




WINDHOEKER MASCHINEN FABRIK

WMF (1998)



TURNAROUND STRATEGY
2020 – 2025

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Definition of Terms

ABBREVIATION	DESCRIPTION
BOD	Board of Directors
CEO	Chief Executive Officer
WMF	Windhoeker Maschinen Fabriek (1998)
MD	Managing Director
MOD	Ministry of Defence
MAWF	Ministry of Agriculture, Water and Forestry
MWT	Ministry of Works and Transport
VTC	Vocational Training Centre
NTA	Namibia Training Authority
NCCI	Namibia Chamber of Commerce and Industry
NTF	National training fund
MOF	Ministry of Finance
NSI	Namibia Standards Institute
MITSMED	Ministry of Trade and Small to Medium Enterprises development
NMA	Namibia Manufacturers Association

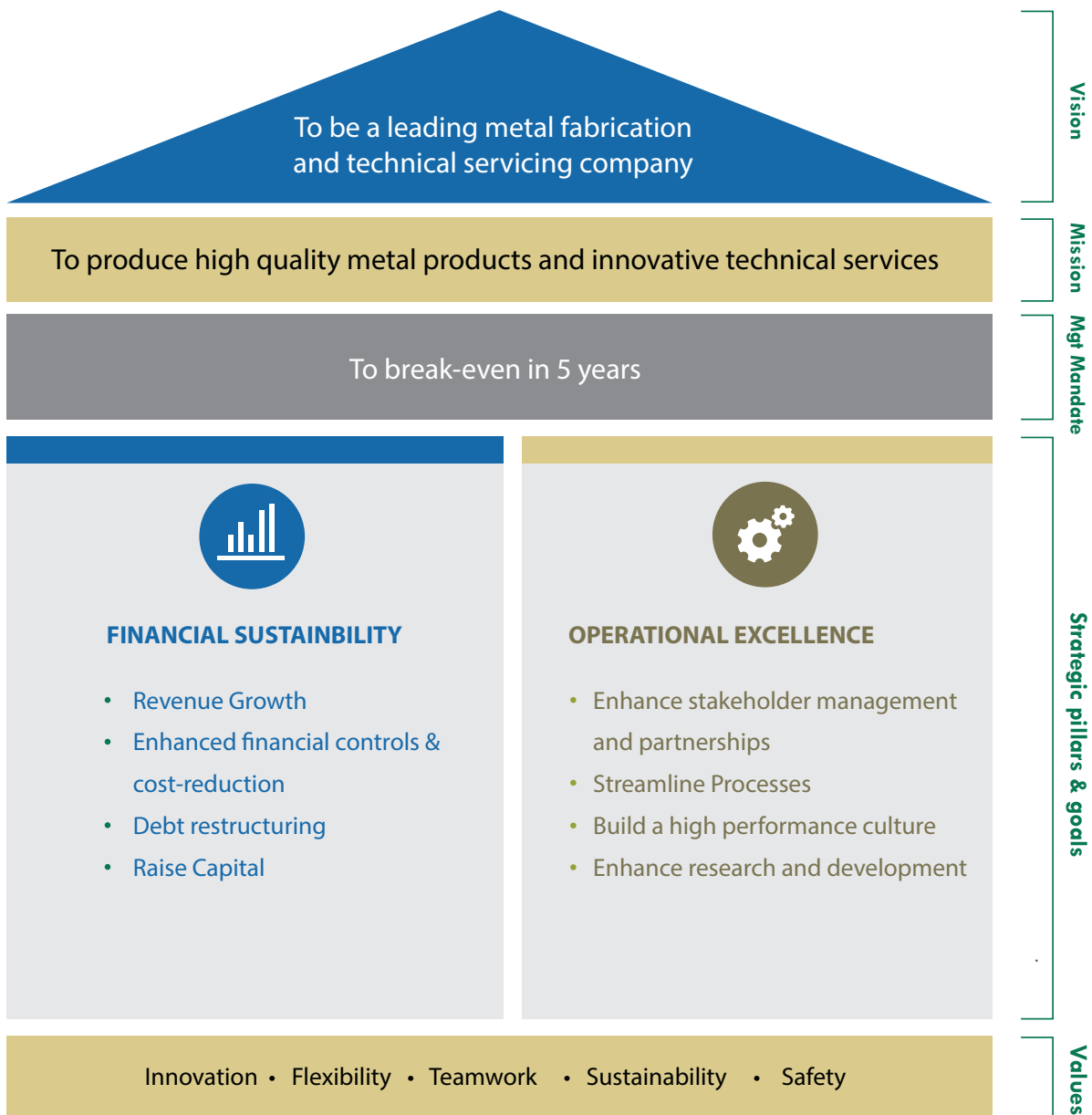
Executive Summary

Windhoefer Maschinen Fabrik corporate strategy 2020 – 2025 sets out a strategy to reposition the company to become a leading company in the provision of metal fabrication products, services and technical servicing of vehicles and equipment. The overall strategic planning process included an analysis of the macro and micro environment, including an in-depth analysis of the company's capabilities. A market analysis as well as key stakeholder analysis was carried out. Key strategic drivers and constraints were identified.

The environmental scanning and "as is" analysis revealed that WMF is technically insolvent and requires a turnaround strategy and a capital injection in order to restore operations and build a strong foundation for recovery. Central to strengthening the balance sheet of WMF is the decision that will need to be taken by August 26 Holdings to write off the N\$32.7 Million debt that has accrued. This would be a strategic move meant to reduce the degree of WMF indebtedness which will make their balance sheet better. The macro analysis revealed a depressed economy that is currently in recession. This has implications on the turnaround strategy as targets are conservative in order to align to the difficult macro-economic environment.

The micro analysis revealed a company in distress with more pronounced weaknesses than strengths. Lack of funding, weak business model, inadequate controls, poor stakeholder management and outdated equipment were listed as some of the weaknesses crippling the business. The industry analysis revealed an industry that is growing, indicating opportunity for growth for WMF.

