"FAI"

SABC NEWS
EDCON CEO GRANT PATTERSON INTERVIEW

SKYPE INTERVIEW

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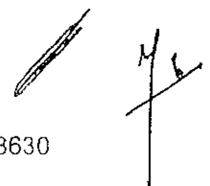

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INTERVIEW EDCON BOARD

GRANT PATTERSON

OUR REF NO 75797

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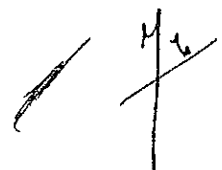
FEMALE SPEAKER The Edcon Board has approved the proposed restructuring and re-capitalisation plan. Edcon CEO, Grant Patterson says in response, lenders have extended waivers to allow time for implementation. The retail giant which owns Edgars, Jet and CNA has 10 been under financial strain for some time now. For more on this, I'm joined via Skype by Edcon CEO, Grant Patterson. Thanks so much for your time on SABC News this afternoon. Can you put a total value on the recapitalisation climb for us?

MR PATTERSON Yes, thank you for having me. It's probably in the 15 order of about R3 Billion, the current plan as it's written and that amount of money with the conversion of all of our existing debt into equity means that Edcon will have a good runway such that management can – management and staff can focus on fixing the business rather than worrying about the sustainability of the business.

20 FEMALE SPEAKER And so how long will this recapitalisation climb keep Edcon alive for?

MR PATTERSON The current plans is based on about a three year runway and within that time, the plan is to have the business profitable again and self-sustaining in terms of cash generation.

25 FEMALE SPEAKER Can you give us more details on that restructuring



plan of yours?

MR PATTERSON Ja, it involves about 250 companies, it's been in planning now for six to nine months. It is a very, very complicated transaction that requires a whole bunch of ownership structures to be

5 unwound there to be converted into shares, new governance put in place and so very, very complicated deal which we're very pleased that has finally been put to bed.

FEMALE SPEAKER Will you be offloading any entities? I might have missed that in the restructuring plan.

10 MR PATTERSON The current plan doesn't involve offloading any entities however you know, these are matters that come under consideration from time to time and will be dealt with at that point in time but within the current plan, there's no intention to offload any entities.

FEMALE SPEAKER In the Sunday Times report that was speaking about

15 Edcon's troubles, we heard that you were trying to make agreements with your landlords in terms of rental agreements for shares. Is that true and what's happening with that?

MR PATTERSON Yes, so as the statement says where, subject to confidentialities, you know, it's such a complicated deal, there's no one

20 solution for one stakeholder so all the stakeholders have come together with different solutions so it's not possible to talk about it in any general terms and in terms about specific companies who participated, we are subject to those confidentialities. When the deal is implemented in the first three months of next year, those details will be able to be published.

25 FEMALE SPEAKER Okay, still in that Sunday Times article, we saw that

around 140 000 jobs were at stake. Is there still a chance of job losses when it comes to the restructuring climb?

MR PATTERSON You know, again the statement does say they are subject to regularity improvements and due diligence but really I think

5 those risks are now quite minor and staff members and suppliers and staff of suppliers can go into the Christmas period with some comfort.

FEMALE SPEAKER While we're still talking on the issue of jobs, there's been many allegations about the quality of jobs at Edcon, allegations that your staff are mistreated, paid poorly and infrequently as well as

10 allegations of racism, let's talk about that and what you're doing about that.

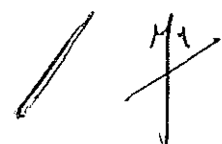
MR PATTERSON Look, it's a very large company. You know, we employ a lot of people and I'm absolutely certain there are – you know, we make mistakes and there are some employees who feel like they have been mistreated. We will more than happily address any of the complaints that

15 are made. Let me just say however though, that we do have a satisfaction survey in place for the company and so we do know those areas where staff are unhappy and when they are unhappy and let me say overall, our staff seem to be happy so you know, I'm quite comfortable with that and then on the issues of any type of illegal behaviour, you know, sexism,

20 racism, any of that, we've got extensive procedures in place in the company and including ethics hotlines which people are able to get help from the company addressing whatever complaint they've got.

FEMALE SPEAKER Is part of any of your restructuring looking specifically at your employees? I saw you Tweeting earlier on those

25 allegations that you're going to try and make them better and I think it's not



isolated incidents, it's quite systematic ones that have been spoken about on line. Will you be doing a sort of audit beyond saying staff can phone in and complain, will you be doing an audit to make sure that you are following labour laws, you are making sure that people aren't working for
5 long hours, people are able to sit down if they need to, they're able to take breaks if they need to, that they're getting paid decent salaries?

MR PATTERSON Yes, I mean, look, I would put into perspective that you know, Twitter is not a necessarily – which is where this discussion has been happening, it's not necessarily a good point of representation
10 however I acknowledge that those incidents do occur and so, yes, we will go and address them specifically. We will find out where those complaints have come from and we will address them. You know, I won't rest easy until I know every employee in Edcon feels respected and is certainly being treated properly.

15 FEMALE SPEAKER Grant Patterson, the CEO of Edcon joining us in their restructuring climb as well as what's happening with their jobs. It's time for ...[machine off]

"FA2"

DEVAN MURUGAN/EDCON CEO GRANT PATTERSON INTERVIEW

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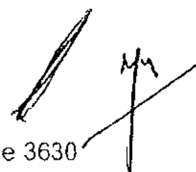

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INTERVIEW EDCON BOARD

DEVAN MURUGAN/GRANT PATTERSON

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MALE SPEAKER The Edcon Board has approved the structure of the proposed recapitalisation plan and I'll just take you back now to Devan Murugan who has the latest on the story.

MR MURUGAN Thanks very much, Gareth, and that plan by the way in

10 response to lenders have extended waivers so lenders have extended their waivers to allow time for implementation of that restructure. There have been fears of massive job cuts as we said. Well Edcon CEO, Grant Patterson joins us now via Skype. Grant Patterson, thanks very much indeed for your time. I guess the big question is, what's in the plan of

15 restructuring and how far does it go to this purpose of recovery and saving jobs?

MR PATTERSON Yes, thank you, and thank you for having me on. You know, it's a very exciting day for us. We've been working on this plan now for a year and those of you who have been following the story will know

20 that I said we needed to complete a deal before Christmas and here we are a few days before Christmas, the Board met on Monday, they considered the proposal made by over 250, including the 250 companies and they approved the way forward. That was a really important point in time. That allowed our lenders who are also part of the plan and are going

25 to convert their debt to equity to extend the deadlines that they have on the

repayment of that debt to allow us a few months to implement the deal.

MR MURUGAN So I mean obviously you're saying in your statement the details are very thin at the moment but can you tell us how far, what components of that restructuring plan goes to the recovery here, Grant
5 Patterson?

MR PATTERSON Yes, so really it's half the story. The business needs to convert its debt to equity, make sure it's got enough capital, ie, cash in it to operate for the next few years, not just the next few months as we've been doing recently. This allows management and employees to be able to
10 concentrate not so much on the security of the business but to concentrate on customers and restoring the customer confidence in the business. That's one half of the story. Of course the other half of the story is the Board has also approved the business plan and that business plans talks to how about management is going to improve the product quality, change
15 the structures of the company such that we can focus more on servicing customers and improving our offerings. In celebration of that, if I can add, we are launching a bunch of specials in Jet, Edgars and CNA this weekend, starting today.

MR MURUGAN And I suppose when you launch these specials, you will
20 bear in mind that Edcon has been struggling with brand purpose, I mean you had stores within stores, you had brands within brands, some commentators saying that you know, it was a confusing mess. The feeling is that executives just didn't know their markets, would you agree?

MR PATTERSON I think that all the criticism aimed at Edcon has been
25 fair. We brought in a bunch of international brands. We moved our stores

around, we made them noisy and cluttery and our offering became confused and I think we lost connection with our core customer who's the middle income family generally as well as individuals who are going to in the short time become part of the family or have empty nesters, so we lost
5 that focus on that customer. Really what we're doing now is concentrating on the Edgars brand, the Jet brand and the CNA brand. Those of you who know the business will know in the past we've had many more brands and we think that focus will enable us as well as our focus on buying local product will enable us to restore our connection with the customer.

10 MR MURUGAN Were you behind the curb in terms of online shopping?

MR PATTERSON Yes, I think we were. We really went fully online about two years ago. Our online offering is adequate, not – it's not leading edge but I would say though that I don't think the online component as yet, the component that has been responsible for our poor performance however I
15 do think the rates at which online trade is growing at the moment is that it is going to be our challenge in the next four or five years to make sure we up our game and stay with the best in the world.

MR MURUGAN You say this plan has been, you know, been put together over a few months now and when one looks at that time period just going
20 years back, do you not think Edgars perhaps hastily jumped into opening stores which really never took off. I mean one store that comes in mind is Melrose Arch for example, you walk in there, it really has been deserted for ages. So decisions like that have been under question, hasn't it?

