



BUSINESS RESCUE INVESTMENT PROPOSAL

Aloeco (SA) (Pty) Ltd t/a SALCO (In Business Rescue)

Reg. No. 2019/531306/07

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STRICTLY PRIVATE AND CONFIDENTIAL

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1. Introduction

- 1.1 The business rescue practitioners (“the BRPs”), Stefan Steyn and Wiehann Fourie, invite proposals from potential investors for the acquisition of a high volume logistics business, specialising in warehousing & distribution services, in Gauteng, Aloeco (SA) (Pty) Ltd t/a SALCO (In Business Rescue) (“SALCO”, “ALOECO” or “the Company”), as a going concern out of the entity currently in Business Rescue.
- 1.2 All liabilities will remain in the current entity and the purchase price will be utilised to settle creditors in terms of a Business Rescue Plan incorporating a proposal from the successful investor.
- 1.3 This investment opportunity aims to capitalise on the anticipated returns stemming from thirty years of experience and business development. With an already established network and reputation, the Company has approximately 45 clients and leverages its extensive experience alongside a high-calibre logistics team.
- 1.4 The revenue stream is based on providing reliable, consistent and unique services to importers and manufacturers by distributing their products to the major retailers, nationally. The Company has established a strong network and reputation across South Africa, successfully serving its principals.
- 1.5 While SALCO’s business model revolves around providing reliable and efficient logistics solutions, the real opportunity lies in the relationships fostered over years by the current management team.
- 1.6 The BRPs have been involved with the operations since July 2024 and traded the business during this time. The BRP’s have implemented the structures and systems that give them the confidence that the business, with the required working capital injection, will comfortably achieve the expected revenue forecast. This, coupled with the overhead cost reduction by means of restructuring employment expenses and negotiating a reduction in rental expenses with the current landlord, will enable the Company to achieve the operating profitability going forward thereby yielding considerable future returns for any investor. Further to this, the Company has the required skills, resources, and customer base to grow the into the future.

2. Business Rescue Procedure

- 2.1 The business rescue proceedings commenced in terms of Section 129 of the Companies Act (“the Act”) by way of a resolution filed at the CIPC on 26 July 2024.
- 2.2 Fourie and Steyn were appointed by the Company as BRPs on 29 July 2024.
- 2.3 The first meeting of Creditors, in terms of Section 147 of the Act, was held on 8 August 2024
- 2.4 The publication of the BR Plan is due by 30 April 2025.

3. Brief Introduction to the Company

- 3.1 Aloeco (SA) (Pty) Ltd is the company’s registered name, trading as “SALCO”.
- 3.2 Founded in 1990 by Alan Louw, who was later joined by Martin Rizzotto.
- 3.3 The Company operates from its head office at Bay 1 & 2, Hilltop Industrial Park, 30 North Reef Road, Elandsfontein Road, Germiston, Gauteng.
- 3.4 In its prime, the Company was a significant employer, with a workforce of approximately 191 dedicated staff members.
- 3.5 The Company has established itself as a leading player in the logistics industry in SA specialising in warehousing and distribution services.
- 3.6 With a history spanning over three decades, the Company has consistently provided reliable and efficient logistics solutions, earning a strong reputation in the industry. The business model is to provide a unique service to importers and manufacturers requiring distribution of products to the major retailers, nationally.
- 3.7 The Company has established a strong network across South Africa, successfully serving its principals. However, in recent years, the Company experienced a significant decline in revenue, which has impacted its financial position and overall sustainability. In its prime, the Company, operated with a turnover of circa R280 million per annum.
- 3.8 The Company is a proudly South African well positioned for the African growth story including the next phase of South African economic growth. Since its establishment in 1990, SALCO has been providing consistent logistics and warehousing solutions to their clients.

