



MATUSON

ASSOCIATES

**TYRE CORPORATION INTERNATIONAL SALES
AND SERVICES (PTY) LTD
FIRST MEETING OF CREDITORS**

DATE: 10 March 2017

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DISCLAIMER

The information in this presentation is based on, inter alia:

- Time spent with creditors;
- Discussions with staff and management;
- Financial information prepared by management (unaudited).

The BRP has attempted to ensure that the facts presented in this document are accurate. However, the information provided by management has not been verified by the BRP. Any party that chooses to take any action with regard to the Company, should take adequate precaution to verify the information on which it acts.

Note: All financial information is sourced from management, including monthly management accounts.

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THE BUSINESS RESCUE PROCESS



THE BUSINESS RESCUE PROCESS

About Business Rescue

Business Rescue involves proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for –

- the temporary supervision of the company, and of the management of its affairs, business and property;
- a temporary moratorium on the rights of claimants against the company or in respect of property in its possession.

Primary Objective of Business Rescue

The development and implementation of a plan that either:

- **A)** Rescues the company by restructuring its affairs, business, property, debt and other liabilities and equity in a manner that maximizes the likelihood of the company continuing its existence on a solvent basis, OR;
- **B)** If that is not possible, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.

BUSINESS RESCUE PROCESS

Commencement of Business Rescue Proceedings

On 27 February 2017, the Company was placed under business rescue pursuant to the filing of a resolution in terms of Section 129(1) of the Companies Act 71 of 2008 (“the Act”).

Appointment of BRP

John Dymoke Lightfoot was appointed as the business rescue practitioner of the Company in terms of Section 129(3)(b) of the Act.

Objectives of the First Meeting of Creditors

The main objectives of today's meeting are as follows:

- The BRP needs to inform creditors as to whether he believes there is a reasonable prospect of rescuing the company;
- Appointment of a Creditors' Committee, if any;
- Receipt of Claims from Creditors.

BUSINESS RESCUE TIMELINE

Key Dates

The table below details the key dates for the business rescue of the Company:

	Event	Date
1	Commencement of Business Rescue Proceedings	27 February 2017
2	Appointment of Business Rescue Practitioner	02 March 2017
3	First Meeting of Creditors	10 March 2017
4	Publish Business Rescue Plan	24 March 2017
5	Meeting to Consider Business Rescue Plan	3 April 2017

BACKGROUND



BACKGROUND

Tyre Corporation Group of Companies

The Company forms part of a larger group of companies, commonly referred to as the Tyre Corporation Group (“the Group”). The Group was established in 2004 as an independent, multi-brand tyre specialist. The Group is run by a highly experienced management team who have a proven track record and are also the shareholders of the Company. The Group employs 1,200 dedicated employees.

The Group operates in the following markets:

1. Off the road (“OTR”) market (mining sector specialisation):

- Market Leader (70%+ share) in the underground mining market.
- Expanded into providing tyres and tyre management services to surface mining vehicles. The surface mining OTR market is a key future growth opportunity.

2. Truck and bus radial (“TBR”) market:

- 10% market share of the truck and bus market.
- Recently won the Imperial Contract which makes the business very profitable across the value chain (new tyres/services/retreading).



BACKGROUND

The Group offers its customers a fully integrated tyre supply and service offering including:



