



PRESENTATION TO THE PORTFOLIO COMMITTEE ON PUBLIC ENTERPRISES



**04 September
2019**



DENEL AT A GLANCE

- Fully owned by SA Government
- Reports to Minister of Public Enterprises
- Company established in 1992
- Some facilities exist > 50 years



- Largest manufacturer of aerospace and defence equipment in SA
- Experienced in supplying and supporting of equipment around the globe

3 587 employees

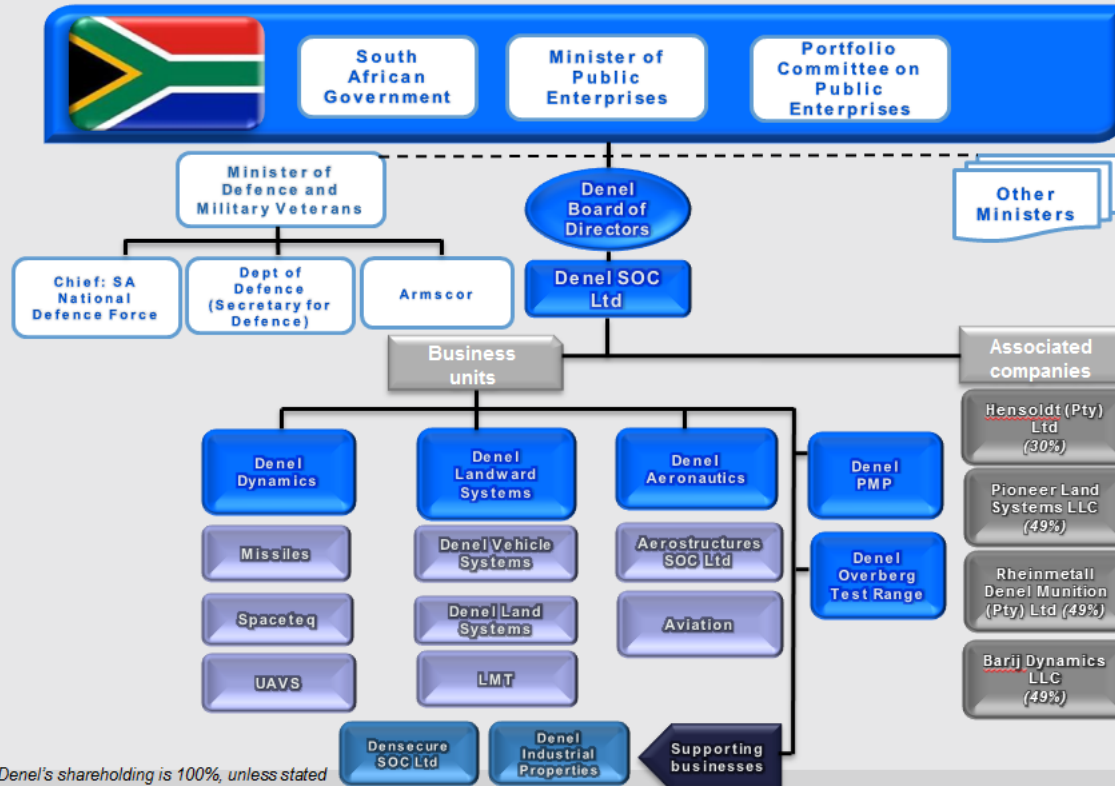
2 180 Engineers, Scientists and Technicians

Annual turnover ± R3.7bn

Exports around 46%

12 Plants throughout South Africa

DENEL STRUCTURE



Denel's shareholding is 100%, unless stated otherwise.

Strategic equity partnerships



- R&D and **intellectual property development**
- Contribution through Rooivalk in **peacekeeping** initiatives
- Knowledge-based value added **skills development**
- Partnerships with global OEM's and **extensive SADI supply chain**
- Exports – **foreign currency earnings**
- Advanced high technology **manufacturing**
- **Transformation** developing: 83% ACI

