



Transaction Capital Limited

(Incorporated in the Republic of South Africa)

Registration number: 2002/031730/06

JSE share code: TCP

ISIN: ZAE000167391

("Transaction Capital")

CATEGORY 2 TRANSACTION: ACQUISITION OF RECOVERIES CORPORATION GROUP LIMITED IN AUSTRALIA AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Transaction Capital is pleased to advise that a newly established wholly-owned subsidiary (the "Purchaser"), has, together with Transaction Capital, entered into a Sale of Shares Agreement (the "Agreement") in terms of which it will acquire the entire issued share capital of DLJ Holding Co Pty Ltd ("DLJ Holdco"), which owns 100% of Recoveries Corporation Group Limited in Australia (collectively, together with their subsidiaries, "Recoveries Corporation Group") and will capitalise Recoveries Corporation Group by way of a subscription for shares (the "Transaction"). The shares will be acquired from Denat Custodians Pty Ltd ATF Denat Custodians Superannuation Fund, The Incentive Place Pty Ltd ATF Denat Trust, MIG Pty Ltd ATF D&B Family Trust, Plaza Assets Pty Ltd ATF MIG Superannuation Fund and John Andrew Wauchope & Julie-Anne Wauchope AJTF Wauchope Superannuation Fund (collectively "the Vendors"), the direct and indirect beneficiaries of which are the founders and current executives of Recoveries Corporation Group, namely Mr David Mond and Mr Leon Sholl, as well as Recoveries Corporation Group's chairman, Mr John Wauchope (collectively "the Sellers").

Founded in 1991 in Melbourne Australia, Recoveries Corporation Group provides consumer customer management solutions to a well-diversified blue-chip client base within the government, insurance, banking and finance, utilities and telecommunications market sectors within Australia. Services include debt recovery solutions (including early stage rehabilitation, late stage collections and legal recoveries), insurance claims recoveries (including claims recoveries and claim file audits), customer services (including reminder calls for pre-collection, courtesy calls, payment arrangement reminders and demand calls), and litigation management via its legal firm, Mason Black Lawyers.

Recoveries Corporation Group employs approximately 600 staff members in its Australian operations in Melbourne and Sydney, and its near shore call centre and corporate services centre in Suva, Fiji.

2. RATIONALE FOR THE ACQUISITION

Transaction Capital's strategy is to drive organic and acquisitive growth within its divisions, by enhancing and developing their distinctive competencies to achieve deep vertical integration within current market segments, and then leveraging these competencies to create new positions within adjacent markets.

The Transaction aligns with Transaction Capital's acquisitions strategy to selectively target quality assets operating within its existing or adjacent market segments that will enhance Transaction Capital's capabilities, and whose competitiveness and value can be maximised through Transaction Capital's involvement. Furthermore, whilst local opportunities have been evaluated, Transaction Capital has also considered opportunities in developed international economies generating hard currency returns, which would diversify Transaction Capital's risk. Transaction Capital has conservatively applied these investment criteria when evaluating this acquisition, more specifically as:

- 2.1. on a standalone basis, Recoveries Corporation Group conducts a high quality business generating predictable earnings with high cash conversion rates and strong organic growth prospects from a blue-chip client base. Recoveries Corporation Group is a leading Australian debt collector, serving a broad client base diversified across the Australian government, insurance, banking, utilities and telecommunications market sectors. The trend to outsource debt recovery in Australia is expected to continue with Recoveries Corporation Group being well positioned to continue providing such services, having more than 25 years of experience;
- 2.2. Recoveries Corporation Group is a leading market participant with proven technology, strong data analytics skills, and deep industry knowledge operating within the credit risk services market segment. Recoveries Corporation Group thus possesses intellectual property and expertise that can enhance Transaction Capital's specialist capabilities thereby assisting Transaction Capital to grow its share in existing market segments and/or facilitate access to new verticals. Recoveries Corporation Group's vast expertise in the insurance recoveries industry will augment Transaction Capital's competencies and facilitate the growth of its fledgling insurance recoveries offering in South Africa;
- 2.3. Recoveries Corporation Group is an efficient platform that Transaction Capital intends to develop and scale. The Australian debt collection industry is highly fragmented (with approximately 20 companies accounting for 85% of the market), which provides Transaction Capital with an opportunity to expand acquisitively in Australia. In addition, Recoveries Corporation Group is exclusively a contingent debt collection agency, receiving fees-for-services. Transaction Capital will apply its analytics, pricing expertise and capital management capabilities to the purchase of non-performing loan portfolios in Australia to facilitate Recoveries Corporation Group's expansion into this adjacent market. The purchasing of non-performing loan portfolios comprises the majority of debt recovery activity in the Australian industry and accordingly presents an attractive growth prospect;

- 2.4. the Transaction provides Transaction Capital with a strong entry point into the Australian market and the opportunity to expand geographically into a developed, English-speaking economy. Transaction Capital will thus diversify concentration risk as it earns hard currency based returns; and
- 2.5. Recoveries Corporation Group and Transaction Capital have a strong cultural fit and share a common set of entrepreneurial values. Recoveries Corporation Group's management is extremely entrepreneurial. Post this acquisition, Recoveries Corporation Group's founders will retain their executive director positions and remain closely involved in the organic growth and day-to-day operations of the business.