MR PATTERSON Absolutely. We opened far too much space. You
25 know, I wasn't around at the time so I can't exactly explain why we're doing

that. We had an East Gate expansion from 10 000 to 14 000 square metres. We committed to an extra 14 000 square metres at Fourways, we opened a Rosebank store that was too large. I think you're exactly right. We opened stores that were too big and part of the plan could be
5 described as slimming down, first of all making sure we don't have too many stores in each market and also making sure that those stores are just slightly smaller so that our trading densities are higher.

MR MURUGAN Where are you with CNA, I mean here's another store that people have been saying, well you know, do you really need this in
10 your book?

MR PATTERSON Yes, so I'm a believer in CNA, let me just tell you why. CNA did lose its way, it used to be a stationery store and an education store and then it got distracted in other categories like music and books and DVD's and gaming and electronics. What we've done is, we've pulled
15 the business back. It's now tag lined, 'Your favourite stationery store', and we also are the market leaders in educational books, ie, study guides and non-fiction and so we're going to focus on what we're good at. I think, if you think about it, where else can you buy stationery, what other national chain sells stationery education. There's not a lot of choice. I think CNA
20 is a very important component of South African's lives.

MR MURUGAN Grant Patterson, are you getting a bonus this year?

MR PATTERSON Absolutely not, as I said, in fact, whilst all of our stakeholders are contributing to the recapitalisation programme, I have in fact agreed to take a pay cut to show my commitment to turning the
25 business around.

MR MURUGAN I'm just wondering how the potential 40 000 jobs that could be on the line will sort of digest that news. In the plan, where are we with those 40 000 potential job cuts?

MR PATTERSON Yes, so what we've managed to do by putting together
5 this recapitalisation is we've managed to avoid a very large shrink in the number of stores. We'd either go out of business and have lost all the stores or we would have lost half the store so we've managed to avoid that. The business will slim down. It's actually been slimming down for the past year. We've probably downed space over the past two years of 10
10 percent but what we've done, working with the unions and working with the staff is when we do shut down a store, we give the staff, our staff the opportunity to transfer into one of the surrounding stores. Customers will know that we've probably cut our staff levels in our store too much. Our service has declined as a result of that so we are intending and
15 maintaining our staff levels whilst slimming down the business and then thereby improving the service in the remaining stores.

MR MURUGAN And just a final question, exactly which employees or staff members here are under threat, Mr Patterson?

MR PATTERSON Well at the moment, there aren't any staff members
20 under threat as we sit here today. We have come up with a recapitalisation, we have found all the support and so all of our staff can enjoy a Christmas where they've got confidence that they're going to be working for a business that's not only going to survive but it's also going to thrive into the future.

25 MR MURUGAN CEO of Edcon, Grant Patterson speaking to us via

Skype, thanks very much indeed for your time.

"FA3"

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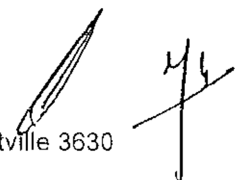

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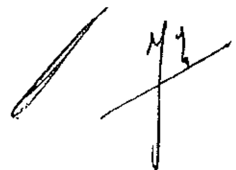


"FA 4"

How Grant Pattison saved Edcon

Edcon, SA's largest clothing company, on which more than 100,000 people rely, faced extinction last year. But thanks to a series of savvy interventions by CEO Grant Pattison, who in another life would be running Eskom, Edcon may just be turning the corner. This is the inside story

BL PREMIUM
04 JULY 2019 - 05:00 ADELE SHEVEL

Edcon, the 90-year-old retail colossus which last year came within an inch of collapsing into the scrapheap like rival Stuttafords, has been saved — for now, at least.

It's a verdict that has been out till now but last week, the R2.7bn for Edcon's "restructuring" landed in its bank account. It was touch and go for a while but it's fair to say that the rescue deal for SA's largest clothing retailer can be deemed a success.

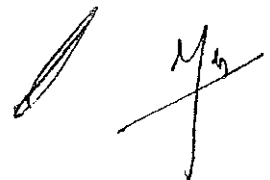
Some brands haven't made it. Jetmart, fragrance brand Red Square and high-end homeware store Boardmans are history. In all, 150 of its 1,350 stores have been shut over the past 18 months and, in the rest, floor space has been slashed by 10% — 140,000m² — which is about the size of Sandton City.

In two of SA's largest malls, the Mall of Africa and Eastgate, Edgars has shrunk to one floor, from two. When the *FM* visited the Sandton City branch, there was no discernible sign that customers had fled. Some of the assistants told us they didn't have enough stock, but that's apparently part of a plan to keep the chain slightly understocked.

That Edcon, which first opened its doors as Edgars in Joburg's Joubert Street in 1929 thanks to brothers Morris and Eli Ross, is still alive is chiefly due to one man: Grant Pattison.

"I'm an engineer. When things are broken, I like to try to fix them," says Pattison, a tall, seemingly tireless 48-year-old, in an interview with the *FM*.

It sounds about right: Pattison studied electrical engineering and worked as a management trainee at Anglo American. Nor did he ever have any desire to go into retail until, in 1998, leaving a job interview for Affinity Logic (which he didn't get), he bumped into Massmart CEO Mark Lamberti in the foyer.



Pattison didn't know who Lamberti was, but had no problem telling him how badly Game's shelves were stacked. So Lamberti grabbed his car keys and drove him to a Game store, and told him to repack the shelf as a customer would want it. Pattison hauled everything off the shelf and did just that. Seven years later, he was CEO of Massmart, stage-managing its R16.5bn takeover by US retail giant Walmart.

Bored and keen for a new "strategic challenge", Pattison left Massmart in 2014 and bounced around a few prospects.

What many people don't know is that Pattison coveted the job of fixing perhaps SA's most disastrous company: Eskom. As an engineer, it wouldn't have been a big leap.

In 2016, he was shortlisted as one of the final three for the job of Eskom CEO. But as he was driving to the final interview, he got a call saying it had been cancelled.

Minutes later, he heard on the radio that Brian Molefe had been reappointed CEO, after his short stint in parliament.

Still, Pattison lies awake at night thinking about how to fix the utility. "You actually have to study electricity to understand the problem of electricity, which is that it can't be stored. You can store other things — water in a dam, steam, but you can't store electricity," he says.

In some ways, fixing Edcon is the private sector equivalent of the task at Eskom: both are huge, systemically important institutions, crippled by debt and awful decisions.

Pattison's path to the Edcon CEO position wasn't straightforward.

In February 2017, he was appointed as a nonexecutive director, where chair Gareth Penny asked him to draw up a job spec from which they could hire a new CEO.

When Penny saw Pattison's list, he laughed and said: "Grant, you're describing yourself." The spec was for someone local, who preferably lived in Johannesburg, and had retail experience (preferably apparel). Pattison walked out of the meeting as Edcon's new CEO.

He describes how he arrived full of bravado, with a typical retailer's mindset. "I was going to open more stores, put more product on the shelves, drop some costs, pump up advertising," he says.

Then the financial realities hit home. "We created a financial model [which] showed that we destroyed value every time we opened a store ... Below a certain trading density and below stock turn, opening more stores destroys value, even though they're profitable," he says.

Salvaging Edcon, in fact, would be far harder than he expected.

To understand the immensity of this task, you need to understand how it got here. In 2007, in the largest private equity buyout in SA history, the Boston-based Bain Capital arrived in SA and paid R25bn to buy Edcon and delist it from the JSE.

The problem was, Bain heaped huge amounts of debt (taken out in euro, pounds and dollars) onto the company. Every spare cent, which should have gone to invest in the stores and on new merchandise, was diverted into paying the exorbitant interest bill.

Pattison has since described Bain Capital as "morally liable" for what happened at Edcon. "How were they allowed to use foreign debt to do a leveraged buyout in SA? Surely no-one would look at the most volatile currency in the world in 2007/2008 and say — oh, that's a good idea, let's put no money in, let's just borrow it. The thing was inevitably going to collapse," he says.

In fashion-speak, Bain was the proverbial wolf in sheep's clothing.

Before the Bain deal, Edcon was a powerhouse; in the decade after that, it lost 30% of its market share and its most talented staff, and its reputation was savaged. In 2016, Bain was forced to hand over ownership of Edcon, then unable to pay the debt, to creditors in a debt-to-equity deal. It left Edcon with "just R7bn in debt". In the end, even that was too much.

Pattison inherited the "recapitalisation plan", but he soon figured it was a non-starter from the word go. For one thing, Edcon was making losses, but had forecast earnings before deductions of R2bn, which it hoped to use to repay its R7bn debt.

It was pie-in-the-sky stuff, given that it was actually deep in the red.

So Pattison had uncomfortable meetings with shareholders, explaining that not only were they not going to make R2bn in profit, they were actually going to make zero.

Shareholders didn't like it, and complained to Penny.