THE MANDATE OF DENEL

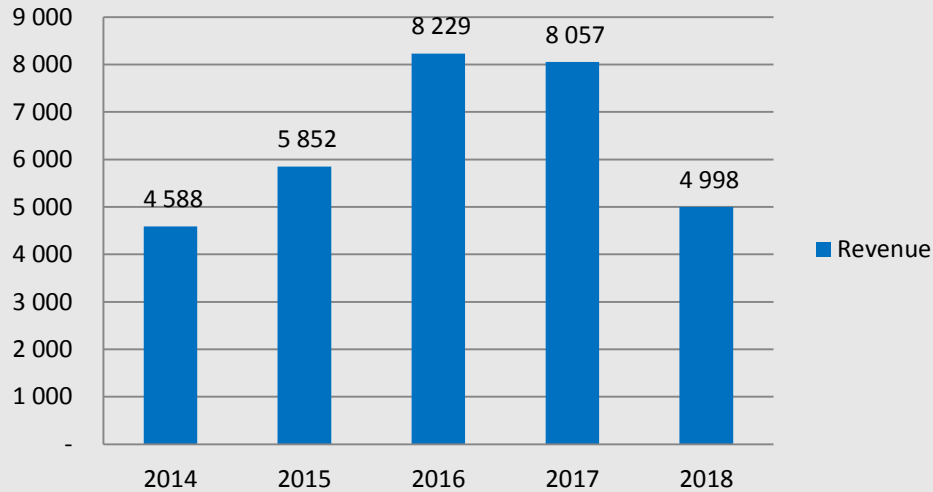




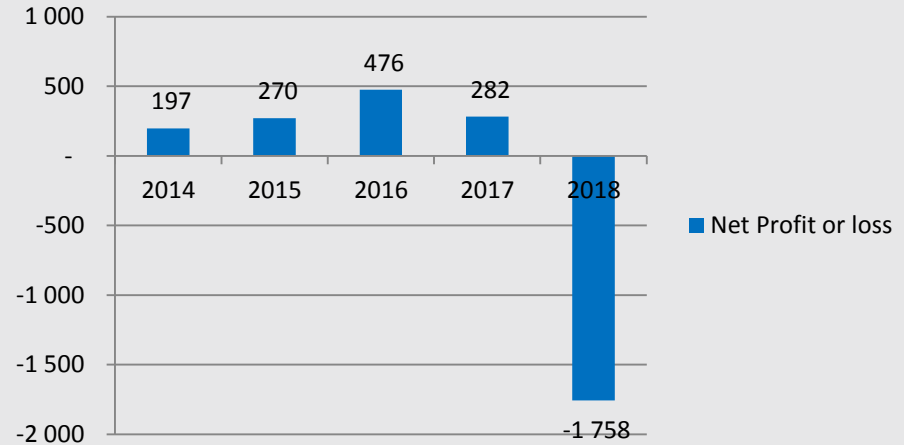
HISTORIC FINANCIAL PERFORMANCE

FINANCIAL STATUS – HISTORIC PERFORMANCE

REVENUE



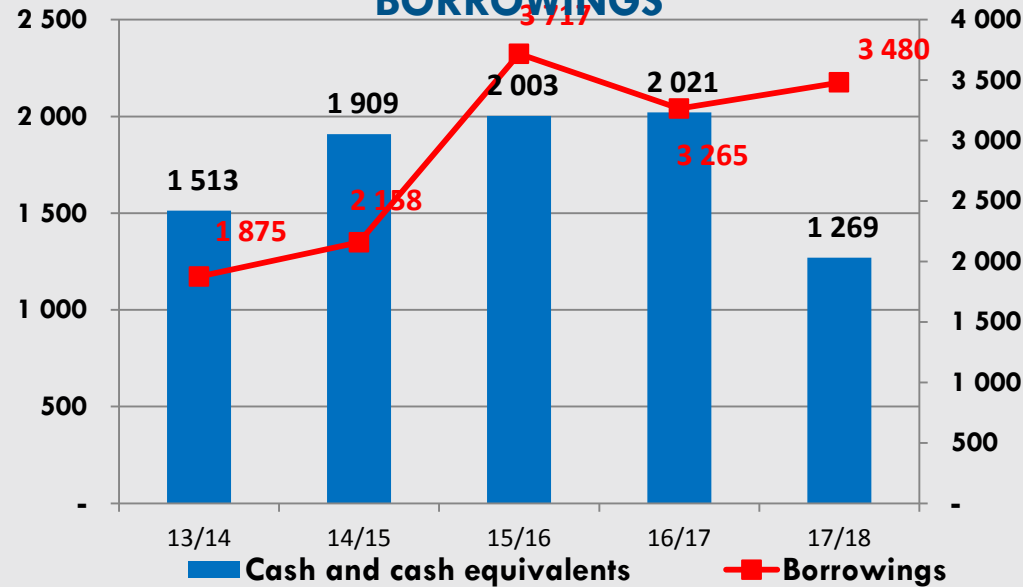
NET PROFIT OR LOSS



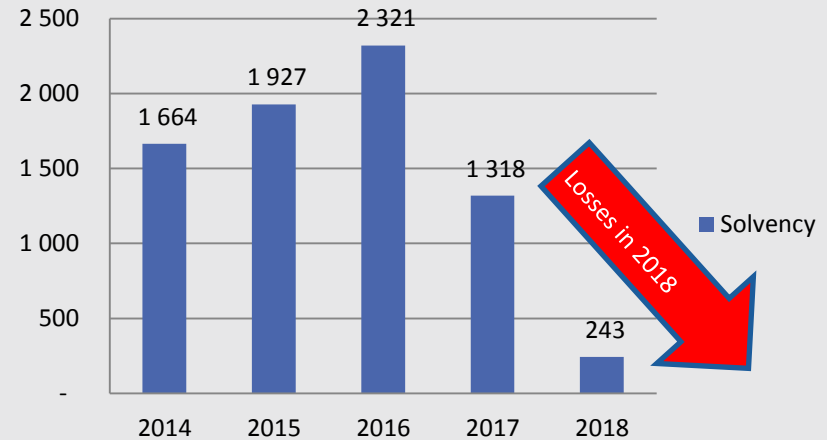
- Losses due to reduced revenue and programme delivery;
- R727m Cost under-recoveries;
- Provision for onerous contracts due to non delivery; and
- Liquidity constraints leading to non-payment of suppliers.

FINANCIAL STATUS – HISTORIC PERFORMANCE

CASH, CASH EQUIVALENTS AND BORROWINGS



Solvency



- Projected to be insolvent in 2018/19



TURNAROUND PLAN

STRATEGIC CHALLENGES

STRATEGIC CHALLENGES @ DECEMBER 2018	STATUS @ JULY 2019
POOR Governance Practices & Financial Management	HUGE Improvement in GOVERNANCE
POOR Programme Execution	New GCOO and Divisional CEO's focussed on improving PERFORMANCE
ERODING Capability Base and DECLINING Technology Access	Organisation being STABILISED
LIMITED Market Access and DECLINING order book	Improved ORDER INTAKE and LARGEST EVER EXPORT ORDER imminent
UNSUSTAINABLE Cost Base	R500m costs reduction over last 12 months
SEVERELY CONSTRAINED Liquidity	Improving Liquidity
HIGH Debt	Awaiting RECAP to normalise Capital Structure Disposal of non-core assets and securing SEP's gaining momentum
UNFOCUSSED & FRAGMENTED Operational Structure	New Operational Structure 99% Finalised and Implemented
DEMORALISED Employees	MORALE Improving
ANGRY Suppliers & Customers	Actions to Improve identified
