECTIVE DATE AND CONDITIONS PRECEDENT

The transaction will become effective once all the suspensive conditions to the offer have been met. It is expected that the ruling by the Competition Commission as may be required may be the final condition to be met. All things being equal, it is expected that the Effective Date will be on or about 31 October 2018, assuming the timely submission of the necessary application.

Key suspensive conditions to the proposed transaction include amongst others the finalisation of the relevant transaction agreements, funding arrangements, employment agreements with key executives, appropriate immovable property rental agreements, as well as the necessary regulatory approvals as may be required (e.g. Competition Commission).

It is also a suspensive condition to the finalisation of the proposed transaction that no material adverse change would have occurred with regard the business of Group Wreck as at the Effective Date.

THE BUSINESS OF GROUP WRECK

Group Wreck is involved in the sourcing, trading and purchasing of scrap, non-ferrous metals in Kwa-Zulu Natal, South Africa. In the 5 years since it was established, Group Wreck has experienced significant growth and is now one of the largest metal recycling operations in Durban. The business operates from two premises, in Queensmead and Phoenix and are highly mechanised with state of the art equipment and a fleet of trucks geared to handling large volumes efficiently. The business strive to supply local end users wherever possible, and excess material is exported through the company's own shipping department, which deals direct with end users in China, Korea and the rest of the world.

TRANSACTION CONSIDERATION & OTHER TERMS

As detailed below, the initial transaction consideration will entail an amount of R120 million, subject to certain warranties re net asset value and profits to be achieved, as well as further amounts payable, to a maximum of R30 million, which may become payable based on the achievement of certain profit targets:

- Cash : R73 million (subject to the net asset value guarantee described below);
- ISB Shares: 18 461 535 shares to be issued at R1.30 per share, to the value of R24 million in total, and
- Vendor Loans: to the value of R23 million, repayable after a period of three years, bearing interest at a rate of prime plus 2 %. Repayment of the capital amount may be extended to a maximum of 5 years, at the option of ISB.

- Additional payments: Should Group Wreck achieve an aggregated profit before tax of R112,5 million for a three year period post acquisition (i.e. an average of R37,5million per annum), an additional amount of R15 million will become payable, and
- Should Group Wreck report aggregated profit before tax of R168 million (i.e. an average of R42 million per annum) for the 4 year period post acquisition, a final R15 million will be payable.
- Further to the above, should the stated profit targets not be achieved, but at least 85% thereof is achieved, an amount of R7.5 million will become payable.
- The vendor loans, as well as the ISB shares will secure the vendor's obligations in terms of the final transaction agreements.

As a result of these arrangements, a maximum purchase consideration of R150 million may be payable, at a then effective price earnings ratio of 5 times earnings.

NET ASSETS & ATTRIBUTABLE PROFITS

It is agreed that Group Wreck will, on the Effective Date report Tangible Net Asset Value ("TNAV") of at least R78 million. Should the TNAV of the business be less than the warranted amount of R78 million, the cash portion payable will be adjusted on a Rand for Rand basis.

Group Wreck reported profit after tax for the year ended February 2018 of R12,6 million. The transaction consideration defined in terms of the offer is however subject to group Wreck maintaining an average profit before tax of R25,0 million per annum for the next three financial years post implementation of the acquisition. Should the warranted profits of an aggregate R75 million before tax for the three years post implementation not be achieved, the purchase consideration will be adjusted pro rata based on actual achieved profit vis a vis the warranted profit.

RATIONALE FOR THE TRANSACTION

The rationale for the transaction is to expand the geographic reach of ISB's ferrous and non-ferrous business, expand its client base, and enhance its access to raw material for purposes of beneficiation, as well access to an experienced management team and its international trading network.

MOI

As Group Wreck will become a subsidiary of the larger ISB Group of companies, the MOI of Group Wreck as ISB subsidiary will be amended so as to conform to Schedule 10.21 of the Listing Requirements, as required.

CATEGORISATION OF THE TRANSACTION

For purposes of categorisation, the transaction is deemed a category 2 transaction, given the dilutionary impact of shares issued and the maximum cash consideration payable, or potentially payable in terms of the agreed terms.

CAUTIONARY ANNOUNCEMENT

Following the release of this announcement, the cautionary announcement published by ISB on 22 August 2018 is hereby withdrawn and caution is no longer required to be exercised when dealing in ISBshares. Having said that, a finalisation announcement will be made when the transaction becomes unconditional.

27 August 2018

Johannesburg

Sponsor and Corporate Advisor: Bridge Capital Advisors Proprietary Limited