Industrial Development Corporation

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INDUSTRIAL DEVELOPMENT CORPORATION
OF SOUTH AFRICA (IDC)

INTEGRATED RESULTS

For the year ending 31 March 2019

Portfolio Committee Briefing – 13 November 2019

2019

PRESENTATION OUTLINE

OVERVIEW OF THE YEAR

An overview of key trends and performance highlights for the 2018/19 financial year.

OPERATIONAL PERFORMANCE

Details on how IDC's funding activities ensured partnering for inclusive industrialisation and growth.

FINANCIAL PERFORMANCE

An overview of the financial performance of the IDC for the period ending March 2019.

LOOKING AHEAD

A look at how the IDC intends to continue making a material difference in the lives of South Africans.

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Overview of the Year

TP Nchocho

(Chief Executive Officer)

OPERATING ENVIRONMENT

The impact of the conditions in the economy permeates across all industries and is felt throughout the IDC investment portfolio

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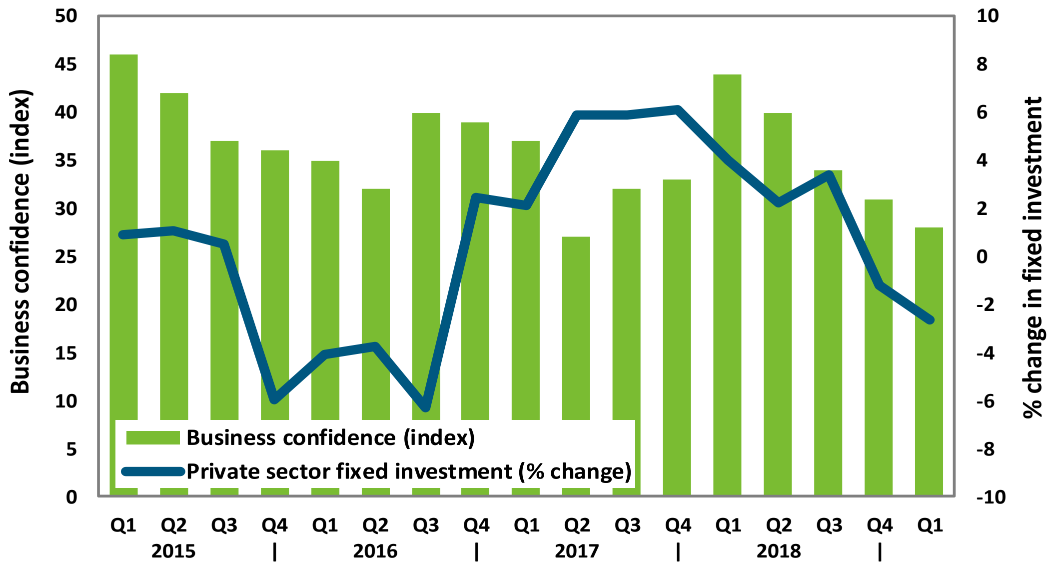
- Detrimental effect of **economies adopting protectionist measures** (both of a tariff and non-tariff nature), alongside **rising geopolitical risks**:
  - affecting world trade
  - investment activity and flows
  - impacting on SA through various transmission mechanisms
- **China's slowing expansion momentum**, in particular, could affect **industrial commodity markets** negatively, both in terms of volume demand and prices
- Risk aversion towards emerging markets in general could, at times, lead to **capital outflows**, **weakening the rand** and placing **upward pressure on SA inflation and interest rates**
- **Financial constraints** experienced by the SA government and SOEs could affect the **pace of infrastructure development**
- Risk of further **downgrades to SA's sovereign credit ratings**, incl. Moody's placing the sovereign in a sub-investment grade, shouldn't be overlooked

Private sector fixed investment and business confidence in SA



Source: IDC, compiled using SARB, BER data

Investor Confidence playing a pivotal role in investment activity in the economy

PERFORMANCE SUMMARY

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192 TRANSACTIONS APPROVED	R13,1bn	(↓22%)
TOTAL FUNDING DISBURSED	R11,8bn	(↓23%)
JOBS EXPECTED TO BE CREATED OR SAVED	19 178	(↓36%)
APPROVED FOR THE MANUFACTURING SECTOR	R7,4bn	(↓8%)
APPROVED FOR BLACK-EMPOWERED COMPANIES	R8,3bn	(↓14%)
APPROVED FOR BLACK INDUSTRIALISTS	R6,0bn	(↓24%)
APPROVED FOR BUSINESSES WITH WOMEN OWNERSHIP OF >25%	R3,0bn	(↑37%)
APPROVED FOR BUSINESSES WITH YOUTH OWNERSHIP OF >25%	R823m	(↓15%)

- The IDC holds itself to high standards of delivery.
- Results show that the Corporation has fallen short of various objectives, however, the investment contribution to the SA economy is still substantial.
- These results are a call to make substantial improvement.
- The IDC still has a significant advantage of a very strong and well capitalised balance sheet.

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Operational Performance

TP Nchocho

(Chief Executive Officer)

FUNDING ACTIVITIES

The difficult operating environment impacted our activities

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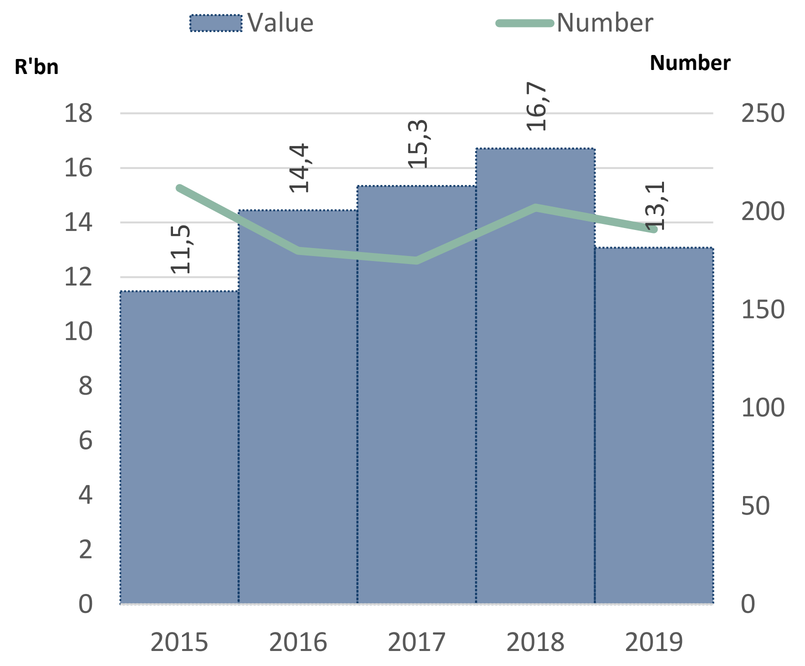
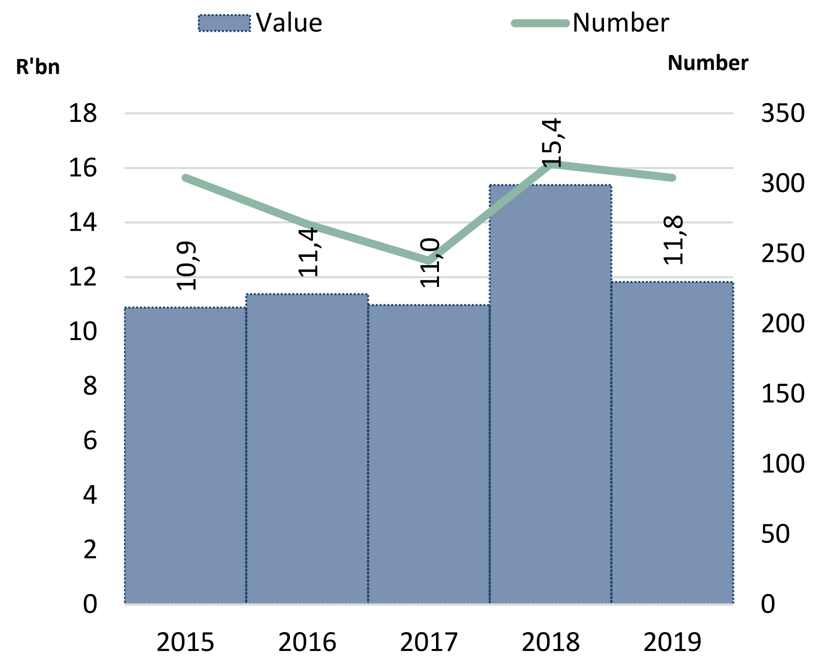
Value of Funding Approved and Number of Clients



IDC approved **R13,1 billion** in funding

(2018: 16,7 billion)

Value of Funding Disbursed and Number of Clients



and disbursed **R11,8 billion**.

(2018: 15,4 billion)

Key Insights

- 2018 was an anomaly driven by a few significant deals.
- IDC has maintained a steady average of about R11 billion in disbursements.
- In perspective, the IDC has, over the past 4-5 years, maintained a steady state, not much of an uplift and this can be understood in the context of the economy.

JOBS CREATED/SAVED

The funding approved is expected to create and save
19 178 jobs

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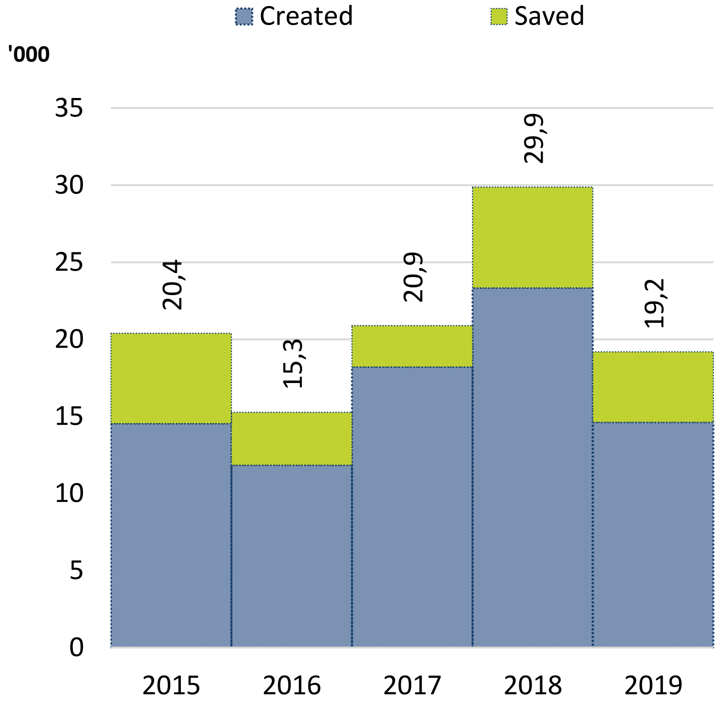
BUKABOPA HOLDINGS

Assisting a
Black Industrialist
to succeed in the
Manufacturing Industry

DEVELOPMENT
IMPACT

- 161 jobs saved



Job creation as an outcome is a derivative of investment activity.
Regrettably, across all sectors of the economy, there is a persistent job loss trend across the board, this is the best we have done.