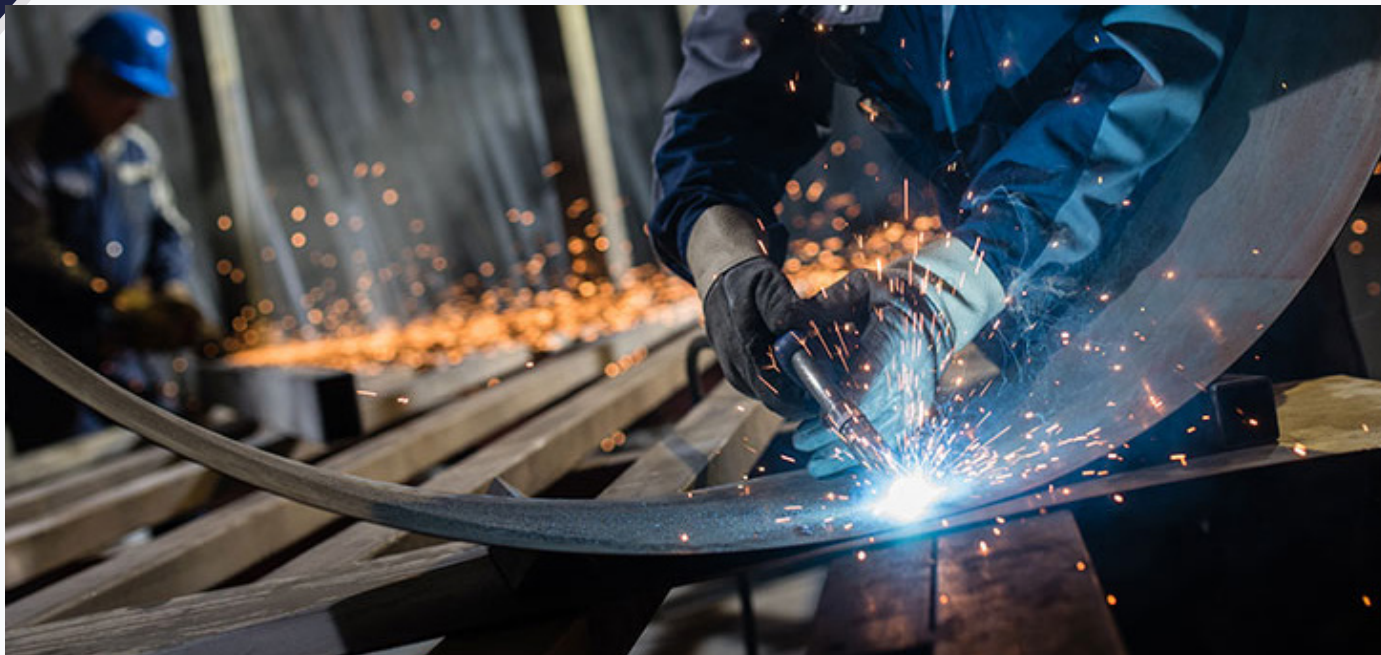
In order to leverage on the company strengths (goodwill) and take advantage of opportunities (product diversification, regional market potential and local procurement protection), an expansionary approach to the strategy was developed. To eliminate threats (economic recession) and weaknesses (outdated machinery and equipment, lack of skills and lack of funds) a turnaround approach was adopted. This resulted in an integrated strategy to reposition WMF to deliver on its mandate. This integrated turnaround plan has the following high-level statements, strategic pillars, objectives and values.



The following key components of the strategy need to be prioritized;

- Writing Off N\$32.7 Million debt by August 26 Holding Company
- Tightening financial controls and reduce wastage
- Deploying a change management programme
- Introducing a rigorous performance management system
- Training staff members
- Reviewing and aligning all corporate policies
- Raising capital for retooling, purchasing new equipment to boost operations
- Developing an expansive business development strategy

Industry Overview



The definition of the metal fabrication industry is based on the International Standard Industrial Classification (ISIC) of All Economic Activities, Revision 4. Metal fabrication falls into Section C (Manufacturing), Division 25 (Manufacture of fabricated metal products, except machinery and equipment). This division is subdivided into three major groups and 10 classes of metal fabrication activities which reflect the industry's major product lines, such as fabrication of structural metal products (2511); tanks, reservoirs and containers of metal (2512); steam generators (except central heating boilers) (2513); weapons and ammunition (2520); and cutlery, hand tools and general hardware (2593). Division 25 also covers metalworking service activities, such as metal forging, pressing, stamping and roll-forming (2591) and the treatment and coating of metals and machining (2592).

A brief survey of Namibian companies engaged in metal fabrication as captured in the Growth Strategy for Metal Fabrication Industry (2016), revealed that a significant number of companies perform economic activities that fall within Division 28 (Manufacture of machinery and equipment), in particular Class 2821 (Manufacture of agricultural and forestry machinery). These companies produce, among other things, ploughs, seeders and other specialised equipment and supplies for

the agricultural sector. Furthermore, there is a strong overlap between metal fabrication and economic activities that fall within Division 29 (Manufacture of motor vehicles, trailers and semitrailers) and in particular classes 2920 (Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers) and 2930 (Manufacture of parts and accessories for motor vehicles), which includes bumpers. Class 3011 covers shipbuilding, except the building of vessels for sports or recreation, and the construction of floating structures. It also includes the manufacture of sections for ships and floating structures.

The Metal fabricators growth strategy notes that, while the ISIC classification of the metal fabrication industry is clear cut, in practice many Namibian companies engaged in the industry – particularly small companies – operate in various divisions at the same time, making it more challenging to classify them clearly as metal fabrication SMEs. According to the Metal fabricators database, there 110 companies operating in Namibia.

A survey by the Ministry of Trade in 2016 revealed the following dynamics in the metal fabrication industry.

The longest-established company has roots from as early as 1925. Five companies are more than 30 years old, including one which has been in operation for almost 60 years and another for 50 years. 39% of companies were established more than 10 years ago; 12% have been in business from three to five years, and another 12% from five to 10 years. 21% were started one to three years ago, and only 15% of companies started operations within 2016. The survey revealed that there are a number of well-established companies around Windhoek in particular, while in other major towns across the country such as Gobabis, Okahandja, Swakopmund, Walvis Bay, etc., Many companies have entered the market over the past 10 years.

The survey indicated that most companies employ up to five employees (38%), while 22% employ between 11 and 25 employees. 19% have between 26 and 50 workers and 16% between six and 10 workers. Only two companies employ more than 100 workers. The brief overview indicates that the metal fabrication industry is dominated by small companies.

Also, company turnover varies greatly in line with number of employees and years in operation. A few companies recorded turnovers of less than NAD 1 m per annum, while about half of the companies have turnovers of more than NAD10 m up to NAD130 m. As per the AFS, WMF made a turnover of NAD34m(2018), NAD14m(2017) and NAD6m(2016).