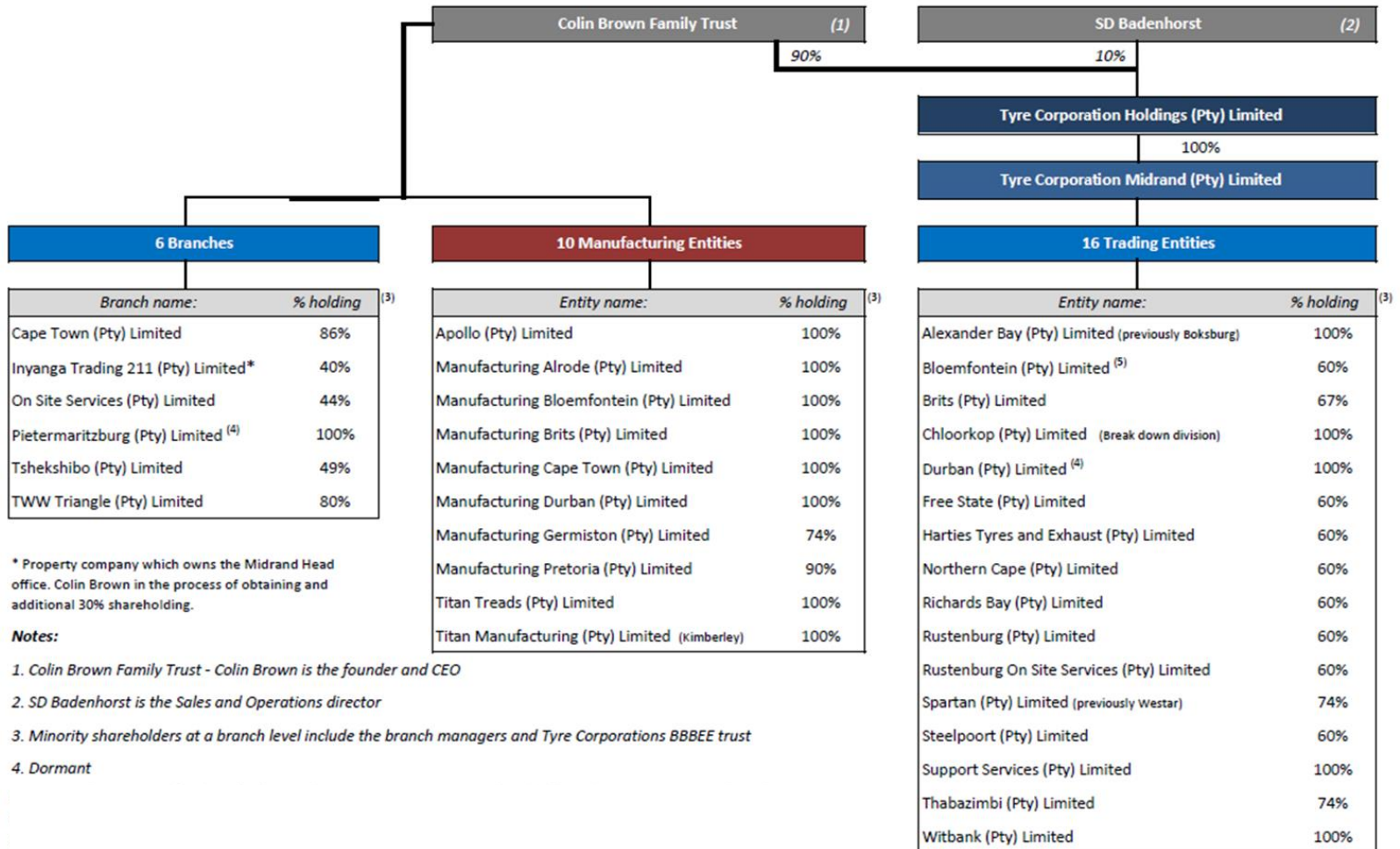
The Group has maintained good relationships with its key clients, emphasising a ‘partnership-style’ relationship.

The extensive geographical distribution footprint is strategically located near to the Company’s clients’ operations, thereby ensuring excellent turnaround times and limited downtime.