BLACK EMPOWERED/OWNED

We continue to support the inclusion of black South Africans into productive industrial activity

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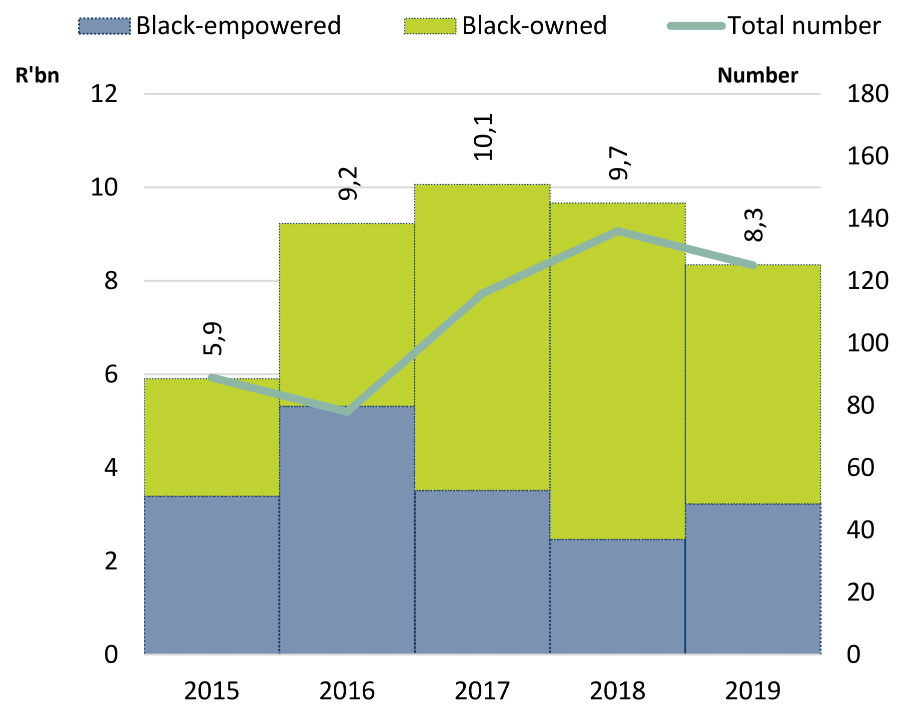
Value approved and number of approvals for black-empowered and black-owned companies



Enhancing Competitiveness

DEVELOPMENT IMPACT
- 33 jobs created

- An amount of R6,0 billion or 46% of the total funding was approved for Black Industrialists (2018: R7,9 billion).
- Amount approved for Black Industrialists over the past four years now totals R21,4 billion. This constitutes a pleasing 93% of the five-year target of R23 billion set in the 2016 financial year.

IDC remains at the forefront and continue to support the inclusion of black entrepreneurs in the economy

WOMEN ENTREPRENEURS

We continue to ensure that women participate gainfully in industrial activity

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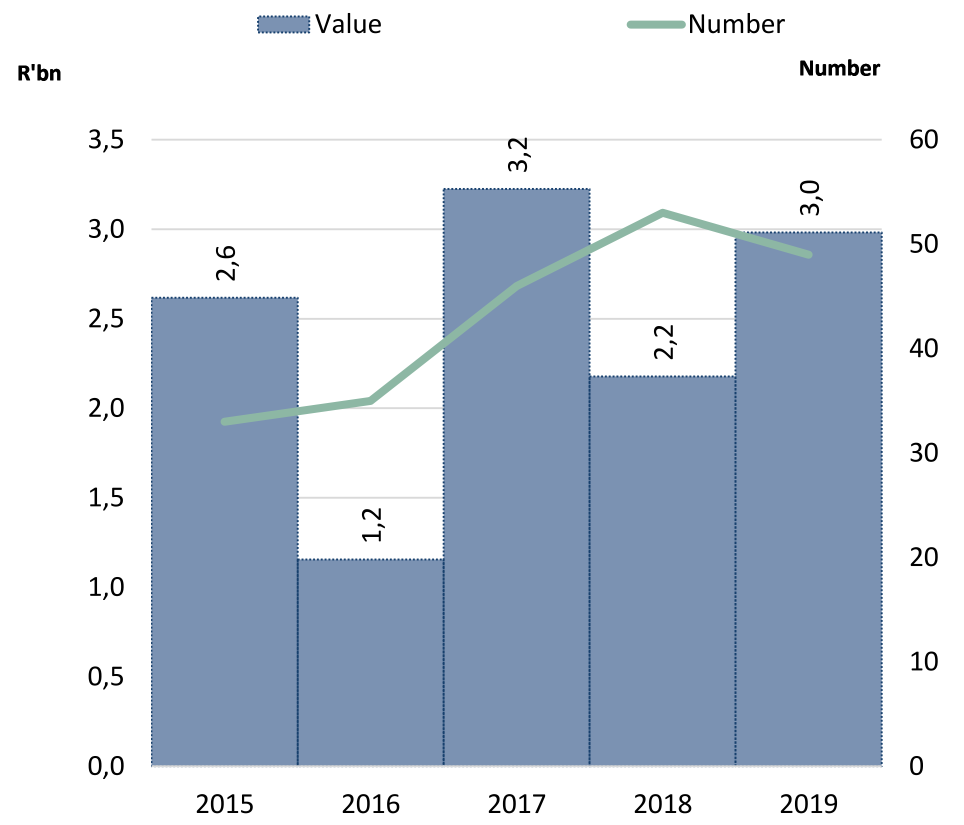
- We have approved R3,0 billion in funding for women entrepreneurs, a pleasing 37% increase when compared to 2018.
- This brings total funds approved for women-empowered enterprises to the value of R12,2 billion over the five-year period to March 2019.
- The R4,5 billion five-year target set for the funding of women entrepreneurs was already exceeded in 2018.

Value approved and number of approvals for women-empowered enterprises



YOUTH ENTREPRENEURS

IDC supports youth entrepreneurs, demonstrating their ability to drive economic activity

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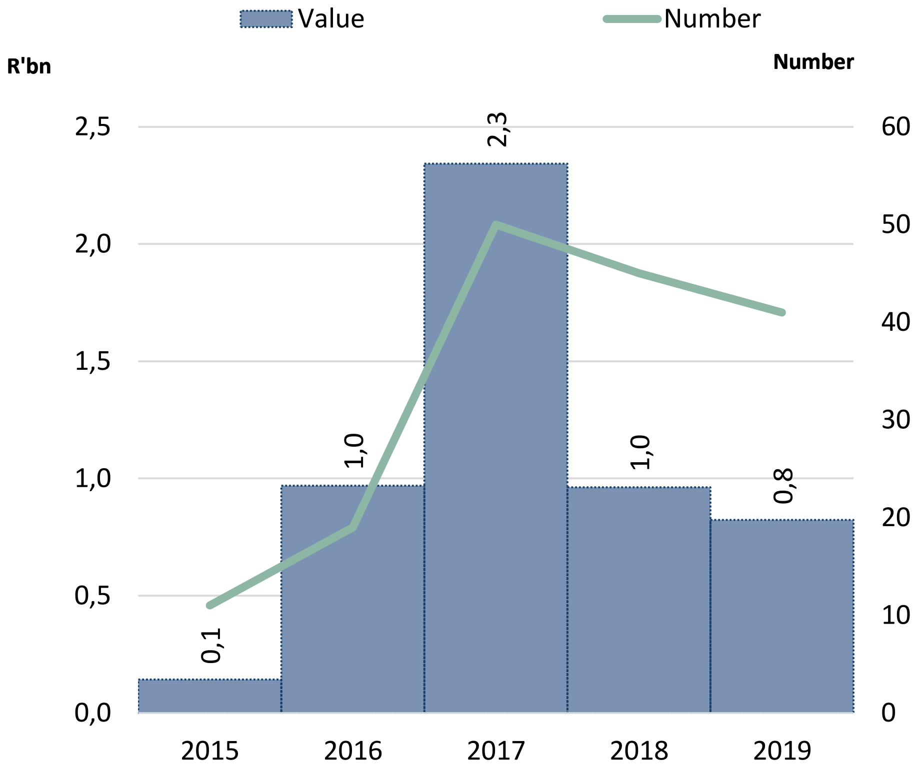
- We remain committed to support youth-empowered enterprises, having approved R823 million in 2019.
- This brings total funds to the amount of R5,2 billion over the five-year period to March 2019, exceeding the R4,5 billion target set in the 2016 financial year.

Value approved and number of approvals for youth-empowered enterprises



SPATIAL/REGIONAL GROWTH

Investment activity is reflective of the relative economic strength of the different provinces

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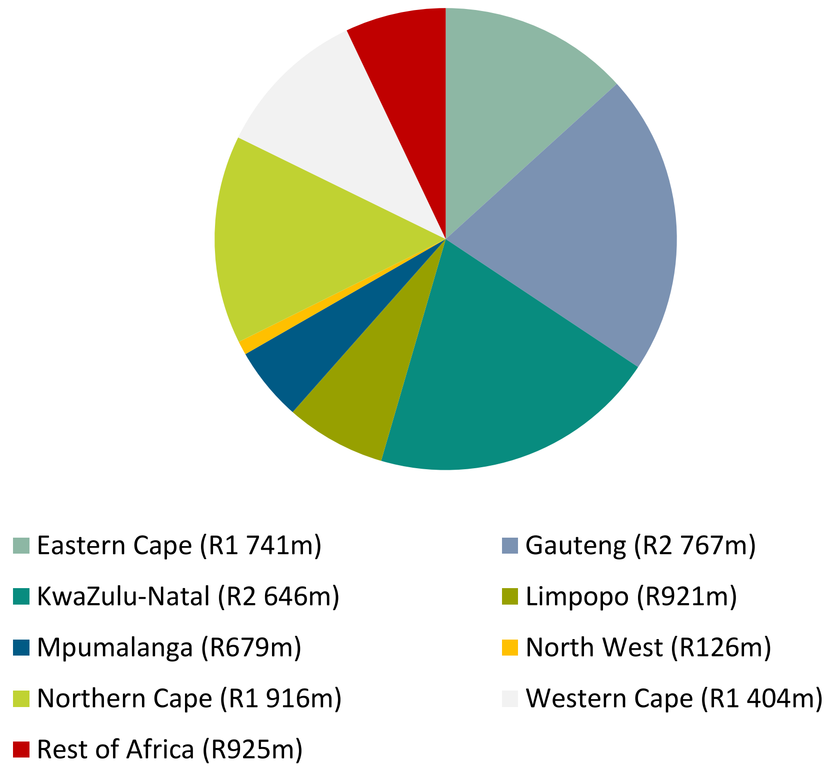
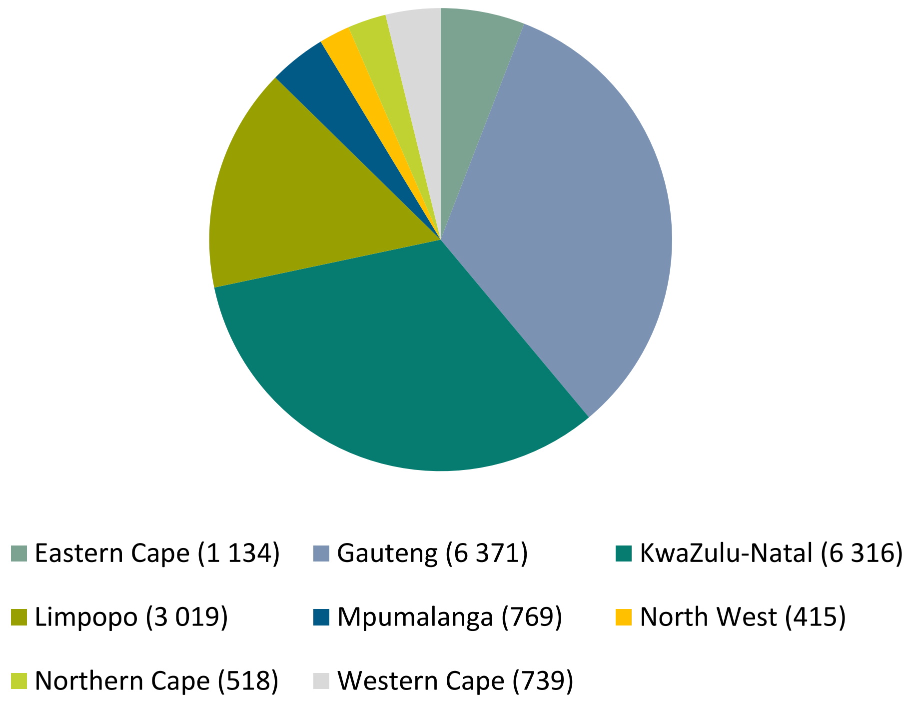
Value approved by region



Gauteng, KwaZulu-Natal, Western Cape, Eastern Cape and Limpopo continue to lead in investment activity and job creation in line with the economic structure