Namibia Metal Fabrication Industry and Its Value Chain

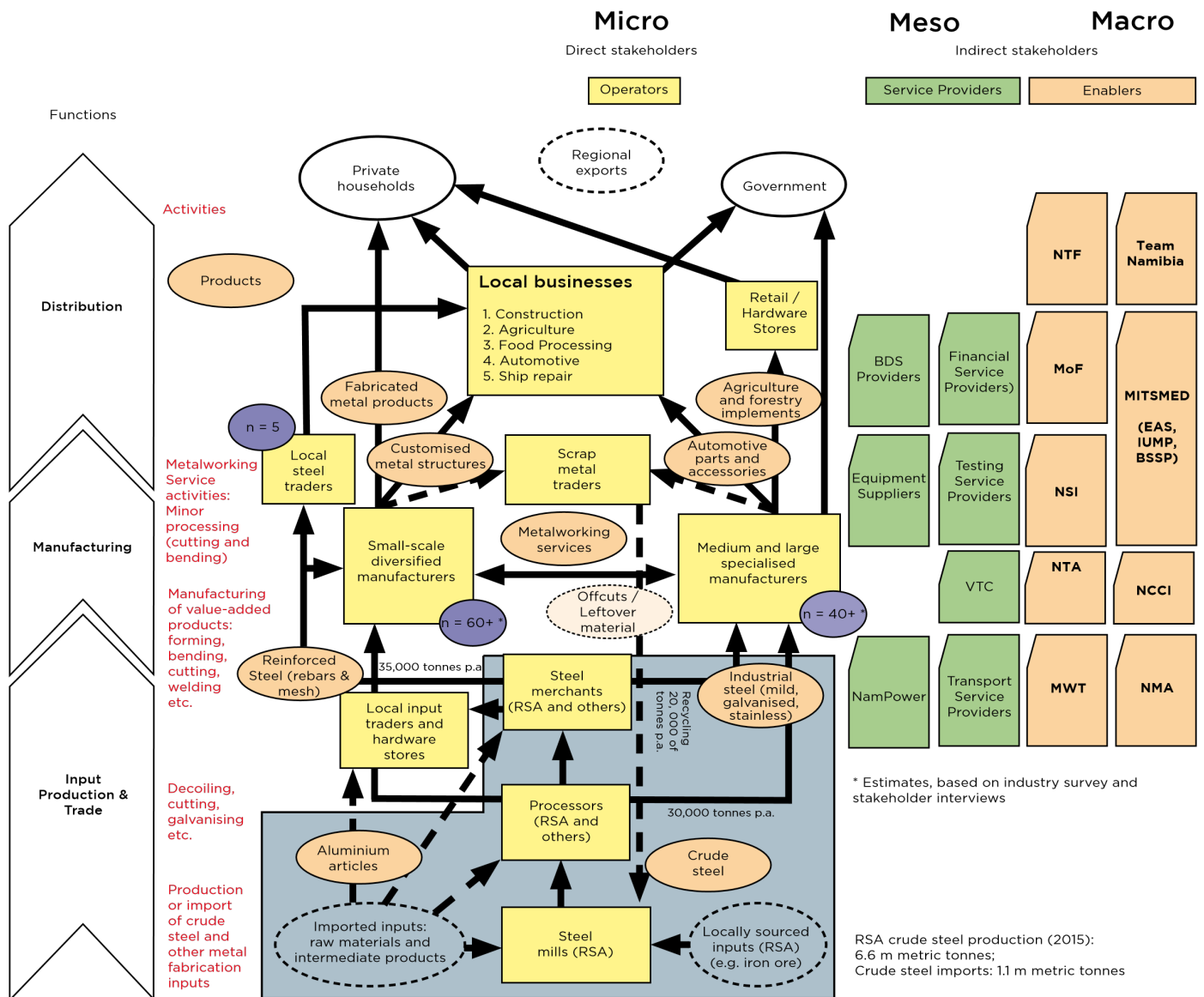



Figure 1: Metal fabrication value chain

Source: GIZ ProCOM based on Schade 2016



The value-chain map depicted above displays the various operators in the Namibian metal fabrication industry and the value chains for the major product groups from the perspective of most relevant inputs, major clients and market segments currently served by the industry. The mapping exercise distinguishes between industrial steel (mild, stainless and galvanised) and aluminum as one sub-chain and reinforced steel (rebars and mesh) as another.

The map shows that important functions within this industrial value chain take place outside Namibia, namely primary production (the production of basic inputs in steel mills, either in the RSA or in other countries) and first-stage processing (decoiling and cutting activities) that generates the intermediate goods that serve as essential inputs for most of the Namibian metal manufacturing activities.

As the map shows, even input trade is performed to a great extent by wholesalers and steel merchants outside the country. In particular, the specialised medium- and large-scale metal manufacturers in Namibia source their production inputs directly from abroad due to their larger order volumes, whereas the predominant input sourcing for smaller Namibian manufacturers is via local hardware stores and steel traders. Some of the foreign steel merchants also maintain exclusivity agreements with Namibian input traders and therefore do not sell directly to Namibian metal manufacturers.

Namibian steel traders mainly buy reinforced steel from South African steel merchants and sell to construction companies, after performing minor processing in the form of cutting and bending, i.e. local metalworking service activities. According to the metal fabrication survey conducted by the Ministry of Trade and Industry in 2016, Namibian companies are involved in manufacturing industrial steel and aluminium products mainly for the construction sector. Most structures and goods fabricated for this use are made according to customer specifications. Construction-related metal manufacturing activities are part of ISIC Division 25. A number of companies also provide metalworking services to other companies in order to maximise the use of their equipment. Services include cutting, bending and blasting of metal products using

advanced equipment such as laser cutters (also covered by ISIC 25, specifically 2590). Overall, the bulk of metal fabrication products in Namibia are destined for the construction sector.

Metal fabrication companies also adapt implements for the agricultural sector, such as ripper-furrowers or hammer mills for millet rather than maize, to specific Namibian conditions and needs. As pointed out in the industry definition, this is an overlap between activities covered by ISIC divisions 25 and 28. This market segment is relevant in particular for the smaller, non-specialised companies across the country. Some of Namibia's metal fabrication companies are also involved in manufacturing parts and accessories for motor vehicles, particularly bull bars, tow bars and trailers. These economic activities are part of ISIC Division 29 (2920 and 2930).