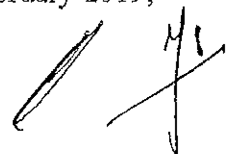
"I think the hypothesis was generated that maybe Grant was talking the thing down so Grant and his backers and partners (of which I had none) were going to come in and get the company on the cheap," says Pattison.

The next option was to try sell Edcon. But no-one would bite.

Brian Joffe's Long4Life was one of those rumoured to have looked at it, but Joffe's company told the *FM* this week that it "looks at numerous opportunities on a regular basis, but we won't comment on which investments we might have considered".

Pattison says it was "quite a disheartening process to go round the world asking for some money and effectively failing".

So he began to prepare for the worst, explaining to everyone the consequences of Edcon failing. "We started to tell people we were going to run out of money in February 2019, which we did," he says.



It would have been a crippling blow not just to Edcon's 40,000 staff, but also landlords, the banks to which it owed debt, and the 60,000 people who work in companies that supply the group — from small shoe manufacturers in the Cape, right the way up.

An ambitious deal was drawn up, with the help of top business people including former Investec CEO Stephen Koseff.

Koseff got involved because Investec was one of the banks exposed to Edcon. Investors were looking for someone they could talk to, and he'd played a pivotal role in restructuring African Bank after its collapse in 2013.

As Koseff told the *FM* this week: "I know my way around it. I know when guys are talking rubbish or not. They needed someone senior to play a role."

He knew the alternative was huge job losses. "It wasn't only the individuals who work in the company, it's also the suppliers. What do we do in the interest of saving a whole host of jobs in the country, which is under very stressed economic conditions?"

"**Without some very specific** interventions," says Pattison, "I think we were very close to the end."

But banks and landlords said they'd only support the deal if it included the Public Investment Corp (PIC), the state-owned company which manages pensions of government employees. Given the PIC's own internal ructions, that was never certain.

One particular meeting between Pattison and the PIC's former CEO, Dan Matjila, in November last year, sticks out. "This was one of the most stressful, pressured meetings," says Pattison.

After some wrangling, Matjila said they could find a way to work together. Pattison was immensely relieved. But at lunchtime that day, Matjila resigned — and everything was up in the air again.

"The deal didn't die but for a good two hours I thought it would," says Pattison. "That was a low point."

In the end, the state-owned Unemployment Insurance Fund (UIF), whose money is managed by the PIC, agreed to put in cash. Pattison's pitch to them was, if you don't help us, you'll have 140,000 extra people claiming from the fund.

But Edcon then found an unexpected ally: the unions, which had fought Pattison bitterly during Walmart's takeover of Massmart.

"I would never have been able to do the deal had I not already done Walmart. I had relationships with most of the major players, which helped build some trust," he says.

Those at the table who opposed Pattison at Walmart reappeared at Edcon: economic development minister Ebrahim Patel, trade & industry minister Rob Davies, financial advisers Rothschild & Co, Etienne Vlok from the Southern African Clothing & Textile Workers Union (Sactwu), and Mduduzi Mbongwe and Bones Skulu from the SA Commercial, Catering & Allied Workers Union (Saccawu)

This time, they were on the same side.
"The adversarial relationship I had through Walmart was turned into a collegial one ... we fought like crazy but I feel very close to the people I fought with. It's those relationships that have helped me," he says.

Pattison positioned the deal differently to the optimists around the table, and to the pessimists. To the optimists, his pitch was that the retailer could be fixed. To the pessimists, it was: let's shrink it by a third and if it still fails, you've only got two-thirds of the problem you had.

In the end, the final plan was sealed in December: 21 landlords agreed to inject R1bn into the company in exchange for 5% and 10% of Edcon's shares, the UIF would get 19% of the shares, and the banks, investors and staff hold the rest.

Together, Edcon would get R2.7bn in new investment. Critically, it leaves Edcon entirely debt-free for the first time in 12 years.

Pattison said when the deal was put on the table, it didn't have a single opponent "other than some Twitter idiots". No-one wanted to be the person who pulled the plug on Edcon.

Estienne de Klerk, Growthpoint SA's CEO, says landlords didn't get much of an option. "In the end it was rather binary: you either agreed, or you didn't."

Growthpoint is the biggest JSE-listed property owner in SA, with 1.4-million square metres of shopping centre space. Edcon occupied nearly 8% of that.

But De Klerk says it was still the best option. "It would have taken time and quite a lot of money to repurpose space, especially space occupied by Edgars stores. I think with the deal that's done, either everyone is equally happy or equally unhappy."

Koseff played a big role in "herding all the cats", says De Klerk.

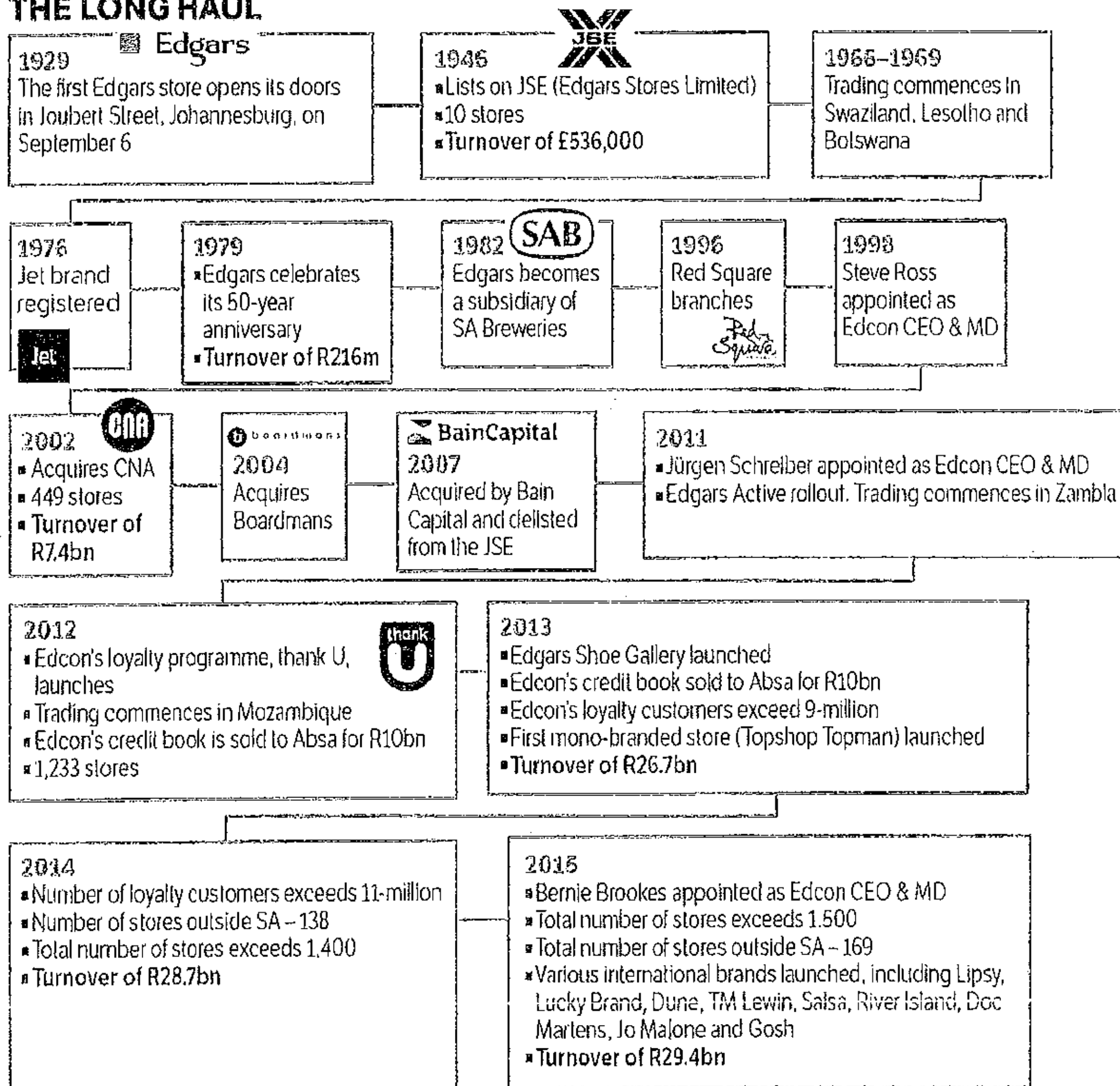
"He fulfilled a role to literally go and see everyone who needed to be seen and encourage them to be more understanding, co-operative and appreciate the big picture and potentially how it could either go wrong or go right, depending on how things played out," he says.

It was Growthpoint that proposed the idea of giving landlords equity, in exchange for the rent reduction — an idea since incorporated by Edcon. "The biggest challenge for

landlords isn't the economy or Edcon, but the retailers' insatiable appetite to commit to more new retail developments. That's a way bigger issue," says De Klerk.