Jobs by region

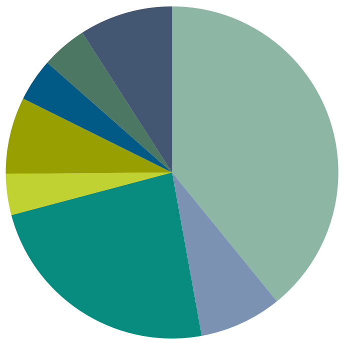


However, we recognise the imperative for Spatial Equity

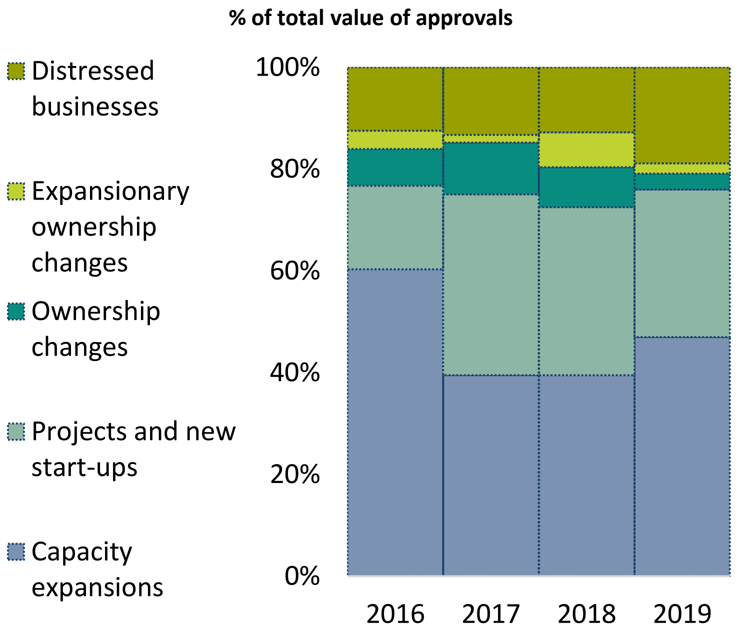
FUNDING ANALYSIS

Our proactive investment strategy facilitated funding approvals across various sectors

Value approved by sector



Utilisation of funds approved



Utilisation of funds approved

- The Metals and Mining and Chemicals and Pharmaceuticals value chains attracted the largest portion of funding.
- Funding to the Agro-processing and Agriculture value chain continues to steadily increase, whilst share of funds to Clothing, Textiles, Leather and Footwear, as well as New Industries and some services sectors are showing promising growth.
- Majority of the funds were used for capacity expansions, projects and new start-ups.
- The strategic focus remain sharply on developmental financing

We continue to support distressed businesses in our efforts to preserve industrial capacity

Metals and Mining Value Chain

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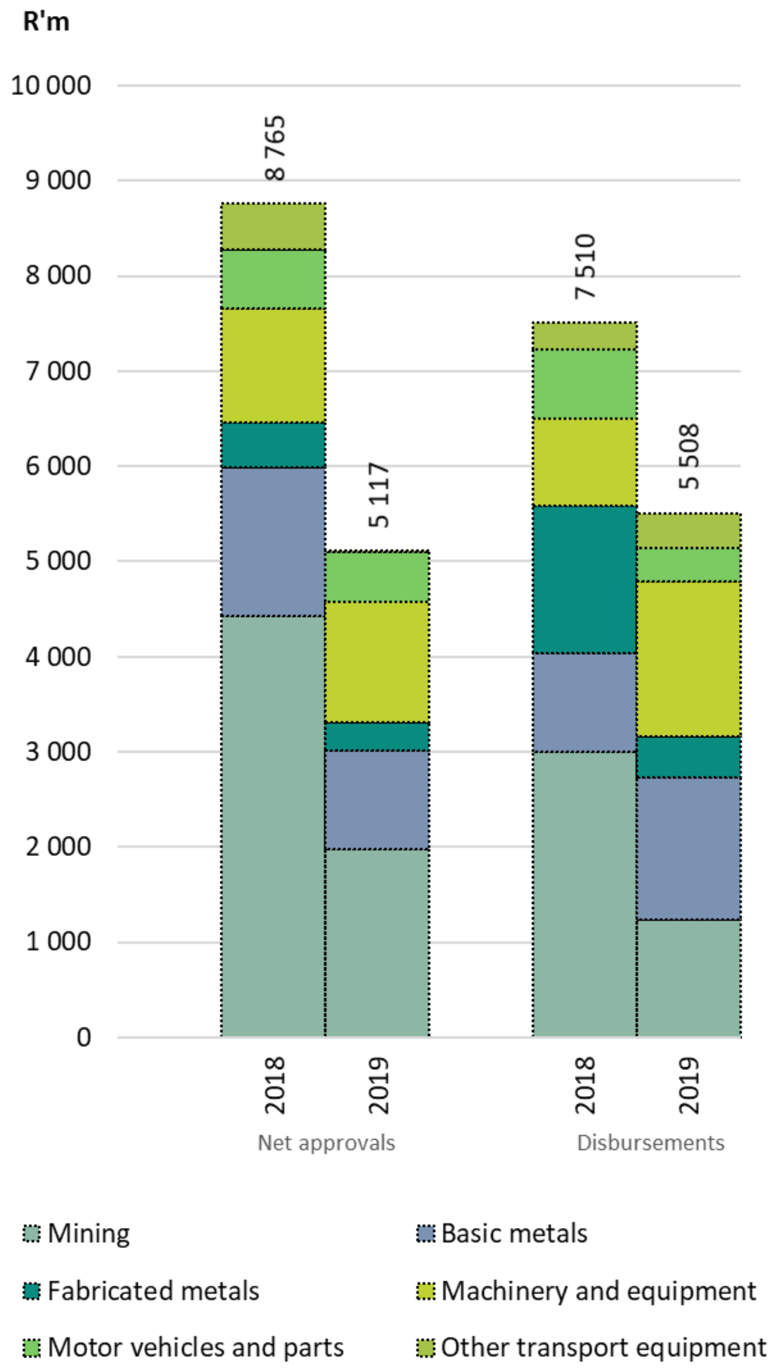

South Africa's mining sector continued to experience a difficult year and as such high funding levels for sub-sectors in the value chain could not be sustained.

Number of Jobs Created/ Saved

2019	6 065
2018	13 432

	2019	2018
Funding to Black-Empowered Companies	3 051	6 219
Funding to Black Industrialists	3 475	4 192
Funding Women Entrepreneurs	1 738	831
Funding to Youth Entrepreneurs	90	91

Agro-processing and Agriculture Value Chain

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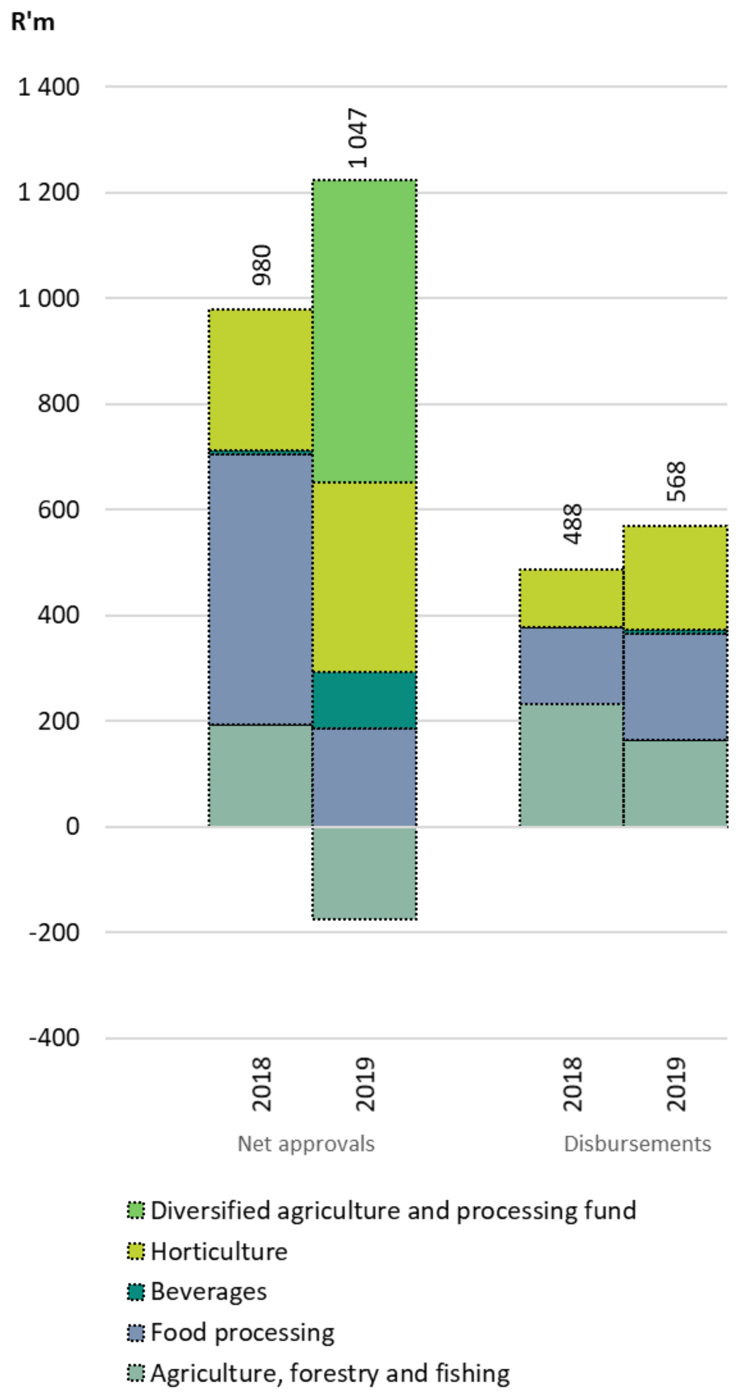
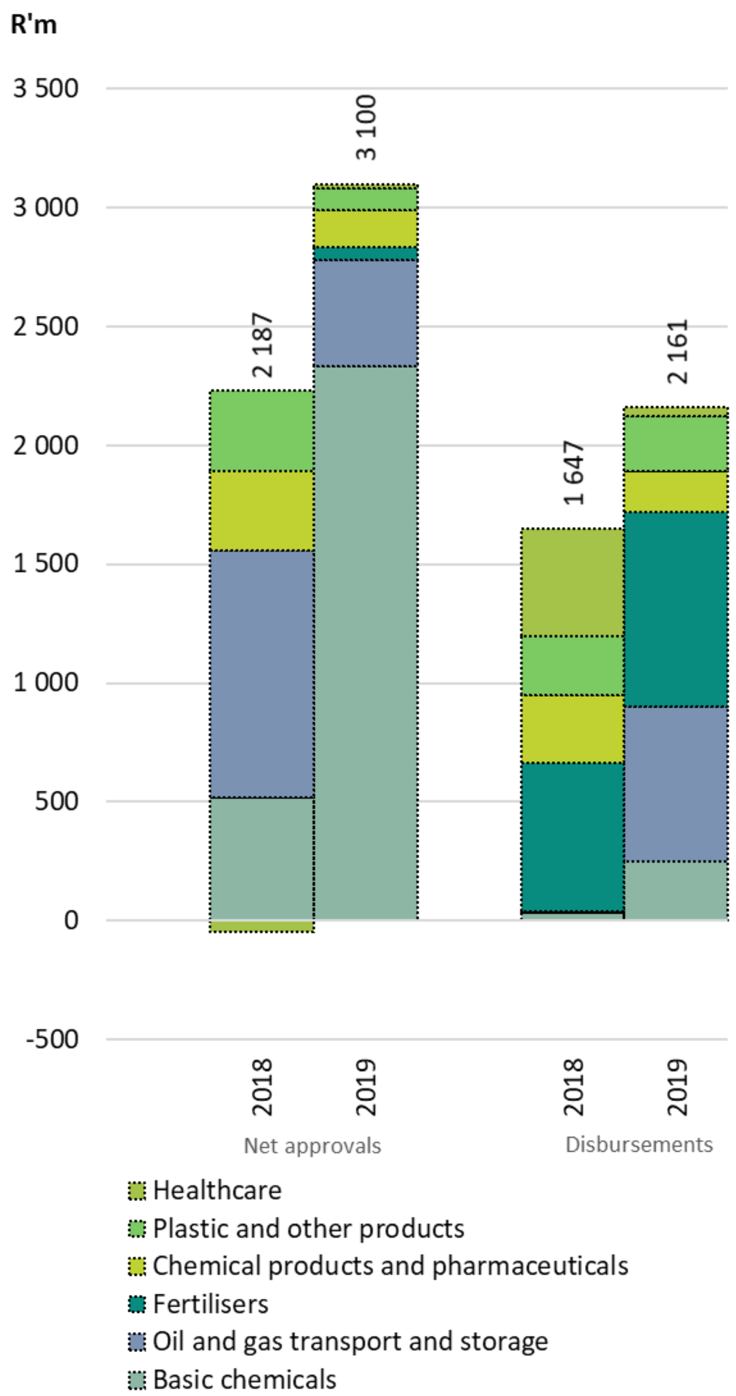


Funding approvals increased by 7% and disbursements increased by 16%.