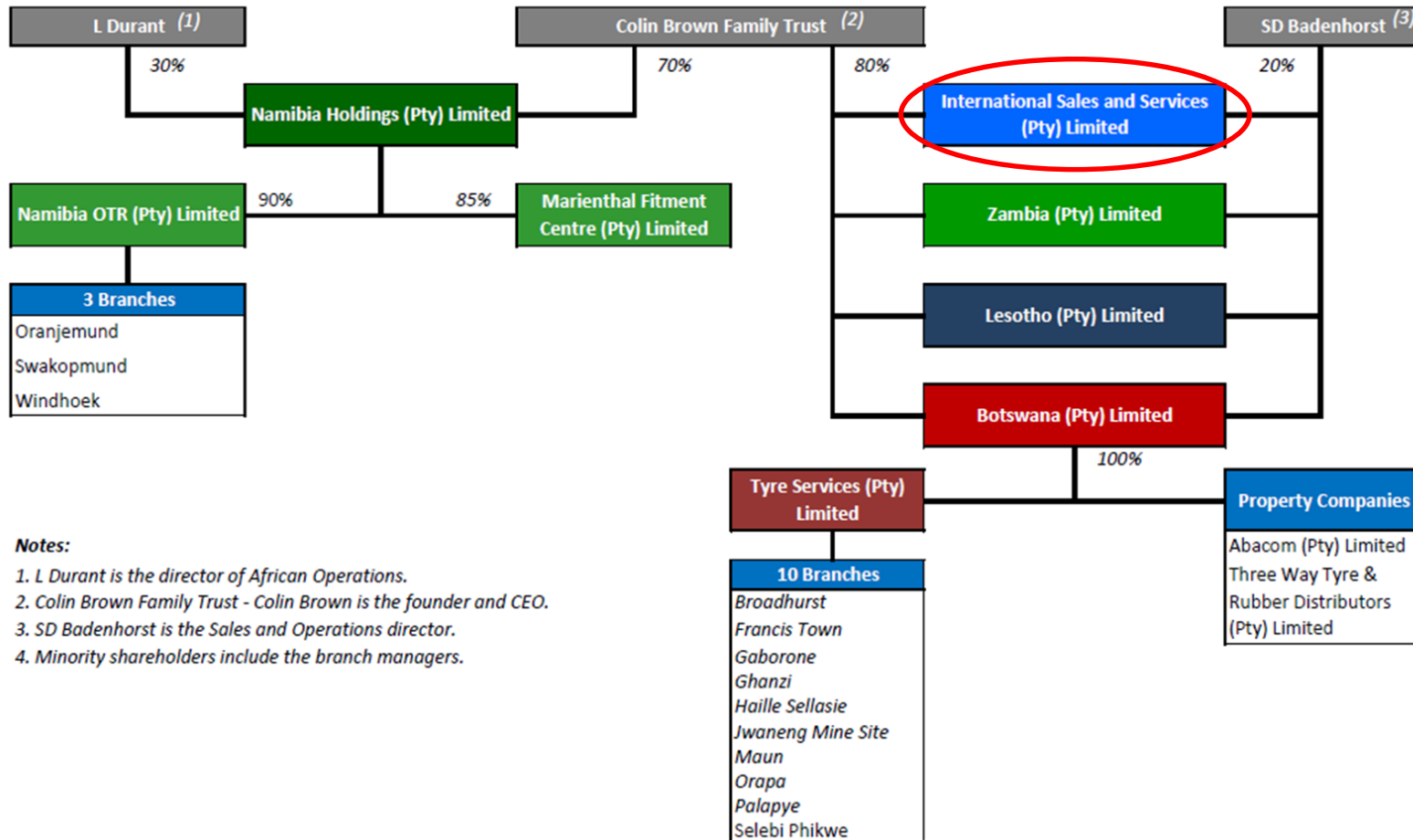
THE GROUP'S MAJOR CUSTOMER BASE



GROUP STRUCTURE – SOUTH AFRICA



GROUP STRUCTURE - AFRICA



FINANCIAL POSITION



BALANCE SHEET – THE COMPANY

Balance Sheet	November 2016
ASSETS	R'000
Non-current assets	258
Property, plant and equipment	258
Land and buildings	-
Current assets	44 741
Inventories	15 981
Trade and Other Receivables	16 055
Intercompany Receivables - Africa	12 616
Sundry Receivables	84
Bank and cash balances	5
Total Assets	44 999

