



# Celrose

Investment teaser

November 2023

# Communication and queries

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i capital will act as sole point of contact on this transaction. All communications and enquiries relating to this transaction should be addressed to the following persons at i capital:

Contact person	Contact details
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# Introduction

<b>Business overview</b>	<ul style="list-style-type: none"><li>• Founded in 1975, Celrose is a large apparel manufacturer based in Tongaat, Kwa-Zulu Natal. Celrose's client base consists primarily of various listed clothing retailers.</li><li>• Celrose employs approximately 1500 employees at its three factories comprising direct staff working in production and administration. The workforce comprises both temporary and permanent staff.</li><li>• Celrose operates two segments: Menswear and Ladieswear. Celrose does not manufacture its own brands, but rather retailers' in-house brands. It is positioned in the mid upper mid range in terms of quality and pricing.</li><li>• Celrose aims to be a globally competitive apparel manufacturer.</li></ul>
<b>Background</b>	<ul style="list-style-type: none"><li>• The Industrial Development Corporation (the "IDC" or "Shareholder") acquired a controlling equity interest in Celrose in 2019.</li><li>• As Shareholder, the IDC initially sought to invest heavily in expanding the manufacturing infrastructure of Celrose. However, it was forced to support Celrose financially in and after the Covid pandemic. Its continued financial support ensured the survival of Celrose and its strong improvement in financial performance and position at the present time.</li><li>• The IDC has now fulfilled its mandate to achieve financial stability and thus protect employment. With South African retailers shifting to local manufacturing to some degree, Celrose is well positioned for growth and profitability. Celrose may also pursue export opportunities. Accordingly, the IDC considers this to be an appropriate time to exit.</li></ul>
<b>Proposed Transaction</b>	<ul style="list-style-type: none"><li>• The IDC would dispose all of its equity interest, comprising 55% of the ordinary shares in Celrose and a shareholder loan of c. R530 million, to an appropriate Strategic Equity Partner.</li><li>• The Celrose Staff Empowerment Trust, which owns 32% of the ordinary shares in Celrose, would dispose some or all its shareholding, and the chief executive officer, John Comley, would dispose some or all of his current shareholding while seeking to increase his effective equity exposure on a facilitated basis.</li><li>• Alternative transaction structures some or all of Celrose's equity capital will also be considered.</li></ul>
<b>Invitation to tender interest</b>	<ul style="list-style-type: none"><li>• The shareholders of Celrose (the "Shareholders") mandated i capital as its financial adviser concerning the Proposed Transaction.</li><li>• i capital will run a formal disposal process involving a number of potential bidders. Should this opportunity be of interest to you, we shall put forward your name as a prospective bidder to the Shareholders. Should the Shareholders then wish to progress discussions with you further, i capital will, upon execution of a non-disclosure agreement, provide you with a detailed Information Memorandum, which will contain further details as to Celrose, the Proposed Transaction, and the remainder of the likely transaction process.</li></ul>

# Key investment highlights

<b>High quality infrastructure</b>	<ul style="list-style-type: none"> <li>• Celrose operates four world class factories which are well equipped with advanced automation and technology for efficiency.</li> <li>• It also has two laundries, one of which is state of the art and the other is eco-friendly (i.e. uses at least 60% less water than a traditional laundry, recycles 70% of total water required for operation and has an overall lower carbon footprint).</li> <li>• Celrose has the unique feature of an internal fabric and garment testing laboratory. Its laboratory is staffed with experts in fabric and garment testing to ensure a perfectly consistent and high-quality garment. Due to the standard of its testing and quality control, Celrose has a particularly low reject rate.</li> </ul>
<b>Strong growth combined with high operating leverage</b>	<ul style="list-style-type: none"> <li>• Revenue has recovered strongly following Covid and exceeds pre-Covid revenue by at least 10%.</li> <li>• The FY24 rolling forecast revenue is R666.4 million which represents 8% revenue growth and reflects improved demand from key clients in 2H24. The five-year forecast revenue CAGR is c. 11%.</li> <li>• Pre-Covid (i.e. FY19) EBITDA and NPAT was R33.6 million and R20.5 million. Management forecast a recovery to those levels in FY25.</li> </ul>
<b>Blue chip client base</b>	<ul style="list-style-type: none"> <li>• Celrose's client base comprise many well-known South African apparel retailers which are household names.</li> <li>• Celrose boasts strong relationships with its mostly blue-chip retailer clients.</li> </ul>
<b>Deeply knowledgeable and incentivized management</b>	<ul style="list-style-type: none"> <li>• Executive management team has deep experience in the apparel manufacturing industry, a sector which requires a specialist skill set.</li> <li>• The various members of the executive management team have been working at Celrose for at least 20 years, and John Comley's experience in the apparel manufacturing industry exceeds 40 years. Executive management remain committed to the Company.</li> <li>• There will be continuity of executive management following the Proposed Transaction i.e. the executive team will remain in place.</li> <li>• John Comley owns 13% of the Celrose ordinary shares and seeks equity incentivization as part of the Proposed Transaction (i.e. he is committed to the success of the Company).</li> </ul>
<b>Strong relationship with labour force</b>	<ul style="list-style-type: none"> <li>• Celrose has not had any material labour disputes with SACTWU, the representative union.</li> <li>• Celrose factory and administrative staff have long held a material shareholding, currently 32%, in the Company's ordinary shareholding, and have received production bonuses (i.e. quasi-dividends) in the past when financial performance permitted.</li> <li>• There were no material lay offs during Covid.</li> </ul>
<b>Clean and largely unlevered balance sheet</b>	<ul style="list-style-type: none"> <li>• Celrose has no external long-term debt. It only has a net working capital facility, currently drawn to R32 million, from Standard Bank.</li> </ul>