Number of Jobs Created/ Saved	
2019	2 643
2018	2 942

	2019	2018
Funding to Black-Empowered Companies	243	252
Funding to Black Industrialists	97	109
Funding Women Entrepreneurs	259	46
Funding to Youth Entrepreneurs	73	159



Chemicals and Pharmaceuticals Value Chain

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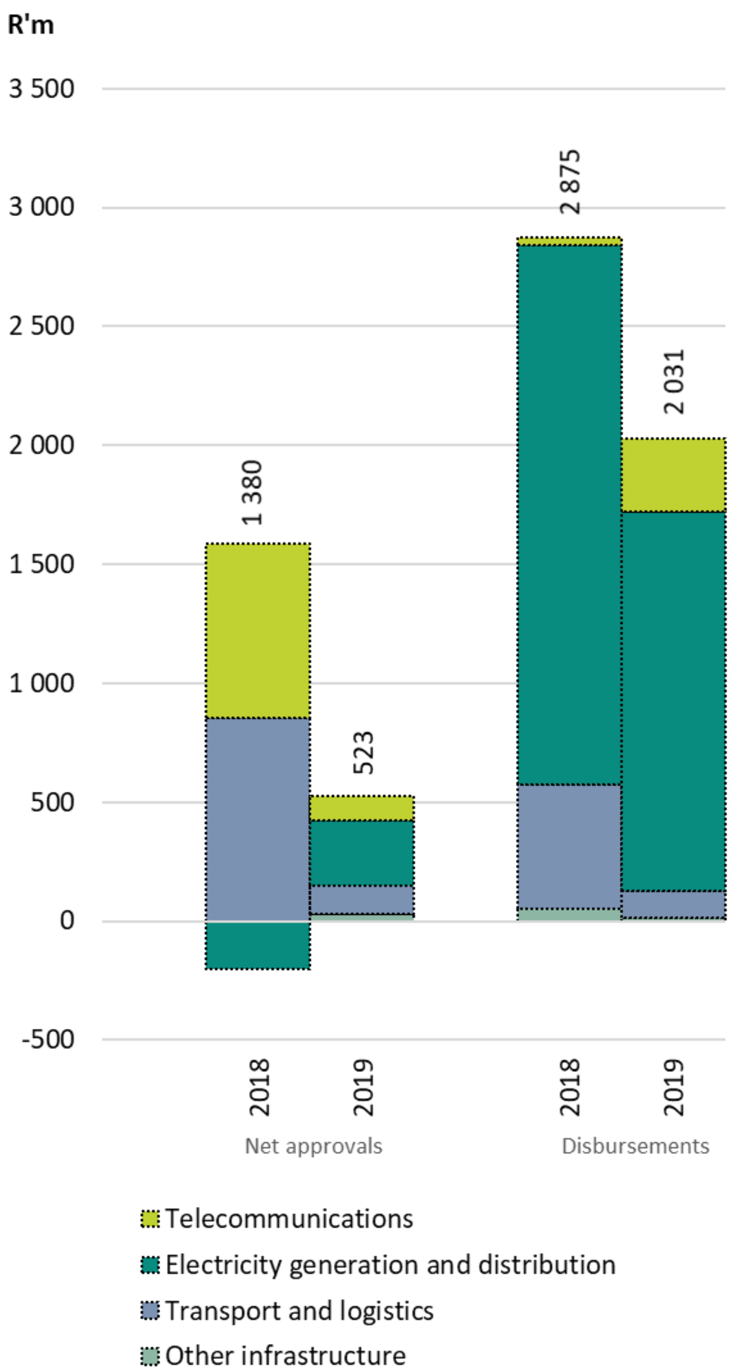
At R3.1 bn, funding approvals were 42% higher than the previous year and disbursements increased to R2.2 bn.

Number of Jobs Created/ Saved	
2019	3 054
2018	1 434

	2019	2018
Funding to Black-Empowered Companies	1 786	1075
Funding to Black Industrialists	1 511	1 102
Funding Women Entrepreneurs	333	199
Funding to Youth Entrepreneurs	151	274

Industrial Infrastructure

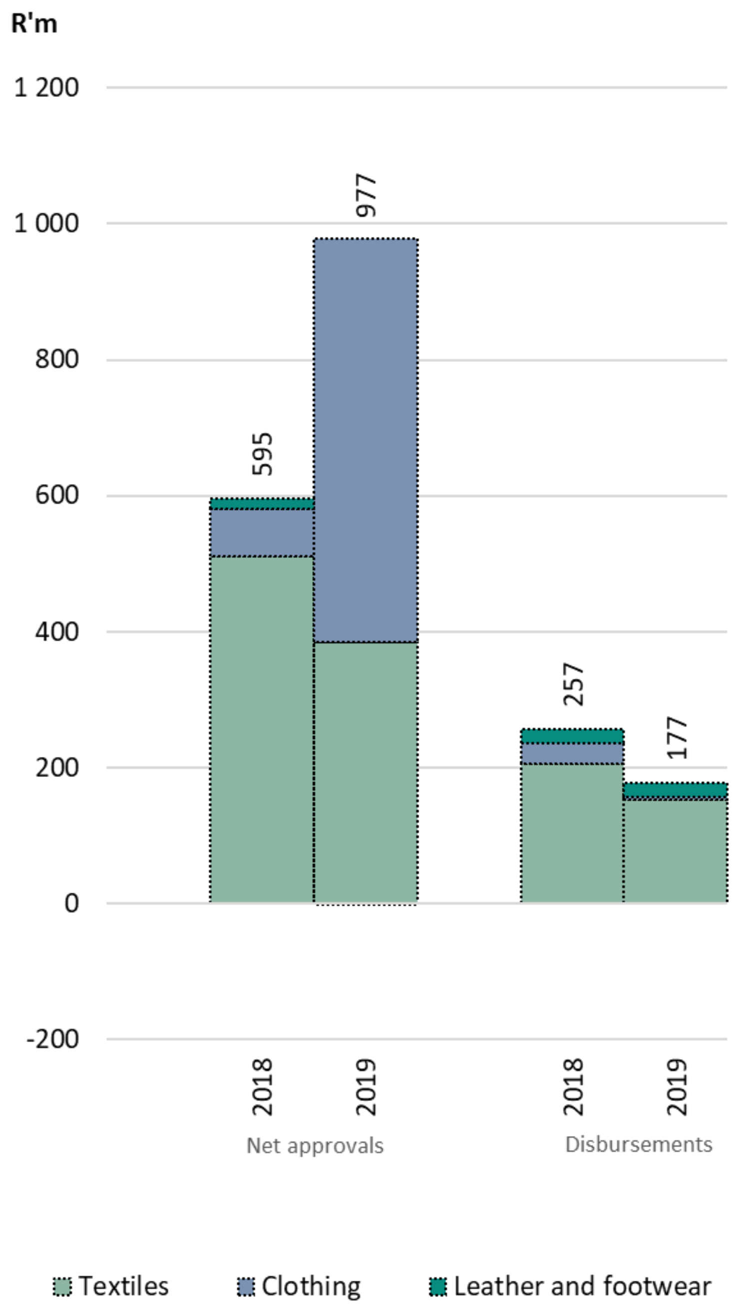


Cancellations of previously approved transactions (mainly renewable projects) resulted in a 62% decline in net approvals.

Number of Jobs Created/ Saved	
2019	-148
2018	786

Funding to Black-Empowered Companies	2019	1 378
	2018	297
Funding to Black Industrialists	2019	-30
	2018	1 000
Funding Women Entrepreneurs	2019	-130
	2018	462
Funding to Youth Entrepreneurs	2019	-44
	2018	163

* Negative values indicate cancellations of approvals made in previous years exceeding new approvals



Clothing, textiles, leather and footwear

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For a 2nd consecutive year, the value of funding approved for the industry increased. A welcoming increase of 64% was achieved in 2019 compared to 2018.

Number of Jobs Created/ Saved

2019	3 189
2018	2 609

	2019	2018
Funding to Black-Empowered Companies	582	265
Funding to Black Industrialists	37	115
Funding Women Entrepreneurs	3	34
Funding to Youth Entrepreneurs	10	54

Tourism, media and ICT

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Funding for these industries increased to R1,2 bn in 2019. In tourism, we funded a 120-bed hotel and conference venue in Thohoyandou, Limpopo, and a lodge in the Eastern Cape's Mkhambathi Nature Reserve.

Number of Jobs Created/Saved	
2019	2 000
2018	1 371

	2019	2018
Funding to Black-Empowered Companies	997	815
Funding to Black Industrialists	686	733
Funding Women Entrepreneurs	675	336
Funding to Youth Entrepreneurs	460	261