According to metal fabricators growth strategy (2016), not only has the range of end uses increased over recent years, but so has the range of products manufactured locally. Products such as palisades, light steel frames, garage doors and roof sheets are now manufactured in Namibia. Some companies have moved from more basic manufacturing activities, such as producing roll bars and tow bars, to more advanced stages, such as manufacturing roof trusses.

Based on the survey results, most companies are considering expanding their businesses because of growing domestic demand and because they plan to produce new items such as nails and screws. A few enterprises see additional export opportunities. The demand for additional bulk water infrastructure could provide an opportunity for manufacturing water pipes. The viability of producing, for instance, poles for road signs or guard rails for the increasing road network should also be investigated. Producing fiber cement boards to fill steel frames could be considered, though the current demand might still be too low. However, it would extend the value chain of cement production and link it to metal fabrication.

Overview Of The Company



Windhoek Maschinen Fabrik (1998) (WMF 1998) was incorporated in August 1998. The company was established to carry on the functions of manufacturing and engineering and to carry out research and development on behalf of the Ministry of Defence. Throughout the years the company's core business was;

- Manufacturing of armored vehicles
- Servicing of agricultural equipment and vehicles
- Metal fabrication and boiler making

The company has gone through significant managerial and subsequently, performance challenges. For a long time, the organization functioned without a board of directors which greatly affected the operations of the company. Over the years due to management changes and leadership gaps the company slid into insolvency and has accumulated huge debts. The operational scope of the company has been greatly reduced due to lack of funding and competition. The company at the moment is technically insolvent and needs a turnaround strategy to resuscitate the operations of the company and return it to its former glory.

WMF Corporate Turnaround Plan

Strategy overview and strategic map

The Turnaround Strategy is developed by WMF to ensure its recovery, stability, and sustainability to enable the organisation to deliver on its mandate. The WMF is operating in an increasingly competitive environment that is evolving with the adoption of latest equipment and technology and a new creative economy. WMF needs to adapt, change and respond accordingly to these market externalities. The Turnaround Strategy is aimed at returning the organisation to a reputable steel fabrication and general engineering company with a sustainable business model.

The key objective is to ensure WMF's financial viability, strengthen its governance controls and meet its customer requirements through innovative products and service excellence.

Whilst strides have been made in the implementation of initiatives that resulted in temporary stabilisation of the organisation, most of these interventions have not yielded sustainable results. The focus of the turnaround plan is, rebuilding and realigning the operating business model to meet the current and future challenges. In order to achieve this the following strategic thrust was develop;

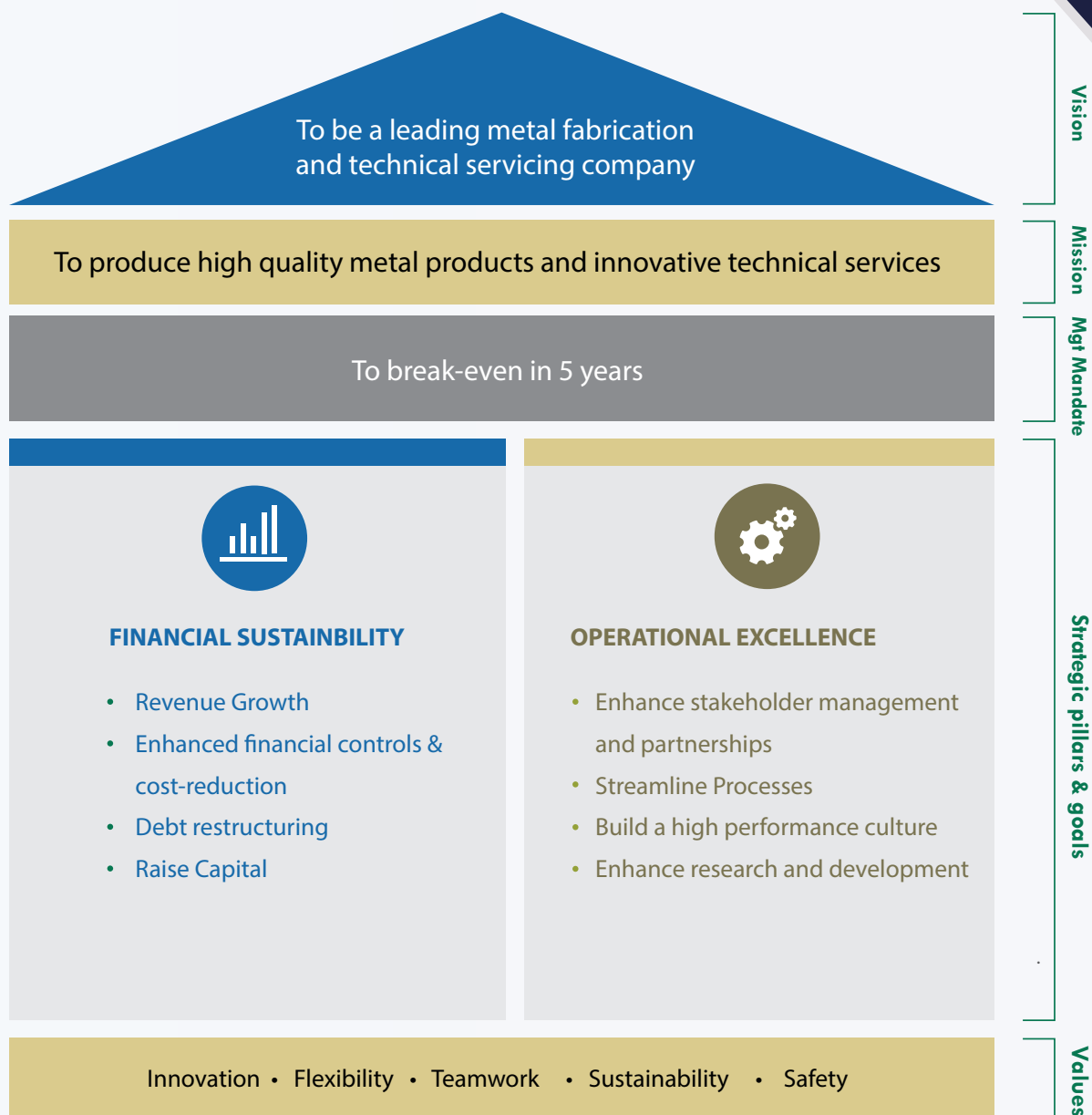


Figure 2: strategy overview and strategic map

VISION AND MISSION

VISION

“To be a leading metal fabrication and technical services company”.

