

## **EPE CAPITAL PARTNERS LTD**

(Incorporated in the Republic of Mauritius)

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("Ethos Capital")

## **PORTFOLIO COMPANY UPDATE ON THE IMPACT OF THE COVID-19 VIRUS**

Ethos Capital is an investment company, registered and incorporated in Mauritius as a public company. It is listed on the Johannesburg Stock Exchange and offers shareholders long-term capital appreciation by making commitments and investments into Funds or Co-Investments that are managed by Ethos Private Equity (Pty) Limited ("Ethos"), providing Ethos Capital with exposure to a diversified portfolio of unlisted private equity type investments ("Portfolio Companies").

Since the SENS announcement issued on the 24<sup>th</sup> March 2020, South Africa has entered a 21-day national lockdown from midnight on 26 March 2020. These are challenging and unprecedented times made even more complex by the rate of change we have experienced over the last few weeks. Predicting what will happen across the world's economies as well as here in South Africa is not possible however, each of Ethos Capital's Portfolio Companies will be impacted differently by the crisis. Ethos has been engaging with all the Portfolio Company management teams to develop a COVID-19 plan and process and a financial plan, and furthermore assisted them to establish task teams and business continuity planning measures.

We have set-out below an overview of the potential impact of the COVID-19 pandemic on the Top 10 Portfolio Companies, representing over 80% of Ethos Capital's total assets.

### **Virgin Active**

Virgin Active closed its gyms in Italy, the UK, Australia, Thailand and South Africa in line with government's initiatives to limit the spread of the Coronavirus. Virgin Active's top priority is the welfare of its staff and customers. The Italian, Australian and UK governments have implemented several measures to support business which will significantly mitigate ongoing operating costs and preserve cash reserves, including support with workers' wages, business rates relief, and tax deferrals.

Trading performance in Virgin Active to February 2020 was in line with budget and up on the prior year, largely driven by a strong performance from the South African business. Since early February, when the likely scale and impact of the virus became evident, the company has taken measures across all territories to stop pay rises and bonus payments, remove all but essential capital expenditure and remove all planned investments, with further initiatives focused on preserving cash being taken in the period since closure in the respective territories. Broadly, including all mitigants and interventions by management, operating cost cash outflows for Virgin Active will reduce by two thirds while clubs are closed.

### **Channel Vas**

Channel VAS' main business line is airtime credit across 30 countries, most of which are in sub-Saharan Africa. With reduced movement of people, the demand for airtime credit service has increased, and trading has seen a slight uptick as a result of the crisis. Currency volatility is a key business risk, and

the Naira in particular, given that approximately one third of Channel VAS' revenue emanates from Nigeria. Operationally, business remains strong in Nigeria however, revenues will be lower when translated to USD. This will be offset by the concurrent devaluation of the ZAR against the USD in the quarter to March 2020.

### **Premier**

Premier is a leading South African fast-moving consumer goods manufacturer offering branded and private label solutions. The company has seen a strong performance during the second half of its current financial year ending March 2020. The business benefited from improved performance in its Mozambique business and volume recovery at its Cape Town bakery, which experienced a four-month strike at the end of the prior year.

Premier refinanced its South African banking facilities in December 2019 which extended the term of the various facilities to either three or five years, reduced the annual principal repayments and provided access to R600 million in overdraft facilities, of which over R500 million remain available to be utilised.

The business is currently trading well and is well capitalised. Management continue to monitor the possible consequences of the COVID-19 virus and have put in place the necessary initiatives to prevent and mitigate the potential impact to the business.

### **Kevro**

Kevro is Africa's largest supplier of corporate-branded clothing and promotional products. In January 2020, the company launched a new ERP platform and WMS system and simultaneously migrated to a new, purpose-built facility in Westlake, Johannesburg to enhance efficiencies and reduce costs. A combination of the supply impacts of COVID-19 in China and the problems encountered from the systems and premises migration impacted the operational performance in the first quarter of 2020.