New Industries

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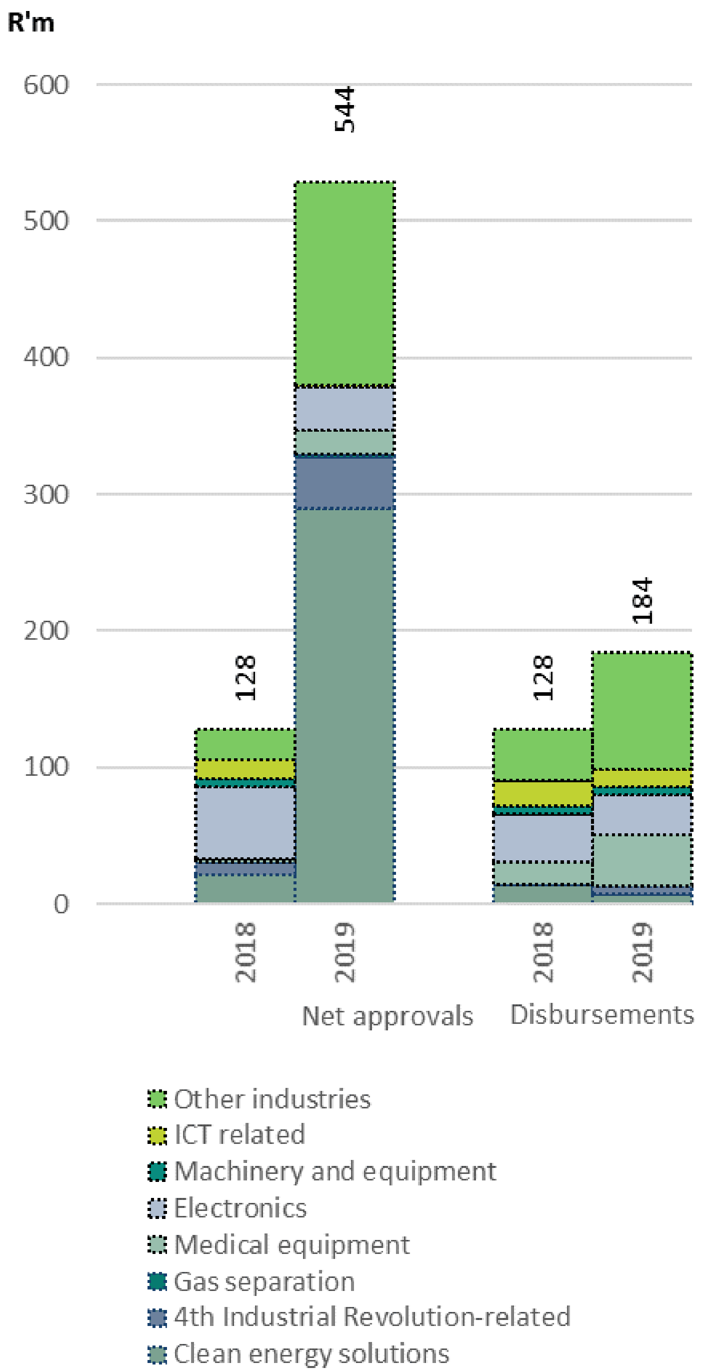
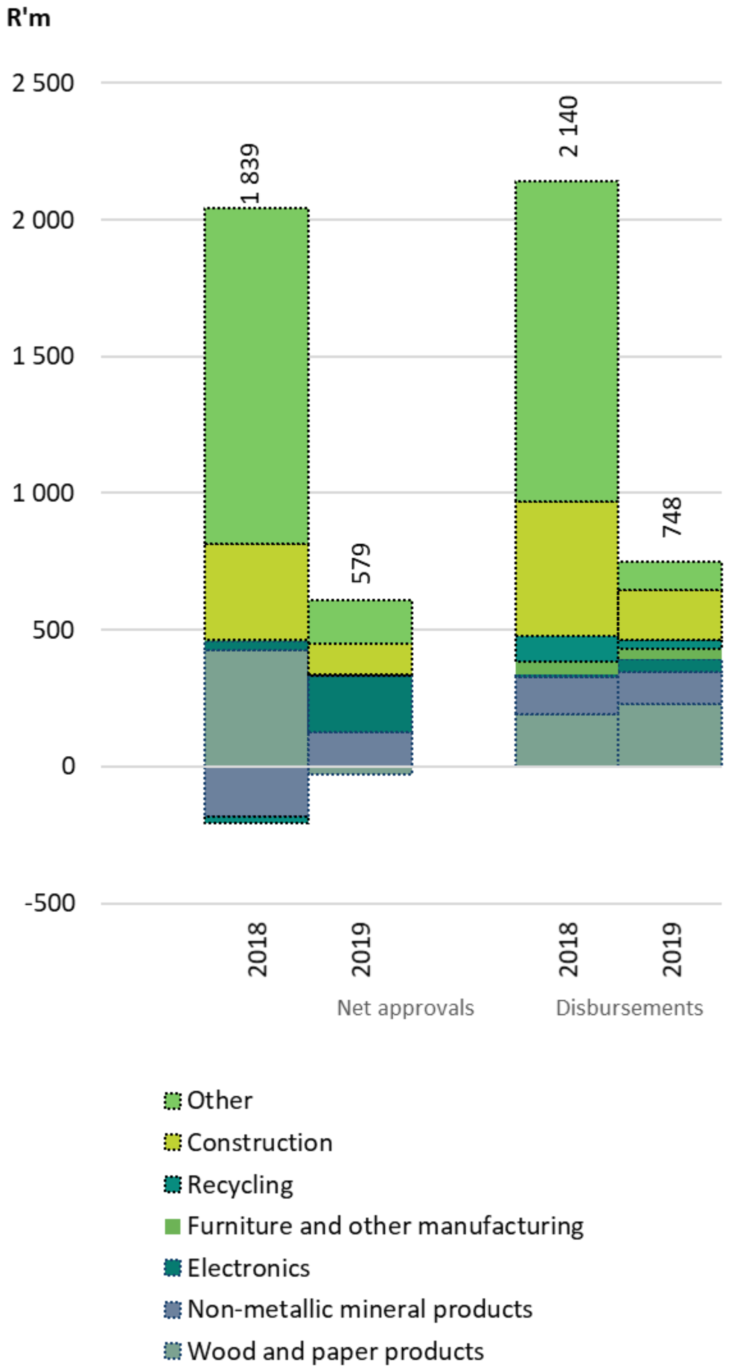


Several prioritised new industries received significantly large investments for the first time, especially clean energy solutions. Funding approvals increased to R544 million in 2019, compared to R128 million in 2018.

	2019	2018
Number of Jobs Created/ Saved	1 081	41
Funding to Black-Empowered Companies	263	60
Funding to Black Industrialists	136	63
Funding Women Entrepreneurs	120	15
Funding to Youth Entrepreneurs	35	36



Other manufacturing and related industries

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The value of funding approved during the year decreased by 68% to R579 million.

In 2018 we had large deals related to lines of credit (R1,5 bn) and the construction industry, which were not repeated in 2019.

	2019	2018
Number of Jobs Created/ Saved	1 294	7 270
Funding to Black-Empowered Companies	43	660
Funding to Black Industrialists	65	583
Funding Women Entrepreneurs	-15	260
Funding to Youth Entrepreneurs	47	-75

* Negative values indicate cancellations of approvals made in previous years exceeding new approvals

There have been some improvements in the financial performance of key subsidiaries

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However, more work remains for these companies, particularly Cast Products SA and Foskor to return to profitability

sefa
Small Enterprise Finance Agency

- The Agency disbursed R1,2 billion (mainly through wholesale funding), exceeding the target of R842 million, and a substantial portion of funding disbursed went to priority rural areas, women-owned enterprises and black-owned enterprises.
- The company recorded good performance relating to development outcomes such as the number of SMMEs supported (72 987 slightly above the target) and jobs facilitated (at 88 632 – 19% above the target)
- Its financial performance continue to be of concern with declining revenues, high cost to income and impairment ratio.

FOSKOR

- Performance was better than expected but still not at the desirable level.
- The Board of the IDC appointed a sub-committee to look closely at the affairs of Foskor.
- Proposals are expected to improve both its financial and operational performance in the next financial year.

scaw

- The Scaw corporatisation process was completed during the financial year, with Cast Products SA and Grinding Media SA divisions being carved out into separate legal entities.
- Strategic equity partners were introduced to provide the necessary technical and financial support.

Addressing the Marginalised

The economic potential of our townships and targeted spatial interventions remain largely untapped – through the use of other levers we are making a concerted effort to ensure the social upliftment of our people

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Worker and employee empowerment and ownership

Since 2002, we had established 105 Workers' Trusts, 11 Community Trusts and 22 Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) Trusts.

During 2019, 10 transactions were approved that established trusts.

In pursuit of a transformational impact on workers and communities, some of IDC's transactions include workers and communities as shareholders.

Special intervention programme

Since inception of this programme, funding of R227 million has been approved for 68 projects. These projects support 31 417 beneficiaries.

During the 2019 financial year, 15 projects to the value of R51 million were approved. These support 8 339 beneficiaries.

Addresses the socio-economic and developmental needs of targeted areas through public, private and community partnerships. This has resulted in many innovative and impactful initiatives in marginalized areas, including townships and rural areas.

Social Enterprises Programme

Since 2012, we approved transactions totalling R165 million that support 23 329 beneficiaries.

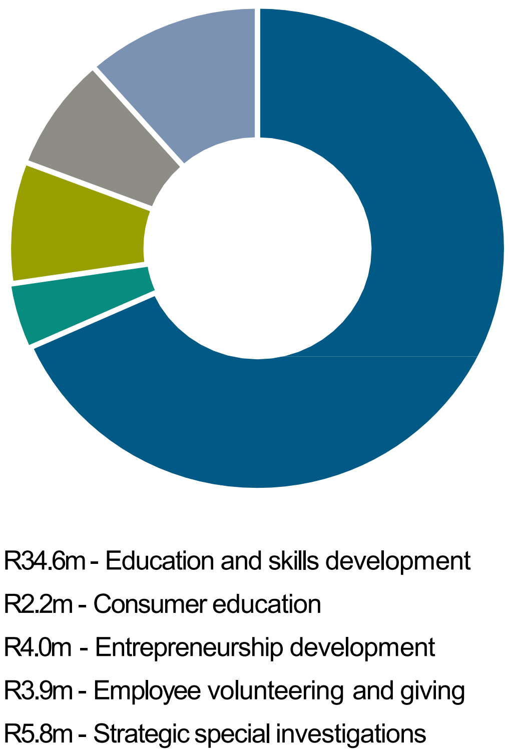
During 2019, we approved funding of R3 million.

Introduced in 2012 to support private sector enterprises that focus on social outcomes rather than maximising profit.

We have partnered with the Government of Flanders, which provided funding of €7 million over five years.

Spending per CSI category

In 2019, we disbursed R50,6 million, 61% more than in 2018, to support 28 CSI initiatives.



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Financial Performance

Nonkululeko Dlamini
(Chief Financial Officer)

FINANCIAL OVERVIEW

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- Disbursements into the economy resulted in the balance sheet growth despite subdued economic conditions.
- Disbursements were achieved through our funding model consisting of three pillars,
  - ✓ Internally generated funds (dividends, interest and collections from clients)
  - ✓ Exits from mature investments
  - ✓ Borrowings from capital markets
- Maintained a strong liquidity position with the support of our partners (funders and clients)
- Borrowing capacity is within the approved thresholds which allows us to continue with our fund raising programme
- IFRS 9 resulted in:
  - ✓ Classification changes in reported numbers (e.g. Significant impact in capital profits disclosure)
  - ✓ Measurement changes (Significant increase in impairment provisions using Expected Credit Loss model)
- Growth in reserves at the back of stronger commodity prices despite IFRS 9 adoption impact
- Operating costs managed within inflation
- Significant progress made in the Strategic Equity Partner (SEP) for the Scaw group whilst strategies are also being implemented to turnaround other subsidiaries

FINANCIAL PERFORMANCE HIGHLIGHTS

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IDC Group

Revenue (Normalised)
2%
R17,9bn

Profit (Normalised)
14%
R720m

Total Assets
6%
R144,6bn

Reserves
3%
R95,6bn

IDC Mini-Group

Transition to IFRS 9

Cost to Income
0%
24%

IAS 39 Impairment ratio
2019: 18,8%
2018: 17,4%

IFRS 9 Impairment ratios
SPPI: 26,3%
Total book: 28,4%

Gearing
43%
Threshold: 60%

THREE YEAR GROUP FINANCIAL OVERVIEW

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Figures in Rand million	2017	2018	2019
Statement of financial position			
Cash and cash equivalents	7 699	6 156	9 809
Loans and advances	25 802	30 660	33 946
Investments	78 266	81 488	84 812
Property, plant and equipment	12 384	8 148	7 344
Other assets	5 685	10 506	8 695
Total assets	129 836	136 958	144 607
Capital and reserves	88 290	92 107	95 303
Other financial liabilities	30 367	33 217	39 486
Other liabilities	11 179	11 634	9 817
Total equity and liabilities	129 836	136 958	144 607
Statement of profit / (loss)			
Operating (loss)/profit	978	2 962	(497)
Income from equity-accounted investments	963	419	644
Profit before taxation	1 941	3 381	147
Taxation	621	381	574
Loss from discontinued operations	(362)	(538)	-
Profit for the year	2 200	3 224	720
Capital profits (previously included in net profit	1 688	2 383	2 289

- Operating profits included capital gains in prior years as it is our business model to exit mature investments for new funding requirements;
- With IFRS 9 adoption, Capital gains are no longer recycled back to profits based on the election to revalue investments through other comprehensive income;
- Scaw Group losses previously disclosed as discontinued operations with anticipation that the SEPs would take significant stakes in corporatized entities;
- High Expected Credit Loss provisions due to subdued economic conditions impacting performance of the book resulted in operating loss before equity accounted investments and tax.

