

STEINHOFF SCANDAL

RAMKI

PKF S&S LLP

DEC 17

THE COMPANY

- A MNC furniture /clothing company
- Owns iconic brands such as Mattress Firm ,Bensons for beds , Harveys and Poundland
- 40 retailing brands in 30 countries
- 130,000 employees
- 76 year old Christo Wiese South African Billionaire is a major shareholder; PIC, Govt Employee pension fund of one million Govt employees holds 8.56% of shares
- Listed on Johannesburg and Frankfurt stock exchanges
- Was a top 10 company in South African in market cap
- It took over French furniture retailer Conforama in 2011
- Has an all male all CA's Board

THE CEO

- Markus Jooste, the billionaire face of Steinhoff
- A CA
- Ran the company for 30 years
- Known for horse racing and gambling
- Owns the largest number of thoroughbred racehorses in the country
- Reclusive
- Resigned

WHAT HAPPENED?

- “Biggest corporate disaster that has ever hit South Africa“
- R 200 Billion lost (\$16B)
- Four current and former managers are under suspicion of having overstated revenues at subsidiaries
- Steinhoff is reviewing the validity and recoverability of assets amounting to about 6 billion euros mainly in Europe

WHAT ELSE HAPPENED AND HOW DID IT COME TO LIGHT?

- It came out when German investigators started in 2015 to investigate the company for doctoring information to mislead markets
- Allegations (as yet unproven)
 - Earnings manipulation
 - Uncontrolled acquisition sprees
 - Tax fraud
 - Off Balance sheet companies set up to hide losses
 - Not obtaining forex control approvals for swapping PSG shares for a Frankfurt listed Steinhoff

HOW BIG IS THE HOLE?

- We do not know! Yet!
- The company hasn't detailed the accounting irregularities.
- Also hasn't provided a timeline for future disclosures.
- The magnitude of the irregularities is still under scrutiny,
 - Richard Bussell of law firm Linklaters, who is advising the company, said in an audio recording posted on the retailer's website.

THE FALL OUT-I

- Finance minister of SA has ordered a commission to probe the scandal
- 90% of the market cap of the company was wiped out –nearly \$12B
- Danie van der Merwe took over as chairman of company after Christo Wiese quit
- CEO Markus Jooste resigned
- Government Employee Pension Fund and the Public Investment Corporation owned R28bn in Steinhoff; The Govt has given an assurance that the pensions of civil servants will not be affected as it formed only 1% of total assets of the fund.
- Deloitte is the auditor and is being probed by South Africa's Independent Regulatory Board for auditors (IRBA) and Dutch Financial Authority for the Financial markets (AFM)

THE FALL OUT-2

- \$2.8B of Christo Wiese's wealth wiped out
- He had brought in PWC to do the investigation
- 2016 financials are being restated
- Global banks are facing substantial write offs (exposure \$18B euros)
- Banks have sold around 98M shares pledged as security by Christo Wiese
- Johannesburg stock exchange has also started investigations

REASONS WHY SOUTH AFRICAN COMPANIES HAVE COME TO THIS PASS

- This comes close of heel of the Gupta Family (close to President Jacob Zuma) scandal where KPMG is under probe for using money to influence Govt policies
- Another South African company Naspers is also under cloud
- It was considered that only Govt and Public sector were corrupt and there were even hints that this was a race problem; Steinhoff has mainly white leadership and hence it now looks like corruption is not a race issue

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