



TRANSACTION CAPITAL LIMITED
(Incorporated in the Republic of South Africa)
(Registration No. 2002/031730/06)
ISIN: ZAE00167391
JSE share code: TCP
("Transaction Capital" or the "Company")

Bayport Management Limited
(Incorporated in Mauritius)
(Registration No. 54787 C1/GBL)
("BML")

TERMS ANNOUNCEMENT RELATING TO THE DISPOSAL OF BAYPORT FINANCIAL SERVICES 2010 PROPRIETARY LIMITED AND ZENTHYME INVESTMENTS PROPRIETARY LIMITED TO BAYPORT MANAGEMENT LIMITED, A COMPANY INCORPORATED IN MAURITIUS AND LISTED ON THE STOCK EXCHANGE OF MAURITIUS

1. INTRODUCTION

1.1. Transaction Capital shareholders are advised that –

1.1.1. Transaction Capital currently owns 82.65% of the issued share capital of each of Bayport Financial Services 2010 Proprietary Limited ("**BFS**") and Zenthyme Investments Proprietary Limited ("**Zenthyme**");

1.1.2. Transaction Capital has entered into a sale of shares agreement (the "**Minority Buy-Out Agreement**") with the Trustees of The Stuart Stone Family Trust, Grant Kurland, Martin Freeman, Justin Chola and Suganthran Govender (collectively the "**Minorities**"), BFS and Zenthyme in terms of which agreement Transaction Capital will acquire from the Minorities all the issued shares in BFS and Zenthyme held by the Minorities on the same terms and conditions (including the price), *mutatis mutandis*, contained in the Agreement (defined in paragraph 1.1.3 below) such that on the implementation of the Minority Buy-Out Agreement, BFS and Zenthyme will become wholly owned subsidiaries of Transaction Capital and on the basis that delivery of shares will occur before the implementation of the Agreement (defined in paragraph 1.1.3 below) while payment of ZAR279 728 040 (plus an amount equal to 17.35% of the notional interest envisaged in paragraph 2.5) by Transaction Capital to the Minorities for such shares will occur following receipt by Transaction Capital of the consideration set out in paragraph 2.5 below;

- 1.1.3. contemporaneously with the signature of the Minority Buy-Out Agreement, Transaction Capital has also entered into an agreement ("**Agreement**") with BFS, Zenthyme and BML, pursuant to and in terms of which BFS and Zenthyme will, subject to the fulfilment or waiver of the conditions precedent specified in the Agreement ("**Conditions Precedent**"), and after implementation of the Minority Buy-Out Agreement, become wholly owned subsidiaries of BML,
- (collectively the "**Proposed Transaction**").

The Minority Buy-Out Agreement and the Agreement are conditional on one another and accordingly indivisibly linked.

The salient features of the Proposed Transaction, including the material Conditions Precedent are set out below.

2. **SALIENT FEATURES OF THE PROPOSED TRANSACTION**

2.1. **Particulars of the Proposed Transaction**

- 2.1.1. The subject matter of the Proposed Transaction is all the issued ordinary shares in BFS and Zenthyme.
- 2.1.2. Upon implementation of the Proposed Transaction –
- 2.1.3. BFS and Zenthyme will become wholly-owned subsidiaries of BML;
- 2.1.4. Transaction Capital will receive the consideration set out in paragraph 2.5 below and
- 2.1.5. The Minorities will receive ZAR279 728 040 (plus an amount equal to 17.35% of the notional interest envisaged in paragraph 2.5).

2.2. **Rationale for the Proposed Transaction**

- 2.2.1. The origin of Bayport was the establishment by Messrs Stuart Stone ("**Stone**") and Grant Kurland ("**Kurland**") of a mass market unsecured credit provider in 2001.
- 2.2.2. Operating as BML, the founders expanded into 4 African countries and in 2005, on expiry of their restraint from operating in the country, entered the South African market and established BFS.