MISSION

“To provide innovate products that are backed up by quality service”.

WMF through implementation of this strategy seeks to fulfill the aspirations of staff members, restore confidence in the brand and meet all stakeholder expectations. Through own resources and strategic partners, WMF seeks to return to solvency within 5 years. 2 strategic pillars and 9 strategic objectives were identified as focus areas during the strategic period.

CORE VALUES

WMF core values express the aspiration to achieve high levels of innovation and flexibility in delivering its mandate, to build a culture of teamwork that will bring out the best in each individual, to focus on sustainability, and to place priority on safety.

Innovation

We endeavor to provide cutting edge products and services to our customers.

Flexibility

WMF will be highly responsive to market demands and will always align the business to the contemporary demands of the market

Teamwork

We all belong to WMF family and each one's contribution is linked to the other, hence working together is not optional in delivering on our mandate

Sustainability

Our focus is to build a business that surpasses generations through diligent application and ensuring that decisions made today will enhance the future position of the business

Safety

We adopt a zero-tolerance policy to injury in the workplace. Employee wellness is a critical enabler of productivity hence safety of our staff and customer is central to our business model

Governance and Reporting

WMF will be guided by the King 4 report on Corporate Governance and the NAMCODE code of ethics and Governance. The WMF board will report to the August 26 holdings board while the WMF Managing Director will report to the Chairperson of the WMF board. From time to time the Managing Director will make contact with the Chief Executive Officer of August 26 holdings on operational matters. The chairperson of WMF will sign the shareholder compact on behalf of the WMF board. The shareholder compact will outline the relationship between WMF and the shareholder representative (August 26 Holdings).

The board of directors are ultimately accountable to the operations of the company. The board will develop a board performance management system to evaluate its performance and that of its committees. The board will also constitute the following committees;

- Audit and Risk Committee
- Remuneration and Nomination Committee
- Procurement Committee
- Strategy Execution Committee

These committees will ensure adequate attention is given to all matters affecting the company.



Figure 3: WMF Governance reporting structure

Strategic Pillar 1: Financial Sustainability

Strategic Outcome: Return WMF To Solvency By 2025

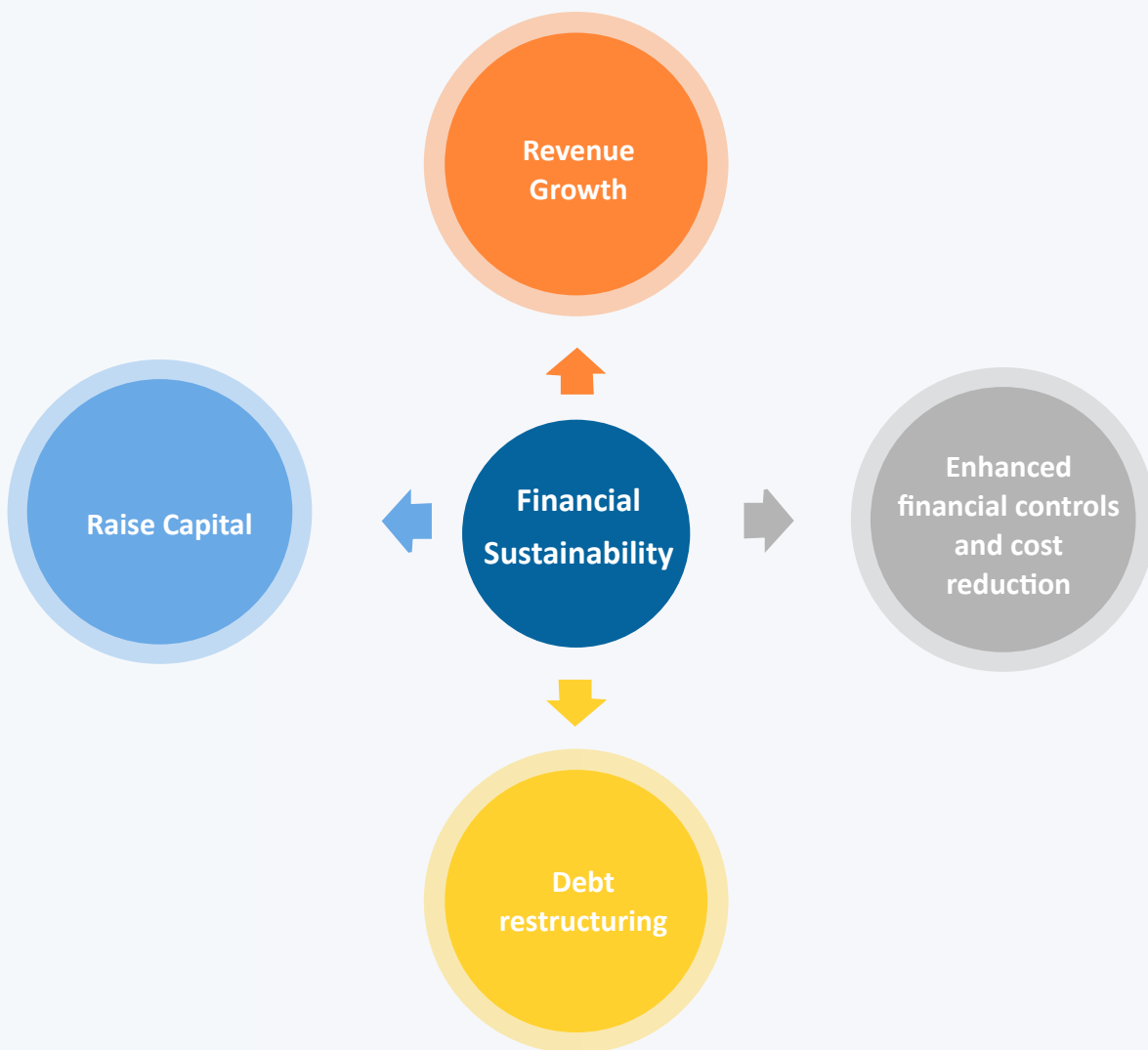


Figure 4: Strategic pillar 1 and objectives

Debt Restructuring

WMF is currently saddled with ballooning debt. The current debt is N\$44.9 Million. Of the N\$44.9 Million, N\$32.7 Million is owed to August 26 Holdings in the form of a loan, debt towards employees N\$1.4 Million, the overdraft now turned to a loan is N\$7 Million, creditors N\$2.1 Million, lastly the receiver of revenue is owed N\$1.7 Million which could potentially increase due to penalties and interest.