Balance Sheet	November 2016
EQUITY AND LIABILITIES	R'000
Equity	-852
Share capital and premium	0.10
Retained and Current Earnings	-852
Non-current liabilities	-
Long-term Loans	-
Current liabilities	45 851
Trade and Other Payables	41 361
Provisions	5 447
Taxation payable	-809
Bank overdrafts	-148
Total Liabilities	45 851
Total Equity and Liabilities	44 999

Intercompany Receivables from African entities have been impaired by 50%.

CAUSES OF CURRENT FINANCIAL DISTRESS - GROUP

The following factors have contributed to the current financial distress:



CAUSES OF CURRENT FINANCIAL DISTRESS - GROUP

Financial Impact

Factor	R'000
Debtors	62 600
- Bad Debt	23 100
- Payment Plans	9 500
- Overdue/Slow Paying	30 000
Stock Investment (Triangle)	9 000
Cash Impact of Share Buy Back	11 000
External Fraud	5 000
Loss Making Entities	4 000
Acquisition of Tyre Services Botswana	18 000
Total	109 600

Debtors are Credit Insured as from 1 October 2016

EBITDA estimated at R4,5 million per annum

Balance Sheet Impact of Share Buy-Back:
Debt increase of R40 million and Equity reduction of R40 million

Not within management's control

Loss making operations closed
Botswana is currently breaking even

OVERVIEW OF CURRENT SITUATION

Reasons for Commencing Business Rescue Proceedings

- The aforesaid causes of financial distress placed pressure on the Company's financial position.
- Historically, the Company obtained funding from entities within the Group, most notably Tyre Corporation Midrand Office (Pty) Ltd. The financial distress outlined previously negatively impacted on the ability of Tyre Corporation Midrand Office (Pty) Ltd to provide such funding to other entities within the Group.
- The Company has no further funds available to it from other entities within the Group and accordingly will not be able to pay its debts over the immediately ensuing six months, thus resulting in the current financial distress.

LIQUIDATION



EVALUATION OF OPTIONS: LIQUIDATION

Assumptions

- The calculation has been based on the information provided by management at the available dates.
- Intergroup Loan Accounts/Intergroup Creditors and Debtors have not been taken into account due to complexity of the Group structure.
- Costs of Realisation and Liquidators' Fees are as follows:

Asset	Costs of Realisation	Liquidators Fees
PPE	10%	10%
Inventory	15%	10%
Debtors	6%	10%

LIQUIDATION

Assumptions

Debtors

- Realisable % has been based on the February 2017 debtors ageing as follows:

Ageing Category	Realisable %	Ageing Category (African Intercompany Receivables)	Realisable %
Current	90%	Current	70%
30 Days	85%	30 Days	65%
60 Days	80%	60 Days	60%
90 Days	50%	90 Days	30%
120 Days	20%	120 Days	5%

Stock

- Realisable % has been assumed as 25% of February 2017 book values based on past experience and specialised nature of the product.
- Note that realisable percentage takes shrinkage into account.

PPE

- Book values have been used as per the November Management Accounts.

LIQUIDATION ESTIMATE

Net Realisation of Assets

Net Realisation of Assets - Tyre Corporation International Sales and Services (Pty) Ltd					
Asset	Book Value	Amount Realised	Costs of Realisation	Liquidators Fees	Net Realisation
	R'000	R'000	R'000	R'000	R'000
Non-Current Assets					
Property, Plant and Equipment	258	155	15	15	124
Current Assets					
Inventories	165	41	6	4	31
Trade and Other Receivables	36 055	10 426	626	1 043	8 758
Total	36 478	10 622	647	1 062	8 912

Note:

- Book values have been obtained from management information at the available dates.
- Security: All debtors are ceded to Mercantile.