- 2.2.3. In 2010, consistent with its strategic objective to acquire and grow niched financial services businesses, Transaction Capital acquired 82.65% of BFS for an enterprise value of ZAR650 000 000, with the balance of the shareholding remaining with the founders and management. At the time this presented the potential for a later acquisition of BML by Transaction Capital and the re-integration of the two businesses under the management of the founding partners.
- 2.2.4. The following developments since then have persuaded Transaction Capital to alter this view:
- 2.2.4.1. negative sentiment around the unsecured lending sector, has caused the market to ignore the specific outperformance of BFS, which has grown steadily, improving its differentiated strategy, executive calibre, governance and quality of earnings under Transaction Capital's stewardship and the leadership team assembled by Stone;
 - 2.2.4.2. BML has expanded steadily into 6 African countries and Colombia, while developing the management infrastructure required to manage and control a global emerging market lender. This endeavour has been supported by a diverse group of international debt capital investors through BML's listed bond issuances on the Swedish Stock Exchange, and by new equity from Investment AB Kinnevik, the renowned Swedish emerging market investor, and from funds advised by Helios Investment Partners, one of the largest pan-African private equity investment firms which recently committed to a USD100 000 000 equity investment into BML. Together these two major investors will own over 50% of BML;
 - 2.2.4.3. BML has concluded that the growth and progress of the combined entity will be facilitated by its independence, with a focussed management team accountable directly to its international and local equity and debt investors for performance.
- 2.2.5. The feasibility of Transaction Capital acquiring BML has been further challenged by the following factors that would dilute Transaction Capital shareholder value:
- 2.2.5.1. Relative Valuations: By virtue of its footprint and performance in high growth African economies, BML has higher earnings and a higher rating than BFS.

2.2.5.2. Cost of Equity: raising new equity at Transaction Capital's current PE multiple would be dilutive.

2.2.5.3. Unsecured lending contribution: Given the recent disposal of Paycorp, the acquisition of BML would increase Transaction Capital's participation in unsecured lending to over 65% of headline earnings. Notwithstanding the consequent international diversification, Transaction Capital's mainly South African shareholders would view this as a diminution of risk adjusted returns.

2.2.6. Following due consideration of the above issues, the board of Transaction Capital elected to forego its initial ambition to acquire BML and to consider the sale of BFS and Zenthyme to BML.

2.2.6.1. This decision is consistent with Transaction Capital's frequently espoused view that it is obliged to consider disposing of a subsidiary if the performance of that subsidiary can be enhanced by another owner, as reflected in a fair price.

2.2.6.2. The enhancement of performance by BML will result from the combined entity realising strategic, operational and financial synergies as an independent global group, under the uninterrupted management of Kurland and Stone as the chief executives of BML and BFS respectively, while funding organic and acquisitive growth with the support of local and international debt and equity investors, all well established in emerging markets.

2.2.6.3. The Proposed Transaction has been concluded at an enterprise value of approximately ZAR1 610 000 000, or ZAR1 330 000 000 for Transaction Capital's 82.65% share of BFS and Zenthyme, representing 1.5 times book value (based on the net asset value as at 31 March 2013) and a 7.15 PE ratio (based on headline earnings for the rolling 12 month period ended 31 March 2013), both considered acceptable by the Transaction Capital board.

2.3. **Overview of the business of BFS and Zenthyme**

The business conducted through BFS (and its subsidiaries) and Zenthyme includes the provision of unsecured credit and related products, cellular handset and airtime subscription agreements and related products, to historically under-served low to middle income individuals in South Africa. The business provides clients with personalised and direct

access to credit, by originating retail loans through a wide distribution network of approximately 2 211 mobile, commission earning independent agents; operating out of 56 branches and 33 kiosks at selected South African Post Office outlets nationwide and backed by three call centres. BFS primarily funds itself via Bayport Securitisation (RF) Limited and its JSE listed ZAR10 000 000 000 Asset Backed Note Programme.

On implementation of the Proposed Transaction, Mr David Woollam will be appointed non-executive chairman of BFS.

2.4. **Overview of the business of BML**

BML is a leading provider of unsecured credit and financial solutions to the formally employed mass markets in emerging markets in Africa (Zambia, Ghana, Uganda, Tanzania, Botswana and Mozambique) and Latin America (Colombia). Today, BML services over 270 000 customers (total loan portfolio of approximately USD 400 million) through 289 branches, with the support of 3 300 employees. BML has further developed a broad global debt and equity investor base (refer 2.2.4.2 above) and wide relationships with multinational and domestic banks and insurance and pension funds in its markets of operation and in Scandinavia.

2.5. **The consideration and application of the net consideration**

2.5.1. The consideration to be received by Transaction Capital for the disposal of its 100% interest in BFS and Zenthyme (after implementation of the Minority Buy-Out Agreement) amounts to ZAR1 612 265 361 plus an amount equal to notional interest (calculated thereon from 1 January 2014 until the day immediately preceding the date on which the Agreement is implemented at a rate of 0.9%, calculated daily and compounded monthly in arrears) (the “**consideration**”) and will be settled in cash by BML on the implementation of the Agreement. Two wholly-owned subsidiaries of Transaction Capital will retain a claim on loan account against BFS amounting to ZAR215 000 000 in aggregate, repayable on the second anniversary of the effective date of the Proposed Transaction

2.5.2. The consideration less the amount payable to the Minorities under the Minority Buy-Out Agreement will be applied for the purpose of delivering shareholder value through strategic acquisitions and/or capital management initiatives.