IDC GROUP: REVENUE ANALYSIS

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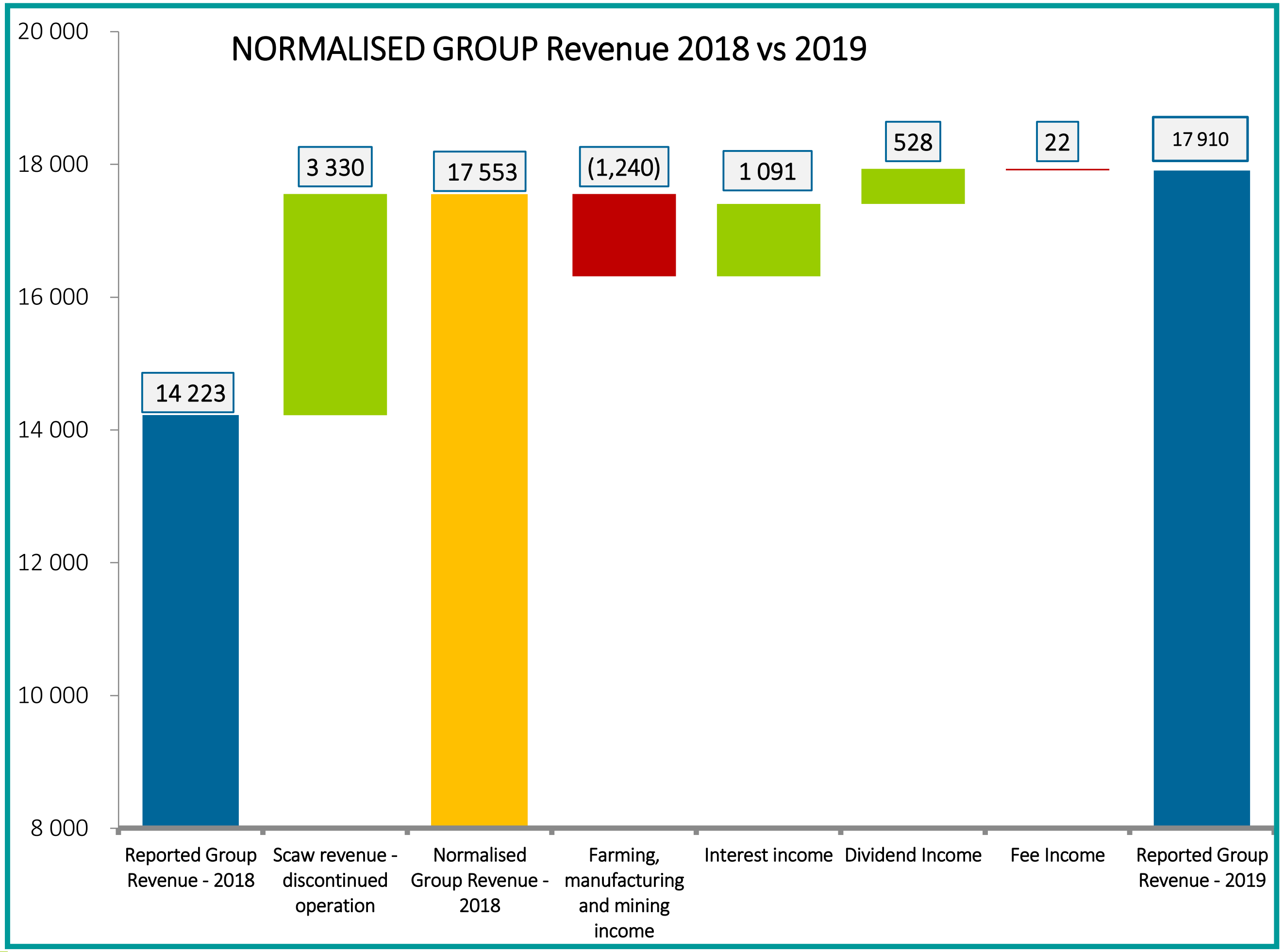

NORMALISED REVENUE

- R14,2bn reported as Group Revenue in 2018 excluded revenue of R3,3bn for the Scaw Group, which was reported as a discontinued operation.
- Normalising for Scaw results in group revenue of R17,6bn.
- A comparison of 2019 revenue of R17,9bn vs the normalised, prior year's R17,6 yields an increase in group revenue of 2%, mainly contributed by the Mini-Group.
- The consolidated Scaw Group revenue only includes Grinding Media and Cast Products after corporatisation.

IDC GROUP: REVENUE ANALYSIS

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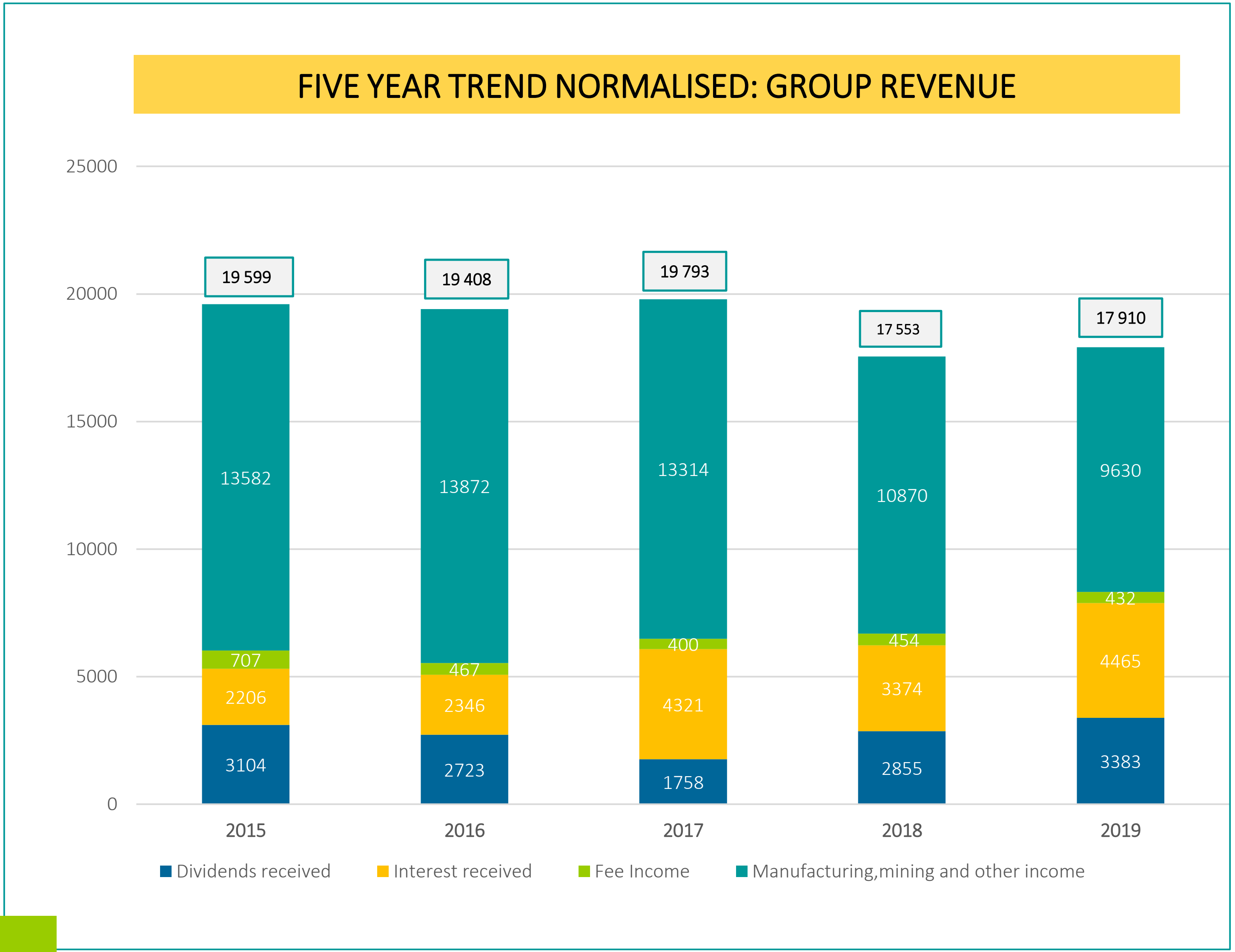

NORMALISED REVENUE

- Group revenue (normalised) increased by 2% to R17,9bn (2018: R17,6bn).
- The biggest drivers of this increase were higher interest income in the IDC, the effect of improved pricing strategies and higher dividend income from listed investments such as Kumba, BHP Billiton and PMC.
- Manufacturing, mining and other income reduced as Scaw has now been accounted as an associate in 2019.
- 2017 revenue normalised for Grinding Media and Cast Products, which were reported as discontinued products in that year.

IDC MINI-GROUP: LOANS, ADVANCES & INVESTMENTS

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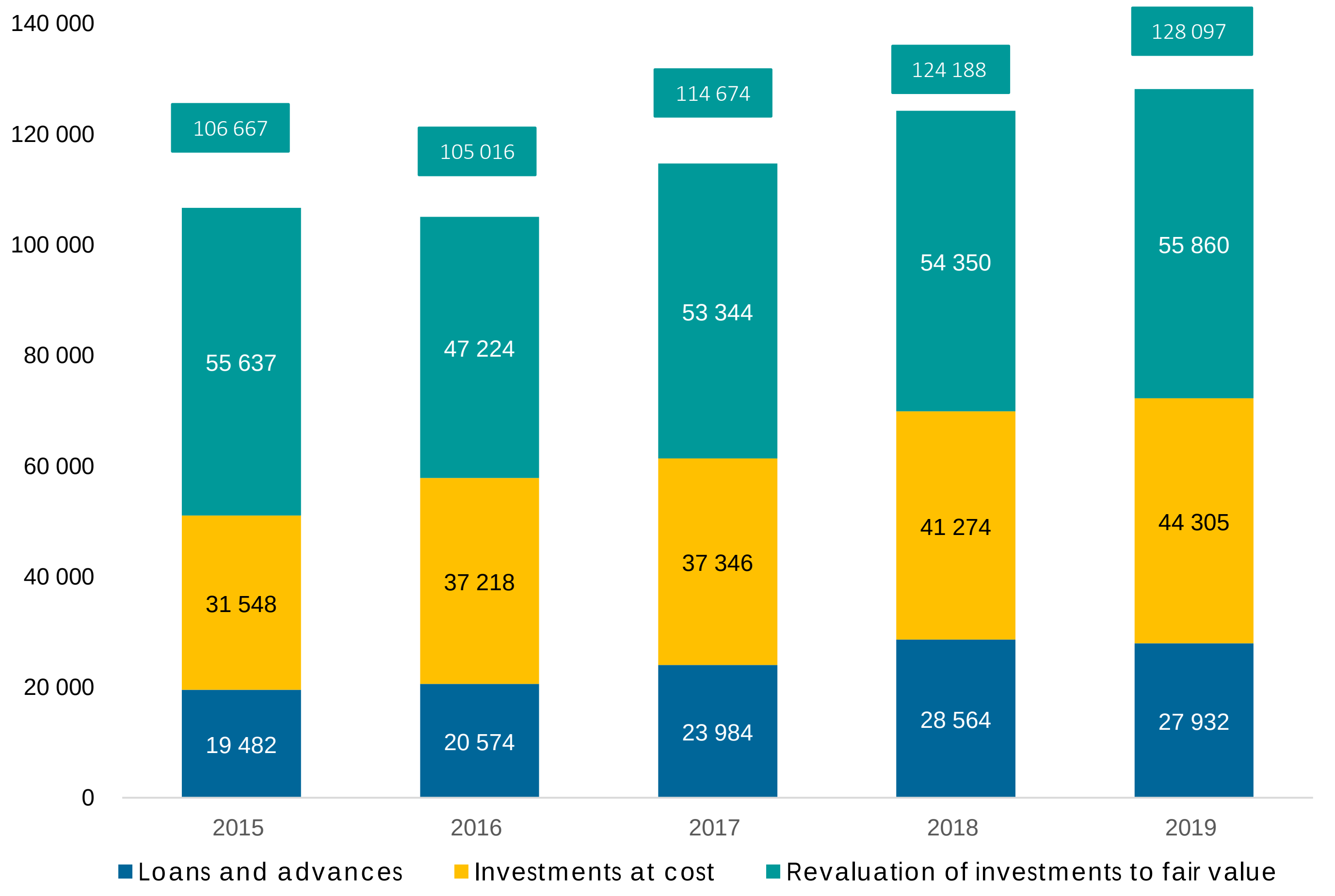
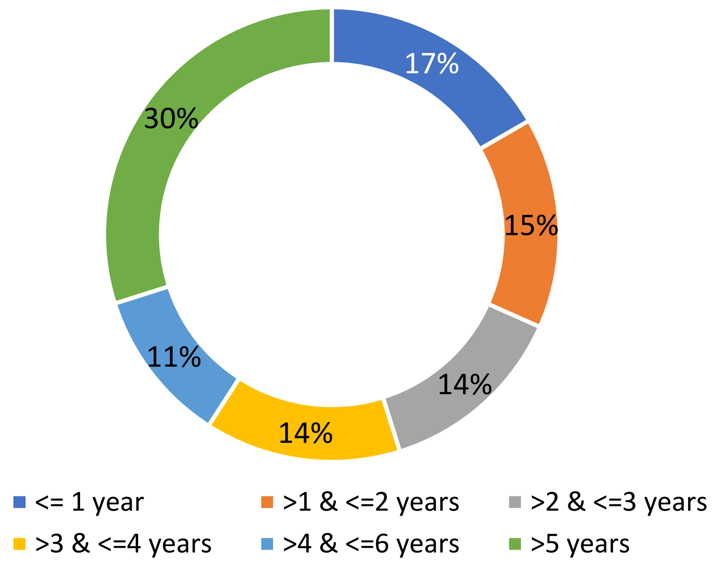


Gross Loans and Advances



- IDC mandate requires that we be a long term financier through supporting start-ups, projects, expansions and at times, distressed entities.
- This results in our loan book being long term in nature, requiring matching sources of funding.