Rivals weren't impressed, though. Truworths wrote a letter to at least one property landlord saying the deal was "anticompetitive".

Pattison rejects this view: "Competition requires companies to enter into individual commercial relationships with competitors. A landlord is a supplier to us. The fact they want to help us, even if it doesn't help Truworths, is tough."



Of course, it's one thing to save Edcon, but can it ever become the retail icon it was back in the 1960s? Who are its customers? What, in other words, is its raison d'être?

Pattison is clear that Edcon is not trying to be a high-fashion store. It's a family shop for moms wanting an outfit for going to church or an event and, increasingly, men who're doing more of their own shopping. It's fitted clothing for the average person, not a maximum of three sizes. "Wearability" and "washability" are important.

Jet offers similar product to Edgars, but it's a discount department store. Everything you can get in Jet is available in Edgars, but not the other way round. The Edgars version would cost more and have better quality. (Edgars makes up half the group's revenue.)

After Bain bought it, Edgars lost its way on the shop floor. Two decades ago, it was built around providing exclusive brands, private brands and selling clothes on credit.

Then the international brands arrived: H&M, Zara and Cotton On. So Edgars switched strategies: it began bringing in more international brands, and opened independent stores. It was the wrong approach.

Says Pattison: "History will show that Mr Price, TFG and Truworths had the right response ... have more local brands. We've switched to that strategy."

Edcon's revival plan has a number of imperatives: it needs better merchandise, a smaller space, and it needs its credit sales to recover. Edcon was famous as the first SA store to offer "six months' interest-free purchases" in the 1930s.

But under Bain, its credit sales plummeted. This is partly because, to raise cash to pay the debt, Edcon sold its debtors book to Absa. But Absa then started curbing the credit it would allow, which meant Edcon's credit customers fell from R10bn to R5.5bn.

Now Pattison wants credit sales to rise from less than 35% of its sales to between 40% and 45%.

On the shop floor, the clothes have been placed together in a more "sensible" manner too. In Sandton City, menswear has all been placed together, as has women's wear. It sounds obvious — but that isn't how it was in recent years.

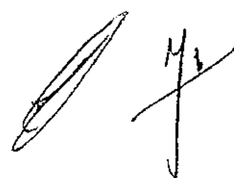
Doni Del Sal, who was highly regarded at Woolworths and Superbalist, has joined Edcon as its apparel merchandise director. Talk is that Edcon is also hiring former House of Busby CEO Shane van Niekerk.

Veteran retail analyst Syd Vianello says Edgars' shop floors are "looking a helluva lot better. They've done all the right merchandising things; the things you can do to make it look nice to entice people to shop there, but you don't have control over the amount of money people have in their pockets."

With consumers under pressure, after a 3.2% fall in GDP in the first quarter, shops are suffering. Says Vianello: "It affects Edcon more than the other retailers. Edcon needs positive sales momentum more so than its competitors, who can withstand flat sales simply because they have the financial wherewithal to do it."

Perhaps most painfully, Edcon is shrinking its physical space.

The fact is, its trading densities are all wrong. It makes about R15,000 a square metre, compared to about R25,000 at its competitors. So Edcon is reducing its shop floor space by a third — including reducing stores in Eastgate and Sandton.



The sceptics argue that even without Bain, Edcon's days were numbered, as the department store model is dying globally.

Jean Pierre Verster, CEO of Protea Capital Management, says Edcon still has enormous challenges. While Pattison is doing the right things, the department store format is under pressure globally.

Pattison doesn't agree. The Edgars at Sandton City, he says, is the quintessential department store and it makes R35m profit a year. "It's huge, beautiful and makes lots of money. So the concept can't be wrong. Why does it work in Sandton City? We sell more clothes than many other retailers," he says.

Pattison's view is that department stores work in a big regional mall if they're smaller than 10,000m²; in a regional mall, it has to be less than 6,000m², and for inner-city malls it must be less than 3,000m².

"If department stores are dead, well then Edgars is dead," he says. "If [we] make it the right size and profitable again ... there's enough proof that its core is still working well."

Every cost line is being scrutinised too.

For example, Edcon spent hundreds of millions on "strategy consultants" over the years — many of whom came from the former owners, Bain Capital. "My guess is over the years at Edcon, I would say those guys took maybe R1bn out of Edcon" he says.

By axing the consultants, Pattison is saving about £1.5m (R27m) a month. "There have been moments where I thought you could do without advisers, but actually you can't. It's just too complicated; there are too many companies, too many legal agreements, too many bonds, too many shareholders and banks. I've come to accept it as the price of doing these things. But everyone should have paid their own costs," he says.

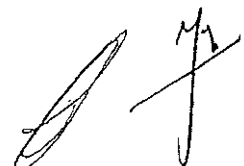
Perhaps most remarkably, even as it has shut 150 stores which had 1,000 employees, Edcon has managed to repurpose 900 of these people elsewhere. The UIF would probably have demanded no less.

So, is the turnaround working?

The numbers say yes. In the first four months of this financial year, Edcon has made more money than in the same period the previous financial year.

"June was probably our best month so far," says Pattison. Figures for the first quarter will be released this month.

Contrary to what some analysts have argued, he doesn't believe Edcon was saved because it's too big to fail. "The turnover would be filled by someone else," he says.



Rather, he argues, Edcon was saved because there is something salvageable there. If it's a dead business, let it die — but there are green shoots, he says.

It is still doing R24bn in turnover. Rivals with far smaller revenues are turning in R4bn in profit. There's no reason Edcon, when fixed, can't do the same. Especially with enough cash in the bank for two years.

"Our very ambitious strategy is to [get to] zero profit in three years' time. And at that point Edcon again becomes independent and sustainable," says Pattison.

One of Edcon's big suppliers, who spoke on condition of anonymity, says he is seeing an improvement. "They seem to be a lot more organised. The stock-to-sales ratio is more carefully organised, they're making sure they're not overstocked and are ensuring they get a good return," he says.

He says there have been "quite drastic changes" over the past three months, and there's a new energy at Edgardale. "They're being tightly managed. The stores look fresher. There's a revamp in their top nine locations and I think that will remain strong."

Even though space in the Mall of Africa has been cut by half, the revenue from that store has risen by more than 10%.

However, Chris Gilmour, an independent retail analyst, warns that it's too early to deliver a verdict on Edcon's turnaround. "On the one hand I don't want to take anything from Grant, he's following a textbook approach, and it's the only approach to take after years of abuse at the company."

But Gilmour says it's especially tough since it's the longest retail downturn since 1945, and the economy is in need of a defibrillator. "The biggest challenge is whether Edcon is going to manage to claw back market share. I don't think that is possible. Things have changed in the past 10 to 15 years with overseas brands like H&M, Zara and Cotton On that have done fabulously well," he says.

CNA, the news agency it owns, is also "bust", he adds. "It's too early to say if it will succeed or not, but if this economy carries on for another two to three years it will be incredibly difficult for Edcon to survive."

For Pattison, it's been the sort of learning curve you wouldn't get in many other companies. Steinhoff, Tongaat Hulett and EOH, all themselves in a rescue orbit, are perhaps the exceptions.

It's the sort of invaluable case study applicable right the way across SA's private sector too.

Pattison says he became more of a banker than a retailer in the process. And it's taught him to question the way deals are typically funded.

"What I've learnt is that debt, particularly unlisted secured debt, is very, very dangerous. And when things go wrong, it's no longer about whether the CEO or management keeps their jobs or shareholders lose some money, it's about the company's survival because you have to pay the money back."

Koseff echoes Pattison's sentiment, especially when it comes to retailers.

"These businesses are not businesses you can leverage. I've learnt that as a banker and an investor — don't leverage retail firms. They don't have big balance sheets. They have big businesses and cash flows but not big balance sheets," he says.

Koseff says he's seen it five or six times, where private equity buyers have got involved. "They mess up retail businesses if they overleverage them."

If Bain hadn't bought Edcon, any slip-up on the shop floor would also have been handled differently. "All of those deals would be funded by equity holders, and they would have fired the board and management," Pattison says.

But perhaps the main lesson he learnt was that a company needs to ensure it can keep its independence, otherwise the banks take control." You have to pay for advisers who act against you, and you have to pay for them, monthly, in pounds.

"When you breach your covenants, the world almost stops and a credit committee of a bank is now running you, and their every instinct is wrong," he says.

Allowing a foreign shareholder like Bain Capital to swoop in, and burden the company with foreign debt, is a recipe for disaster.

Already, the Competition Commission has cleared the way for Edcon's new structure. Its shareholders are Absa, Standard Bank, Investec, Growthpoint, Redefine and the PIC.

Says Pattison: "I will always be checking in with myself if this is the best thing for the company, not just for shareholders ... It's quite hard to figure out what part of capitalism you believe in. If you just think about shareholders, the Bain deal was a great deal. If you think about just the company, it wasn't."