Central to this turnaround strategy is for August 26 Holdings to write off this debt.

Writing off this debt will free WMF of the largest chunk of institutional debt. Through strategic engagement with creditors and technical partners, WMF endeavors to restructure the remaining debt and pay it off.

Raise Capital

WMF will raise capital through shareholder investment and alternative sources of funding. Engagement of new equity funders, strategic partnerships, angel investors and institutions such as pension funds will be deployed in order to raise capital.

Enhanced financial controls and cost reduction

Financial controls are processes, policies and procedures that are implemented to manage finances. They play a role in achieving an organization's financial goals and meeting obligations of corporate governance, fiduciary duty and due diligence. The following controls will be revised and tightened;

- Accounting standards
- Financial statements (timely and accurate delivery of income statements, cash flow statements balance sheets etc.)
- Operating metrics (such as productivity, operating profit, resource and equipment utilization) will be produced monthly
- Policies (policies will be put in place in areas such as general ledger, chart of accounts, reconciliations, resource utilization, inventory, invoicing, pricing, quoting and asset management)
- Segregation of duties
- Reconciliations (reconciliations such as bank statements to general ledger)
- Responsibilities (Clear allocation of responsibilities to persons)
- Approvals and delegation of authority
- Validation of disbursements e.g. payroll
- Information security

Management will deploy cost control and cost reduction. Cost Control is a technique which makes available the necessary information to the management that actual costs are aligned with the budgeted costs or not. Cost Reduction is a technique used to save the unit cost of the product without compromising its quality. Cost avoidance and cost savings approaches will also be deployed.

Revenue growth

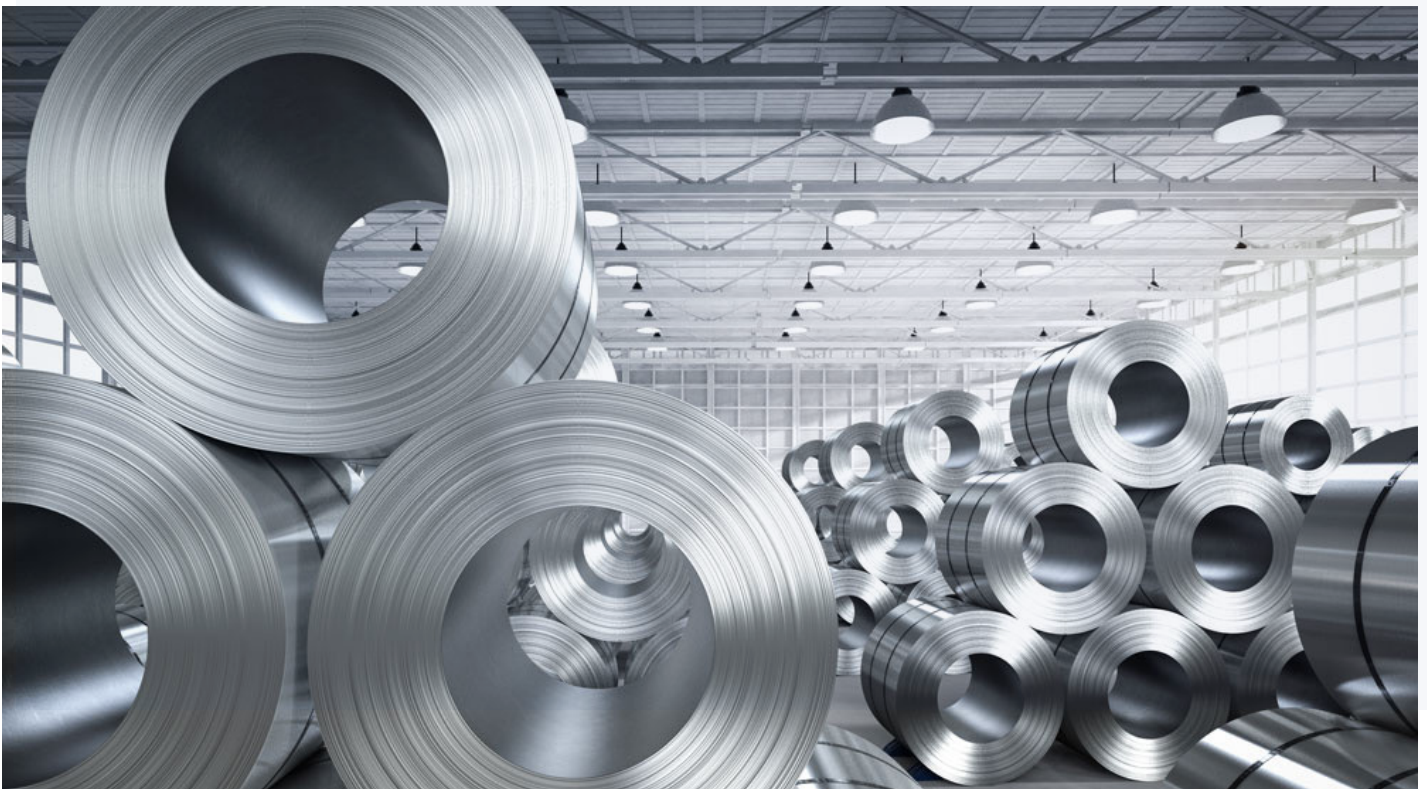
Our revenue generation strategy is anchored on 3 strategies;

- Increase the number of customers.
- Increase the average transaction size.
- Increase the frequency of transactions per customer

Product and market diversity will be critical elements of the revenue growth strategic objective. WMF will develop new products and services and penetrate new markets locally and abroad. Through variable deployment of these strategies WMF envisages a significant increase in revenue in the strategic period.

WMF will develop a comprehensive business development strategy supported by practical marketing tools such as;

- Developing an online sales platform
- Developing a new user-friendly website
- Rebranding and increased brand awareness
- Aggressive advertising and marketing



Strategic Pillar 2; Operational Excellence

Strategic Outcome: Deliver Quality Products And Services



Figure 5: Strategic pillar 2 and strategic objectives

Build a high-performance Culture

Organisational culture is a catalyst for organizational success. WMF will deploy organizational development techniques to improve organizational culture and focus on developing a high-performance culture. Some of the organizational development initiatives to be deployed will be;

- Change management
- Teambuilding
- Establishment of a performance management system

- Training and development
- Leadership coaching and mentoring

The development of a high-performance culture will be central to the turnaround plan.