2.6. **Categorisation**

The Proposed Transaction is categorised as a category 1 transaction for Transaction Capital in terms of the Listings Requirements.

2.7. Effective date of the Proposed Transaction

The effective date of the Proposed Transaction is the last day of the month in which the last of the Conditions Precedent (other than the material adverse change condition envisaged in paragraph 2.10 below) is fulfilled or waived, as the case may be.

2.8. Related party transaction and Independent Professional Expert opinion

2.8.1. The Proposed Transaction is a related party transaction, as envisaged in the JSE Limited ("**JSE**") Listings Requirements ("**Listings Requirements**").

2.8.2. The relevant related parties vis-à-vis Transaction Capital are –

2.8.2.1. the Kimberly Investment Trust;

2.8.2.2. the Rutland Trust;

2.8.2.3. the Sugar Tube Trust;

2.8.2.4. the Stuart Stone Family Trust;

2.8.2.5. Justin Chola; and

2.8.2.6. Kurland.

(collectively the "**Related Parties**").

2.8.3. The Related Parties will not have a vote at the general meeting referred to in paragraph 4 below.

2.8.4. The details of the Related Parties are as follows -

2.8.4.1. Messrs Jawno, Mendelowitz and Rossi are directors of Transaction Capital and BFS. Messrs Jawno, Mendelowitz and Rossi are also contingent discretionary beneficiaries of the Kimberly Investment Trust, the Rutland Trust and the Sugar Tube Trust, respectively. Each trust holds 14.11% of the issued ordinary shares in Transaction Capital and are accordingly material shareholders of Transaction Capital;

2.8.4.2. Mr Jawno is also a director of BML;

- 2.8.4.3. Messrs Jawno, Mendelowitz and Rossi are also contingent beneficiaries of certain other trusts which hold an indirect interest in BML. Accordingly, Messrs Jawno, Mendelowitz and Rossi also have contingent indirect interests in BML;
- 2.8.4.4. Stone, who is a director of BFS and BML, is also a contingent discretionary beneficiary of the Stuart Stone Family Trust, which trust holds a 1.20% interest in Transaction Capital and has a contingent indirect interest in BML. He is also a vendor in the Minority Buy-Out Agreement:
- 2.8.4.5. Kurland, who is a director of BFS and BML, holds a 1.15% interest in Transaction Capital and has a contingent indirect interest in BML. He is also a vendor in the Minority Buy-Out Agreement; and
- 2.8.4.6. Mr Chola, who is a director of BFS and BML, holds a 0.04% interest in Transaction Capital and is a shareholder in BML. He is also a vendor in the Minority Buy-Out Agreement.
- 2.8.5. In terms of paragraph 10.4(f) of the Listing Requirements, the board of directors of Transaction Capital (the “**Board**”) must obtain a fairness opinion from an independent professional expert. Accordingly, the Board has appointed Grant Thornton Advisory Services Proprietary Limited as the independent professional expert to provide an opinion on the fairness of the Proposed Transaction.
- 2.8.6. The above-mentioned fairness opinion will be included in the circular and notice of general meeting referred to in paragraph 4 below.

2.9. **Other significant terms of the Proposed Transaction**

The Company has provided BML with warranties customary for a transaction of this nature, subject to customary limitations as to the period during which claims may be brought and customary thresholds for the capping of claims.

2.10. **Conditions Precedent**

The Proposed Transaction is subject, *inter alia*, to the fulfilment or waiver (where appropriate), as the case may be, of the following material Conditions Precedent, namely -

- 2.10.1. BML concludes agreements to raise funds to enable it to discharge the consideration to be paid by it under the Agreement and such agreements

become unconditional in all respects in accordance with their respective terms, save for any condition relating to the Agreement becoming unconditional;

- 2.10.2. BFS obtains the prior written consent of at least 75% of the note holders of Bayport Securitisation (RF) Limited for the change of shareholding in BFS arising from the implementation of the Agreement and the Minority Buy-Out Agreement;
- 2.10.3. to the extent required, the parties obtain all statutory and/or regulatory approvals (or deemed approvals) or waivers, as the case may be, required for implementation of the Proposed Transaction from, inter alios, the South African competition authorities (as may be required or provided for in terms of the Competition Act, 1998), the South African Reserve Bank, the JSE Limited (including approval of the circular to the shareholders of Transaction Capital in accordance with the JSE Listings Requirements) and the Takeover Regulation Panel established in terms of section 196 of the Companies Act, 2008;
- 2.10.4. insofar as may be necessary, the board of directors and/or the shareholders of each of BFS, Zenthyme and Transaction Capital pass such resolutions, including, without limitation, such resolutions as may be required in terms of the Listings Requirements and the Companies Act, 2008, to authorise and implement the Proposed Transaction.