No kidding. Edcon remains a cautionary tale of how a much-fêted private equity deal came to the brink of destroying the lives of 100,000 people.

"FA5"

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← **Grant Pattison**
2,879 Tweets

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Grant Pattison @GrantPattison · 31 Mar 2020
Replying to @Moneyweb
Also no need to speculate how we we doing before the President's annoucement on the 15th, you just had to ask. In January/Feb we increased sales relative to space by over 6 percent. In March we were doing even better before the annoucement.

"FA6"

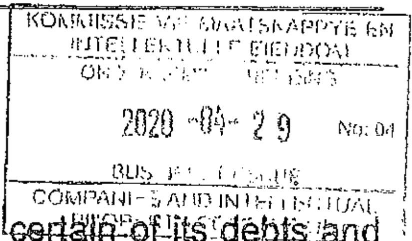
RESOLUTION PASSED AT A MEETING OF THE BOARD OF DIRECTORS OF EDCON LIMITED (REGISTRATION NUMBER 2007/003525/06) ("THE COMPANY") HELD ON THE 28TH APRIL 2020 BY ROUND ROBIN

<u>PRESENT:</u>

<u>Directors:</u>

Gareth Penny, Grant Pattison, Rhidwaan Gasant, Daphne Motsepe, Nigel Palmer, Abigail Bisogno, M Mthunzi

IT WAS RESOLVED THAT:



1. As the company is unable to pay certain of its debts and as it appears to be reasonably unlikely that the Company will be able to pay all of its debts as they become due and payable within the immediately ensuing six months, the Company is therefore financially distressed within the meaning of Section 129 (1) (a) of the Companies Act 71 of 2008, as amended ("**the Act**").

2. As there appears to be a reasonable prospect of rescuing the Company in terms of Section 129 (1) (b) of the Act and/or if it not possible for the Company to so continue in existence, there exists a reasonable prospect that Business Rescue Proceedings will result in a better return for the Company's creditors or shareholders, than would result from the immediate liquidation of the Company, the Company should begin voluntary business rescue proceedings in terms of Section 129 of the Act.

3. **GRANT MICHAEL PATTISON** (identity number 710325 5765 088) in his capacity as a director and chief executive officer of the Company, be and is hereby authorised to appoint one or more Business Rescue Practitioners of the Company in terms of Section 129 (3) (b) of the Act and is further authorised to sign any such documents required and which are ancillary to the

business rescue proceedings and to appoint attorneys to lodge the application for voluntary business rescue proceedings in terms of section 129 of the Act and to lodge any documents required to give effect thereto.

Certified a true copy of the extracts of the minutes of the meeting.

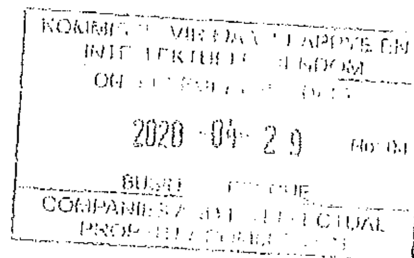
G PATTISON
Director

G PENNY
Director

R GASANT
Director

D MOTSEPE
Director

N PALMER
Director



A BISOGNO
Director

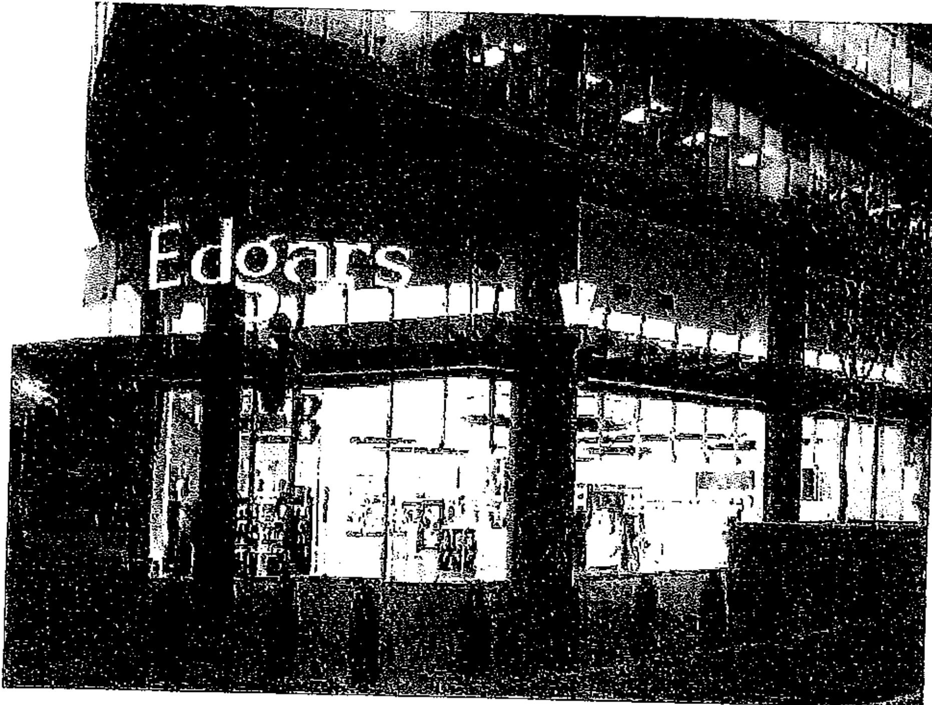
M MTHUNZI
Director

"FA7"

Edcon on brink of collapse - 140,000 jobs at risk

Experts say it would be SA's biggest single jobs loss

16 December 2018 - 00:00
BY KATHARINE CHILD



Edcon, which owns Edgars, is now on its third restructuring.
Image: Courtesy of Edcon

In a desperate bid to stave off liquidation and the loss of up to 140,000 jobs, retail giant Edcon has held out the begging bowl, asking its landlords for a two-year 41% "rent holiday" in exchange for a 5% stake in the business.

The debt-laden company, which owns Edgars, Jet and CNA, is on the brink of collapse - which experts say would see SA's biggest single jobs loss.

In a letter sent to its 31 biggest landlords, Edcon warns that unless its remedies are accepted, "it is highly likely that Edcon will enter into a liquidation process" risking 40,000 direct and 100,000 indirect jobs.

The group is also seeking R2bn in emergency funding from its owners and the state-owned Public Investment Corporation.

The dramatic SOS constitutes Edcon's third restructuring in only three years to stave off the bankruptcy of what was once one of SA's most profitable retailers, now battling a mountain of debt, poor management decisions and changing shopping tastes.

1,300 stores - would be an even bigger jobs bloodbath.

'NATIONAL INTEREST'

Economist Mike Schussler said that should Edcon go into liquidation, it would be "by far the biggest single job loss ever" in SA.

Edcon, which owns Edgars, Jet and CNA, has more than 4-million account holders and occupies 6% to 7% of SA's retail space.

Edcon bosses met major landlords on December 7 at law firm ENSafrica's offices in Sandton to discuss the proposal. The high-level meeting was chaired by former Investec CEO Stephen Koseff, ENSafrica chair Michael Katz and Matuson & Associates, the company managing Edcon's business rescue process.

In a follow-up letter sent four days later, which the Sunday Times has seen, it said it was in the "national interest" to prevent liquidation.

It gave landlords until this past Friday to sign a letter of intent, with binding agreements to be signed by January 15. The new equity would be implemented by January 31.

The letter said Rothschild & Co investment company had been trying to find a global company to buy Edcon but "the disposal process was unsuccessful in attracting an interested party to acquire the business".

"Edcon has been struggling with excess financial leverage, an over-leased state [too many stores] and declining credit sales."

An Edcon spokesman said there is "no comment at this stage".

RIPPLE EFFECT

Iggy Sathekge, spokesperson for retail property company Pareto, confirmed the company had attended the Edcon meeting.

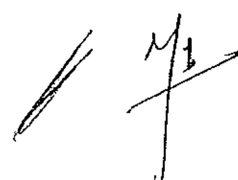
Pareto's portfolio includes Southgate and Westgate malls, Bloemfontein's Mimosa Mall, Cresta in Johannesburg, The Pavilion in Westville and a share of Sandton City. It is owned by the Government Employees Pension Fund.

"Unfortunately, there was a confidentiality agreement that was signed by all parties. Edcon was mandated as the party to respond to all queries," Sathekge said.

Pieter Prinsloo, CEO of Hyprop, which owns Rosebank Mall, Canal Walk and Cape Gate among others, as well as Growthpoint Properties MD Estienne de Klerk, said they could not comment due to the nondisclosure agreement.

"What I can say is that we are in discussion with Edcon and its financiers at this point, exploring various alternatives which do not include rent reductions," De Klerk said.

Growthpoint owns 22 malls including Waterfall Mall, Constantia Village, Brooklyn Mall and Walmer Park in Port Elizabeth.