MISALIGNED Stakeholder Environment – DoD – DPE – NT, other	Better Alignment through regular consultation



TURNAROUND PLAN

*Ref: Corporate Plan



- | | | |
|----|----------|---|
| 01 | MAXIMISE | Business value of core business areas |
| 02 | DELIVER | Strategic Partnerships |
| 03 | EXIT | Non-Core business areas |
| 04 | IMPROVE | Governance |
| 05 | DRIVE | Cost Reduction |
| 06 | OPTIMISE | Property Portfolio |
| 07 | SECURE | Funding |
| 08 | ENSURE | Skills and Capability Management |
| 09 | IMPROVE | Order Intake |
| 10 | RESTORE | Denel brand and employee morale and loyalty |

TURNAROUND PLAN: Progress to Date 1/2



- **2019/2020 FY to date Order intake of R1.952Bn.**
- **Winnable Order pipeline of R30Bn in 24 month window.** Solid base to secure our Corporate plan.
- **A solid Order backlog (R18 Bn)** covering roughly 4 years of sales revenue. Potential to grow Order stock by 32% on Egypt order.
- **Largest Export Contract imminent.** Advance payment of R1.5 Bn . Will boost product portfolio standard fit on Egyptian navy and tKMS vessels. 600k hours of funded development.
- Excellent potential in target markets. **Denel brand well-respected.** Our products are wanted in the market.
- **Solid support from our local customer**, continued order intake.
- **Exited onerous contracts of R250 m.** (Recurring cost per year).
- **Mitigated Parent Company guarantee risk** of R 1.6 Bn.
- **Reduced Operating cost by R500m.**
- **Reduce Head office cost by R15m.**
- **Solid skills base of 620 Development Engineers and technicians** in current work force avg. experience of 15 years.