Streamline processes

A thorough and exhaustive business process reengineering of all core processes (production, pricing, invoicing, business development etc.) will be conducted to audit all core processes and reengineer them to eliminate waste and slack.

Enhance stakeholder engagement and partnerships

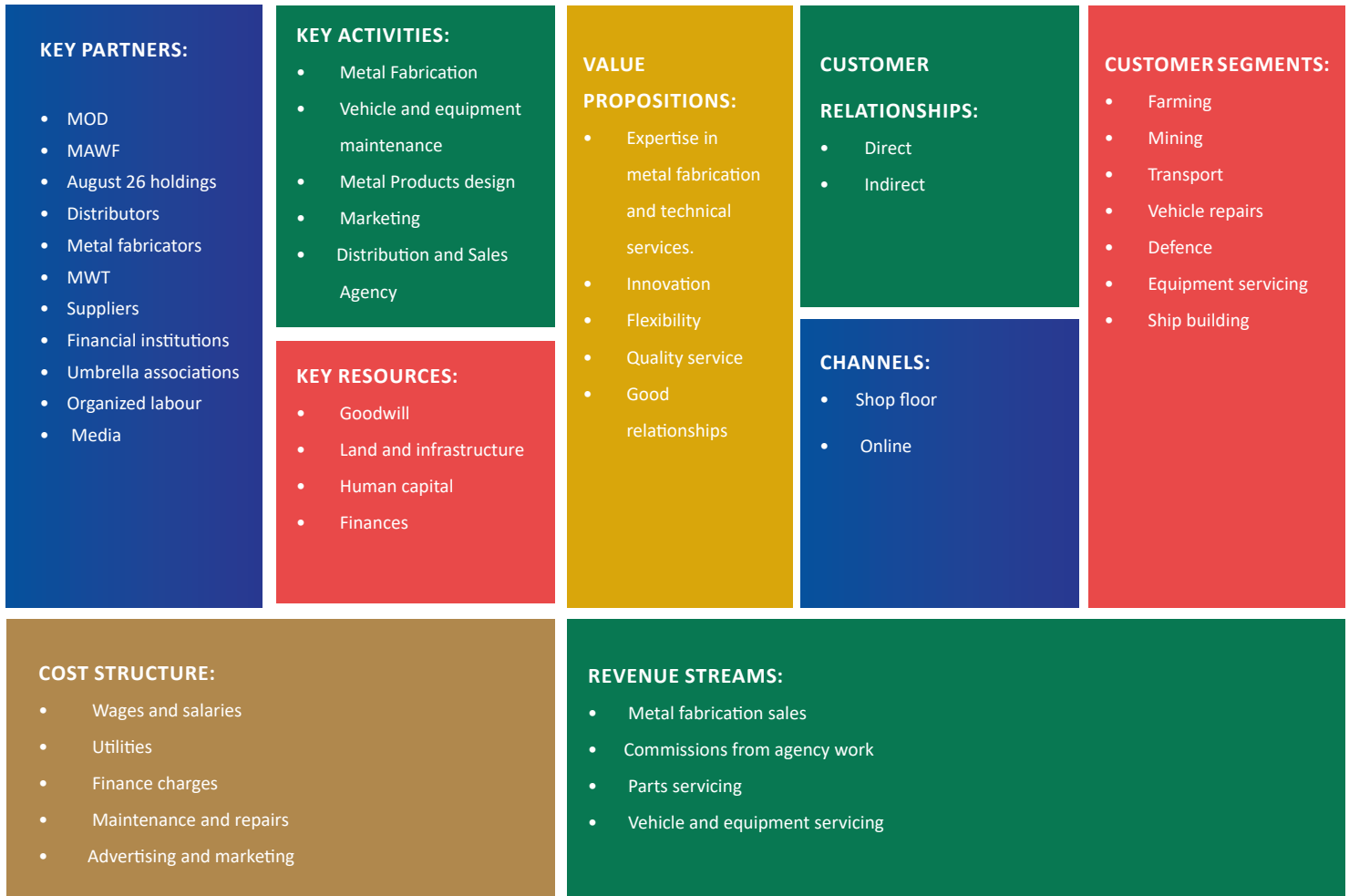
A comprehensive stakeholder engagement strategy will be deployed indicating the nature and frequency of stakeholder engagement. WMF will enter into partnership with various stakeholders leveraging on their goodwill. Partnerships in agency, distribution, technical, sales, marketing etc. will form a cornerstone of this turnaround. Collaboration with like-minded institutions will be a central component of the turnaround strategy. All stakeholders as identified in the operating model will be engaged to extract value.

Enhance research and development

Research and development is listed as a core mandate area for WMF. WMF will partner with Ministry of Defence and other institutions to carry out research and development. This will enable WMF to tap into these institutions research and development budget and increase revenue. Where WMF lacks the technical competency in-house they will source externally and enter into a joint venture to deliver the research to the clients.

WMF Business Model

WMF will adopt the following business model;