WATERFALL

Summary Liquidation Estimate

Summary Liquidation Estimate	Realised	Secured	Available
	R'000	R'000	R'000
Asset Class			
Debtors	8 758	8 758	-
Stock	31	-	31
PPE	124	-	124
Available for Preferent Creditors			155
Preferent			177
- SARS			177
- Employees (Preferent Portion)			-
Available for Concurrent Creditors			-22
Concurrent			155 648
- Employees (Concurrent Portion)			-
- Creditors			155 648
Concurrent Dividend			-

Please note that approximately R120 million of the creditors balance relates to secured creditors whose claims, in terms of sureties relating to other group entities, have been enforced against the entity.

PROSPECTS OF RESCUING THE COMPANY



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Primary Objective of Business Rescue

The development and implementation of a plan that either:

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PROSPECTS OF RESCUING THE COMPANY

Part A vs Part B

Part A

Capital Raising:

- Company is dependent on Group
- Lack of Audited Financial Statements
- Cumbersome Group Structure
- Delay in obtaining Management Accounts
- No security for additional debt
- Current earnings do not support sufficient equity value to raise capital

Part B

- Wind-down of the entity, however, sale and continuation of the business and preservation of jobs
- Better result than a liquidation
- Involves sale of the Company's assets and business
- Offer received from Kaltire

KALTIRE BACKGROUND



BACKGROUND



Background:

- A Canadian family-owned company
- Over 60 years in business
- Strong family culture throughout the business

Culture and Business Model:

- Commitment to safety and people development
- Service as a differentiator
- Building strong relationships

Group:

- Corporate partnership
- \$1.5 billion annual sales
- More than 5,400 team members world-wide