TURNAROUND PLAN: Progress to Date 1/2



- **1740 Technicians and Operators in Manufacturing and Support Operations.**
- Potential to **generate cash from divesting non-core assets of R1.56Bn.** First result in 3-6 month window.
- Potential to **generate cash from SEP activities of R2.0Bn.**
- Further **operating cost reduction potential of R500m.** Supply Chain etc.
- **~40 expressions of interest to partner** with Denel Businesses and to acquire parts of businesses.
- **Excellent return on investment potential and cash generation potential on recap.**
- **High probability to unlock Hoefyster Programme.** Political will and support.
- Good potential to **improve Programme delivery precision** led by new Group Chief Operating Officer.
- Good potential to **improve our Human Capital and capability** led by newly appointed Group Executive HR.
- **Motivated and capable Management team.**

TURNAROUND PLAN

*Ref: Corporate Plan



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SECURE

Funding

FUNDING STRATEGY



- **Denel Balance** sheet over indebted R3.4bn, mostly short term <12 months
- **Debt profile improved** with Government guarantee increased to 5 years
- Interactions with note holders to **increase term of CP** and bonds issued
- Additional **R1b guarantee granted in April 2019** to provide **bridge funding to recapitalisation**
- **On-going discussions** with **NT, DPE** and **Bankers** to secure bridge funding
- **Recapitalisation** request to Government for R2.8bn. Expect phased recapitalisation over 2 years.
- Utilisation of contingency fund approved by parliament in **July 2019** and flow of funds before **30 Septembers 2019**
- **Sale of non-core and loss making assets** to improve liquidity position
- Ring-fencing of **prepayments** and **projects**

Strategic Actions: Cash Flow Target

Once off - Capital Injections

Event		2019/20		2020/21			2021/22	Total
		Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	
Recapitalisation phase 1		1800						1800
Recapitalisation phase 2								1000
Properties disposal						40	500	540
Hensoldt disposal		160						160
DMBT unwinding						500		500
DVS - Gear Ratio disposal			220					220
DVS - OMC SEP					150			150
Mechem SEP						30		30
SEP Core Businesses (DLS, DD, DAS)							2000	2000
Total		1960	220	0	150	570	2500	6400

Annualised benefit - Operational costs & divestment from loss making businesses

Event	Realised to March 2019	2019/20		2020/21			2021/22	Total
		Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	
Reduce personnel costs	327							327
Exit LMT		30						30
Exit Aerostructures						120		120
Exit PMP Foundry		40						40
Exit Spaceteq			20					20
Supply chain optimisation					135			135
Property space optimisation			25		25		25	75
Various overheads	155			30				185
Total	482	70	45	30	160	120	25	932



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IMPROVE Order Intake

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ORDER INTAKE - KEY EXPORT MARKET FOCUS



- United Arab Emirates (UAE)
- Kingdom of Saudi Arabia (KSA)
- Oman
- Pakistan
- India
- Malaysia
- Egypt
- Algeria
- Indonesia
- Turkey
- Qatar
- Sub-Saharan Africa