MINI GROUP IFRS 9: 1st TIME ADOPTION IMPACT ON SPPI

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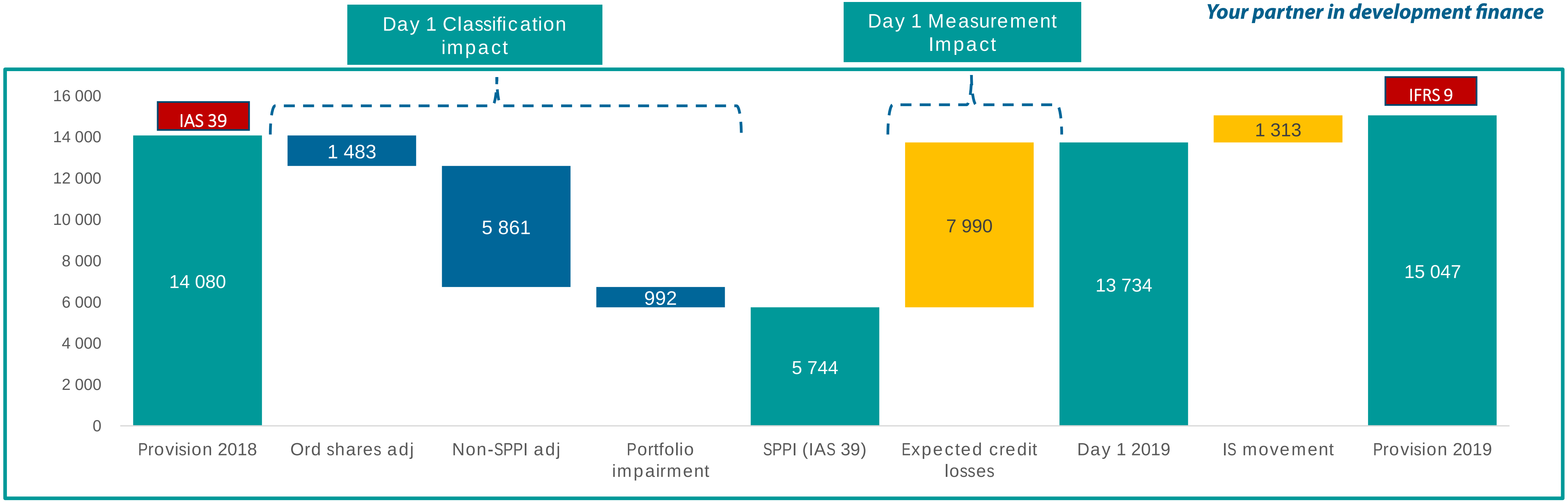

- We adopted IFRS 9 on 1 April 2018 resulting in a complete review of the book for classification and measurement;
- The adoption approach was:
  - To account for day 1 impact through reserves and not restate prior year financial statements
  - To account for equity fair value movements through "Other Comprehensive Income"
- The expected credit loss review of the book resulted in significant increase in provisions.
- Guarantees and commitments are required to be reviewed for expected credit losses, resulting in additional provision requirements.

MINI GROUP IMPAIRMENTS PROVISIONS

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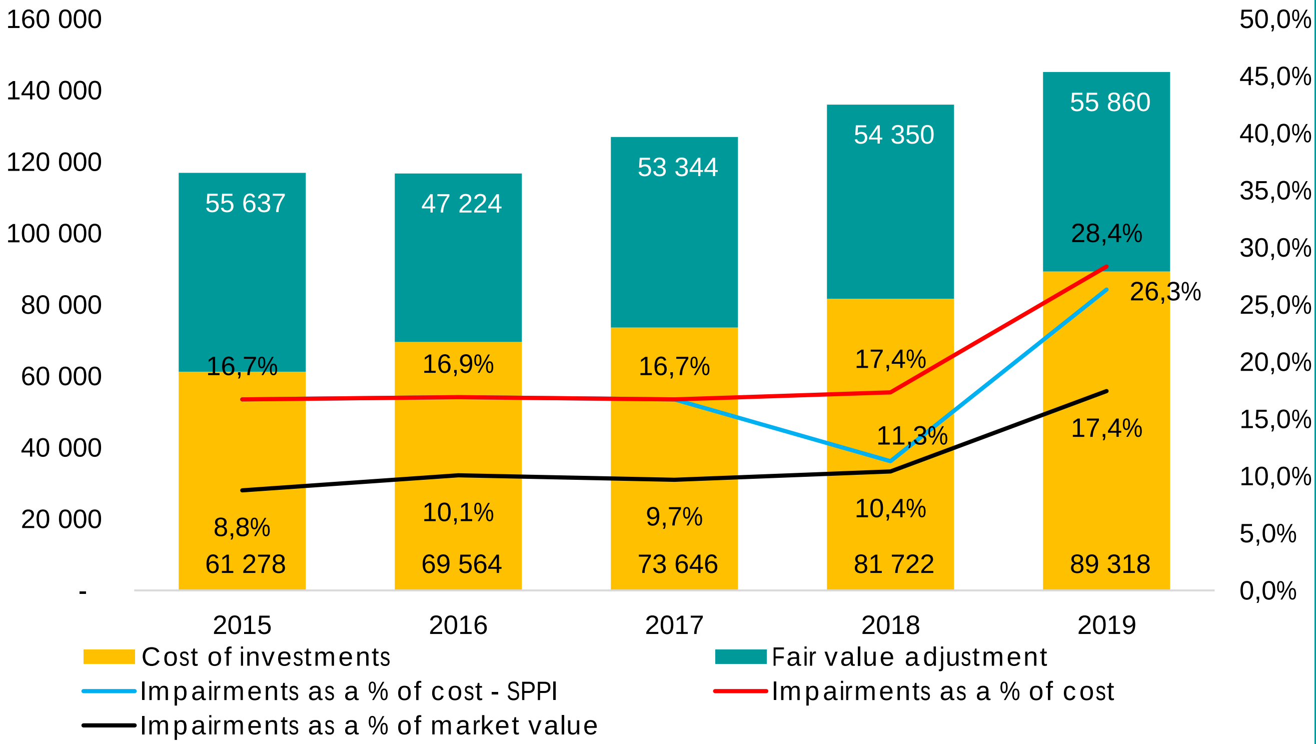
Total Book at market values: Mini-Group

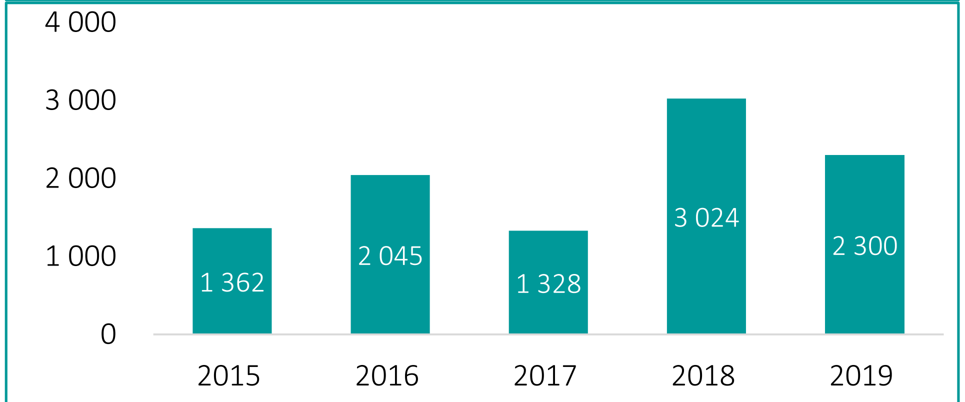


- IFRS 9 adoption resulted in increased expected credit loss provisions and ratios mainly due to the IDC developmental mandate which support start-ups, projects and distressed entities on commercial merit as well as the impact of subdued economic conditions.

Impairment Charge – IDC Mini-Group

Impairment Charge (R' million)	2 018 (IAS 39) Actual	2019 (IFRS 9) Actual
Impairments and write offs:	4 920	4 781
Impairments	4 372	4 324
Write-offs (IS impact)	548	457

Write-offs: Mini-Group



- We continue to pursue recoveries post investment write-off;
- Written off amounts were largely provided for in prior years, hence impact for the current year only R457m.

IFRS 9: CAPITAL GAINS RECLASIFICATION IMPACT

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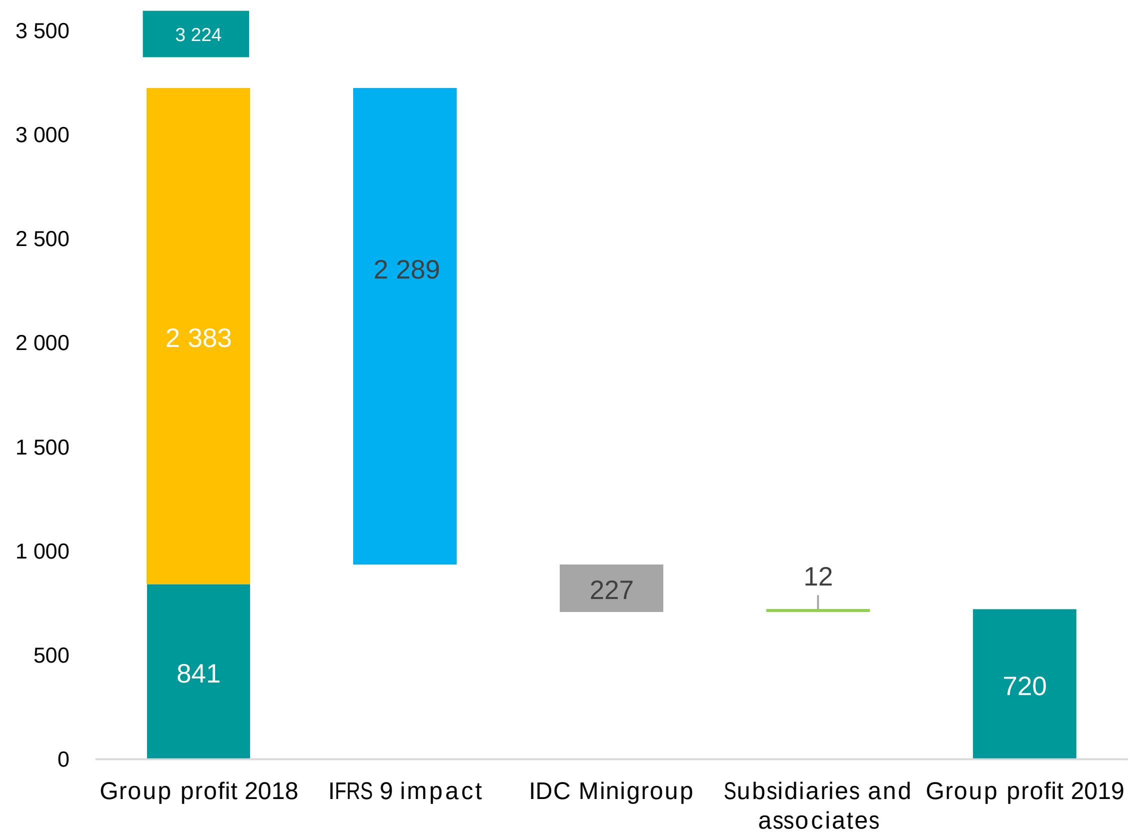
Year on year net profit reconciliation



- Operating profits included capital gains in prior years in line with our business model whereby we exit mature investments for new funding requirements and thereby realising capital gains;
- IFRS 9 adoption has resulted in capital gains no longer being recycled back to profits based on the election to revalue equity investments through other comprehensive income;
- The group profit after tax of R720m for 2019 therefore excludes capital gains of R2,3 billion from current year exits.
- The net profit after tax reduction of 14% is mainly due to increased finance costs as well as expected credit losses.