3.9 **Typical services include:**

- Heavy freight/ Interlink Transportation
- Local Deliveries on a National Footprint
- Warehousing Services

3.10 **Partnerships:**

A key strength of our logistics operations lies in our collaboration with third party independent truck owners who partner with the Company to enhance its transport capacity, reach and efficiency. This model creates a mutually beneficial relationship, where owner drivers gain access to consistent business opportunities while the Company maintains a flexible and scalable fleet without the overhead costs of owning additional vehicles and employing additional staff. By working closely with independent drivers, the Company ensures high service standards through regular communication, support, and operational alignment. This partnership approach allows the Company to respond effectively to market demands, optimise delivery schedules, and extend its reach across various routes. Additionally, it fosters entrepreneurship, contributing to economic empowerment within the industry. The Company's commitment to these partnerships ensures a strong, reliable logistics network that benefits both its business and clients.

3.11 **Customer-Centric Approach:**

SALCO aims to delight its customers with innovative and professional services. They make commitments they fully understand and believe they can meet, and deliver these commitments on time, within budget, and to high quality standards. They monitor, benchmark, and continuously improve their business products, services, as well as their organisation and employees' performance.

4. Clients And Market Size

4.1 Clients:

The Company's key clients such as Ussher Inventions, Bidvest Commercial Product, PLI Aluminium Technology, Universal Tissue, Prestige Quality Housewares, Logistical Distribution Services, Intertown, National Pride, W.G. McDonald, Three PL Solutions, SSG and Stan logistics, Nucleus Supply Chain Management, ect. SALCO does not have any off-take agreements with the major retailers as these retailers do not sign such agreements, however, SALCO has been doing business with them for many years and has well-established relationships.



4.2 The South African Logistics market

The logistics industry is the backbone of South Africa's economy, contributing over 10% to SA's GDP. This sector is vital to ensure the efficient movement of goods across the country. Furthermore, truck transport is the predominant mode of freight movement in South Africa, handling approximately 63% of the country's total freight volume.

In 2024, the South African logistics market was valued at approximately USD 92.7 billion, with projections indicating growth to USD 137.4 billion by 2030. This represents a compound annual growth rate of 6.8% from 2025 to 2030.

Significant investments are being channelled into enhancing the country's transport infrastructure. For instance, the Transnet National Ports Authority has committed approximately USD 941.44 million towards port infrastructure development by 2030, focusing on major ports like Cape Town, Saldanha, and Mossel Bay. Such developments are poised to bolster the efficiency and capacity of the logistics sector.

5. Events and Circumstances Leading to Financial Distress

- 5.1 Since the beginning of 2024, the Company has experienced a drastic decline in sales, leading to difficulties in meeting its monthly financial commitments. A significant contributing factor to this financial strain is the high fixed monthly costs, including labour and property expenses, which represent the Company's largest expenditure. Addressing these challenges will require substantial restructuring to ensure financial stability and long-term sustainability.

- 5.2 Further to the decline in sales, it became apparent that, over a period of two years, a former employee had misappropriated stock valued at approximately R6 000 000, which belonged to SALCO's clients. This misappropriation was discovered at the end of 2023. This exacerbated the Company's cash strain, as the misappropriated stock had to be repaid to the affected clients. The matter has since been reported to the South African Police Service (SAPS) for further investigation.
- 5.3 While under supervision, the BRPs have become aware that certain persons in the management of the Company appear to have engaged in fraudulent conduct through the misappropriation and misuse of company assets and funds.

6. Key Issues Facing the Business

- 6.1 Directives from by the Bargaining Council have resulted in the increase in labour costs, which has had a direct impact on the company's profitability. The solution to this issue has been well addressed by the BRP's and are confident that it will be resolved.
- 6.2 Payroll represents one of the largest expenses for the company, and addressing this issue is critical to ensuring the business's survival. To achieve the necessary cost reductions, the company may need to decrease its workforce.
- 6.3 Furthermore, the substantial monthly rental expense for the warehouse is of concern. The BRPs are currently in negotiations with the current landlord and have requested a reduction in rent obligations. These discussions are at an advanced stage and the BRP's are confident for a positive outcome.
- 6.4 A larger workforce and an extensive client base come with increased operational costs, including higher payroll expenses and rental obligations. However, these additional costs do not necessarily translate into higher revenue or improved profitability. By streamlining operations and focusing on a more strategic client base, the company can achieve a more sustainable and profitable model.
- 6.5 Due to a decrease in turnover, the Company embarked upon substantial cost reductions. These reductions however were insufficient to render the business profitable enough to support legacy liabilities. The new cost structure developed by the BRP's and management is achievable and will be very beneficial.