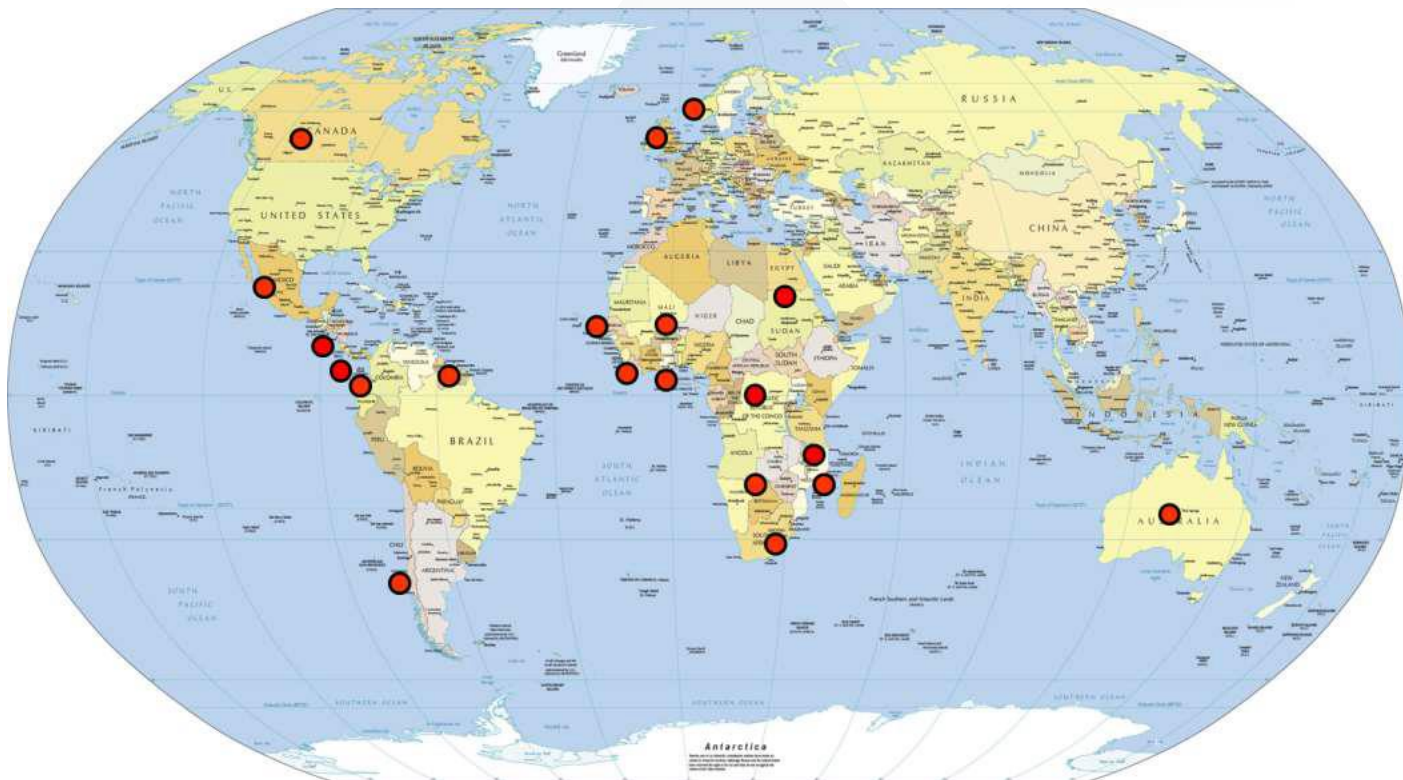
Kal Tire Mining Tire Group

- Contractually serving over 40 global mining companies
- Service contracts with more than 130 mine sites
- Service delivery on 5 continents
- Established businesses in 17 countries
- 1,800 team members and growing
- 5 earthmover retreading plants around the world



BACKGROUND

- Canada's largest independent tyre dealer
- North America's largest commercial tyre dealer
- Warehouse facilities across Canada
- One of North America's largest truck tyre retreader; 10 facilities across Canada
- Five OTR retread facilities; Canada, United Kingdom, Ghana, Chile



KALTIRE'S CUSTOMERS




KALTIRE OFFER

- An offer for the purchase of the business and assets has been made by Kaltire.
- The BRP believes that this may result in a better result than a liquidation.
- Alternatives will be considered.
- The details of the above will be presented in the Business Rescue Plan.

PROOF OF FUNDING

Proof of Funds

BMO  Bank of Montreal

BMO Bank of Montreal
Corporate Finance
6th Floor, 595 Burrard Street
P.O. Box 49500
Vancouver, BC V7X 1L7

February 10, 2017

Private & Confidential

Matuson Associates
1st Floor, One on Ninth
Corner 9th St and Glenhove Roads
Rosebank, South Africa

Attention: Mr. Barry Kaganson:

Dear Sir,

This letter will confirm Kal Tire has been a valued client of the Bank of Montreal since 1995. We confirm that the company has the funds available to invest ZAR 250,000,000 and we consider our client to be fully responsible for its commitments.

Yours truly,



Doug Mills
Managing Director
BMO Bank of Montreal | Corporate Finance Division

BUSINESS RESCUE VS LIQUIDATION



BUSINESS RESCUE VS LIQUIDATION

MORATORIUM

- The formal moratorium under Business Rescue allows “breathing space” to formulate, propose and implement a Business Rescue Plan.
- During Business Rescue Proceedings, no legal proceeding, including enforcement action against the Company, may be commenced or proceeded with in any forum, without the written consent of the BRP or with the leave of court.

THE BUSINESS RESCUE PLAN

- The Business Rescue Plan will be approved if:
 - a) it is supported by the holders of more than 75% of the creditors’ voting interests that are voted, AND
 - b) the votes in support of the proposed plan include at least 50% of the independent creditors’ voting interests, if any, that are voted.