Trading analyst Lester Davids said the space that would become available if Edcon stores closed could bring down rentals overall in the affected malls "as landlords could be hard-pressed to find tenants to fill so much space".

He said if the proposal was agreed to, mall owners would be getting lower rentals from Edcon, which would put pressure on what they paid out to shareholders.

But Edcon going under would be even worse, he said.

"The closure of Edcon would have a ripple effect as a large number of employees would be out of work, meaning these employees' bonds, cars and store card repayments may not be paid."

The head of listed property funds at Stanlib, Keillen Ndlovu, said that though 41% was a big discount, it was better than Edcon closing.

"It's a material decline in rent but it's better to let Edcon survive than to have our malls and shopping centre vacancies increase by 6% to 10% [and it will] save tens of thousands of jobs."

He said JSE-listed property funds' exposure to Edgars was 2% of all their rental income. Earnings for property funds next year would be down 1% if Edcon rent dropped by the proposed 41%.

"Landlords are negotiating hard, but we believe they'll do their best to keep Edcon by agreeing to reduce rents to a certain level."

Schussler said Edcon was in a good negotiating position to drive down rentals as it occupied so much retail space as landlords wouldn't want approximately 7% of their retail space standing empty.

However, lower rental incomes for malls would also have an impact on ordinary South Africans, as many pension funds had investments in property companies.

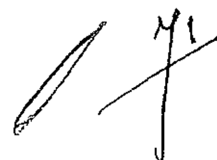
The 920,000 people currently on private pensions, with a lot of exposure to property companies, could be affected with lower pension payouts, he said.

Cosatu general secretary Bheki Ntshalintshali said the federation would "really be concerned ... particularly when unemployment is so high".

He urged property companies and Edcon to come to a deal, and to include the unions and the PIC in negotiations.

"Reduce the rent, let Edcon get on their feet so they can continue to support 40,000 workers".

In the ongoing saga to save Edcon, CEO Grant Pattison earlier this year announced the closure of Boardmans stores, standalone Red Square stores and La Senza lingerie branches, saying it would absorb the home and beauty products into its main Edgars



branches. Last year, Edcon sold chain store Legit for R637m.
Edcon, which analysts believe is planning to cut up to a third of all shops, has promised to close its Jet, CNA and Edgars stores only when leases end, giving property companies a chance to find new tenants.
But with mall vacancy rates at 5.5% - the highest in 15 years - this could prove tricky for property companies.
Edcon has faced a battle for survival since 2007, when US consultancy Bain delisted it from the JSE and borrowed R25bn in mainly foreign currency to take it private. - Additional reporting by Ntando Thukwana

"FA8"

MINUTES OF A MEETING OF THE CREDITORS' COMMITTEE OF EDCON LIMITED HELD VIA MICROSOFT TEAMS ON MONDAY 15 JUNE 2020 AT 5.30 PM

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1. The meeting commenced with a welcome from chairperson of the committee, Juliette de Hutton (**De Hutton**). De Hutton confirmed that various questions/concerns had been raised by the committee and that she had provided a memorandum summarising these to the practitioners.

2. De Hutton handed over to the practitioners to deal with the various queries.

3. Piers Marsden (**Marsden**) proceeded to explain the balance sheet of Edcon Limited (**Edcon**) as at the end of April 2020.

4. Marsden explained that although the balance sheet reflects assets of almost R11 billion, this is misleading. The balance sheet is prepared on a going concern basis, which does not reflect realisable values in a liquidation or wind-down scenario.

5. Marsden proceeded to explain the various line items in the balance sheet commencing with non-current assets. The first line item of note is that of "Right of use assets" in the amount of approximately R4.1 billion. This is purely an accounting entry. It is balanced out in the liabilities section of the balance sheet by the finance lease liability of R3.34 billion under non-current assets and the finance lease liability of R1.8 billion under current liabilities. This is therefore not a real asset that can be converted into cash.

6. The next line item is "Properties, fixtures, equipment and vehicles" of R1.1 billion. This can be broken down further into land and buildings, leasehold improvements, fixtures and fittings, computer equipment and software and machinery and vehicles. The biggest of these, fixtures and fittings (R690 million), refers to items such as shelving and other custom made fixtures and fittings in stores. In a store that continues to operate they may have value but in a store that discontinues they have virtually no value. In regard to computers and software, these have very little value in the market, if any. Leasehold improvements are amounts which have been expended on leased property. In a liquidation one receives no value for these.

7. The next line item in the balance sheet is "Investments in subsidiaries" (R369 million). It can be broken into three main components, namely Jet Supermarkets Botswana Proprietary

Limited, Edgards Stores (Namibia) Limited and Edgards Stores Swaziland Limited. Whether any value can be realised from these depends on whether there are buyers interested in these stores. Edcon is merely the shareholder of these entities. If there is no interested buyer they will be liquidated.

8. In summary, all the non-current assets in the total amount of R5.579 billion have very little value in a business rescue or liquidation scenario.

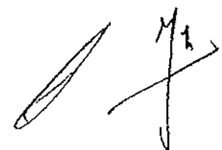
9. In regard to current assets, the main asset is "Inventories" in the amount of R2.4 billion. This is the asset that will lead to the largest recovery from the perspective of creditors. Creditors needs to be aware that of this there is a significant amount that is either consignment stock or subject to reservations of ownership. Consequently, of this R2.4 billion a significant amount will not flow through to creditors.

10. Marsden was asked about representations made by Grant Pattison (**Pattison**) on 26 March 2020 to the effect that Edcon held R3.2 billion in stock. Marsden was asked how R800 million of this had disappeared by the time the practitioners took over given that there was no trading due to lockdown. Lance Schapiro (**Schapiro**) confirmed that the R2.4 billion reflected on the balance sheet is cost value. He was not able to comment in regard to Pattison's alleged representation to the effect that R3.2 billion in stock was held. Marsden confirmed that the intention was to sell this stock / inventory in an accelerated sale process. They would not be able to sell the full range of stock and therefore the recovery would be lower than the R2.4 billion set out in the balance sheet.

11. In regard to "Amounts owing by Group companies and related parties", this referred to loan accounts owing primarily by subsidiaries operating in Ghana, Mozambique and Zambia. There was not likely to be any recovery from these operations, in particular Zambia (already in liquidation) and Ghana (loss making). A comment was, however, made by Louise Wiggett (**Wiggett**) to the effect that she would be able to assist with the repatriation of funds from Mozambique.

12. In regard to the line item "Sundry receivables and prepayments" these were prepayments on leases, rebates etc and the only hard asset that was recoverable was the RCS receivable in the amount of approximately R80 million.

13. As regards "Cash and cash equivalents", by the time the practitioners took over this cash had already been spent, primarily on salaries and related expenses such as PAYE. There was therefore not cash in the bank when they took over and there is no cash remaining on



the balance sheet. Even if it had been, this cash would have been covered by the cession in place in favour of the secured creditors.

14. In the circumstances there are assets worth R11 billion. The R4.1 million relating to "Right of use assets" must be ignored. The "Properties, fixtures, equipment and vehicles" will not realise anything close to the R1.1 billion reflected on the balance sheet and the "Investments in subsidiaries" is also largely unrealisable.

15. During the explanation of the balance sheet Yusuf Vahed (**Vahed**) indicated that there was a vast amount of information he required from the practitioners that had not yet been provided. This included financial statements for previous years. Marsden indicated that he could not see the purpose of providing information in relation to the past. However, the March 2019 annual financial statements were available and there were also March 2020 annual financial statements although the latter had not yet been audited as the business rescue process interrupted this. The balance sheet under discussion was as at the end of April 2020 and therefore the numbers are more accurate than those that would be in the balance sheet as at the end of March 2020. In Marsden's view the need was to focus on getting a plan through. Creditors needed to park their rights in regard to what happened in the past. They would not be foregoing these rights and would be able to pursue them in due course, if appropriate. It was not correct to suggest that any information was being hidden by the practitioners. There is currently a window of opportunity to save the business, but stakeholders need to act quickly and at this stage there is little merit in wasting time looking backwards.

16. In summary, the only real asset available to creditors from a recovery perspective is the inventory. In the plan the practitioners have apportioned this is on a *pari passu* basis between concurrent and secured creditors. Ultimately, the recovery by secured creditors will be higher as they have security over other assets, including cash deposits and accounts receivable (including the second look book in the amount of approximately R500 million).

17. Marsden then proceeded to explain the recovery waterfall (**waterfall**). A copy of the schedule in this regard was provided at the meeting and would be emailed to creditors after the meeting. Marsden explained that it included both a high and low estimate in a liquidation scenario as well as an estimate in a trade-out scenario. The challenge faced by the practitioners is that in order to continue to trade and sell inventory they need to incur substantial costs, including rental and employee costs. In a business rescue scenario the employee costs include severance costs. The waterfall therefore refers to net recoveries

after these expenses. As reflected in the waterfall, in a trade-out scenario the net recovery in respect of inventory is estimated to be R1.328 billion. Built into this are items such as the 6% turnover rental currently being paid, employee costs and utility costs. After adding net recoveries from properties, fixtures, equipment and vehicles as well as trade receivables, inter-group receivables and other receivables the total estimated net recovery is R1.9 billion. From this must be subtracted retrenchment costs of R597 million and rental PCF amounts of R408 million, leaving a total available for creditors of R895 million. Marsden clarified that only 6% turnover rental is currently being paid. The remainder is accruing as PCF and will need to be paid to landlords as a repayment of PCF.