7. Profiles Of Key Management / Executive Directors

7.1 Martin Rizzotto (Managing Director)

Martin Rizzotto is the managing Director of SALCO SA Logistics and has been leading the business with strategic oversight and industry expertise. With 21 years of experience in the logistics and warehousing industry, he plays a key role in driving the company's vision, overseeing operations, and ensuring sustainable growth. His leadership is instrumental in maintaining strong relationships with stakeholders and guiding the team towards long-term success.

7.2 Joanne Rizzotto (HR)

Joanne Rizzotto oversees the Human Resources and Payroll function at SALCO SA Logistics focusing on employee management, recruitment, and workplace policies. She has a B. Com Law and LLB degree and has been involved in HR for the past 5 years. She ensures compliance with labour regulations and fosters a positive and productive work environment. Her expertise in HR processes and people management is key to building and maintaining a strong, motivated team

7.3 Pam Shepherd (Accounts and Admin)

Pam Shepherd is responsible for the administrative and day to day finance duties at SALCO SA Logistics. With a strong background in bookkeeping, supply chain management and office administration, she manages essential office functions, supports various departments and ultimately contributes to operational efficiency. Her organisational skills and attention to detail help maintain a well-structured and efficient workplace.

8. Return to profitability

- 8.1 Analysis of the business operations has determined potential for significant reduction of wastage and the ability to introduce strategic sourcing and working capital optimisation.
- 8.2 Utilisation and sweating the current assets are a significant driver of profitability due to the fixed cost nature of the business and therefore project management and new business conversion remains a key area of focus and effort.
- 8.3 The company has made the decision to close its Cape Town branch as part of its ongoing efforts to reduce costs and restructure its operations for improved financial stability. Due to the high operational expenses associated with maintaining this branch, it is no longer feasible to continue its operations. Salco has however identified strategic partners to cater in this void to ensure there are no disruption to current customers.
- 8.4 As a result, the lease agreement for the Cape Town premises was cancelled and the branch will effectively close at the end of April 2025.
- 8.5 Further to the above, one of the major cost drivers is the employment related costs. The reality is that the business is not rationalised and unfortunately cannot afford the additional capacity at this point. The closure of the Cape Town branch, along with the necessary restructuring of staff, will enable the business to focus its resources more effectively and improve its long-term viability. This decision, while difficult, is necessary to align the company’s cost structure with its revenue capacity.
- 8.6 The below table is a summary of the anticipated savings that can be obtained by implementing the above.

Effect of Restructuring	<u>Per Annum</u>
	11 261 349
Rent Reduction	3 176 757
Anticipated Labour Cost Reduction	8 084 592

9. Current Financial Position

9.1 Summary of Assets as at 28 Feb 2025

Movable Assets - Encumbered	1 000 000
Vehicles	1 000 000
Plant and Machinery	-
Movable Assets - Unencumbered	3 863 000
Equipment	302 000
Vehicles	3 561 000
Debtors	13 221 960
Bank	358 244
	18 443 204

**The above summary does not include the possible claim against Mr Alan Louw in excess of R8mil which remains under investigation.*

9.2 Summary of Liabilities as at 28 Feb 2025

Secured	(3 672 260)
Toyota Financial Services	(1 746 872)
Engen	(1 925 388)
Concurrent	(6 806 076)
Independent Parties	(1 210 055)
Shareholder Loans - Disputed	(5 596 021)
Post Commencement Creditors	(6 816 718)
SARS - Post Commencement	(3 576 550)
	(20 871 604)

**As stipulated in the footnote of the asset summary, the BRPs are of the view that the R5.6mil claim from Mr Louw is unfounded, and in fact will result in a debit loan account to be collected by the Company.*

9.3 Current Securities and Encumbrances

- 9.3.1 **Engen Petroleum** – Former supplier of Fuel on Credit. They hold a cession of book debts.
- 9.3.2 **Toyota Financial Services** – Financier of the two vehicles currently still subject to finance agreements.