# Financial information

Income statement 12 months to 31 March, ZAR Million	Pre Covid			Covid			Post Covid		FY24F	FY25F	FY26F	FY27F	FY28F
	FY17A	FY18A	FY19A	FY20A	FY21A	FY22A	FY23A	FY24 YTD <sup>1</sup>					
Revenue	413.3	534.7	561.5	511.1	323.6	463.9	615.7	232.8	666.4	807.2	940.1	987.1	1 036.5
<b>Normalised pre IFRS 16 EBITDA</b>	<b>23.1</b>	<b>31.3</b>	<b>33.6</b>	<b>-20.8</b>	<b>-61.0</b>	<b>-50.8</b>	<b>-35.5</b>	<b>-9.0</b>	<b>11.8</b>	<b>42.3</b>	<b>80.4</b>	<b>83.2</b>	<b>87.1</b>
<b>Normalised pre IFRS 16 NPAT</b>	<b>9.1</b>	<b>18.7</b>	<b>20.5</b>	<b>-34.9</b>	<b>-44.2</b>	<b>-43.4</b>	<b>-85.4</b>	<b>-9.8</b>	<b>-1.7</b>	<b>20.0</b>	<b>47.1</b>	<b>47.1</b>	<b>49.3</b>
<b>Growth rates</b>													
Revenue growth	n/a	29%	5%	-9%	-37%	43%	33%	n/a	8%	21%	16%	5%	5%
EBITDA growth	n/a	36%	7%	-162%	194%	-17%	-30%	n/a	-133%	259%	90%	3%	5%
NPAT growth	n/a	106%	10%	-270%	27%	-2%	97%	n/a	-98%	-1265%	136%	0%	5%
<b>Margins</b>													
EBITDA margin	6%	6%	6%	-4%	-19%	-11%	-6%	-4%	2%	5%	9%	8%	8%
NPAT margin	2%	3%	4%	-7%	-14%	-9%	-14%	-4%	0%	2%	5%	5%	5%

Source: Company annual financial statements (FY17 to FY23), management forecasts and i capital analysis

Note 1: Rolling forecast which includes 5 months actuals to 31 August 2023

- EBITDA and NPAT figures were determined on a post normalisation and pre-IFRS 16 basis.
- The Covid period and Post Covid periods includes abnormal events which were not normalised for, being, inter alia, Covid, the Kwa-Zulu Natal floods and riots.
- Management forecasts have been prepared assuming a realisation of Celrose's corporate strategy.

# Transaction process

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Upon confirmation of your interest, i capital may provide prospective bidders with an information memorandum detailing the investment opportunity. Based on the information received, bidders will be required to submit non-binding indicative offers (“NBIOs”) within the indicated timeframe set out below.

Date	Event
Monday 13 November 2023 to Friday 1 December 2023	<ul style="list-style-type: none"><li>• Distribution of investment teaser to interested parties</li><li>• Non-disclosure agreements (“NDAs”) completed</li></ul>
Monday 13 November 2023 onwards	<ul style="list-style-type: none"><li>• Distribution of the Memorandum to NDA signatories</li></ul>
Monday 13 November 2023 to Wednesday 13 December 2023	<ul style="list-style-type: none"><li>• Informal virtual meetings with Celrose management if required</li></ul>
Thursday 14 December 2023	<ul style="list-style-type: none"><li>• Submission of NBIOs</li></ul>

Following the submission of NBIOs, it is anticipated that the Shareholders will select a preferred bidder or bidders to take into the due diligence phase of the disposal process. At that point such party or parties will be given an opportunity to attend management presentations and may be invited to conduct site visits. The Information Memorandum will contain a detailed transaction timetable as well as directions regarding the contents of NBIOs and details around the transaction structure.

All communications or enquiries relating to this investment teaser should be directed to Paul Barnard or Simon Mohasoa at i capital.

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