BUSINESS RESCUE VS LIQUIDATION

	Business Rescue	Liquidation
Employees	<p>While employees continue to be employed by the Company they receive FULL SALARIES AND BENEFITS.</p> <p>Employees will receive FULL SALARIES AND BENEFITS from the commencement of the Business Rescue to the date of implementation of the plan or termination of the Business Rescue Proceedings or termination of employment.</p>	<p>Employment contracts suspended on liquidation.</p> <p>Employees receive capped severance in terms of the Insolvency Act. Maximum of R28 000 per employee.</p>
Realisation of Assets	Maximum value is preserved and realised.	Assets are usually sold at distressed prices.
Timing	<p>8 – 12 MONTHS</p> <p>Payment made to creditors in terms of the waterfall as and when funds permit.</p>	<p>18 – 24 MONTHS</p> <p>Payment of dividend could take between 18 – 24 months after L&D account confirmed by Master.</p>
Fees	In Business Rescue the fees are significantly less and are based on a set tariff or by agreement.	In a liquidation, fees are based on fixed percentages of the gross value of assets realised, irrespective of the third party costs incurred in achieving such realisations.

PROOF OF CLAIMS



PROOF OF CLAIMS

- **Claims**

- Outstanding amounts for services rendered and goods delivered prior to 27 February 2017, being the date of commencement of Business Rescue, are subject to the moratorium.
- A claim form will need to be submitted for such amounts. These Claims will be reconciled to the Company's records and any discrepancies investigated.
- The payment of these amounts will be dealt with in terms of the Business Rescue Plan.
- The claim form is available at the following link:

<http://matusonassociates.co.za/tyrecorpinternational/>

CONCLUSION BY BRP



CONCLUSION OF THE BRP

It is the view of the BRP that, notwithstanding inevitable risks and challenges, there is a reasonable prospect of rescuing the Company, based on the following:

- Availability of funding during Business Rescue
- The business rescue process will achieve a better result than a liquidation
- Based on the BRP's experience of liquidations, it is more likely that value will be preserved and extracted under business rescue subject to the BRP being able to fast track any wind-down or sale process

Opinion

- The BRP is of the opinion that there is a reasonable prospect of rescuing the Company. Various options will be investigated, together with input from management, shareholders and creditors.

CONCLUSION OF THE BRP

Should the BRP at any time conclude that there is no reasonable prospect of rescuing the Company, the BRP must advise affected persons and apply to court for an order discontinuing the proceedings and placing the Company into liquidation.

Termination of Business Rescue Proceedings

- The Plan proposed is rejected and proceedings are not extended.
- The Court orders the conversion of the business rescue proceedings into liquidation.
- The BRP concludes that the Company is no longer in financial distress.
- The BRP files a notice of substantial implementation of the approved Plan.

WAY FORWARD – CREDITORS

- Business Rescue could likely be a “PART B” (i.e. a wind down)
 - Sale of business via the Kaltire transaction
- Possibility of recapitalisation and turn-around, however, this is remote due to, inter alia:
 - Lack of audited Annual Financial Statements;
 - No security available for additional debt; and
 - Earnings do not justify sufficient valuation for equity investment.
- Must achieve a better result for creditors than a liquidation.

CREDITORS' COMMITTEE



CREDITORS' COMMITTEE

Functions, Duties and Membership of this Committee

A committee, appointed in terms of S147 of the Companies Act, may -

- Consult with the BRP about any matter relating to the Business Rescue Proceedings; and
- Receive and consider reports relating to the Business Rescue Proceedings.

Members need to be independent creditors or an authorised agent of an independent creditor.

GENERAL



- The BRP will communicate timeously with all creditors in writing, as required.
- The BRP will meet with the Creditors' Committee as and when required – all creditors will be advised of these meetings and will see full discussion agenda items.
- Creditors may refer any queries to the BRP.
- Queries can be directed to the Practitioner at tyrecorpinternational@matusonassociates.co.za
- Questions



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