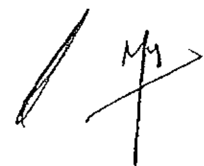
18. The inventory will be sold over the period June and July. Initially it would be sold at a high margin, but it is anticipated that discounts will increase over time. Marsden pointed out that the net recovery of R1.9 million in a trade-out scenario is substantially higher than even the highest liquidation estimate (R939 million).

19. Marsden indicated that the total value of the secured creditors' claims is R3.8 billion and that of concurrent creditors is R4.3 billion. The ratio is therefore 54% concurrent creditors to 46% secured creditors. The assets subject to the general notarial bond (GNB) will be apportioned in the same proportion. Secured creditors will then get 100% of the proceeds of the other assets secured in their favour. The amount available for distribution to creditors from the realisation of inventory is the R1.328 billion net recovery less retrenchment costs of R597 million and PCF rental of R408 million, leaving the amount available for distribution of R324 million. Using the relevant ratios, R150 million will be attributable to the secured creditors and R174 million to concurrent creditors. This results in a recovery of approximately 4c in the Rand for concurrent creditors. The secured creditors will ultimately receiver 19c in the Rand if the figures reflected in the waterfall materialize.

20. Marsden went through the list of questions sent to him by De Hutton (which had been the result of a previous meeting of the creditors' committee). A copy is attached as "A".

21. Schapiro and Marsden confirmed that a list of creditors reflecting vendor codes is being tidied up and will be provided to creditors. Shapiro indicated that he would let De Hutton know as soon as this list is available on the website.

22. In response to question 2.2 Marsden confirmed that the apportionment was *pari passu* and therefore concurrent creditors would get a proportionately great allocation than the secured creditors. Wiggett requested an explanation as to why a *pari passu* approach had been



adopted. Why had secured creditors been allocated any of these funds? Marsden explained that if the secured creditors had perfected their GNB they would have a right to all the proceeds of these assets. As they had not perfected it, they rank equally with the concurrent creditors in regard to these assets. The negotiation with secured creditors in this regard was as a result of the fact that they wanted to claim a disproportionate share of these assets. The practitioners pushed back on this and would not agree. It should be noted that in a liquidation scenario the secured creditors would be preferent in respect of the GNB assets even if they had not perfected the GNB. In a liquidation scenario the concurrent creditors would not receive anything. Marsden clarified that the amount of approximately 19c in the Rand to be paid to secured creditors was a result of approximately 4c being received in respect of the GNB assets and a further approximately 16c in respect of other assets secured in their favour.

23. Gideon Bochedi (**Bochedi**) asked whether certain assets described as "Properties, fixtures, equipment and vehicles" did not also fall under the GNB and therefore should be shared amongst secured and unsecured creditors in the same manner. (This question was asked at point 2.3 of annexure A). Marsden confirmed that this was the case and that the waterfall calculation would be revised. [This revised calculation was then shared with creditors after the meeting and is mentioned below].

24. In regard to trading out the stock, Marsden confirmed that the book value is R2.4 billion. Trading would run for two months. On day one they would sell at good margins, but as the stock decreased and incomplete ranges were available they would start discounting stock. This would mean that by the last week of trading there would be approximately 90% discounts offered in order to sell all the stock before premises needed to be handed back to landlords. He emphasised that this scenario was based on the assumption that there were no buyers for the business.

25. Wiggett pointed out that R895 million available to creditors from the trade-out scenario is less than what would be available in a liquidation at the high end of values. She asked what would be saved in respect of retrenchment payments if the businesses could be sold. Marsden confirmed that this depends on how many stores are taken over and how much of the head office staff is taken over. If one assumes that half of the retrenchment cost is saved (which would probably be a fair assumption) this would result in approximately another R250 million being available for distribution to creditors. Additionally, a higher amount may be realised for the inventory in a sale of the businesses (i.e. higher than R1.3 billion). Consequently, the practitioners do anticipate an increase in the dividend if they are able to

sell the businesses. They did not publish these increased figures in the plan as there was concern that the potential buyers would be able to work back these figures to arrive at estimated offer prices of the various bidders. This would decrease the practitioners' ability to negotiate with potential buyers.

26. De Hutton indicated that she had queried the extent to which the dividend could increase if the businesses were sold and was told by Schapiro that it would not be substantial and that creditors should moderate their expectations in this regard. Marsden confirmed that the dividend would not go up to anything like, for example, 20c in the Rand, but it might perhaps go up from 4c to 7 or 8c. He could not guarantee this, but there would be some increase in the dividend.

27. Marsden also confirmed that the rental PCF, although generally a fixed number, is one they are trying to reduce wherever possible by cancelling leases in respect of stores where trading would cease in any scenario. The stock in those stores could be moved to nearby stores. The obligation to pay rental would be suspended in terms of section 136 of the Companies Act. However, it was not possible to reduce severance costs in relation to the relevant employees as it is not possible to retrench employees immediately, even where stores are to be closed. A minimum 60 day consultation period is required in terms of the Labour Relations Act.

28. In regard to question 2.5 Marsden indicated that the sale process is at a sensitive stage. They have received expressions of interest and are engaging with potential purchasers. It would be difficult for a private equity firm or a finance house to come in as a buyer as they would not be able to eliminate head office costs. All of the potential purchasers are retailers well known to all of us. He cannot disclose the names of the purchasers, but they are all large and have the financial ability to conclude this transaction. They are credible and can re-capitalise the business as required and will provide good homes to the trade creditors. Marsden confirmed that they are mostly clothing retailers, some being clothing adjacent. The failure to disclose the identities of the potential purchasers is not due to an absence of transparency but rather because he does not want to muddy the waters or compromise the sale process. They are all South African retailers. He cannot disclose the range of purchase prices offered. Marsden confirmed that the details of purchasers have been disclosed to De Hutton and that she is able to confirm to the committee that they are all credible purchasers.

29. Arthur Lambouris (**Lambouris**) expressed concern that as existing retailers all potential purchasers would have their own infrastructure and suppliers in place and therefore an

ongoing trading partner was possibly not a "carrot" for this group of creditors. Marsden confirmed that there is no guarantee that there will be the possibility of ongoing trading. From the perspective of services such as IT there would always need to be a transitional period during which services are required by the new owners, but thereafter some buyers may not need those services. Lambouris also asked about Competition Commission approval due to the fact that all of the potential buyers are existing retailers. He wanted to know whether creditors would have a right to object during the competition approval process. Marsden confirmed that they would have such a right. Marsden confirmed that they are trying to expedite the process with the Competition authorities and using a failing firm defence. He also pointed out that if a sale is not approved by Competition authorities and there is no buyer then the market dominance of existing players in the market will automatically increase in any event. Marsden also mentioned that if there are two equal offers from different parties and one raises fewer competition considerations this might be a factor leading them to select that party. Marsden confirmed that there are still multiple bidders in both processes (i.e. Edgars and Jet).

30. Wiggett asked what prevents purchasers from waiting for a liquidation and then "picking up the pieces" more cheaply. Why would they pay more through a business rescue process? Marsden confirmed that this is a risk and therefore during competitive bidding process they do not want to push buyers too far. Many thought retailers would allow Edcon to fail and would pick up the market share themselves. In terms of advantages of business rescue: there have, for example, already been lease terminations by landlords in respect of stores that Edcon would prefer to keep (and buyers would be interested in obtaining). The business is able to continue to trade in business rescue far easier than in a liquidation scenario. A liquidation process is very disjointed. It takes time for a liquidator to be appointed and time to get an extension of powers. A liquidator has limited ability to continue to trade. He must pay rental, employees etc and would generally require an indemnity to do so. It is not unfair to say that a liquidator would probably be unable to continue to trade and would simply sell off stock in an auction or similar process. If there is no prospect of ongoing business the landlords would have a hypothec which they would exercise. There would then be nothing for liquidators to sell and zero recovery for anyone. There would be no chance of a going concern sale. Liquidation is therefore not a realistic alternative.

31. In regard to question 2.6 Marsden emphasised that creditors should not make assumptions and must obtain confirmation that current supply is regarded as PCF. In regard to those

who have made arrangements to be paid on seven day terms, they clearly have made the appropriate arrangements.

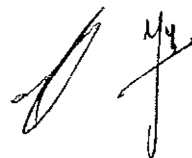
32. In terms of question 2.7 Marsden confirmed that rights against directors would survive by operation of law. There is no compromise of claims recorded in the plan and all claims against directors would be retained. By voting in favour of a plan creditors would not be stepping back from their rights.