It is also a Condition Precedent that there will be no material adverse change as notified either by Transaction Capital or BML (as the case may be) between the signature date of the Agreement and three business days before the Effective Date.

In addition, if the Proposed Transaction is not implemented in accordance with the terms of the Agreement by the later of 31 March 2014 and the final determination of any dispute as to whether a material adverse change has occurred, then unless otherwise agreed by the parties to the Agreement, the Agreement will terminate.

3. **UNAUDITED PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION**

The unaudited pro forma financial effects of the Proposed Transaction set out below have been prepared to assist Transaction Capital's shareholders in assessing the impact of the Proposed Transaction on the Transaction Capital Group's historical diluted earnings per share ("**EPS**") and diluted headline earnings per share ("**HEPS**"). The pro forma financial effects are the responsibility of the directors of Transaction Capital and are provided for illustrative purposes only. The pro forma financial effects have been prepared on the basis that the Proposed Transaction had been fully implemented on 1 October 2012 for purposes of the Income Statement and at 31 March 2013 for

purposes of the Statement of Financial Position. It does not purport to be indicative of what the consolidated financial results would have been had the Proposed Transaction been implemented on a different date. The material assumptions are set out in the notes following the table below. Due to their nature, the pro forma financial effects may not fairly present the financial position, changes in equity, results of operations or cash flows of the Transaction Capital Group after the implementation of the Proposed Transaction.

	Before the Proposed Transaction ¹	Impact of the Proposed Paycorp Holdings (Pty) Ltd Transaction ²	Impact of the Proposed Transaction ³	Impact after both the Paycorp transaction and the Proposed Transaction	Percentage change
EPS (ZA cents)					
- Diluted	39.9	70.5	78.9	189.3	374.4%
- Basic	39.9	70.5	78.9	189.3	374.4%
HEPS (ZA cents)					
- Diluted	39.9	(2.2)	(13.6)	24.1	(39.6%)
- Basic	39.9	(2.2)	(13.6)	24.1	(39.6%)
Net asset value per ordinary share (ZA cents)	527.6	71.7	56.3	655.6	24.3%
Net tangible asset value per ordinary share (ZA cents)	362.9	131.1	127.7	621.7	71.3%
Weighted average number of shares in issue* (million)					
- Diluted	583.80	583.8	583.8	583.8	-%
- Basic	583.80	583.8	583.8	583.8	-%
Headline earnings (ZA Rm)	233	(13)	(79)	141	(39.6%)

¹ The "Before the Proposed Transaction" financial information has been extracted, with the exception of net tangible asset per share without adjustment, from the Transaction Capital Group's published reviewed interim results for the six months ended 31 March 2013.

² The pro forma "Impact of the Proposed Paycorp Holdings (Pty) Ltd Transaction" financial information comprises the financial information adjusted for the following principal assumptions:

- value of net assets that are the subject of the transaction: R170 million as at 31 March 2013
- profits attributable to the net assets that are the subject of the transaction: R28 million for the 6 months ended 31 March 2013

³ The pro forma "Impact of the Proposed Transaction" financial information comprises the financial information adjusted for the following principal assumptions:

- value of net assets that are the subject of the transaction: R1 067 million as at 31 March 2013, Transaction Capital's share thereof being R882 million
- profits attributable to the net assets that are the subject of the transaction: R89 million for the 6 months ended 31 March 2013

4. CIRCULAR AND NOTICE OF GENERAL MEETING

A circular giving Transaction Capital shareholders full details of the Proposed Transaction and containing a notice convening a general meeting of Transaction Capital shareholders to approve the resolutions required to authorise the Proposed Transaction and ancillary matters will be distributed to Transaction Capital shareholders in due course.

Johannesburg
23 October 2013

Sponsor to Transaction Capital:



Legal advisors to Transaction Capital:



Independent Professional Expert to board of directors of Transaction Capital:



Independent auditors and reporting accountant on the unaudited *pro forma* financial information of Transaction Capital:



Tax advisors to Transaction Capital:



Corporate advisors to BML

hyde park capital

South African legal advisors to BML

BG Bowman Gilfillan

International legal advisors to BML

BLP BERWIN
LEIGHTON
PAISNER

Swedish debt advisors to BML

Gernandt & Danielsson