TOTAL TOP TEN PIPELINE ~ R45bn



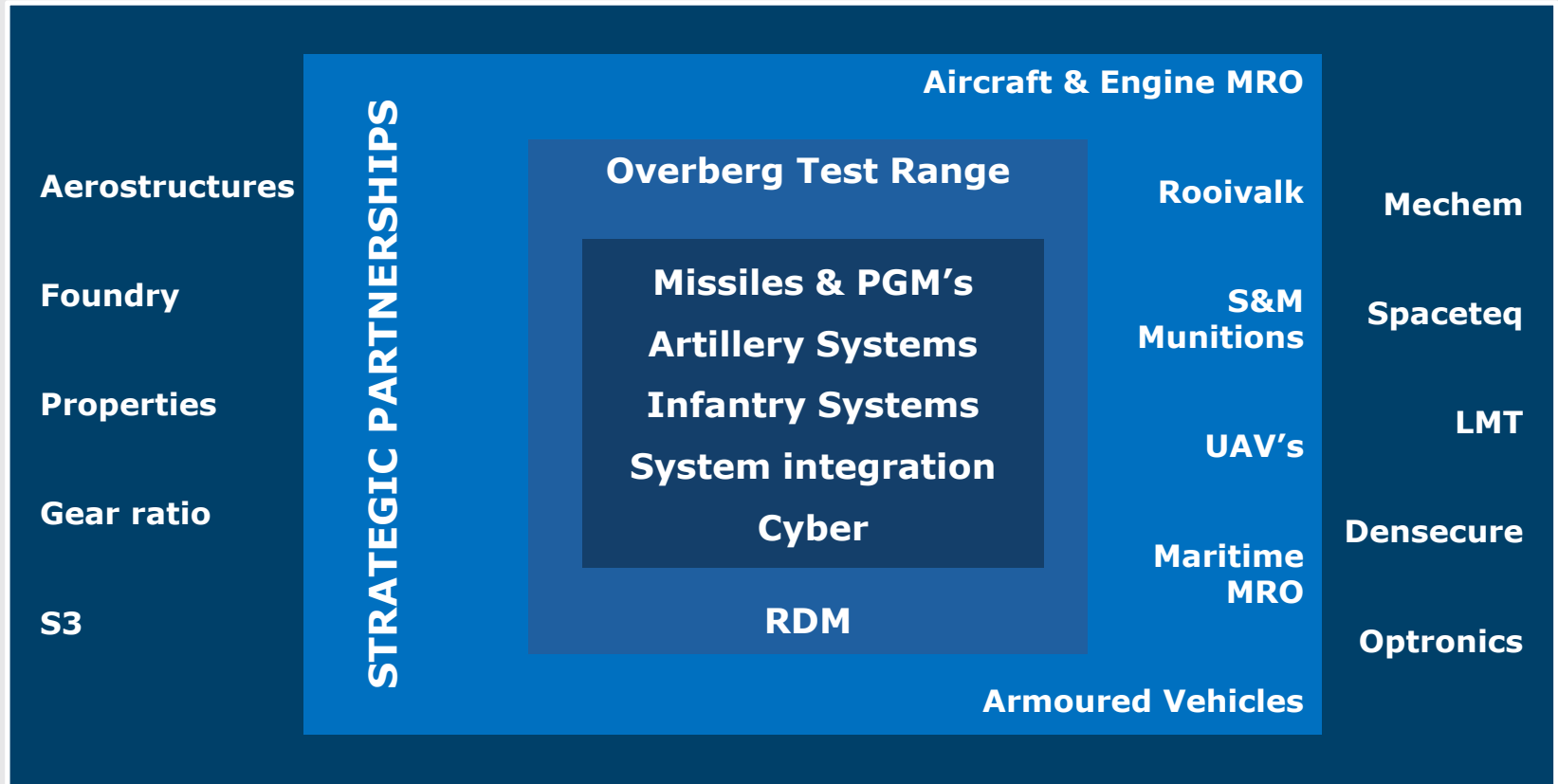
DENEL FUTURE STATE

CURRENT STATUS – STRATEGIC PARTNERSHIPS AND DISPOSALS



- **Governance framework** approved by Board
- List of **capabilities** identified
- Criteria **developed** for **evaluation**
- **> 40 companies**, local and foreign, have expressed interest to partner
- **Multidisciplinary** team under leadership of **GCEO** appointed
- In some instances, **PFMA** pre-notifications have been **submitted**
- **Database** of **interested parties** being **developed**
- Ongoing **consultation** with **DoD** and **Armscor** as well as other stakeholders in parallel
- PFMA compliance process are being pursued with respect to strategic partnerships and disposals whilst keeping **Shareholder environment fully informed** at all stages of the process

TRANSITION TO FUTURE STATE



TURNAROUND PLAN

*Ref: Corporate Plan

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IMPROVE Governance

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GOVERNANCE



- **Appointment of new board** – April 2018
- Board sub-committees **actively supporting management**
- **Governance framework approved** including board charter, committees terms of references and annual work plan in terms of legislation and King IV
- Appointment of **new GCEO** – Jan 2019
- **Group executives and CEOs** on divisional level – largely completed
- New Delegation of **Authority**
- New **Supply Chain policy**
- **Disciplinary** processes to address **governance failures**
- **Civil and criminal litigation** processes launched
- Address **AG audit** findings
- Addressing **Irregular and F&W** expenditure
- **Cooperation** with **Zondo Commission**

INVESTIGATIONS

- Since appointment, the board has commissioned several forensic investigations with the following corrective actions:
 - **Civil action** against some of former Denel executives to recover monies lost through the irregular awarding of pilot bursaries;
 - A **statement will soon be submitted to the SAPS** to lay complaints against former executives identified in the forensic reports;
 - An application will soon be launched in the High Court to **review the contracts concluded between Denel and VR Laser**;
 - **Disciplinary action** will be taken against Denel employees implicated in the reports, pending the legal recommendations;
 - **Civil claims will be instituted against former Denel executives** to recover losses once the quantum of the losses has been determined