Customer orders have remained resilient in the first quarter however, the COVID-19 measures introduced by the government are likely to significantly impact demand patterns in the short term. Several cost saving and cash flow preservation initiatives have been introduced to reduce liquidity pressure.

### **Echotel**

Echotel is a corporate Internet Service Provider ("ISP"). The company primarily services high-end SME and enterprise clients through an aggregation of third-party networks.

During the past few weeks, the SA business has experienced a significant increase in bandwidth utilisation as demand from ISP customers increased. Telecommunication suppliers are classified as essential service providers and are exempt from the lockdown. As a result, the business continues to trade over this period and is able to operate remotely through online tools to interact with its customers and monitor its operations.

It is expected that the company's supply chain will be minimally affected by COVID-19 as most of its suppliers are also exempt from the lockdown. Echotel is monitoring the impact of the lockdown on its customer base which may be significant in a prolonged lockdown scenario.

### **Primedia**

Primedia is a leading media and advertising company, with Broadcasting and Out-of-Home (billboards and in-store) operations. Given the high correlation between GDP and advertising spend, the likely economic impact of COVID-19 is a risk for the business. A worsening of the already subdued economic environment is expected to result in a reduction in overall advertising spend.

Primedia's radio stations will continue to operate during the lockdown, as government has declared that broadcasting is an essential service and most staff are able to work remotely. However, the Out-of-Home business will not be able to operate fully during the lockdown which will have a negative impact. Management have developed a number of initiatives to deal with the operating cost and liquidity implications of the lockdown period to mitigate the impact.

### **Vertice**

Vertice sells medical technology and supplies across a wide range of applications predominantly to support emergency and critical procedures. Some critical procedures may be delayed due to the lockdown however not indefinitely, but this could impact Vertice's sales in the short term. Conversely, Vertice also sells supplies that will experience significant increases in sales due to the crisis. The management team has developed a detailed plan to mitigate short term disruption of the business and Vertice has a strong balance sheet and healthy free cash flow.

### **Synerlytic**

The Synerlytic group operates in subsets of the Testing, Inspection and Certification market. As a non-essential service provider, the business will not be able to trade during this period which will have a substantial impact on revenues. WearCheck and Set Point Laboratories will continue to service a handful of clients that are classified as essential services providers. Several cost saving initiatives have been identified to mitigate cash flow risk and the company has sufficient liquidity to trade until the end of the current lockdown period.

### **Gammatek**

As an importer and distributor of cell phone accessories, a durable goods category subject to discretionary spending, Gammatek is likely to be significantly affected by the crisis. The company's supply of goods from China has been interrupted and the slowdown in customer footfall in shopping centres will impact sales. Gammatek has a low fixed cost-base and sufficient cash on hand and undrawn facilities to navigate through the crisis for the foreseeable future.

### **Twinsaver**

Twinsaver is a leading tissue manufacturer in South Africa, with adjacent product categories in Home Care and Adult Care (including disinfectant wipes and surgical masks). Twinsaver has experienced an

increase in demand for toilet tissue recently as consumers have stockpiled in anticipation of a lockdown. Management is focused on tissue volume optimisation in order to fulfil the market's requirements. Given high demand for disinfectant wipes and surgical masks, the business has put these products on extended production, providing preferential supply to healthcare workers and facilities.

## **Conclusion**

The openness to engagement, sense of urgency and unity of purpose with which the various Portfolio Companies' management teams have approached this enormous challenge is both inspiring and reassuring. Each business is likely to be impacted differently by the virus and there will be some opportunities. Ethos has scheduled sessions to enable them to share the best practice learnings of individual businesses across all their Funds in which Ethos Capital is invested.

There will be a significant number of corporate casualties globally given the economic impact of the virus. Ethos is focusing the Portfolio Companies' management teams on what they can change and impact whilst still being responsible corporate citizens, with a view to enabling the companies to emerge as better, more streamlined and focused businesses.

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