WMF HIGH LEVEL STRUCTURE

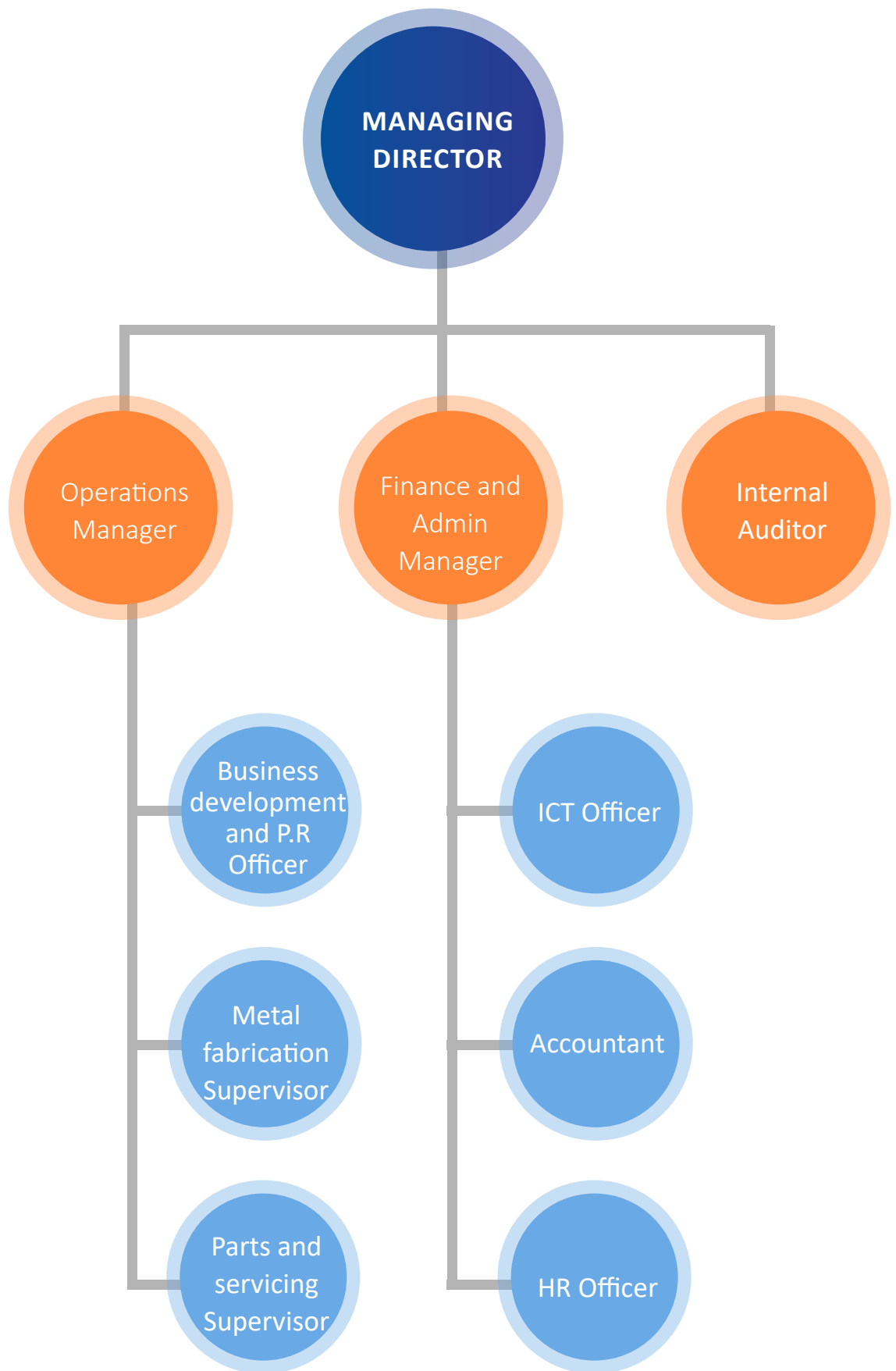


Figure 6: WMF corporate structure

Critical Success Factors

In order to ensure the success of the turnaround strategy the following factors must be prioritised and addressed;

- Writing Off N\$32.7 Million debt by August 26 Holding Company
- Tightening financial controls and reduce
- Deploying a change management programme
- Adopt outsourcing strategy where there is limited internal capacity
- Introducing a rigorous performance management system
- Training staff members
- Reviewing and aligning all corporate policies
- Raising capital for retooling, purchasing new equipment to boost operations
- Developing an expansive business development strategy.

Strategy Implementation & Monitoring

70% of well drafted strategies fail to produce envisaged results due to non or partial implementation. In order to ensure implementation of this plan, a performance management system will be implemented which will ensure the following interventions will be deployed;

- Annual plan development
- Departmental and individual performance agreements are developed
- Quarterly performance review and reports
- Annual performance review and reports

The Board of Directors will monitor and evaluate the implementation of this plan.

WMF 5 Year Corporate Scorecard

Strategic Theme	Strategic Objective	Key Performance Indicator (KPI)	Indicator Definition	Indicator Type	Base-line	Targets					ACTIVITIES	Budget (Mln)	
						Y1 2020/21	Y1 2021/22	Y1 2022/23	Y1 2023/24	Y5 (2024/25)		Operational	Developmental
FINANCIAL SUSTAINABILITY	Revenue growth	% Growth	Growth in revenue expressed as a percentage	Absolute	-32%	-17%	-17%	-17%	20%	25%	Technical agreements (MWT, MAWF, Metal Fabricators); Sales (Military vehicles); Part sales; Marketing; Trailers; Service campaigns (Tractors); Product & service diversification (mobile teams)	1.0	
	Enhanced financial controls and cost-reduction	% reduction	Reduction of audit queries referring to financial controls expressed as a %	Incremental	0	50	70	90	100	0	Engage an Auditor, develop and implement audit programme,	5.0	
		% reduction	Reduction in costs expressed as a percentage of total cost	Incremental	0	20	20	10	10	0			
	Raise Capital	N\$ Mil	Total amount raised in NAD (Millions)	Absolute	0	20	10	7	5	5	Retrenchments, Renegotiate contracts, flexible hours, cost cutting measures for admin costs	2.0	
	Debt restructuring	% reduction	Reduction in debt expressed in %	Absolute	0	15	10	10	10	10	Engage angel investors, Enter into strategic partnerships, Engage financial institutions	10.0	
OPERATIONAL EXCELLENCE	Enhance stakeholder management and partnerships	# of agreements	# of partnership agreements signed in core functions	Absolute	0	2	2	2	2	2	Renegotiate payment terms, service debts, Request for debts to be written off, engage strategic partners	2.0	
	Enhance Research and development	# of projects	Number research and development projects implemented	Absolute	0	0	1	0	0	1	Sign agreements with suppliers, distributors, technical partners and other key stakeholders, Engage MoD to carry out research & development.	3.0	
	Streamline processes	# processes	Number of core processes reengineered	Absolute	0	3	3	3	3	3	Identify core processes and reengineer (sourcing, production, finance, pricing, invoicing, business dev, customer service, security)	5.0	
	Enhance Human Capital	% trained	total number of staff members trained expressed as a %	Absolute	0	25	20	15	10	5	Identify training institution In service training Outsourcing of expertise For on-the-job training	5.0	
	Strategy execution	% execution	Minimum rate of execution of strategy expressed as a percentage of achieved targets divided by total targets	Absolute	0	60	75	85	90	95	Teambuilding, Change management, performance management	5.0	
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Bibliography

Metal fabricators growth strategy 2016

Approvals

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