Based on the above, Transaction Capital's rationale for this acquisition is justified on a standalone basis. However, Recoveries Corporation Group has a scalable business model and proven track record, whose competitiveness and value can be enhanced through Transaction Capital's involvement and ownership.

3. **PURCHASE CONSIDERATION**

- 3.1. The Transaction offer consideration is limited to a maximum value of A\$43 million, on a debt-free, cash-free basis ("Enterprise Value"), and will be payable as follows (collectively, the "Offer Consideration"):
 - 3.1.1. an upfront payment of A\$33 million (approximately R356 million) on the Effective Date (as defined in 5 below) which will be applied towards both the purchase price for the acquisition and subscription for shares in Recoveries Corporation Group, which payment is secured in favour of the Vendors by way of a guarantee by Transaction Capital ("Upfront Payment");
 - 3.1.2. two earn-out payments (which are to be secured in favour of the Vendors by a bank guarantee issued by a South African bank) as follows –
 - 3.1.2.1. a maximum first earn-out payment of A\$3 million payable at or about the end of October 2017 ("First Earn-out Payment"), subject to achieving certain profit warranties;
 - 3.1.2.2. a maximum second earn-out payment of A\$10 million less the First Earn-out Payment (if any) payable at or about the end of October 2018 ("Second Earn-out Payment"), subject to achieving certain profit warranties.
- 3.2. Transaction Capital will finance the payment of the Offer Consideration from cash resources.

4. **CONDITIONS PRECEDENT**

The Transaction is subject to fulfilment or waiver (where appropriate) of, inter alia, the following conditions precedent by 28 February 2017:

- 4.1. the Sellers obtain the written consent of/or waiver by counterparties to certain key identified customer contracts and lease agreements in respect of the change of control provisions triggered by the Transaction;
- 4.2. the Sellers implement a long-term incentive plan for key employee executives who will also be required to execute a service agreement in a form reasonably satisfactory to the Purchaser;
- 4.3. approval is obtained from the South African Reserve Bank for all matters required in the context of the Transaction;
- 4.4. there are no matters, events or circumstances which have had or, in the reasonable opinion of the Purchaser, are likely to have, either individually or when aggregated with other matters, events or circumstances, a Material Adverse Effect, as defined in the Agreement; and
- 4.5. Recoveries Corporation Group completes a restructuring exercise to the satisfaction of both the Sellers and the Purchaser which includes, inter alia, (i) the transfer of equity in operating companies forming part of Recoveries Corporation Group (which are not wholly-owned subsidiaries) from the existing shareholders to Recoveries Corporation Group (so as to constitute them as wholly-owned subsidiaries of Recoveries Corporation Group); (ii) the sale of equity in non-operating entities in which Recoveries Corporation Group has an equity interest so that they no longer form part of Recoveries Corporation Group; and (iii) the adoption of an amended constitution by Recoveries Corporation Group.

5. **EFFECTIVE DATE**

The effective date of the Transaction shall be the seventh business day after fulfilment or waiver (where appropriate) of certain conditions precedent (the "Effective Date").

6. **FURTHER TERMS**

Service, restraint and confidentiality agreements will be concluded with David Mond, Leon Sholl and key members of Recoveries Corporation Group's leadership team. In this regard, David Mond and Leon Sholl will serve as CEO and Executive Director of Recoveries Corporation Group respectively for a minimum period from the Effective Date until 30 June 2018.

7. GENERAL

7.1. The value of the net assets of Recoveries Corporation Group as at 31 August 2016 was A\$12.2 million prior to taking into account any internal restructuring that will occur prior to the Effective Date or any settlement of outstanding Recoveries Corporation Group debt that will occur after the Upfront Payment.

7.2. Recoveries Corporation Group's profit after tax for their financial year ending on 30 June 2017 attributable to its net assets is expected to be A\$4.5 million.

8. CATEGORISATION

The Transaction is a Category 2 transaction as contemplated in the Listings Requirements of the JSE Limited.

9. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcement dated 11 November 2016 and are advised that caution is no longer required to be exercised when dealing in their securities.

10. FURTHER ANNOUNCEMENT

Shareholders will be notified once the last of the conditions precedent has been fulfilled or waived.

Dunkeld West
14 November 2016

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Sponsor:
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