10. Financial Requirement and Possible Transaction

10.1 Requirements and Possible Deal Structure

- 10.1.1 In light of the fact that the BRPs strongly believe there is evidence of historical fraud and/or misappropriation of funds in this business, it is imperative to sell the operations of the Company into a Newco to ensure that the noise of a liquidation and the accompanying enquiries does not impact on the value that could be generated. This also de-risks the investment to a new investor as all historic liabilities are left in the old entity and dealt with in terms of a business rescue plan.
- 10.1.2 The proposed structure is to buy the operations, and all of the assets (excluding debtors and cash) as a going concern into a new company. The cash and debtors, along with the purchase price will be utilised to pay creditors in terms of a waterfall in a business rescue plan.
- 10.1.3 The business will however then require working capital for at least 60 days to continue trading in the new entity and this is essentially the funds required from an investor and is currently projected at R7 500 000.
- 10.1.4 It is further proposed that the two vehicles currently under finance be transferred with the going concern along with the remaining liability due to the financier.
- 10.1.5 It is proposed that the purchase price of the business be paid monthly over a period of time to enable Newco to pay for the acquisition from profits generated, instead of raising additional finance and increasing the risk for a potential investor.
- 10.1.6 The loan from the investor can be repaid on a quarterly basis or as agreed upon based on the investor's long-term vision. In the financial projections it is assumed that the loan will be repaid over a period of 60 months starting in year 2, however, this remains open to negotiation.
- 10.1.7 Although the business in its standalone form would still make investment sense, the investment would be most beneficial to those companies that have a direct or indirect interest in the supply chain.

10.2 Proposed Transaction

- 10.2.1 A valuation of the assets was obtained by the BRPs which amounted to R4 863 000. The going concern, in its current form, was independently valued at R1.7mil totalling a total basket of circa R6.5mil in asset value. There is however, based on the valuations obtained, a shortfall on the two financed vehicles and it is proposed that this shortfall be added back to the purchase price. The proposed

purchase price is therefore R5 816 128 to be paid by Newco to the current entity over a period of 36 months.

- 10.2.2 In exchange for the risk of providing the finance it is proposed that 50% shareholding of Newco be transferred to the investor as a free carry on equity.

Proposed Transaction:	
	6 563 000
Purchase of Going Concern:	1 700 000
Purchase of Movable Assets:	4 863 000
Less:	(746 872)
Shortfall on Encumbered Assets	(746 872)
Total Purchase Price:	5 816 128
Payment Arrangements:	
Months	36
Monthly Amount	161 559

11. The projected return for investor

- 11.1 The funds required are currently projected at R7 500 000 which is essentially the working capital required for the first two months of trading in the new entity (since debtors and cash would be retained by the current entity to settle creditors).
- 11.2 Interest at prime and repayment of the loan in full.
- 11.3 Free carry-on shares at R1-00 per share purchase price.
- 11.4 Based on the projected trading results the Internal Rate of Return would be circa 70% to the investor. See table below:

% Shareholding	50%			
	Year 1	Year 2	Year 3	Total/Ave
Funds Invested	7 500 000	-	-	7 500 000
Interest Earned	791 882	826 290	672 219	763 464
Capital Repayment	(611 597)	1 334 152	1 481 930	2 204 485
Total Repayments	180 286	2 160 442	2 154 149	4 494 877
Balance Outstanding	8 216 564	6 894 063	5 425 021	5 425 021
Cashflow Outflow / Inflow	(6 708 118) (7 500 000)	826 290	672 219 12 795 840	
IRR	70.6%			
Return to Investor	12 795 840			

11.5 Financial Model Assumptions

Attached hereto is a 36-month financial projection detailing the anticipated operations in Newco. The following assumptions should be kept in mind when considering the results. It should also be noted that this model is based on the scenario where funding is obtained to continue operations without any delay.