FUNDING: MINI-GROUP BORROWING PROFILE

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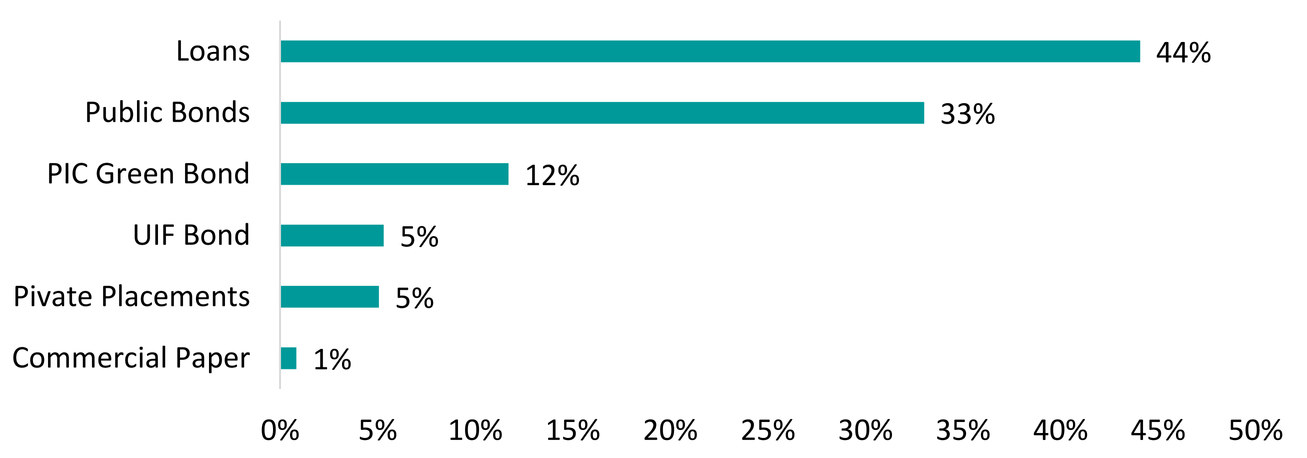
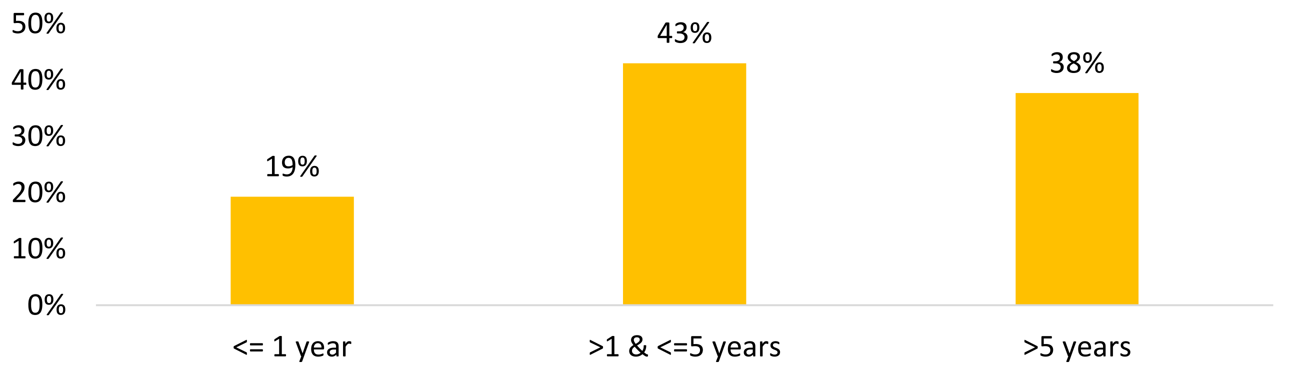
Debt Funding Sources R39.6 billion – 31 March 2019



Debt Maturity Profile R39.6 billion– 31 March 2019



- We have successfully embarked on raising long-term funding during the year to closely match the funding turner requirements of our clients;
- All fund raising was on the strength of the IDC balance sheet and no guaranteed debt, indicating continued investor confidence in IDC;
- We had three successful bond auctions (oversubscribed and funds raised within price guidance) during the year, further confirming the partnership in industrial development;
- We have continued to work closely with the various government departments, mainly the *dti* to blend funding raised from capital markets with grants and concessionary interest rates;
- Short-term funding facilities are fully available to manage any urgent liquidity requirements

CREDIT RATINGS

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Global Credit Rating: National Scale	Rating	Date
Long-term	AA+ (ZA)	30 July 2018
Short-term	A1+(ZA)	30 July 2018
Rating outlook	Stable	

Moody's Credit Rating	Rating	Date
Foreign currency Long-term	Baa3	25 July 2019
Rating outlook	Stable	
National Scale rating	Aa1.za	25 July 2019

- IDC's National Long-term credit rating and National Short-term credit rating is affirmed to be stable by both Global Credit Rating (GCR) and Moody's Investor Services;
- The IDC foreign currency credit rating is on par with the Sovereign rating;
- Strong credit rating supports the credit profile on of the corporation;
- GCR review process is in progress for an updated rating.

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Looking ahead

TP Nchocho

(Chief Executive Officer)

SNAPSHOT: QUARTER 2 PERFORMANCE

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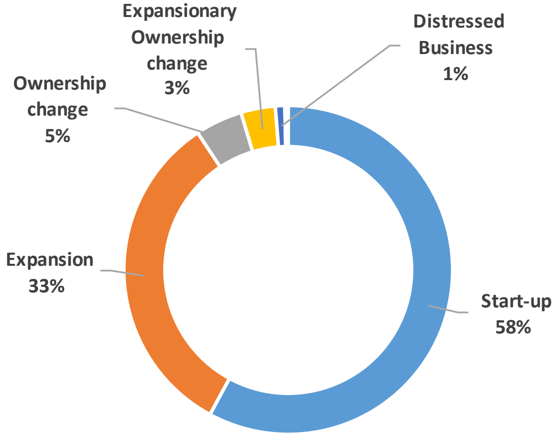
***Approvals Q2 (cumulative)**

Value chain	R'm
Agro-processing and agriculture value chain	187
Chemicals and pharmaceuticals value chain	2 255
Clothing, textiles, leather and footwear	149
Industrial infrastructure	321
Metals and mining value chain	3 431
New industries	5
Other manufacturing and related industries	536
Tourism, media, and ICT	208
Total	**7 091**

***Jobs created / saved Q2 (cumulative)**

Value chain	Created	Saved	Total jobs
Agro-processing and agriculture value chain	196	67	263
Chemicals and pharmaceuticals value chain	117	-	117
Clothing, textiles, leather and footwear	6	-	6
Industrial infrastructure	128	-	128
Metals and mining value chain	1 110	592	1 702
New industries	6	-	6
Other manufacturing and related industries	720	207	927
Tourism, media, and ICT	249	30	279
Total	**2 532**	**896**	**3 428**

Type of financing Q2 (cumulative)



* Gross figures

The Corporation's performance into the 2nd Quarter of 2019/20, although satisfactory still reflect strained economic environment;

- R7,1 billion approvals to date, mainly towards metals & mining and chemicals industrial activities
- just over 3 428 jobs to be created and/or saved at the back of IDC funding
- Funding to youth (R568m), women (R1,8bn) and black industrialists (R2.7bn) also on a good start
- IDC working closely with key stakeholders (government departments, commercial banks and other DFIs) to stimulate investment activities

We are also keeping an eye on our investment **activities (quality thereof) to ensure that Corporation's** long term financial sustainability is not compromised

- The IDC performs quarterly reviews on financial projections to ensure financial sustainability while delivering on the mandate.
- Sufficient liquidity is reserved to meet the required disbursements utilising the IDC funding model.

TRACK RECORD

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> The IDC continues to improve livelihoods with its impact extending beyond the actual transactions and projects financed due to the multiplier effects through linkages with other sectors of the economy.

Performance over the past 5 Years to March 2019

R71,1 billion
APPROVED FUNDING

R60,4 billion
DISBURSEMENTS

105 000
DIRECT JOBS CREATED AND SAVED

LOOKING AHEAD

Over the past years, the IDC's contribution to the expansion and inclusivity of the domestic economy has been significant

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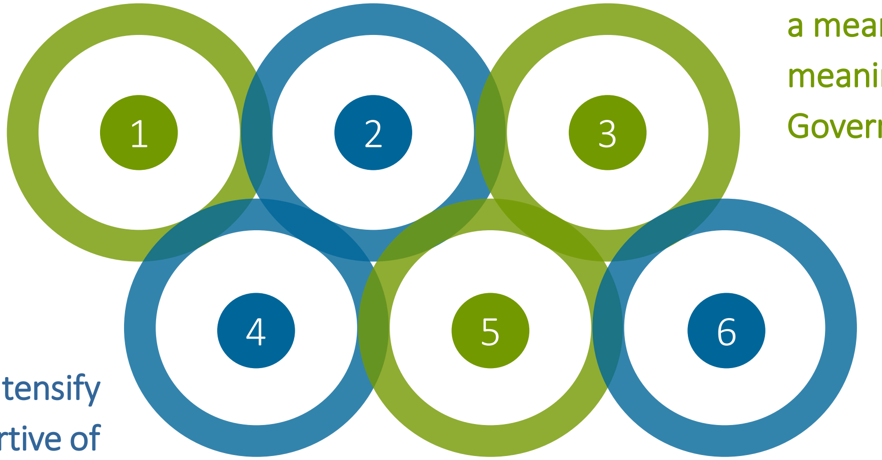
However, the IDC is not immune to the economic challenges, evident in some of our financing and development outcomes falling short of the levels achieved over the past few years.

We are mindful of the fact that we need higher levels of GDP growth to effectively deal with the challenges of poverty, inequality and unemployment, especially among our youth.

We remain well positioned to play a meaningful role play a meaningful role in various Government initiatives



In this regard, we have adopted a focused approach, endeavouring to deepen our funding activity in specific economic sectors among other initiatives.

We will continue to intensify initiatives that are supportive of the inclusive industrialisation of our economy.

A decade of counter-cyclical investment, though welcomed, creates the need for a focus on the long-term sustainability of the IDC.

Our strategy is geared towards industrial development effectiveness

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OUR ENVIRONMENT

1 Our Strategy

Our strategy continues to focus on industrial development effectiveness, whilst remaining financially sustainable.

2 Inclusive Transformation

Advancing inclusive transformation remains at the heart of our funding activities.

3 The Environment

Remains constrained in the short-term, with a more optimistic look over the medium- to long-term.

OUR PLAN

premised on four areas of focus

Increased Industrial Development + *Sustained Financial Growth* + *People-centricity* + *Customer-centricity* = *Increased Impact*

2019

THANK YOU

IDC

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