33. In regard to question 2.8 Marsden confirmed that buyers have different timeframes (between 3 to 9 months) for getting off Edcon systems (such as IT) and onto new systems. As long as Edcon needs these services they must pay for them. He anticipates that new purchasers will engage with service providers to determine what is required going forward. If service providers demonstrate an ability to add value they may be retained in the long-term. On the downside, it is likely that various long-term contracts will be required to be terminated in terms of section 136 of the Companies Act. This would be by mean of court applications which creditors can oppose. Damages claims would arise if contracts were terminated. As regards voting interests, no creditor has a vote until they have a liquidated claim and it was not anticipated that any liquidated claims would be in place as at the date of voting on adoption of the plan.

34. As regards litigation against Prime Logistics (question 2.10), Marsden confirmed that this has been settled. He also confirmed that the stock that had been held by Prime Logistics was included in the dividend calculation as it was stock held by Edcon as at 30 April 2020. He confirmed that a settlement amount was paid to Prime Logistics. This was calculated based on the value of the lien claim by Prime Logistics and weighing this up against the value of the inventory held by them. He could not say how much was paid as this may be subject to confidentiality in terms of the settlement agreement. He could, however, confirm that it was not the total amount owed to them. The practitioners had considered whether it was to their benefit to settle and had decided to do so. That stock is now going into the stores to be sold.

35. In regard to the litigation brought by Pan African Shop Shopfitters (question 2.11), Marsden confirmed that this was set down for hearing on Thursday, 18 June 2020.

36. In regard to creditors' queries that had not been responded to (question 2.12) he could only apologise. He will provide whatever creditors are entitled to and, to the extent that creditors are not entitled to information he will provide information that he believes advances the



process. He will be doing this because it is the responsible thing to do, not because he is obliged to do so.

37. Marsden confirmed that if reference was had to the balance sheet and the liabilities then the position is that Edcon is indeed technically insolvent.

38. At this stage various creditors expressed their anger and frustration. They confirmed that they had been "*led down the garden path*" by Edcon. They supplied in good faith based on the assurances of the CEO and senior management that Edcon was financially sound. This business rescue and the losses suffered are now destroying their businesses. They will not be able to rely on old management if they are retained in the new businesses. The trust has been broken. They will not be able to trust the business under new owners or to extend credit. Marsden confirmed that business rescue does not decrease the ability of creditors to seek redress. There is no compromise of their claims or waiver of their rights. He and his fellow practitioner were appointed to try and see what is possible based on the facts as at the date of their appointment. In a liquidation scenario there is zero prospect of jobs, there will be zero stores that survive and zero chance of ongoing trading with a trade partner that continues to exist. Creditors will also get zero by way of recovery. The alternative is the possibility of the brand surviving and creditors still having the choice whether or not to trade with the new trading partner/s. There will be no obligation to do so. A vote in favour of a plan is not a vote against looking back and pursuing directors, if necessary. However, in Marsden's view the most important thing at this stage is to get a plan through and new owners in place.

39. Marsden was asked once again about the possibility of converting debt to equity. He confirmed that this has been considered. The problem is that new cash is still needed to run the business. It will need right sizing, which includes retrenchments and cancelling leases, and these come at a cost. In addition, suppliers will not provide goods on terms and the upshot of all of this is the cash in the amount of approximately R500 million to R1 billion would be required for ongoing trading. On top of this the secured creditor exposure will then remain.

40. Marsden was questioned as to whether the new owners will not pay more than currently offered. Marsden confirmed that he is trying to create a competitive environment and therefore secure the best possible price. However, purchasers will be taking on staff and leases and a body of angry creditors. They need to capitalise the business going forward.

There is the acquisition price and then there is still a big investment required by way of working capital for the stores to get to December.

41. Marsden then proceeded to discuss the meeting that will take place to vote on the plan. He confirmed that it will not be a physical meeting but on a virtual platform. Proxies must be provided to the practitioners by Friday, 19 June. They will need to reconcile these over the weekend. The meeting will be on Monday, 22 June. At the meeting they will go through the statutory requirements and employee representatives will be able to address the meeting. At that stage the practitioners will then either look at the proxies and count the votes or adjourn to deal with amendments to the plan. In the latter case they would then reconvene the meeting in order to assess votes on an amended plan.

42. In regard to the sale process, binding offer are required to be submitted by the end of June. They will announce the successful purchaser soon thereafter – probably in the first week of July.

43. In regard to information still required by creditors such as Vaher and Lambouris, it was requested that a final list should be provided to the practitioners that evening. [A list was subsequently received from Vaher].

44. Vaher indicated that he would like an independent third party to review the calculation of the votes to approve the plan. Marsden suggested the company's auditors (Deloitte) but Vaher indicated that in his view they were not independent. Wiggett suggested that Marsden is professional and independent and they can trust him. Marsden indicated that he would be happy to utilize De Hutton to independently review the calculation of votes and the examination of proxies.

45. De Hutton emphasized that all questions must reached the practitioners before the meeting.

46. As regards discrepancies between amounts claimed by creditors and amounts reflected in the company ledger, Marsden confirmed that as a long as both were in the same ballpark they would accept the value reflected in the creditor's proxy for voting purposes. If there was a big difference this would need to be investigated.

47. Marsden confirmed that no-one has the name of the bidders for the businesses (i.e. neither the landlords nor the secured creditors nor anyone else). The information has only been disclosed to De Hutton so that she can verify to the committee that they are all credible parties.

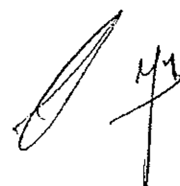
48. Questions were asked about the independence of Deloitte in attending to the liquidation calculation. Marsden confirmed that there was value in using the auditors as they know and understand the group and its structure and the nature of the assets. In his view they are independent.

49. Benjy Duchen asked why they could not wait to vote until after buyers had been selected. Marsden indicated that (i) there is urgency to publish and vote on the plan due to the stance adopted by unions that retrenchments cannot begin until the plan is actually approved not simply published and (ii) in engaging with buyers they have indicated that the practitioners do not yet have a mandate to sell the businesses. They are concerned that creditors may reject the plan. It is therefore important to get the plan approved. In regard to not disclosing the identity of bidders Marsden referred, by way of illustration, to the fact that the landlords want a buyer to take more rather than less stores. They are not concerned as to the price that is paid. However, secured creditors are only interested in the price that is paid. Different stakeholders therefore have different imperatives and would seek to interfere with the process. The practitioners would lose control of the process. The stakeholders need to have some faith in what is a fragile process where buyers can easily be scared off. De Hutton confirmed that it is not unusual not to know who a buyer is in advance. Many plans anticipate the sale of assets without knowing who the buyer is going to be.

50. Lambouris confirmed that in his view creditors should not make an emotional decision and vote against the plan simply because they do not know who the buyer is going to be. This would be to their detriment.

51. Vaher asked whether Matuson & Associates had any involvement with Edcon prior to taking the business rescue appointment. Marsden confirmed that in the 2019 restructure they had attended to the liquidation calculation to see what lenders would receive in a liquidation scenario. Additionally, one member of the Matuson team had assisted Mike Pienaar and the property team at Edcon in dealing with landlords and the rental reduction process that was part of the 2019 restructure.

52. Ronnie Herr asked whether there had been sufficient pushback from the practitioners to secure a better offer. Marsden confirmed that this had been done. They were not simply accepting the offers and were engaging in a competitive process. He was confident that pencils would be sharpened before binding offers were received.



53. Marsden confirmed that if the plan is not adopted this will either lead to liquidation or the publication of an amended plan. Which of these ensued was likely to depend on why the initial plan failed. In his view it is hard to pass a plan once it has initially failed. If some parties want more then others are automatically receiving less. A failed plan therefore tends to end in liquidation.

54. Creditors emphasized that it must be made clear to all creditors that proxies must be provided before the meeting. Marsden agreed.

55. In regard to the questions as to whether it was worth engaging with the secured creditors to negotiate a bigger share of the unencumbered assets, Marsden expressed the view that the chance of a concession by them is remote. In fact, they are asking for a large shares themselves.

56. Various questions were posed about the proxy form and how to complete it. Marsden confirmed that they would review it to make it more user friendly. The proxy form would need to be completed in favour of the practitioners because there will be no actual attendees at the meeting.

57. Marsden confirmed that the waterfall would be amended to correct the position regarding assets other than inventory falling under the GNB.

58. The meeting adjourned at approximately 8pm.

Postscript: The waterfall calculation has since been revised to take account of other assets that fall under the GNB. The revised calculation was emailed to creditors by De Hutton. It reflects the fact that the estimated recovery for concurrent creditors will now be 6% (up from 4%). The recovery for the secured creditors reduces to 17% (from 19%).