11.5.1 Revenue Recognition:

- Revenue projections were primarily based on existing clients and the average revenue generated per client per annum. A further provision has been made for new clients in the medium term.
- A seasonality index was calculated on historic trends in order to quantify the expected monthly turnover.
- Inflationary growth has been provided for in year 2 and year 3.

11.5.2 Direct Costs/Cost of sales:

Direct costs have been calibrated based on historic actuals and achievable efficiencies and may include:

- Fuel
- Third Party delivery costs
- Packaging materials
- Registration & Insurance
- Toll Fees
- Repairs and Maintenance of fleet
- Consumables

Provisions have been made for the additional costs to be incurred to service the Cape Town area through a strategic partner.

11.5.3 Property and Asset Expenses:

Property and asset expenses have been calibrated and include:

- Rent- (Including reduced rental amounts negotiated)
- Utilities
- Insurance
- Security

11.5.4 Labour:

- The projected labour costs include both fixed and variable labour.
- It is not anticipated that additional labour would be required.
- Inflationary growth has been provided for in year 2 and year 3.

11.5.5 Other Overheads:

The remaining overhead expenditures have been calibrated in line with historic records and achievable restructurings which will result in savings.

11.5.6 Other Financial Assumptions:

- Provision for the securing of the required post commencement finance has been made.
- Labour costs will be consistent with what is budgeted, and no additional employment will be required.
- Revenue recognition and recovery of Debtors have been provided for on the following basis:

Turnover	100%
Cash Turnover	0%
Credit Turnover	100%

Debtors Payment	100%
% Received in First Month	70%
% Received in Second Month	25%
% Received in Third Month	5%
Older	

11.5.7 Summary of Financial Model:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Turnover	77 870 233	80 985 042	84 224 444
Revenue	77 870 233	80 985 042	84 224 444
Direct Costs	(43 628 070)	(45 373 193)	(47 188 121)
Gross Profit	34 242 163	35 611 849	37 036 323
	44.0%	44.0%	44.0%
Overheads	(28 502 925)	(30 189 024)	(31 980 785)
Administration	(479 945)	(499 142)	(519 108)
Technology and Communication	(1 154 223)	(1 200 392)	(1 248 407)
Marketing	(228 360)	(237 494)	(246 994)
Property & Asset Expenses	(8 402 319)	(8 738 412)	(9 087 949)
Other Expenses	(38 688)	(40 236)	(41 845)
Personnel Expenses	(18 199 390)	(19 473 347)	(20 836 482)
Operating Profit	5 739 237	5 422 826	5 055 538
Interest on Funding	(791 882)	(826 290)	(672 219)
Interest Earned	75 523	80 238	68 566
Interest Charged	(156 311)	(72 380)	(3 866)
Net Profit before Tax and Dividends	4 866 567	4 604 394	4 448 019

12. Confidentiality

- 12.1 All information contained in this document shall be considered as confidential information. The party receiving any confidential information shall for a period of three (3) years hereafter, keep confidential and not disclose nor use any confidential information disclosed by or obtained from the other party.

13. Disclaimer

- 13.1 Whilst every effort has been made by the BRPs to ensure the accuracy of the information contained herein, the BRPs can give no warranty in this regard save to confirm, to the best of their knowledge and belief, that:
- 13.2 such information is reasonably accurate, complete and up to date; and
- 13.3 any projections provided are reasonable estimates made in good faith on the basis of factual information and reasonable assumptions as set out in this proposal.
- 13.4 Neither the BRPs nor Business Rescue Partner, being the BRPs' employer, or any subsequent employer, or any of its subsidiaries, agents or affiliates, shall be held liable on any basis for any decisions of whatsoever nature as a result of the use of the information contained in this proposal.

14. Annexures

14.1 Annexure A – Projected Income Statement

14.2 Annexure B – Projected Balance Sheet

14.3 Annexure C – Projected Cash Flow