

FORMATION OF JOINT VENTURE TO INVEST IN EUROPEAN DISTRESSED DEBT

1. INTRODUCTION

Transaction Capital is pleased to advise shareholders that it has, through its wholly-owned subsidiary, Transaction Capital Risk Services Holdings (Pty) Ltd (TCRS), entered into a joint venture arrangement with Genki Group Limited (Genki), a company owned by the respective trusts of Transaction Capital directors, Jonathan Jawno (Jawno), Michael Mendelowitz (Mendelowitz) and Roberto Rossi (Rossi) (collectively referred to as the Founders), in order to invest in European non-performing loan portfolios and special credit situations (collectively referred to as distressed debt). Each of Transaction Capital and Genki have allocated €20 million to the joint venture.

2. RATIONALE

The European distressed debt market is a multiple of times larger than the South African and Australian markets within which TCRS currently operates. Participants within this market are primarily credit management and collection platforms, asset managers or private equity funds. Over recent years, the Founders have established relationships with certain specialist credit managers and have identified an attractive segment of this market for entry by the joint venture. This segment comprises smaller, high-yield, off-market bespoke distressed corporate and consumer debt portfolios acquired and managed by these selected specialist credit managers.

The joint venture will leverage off the existing infrastructure and network established by the Founders to optimize these opportunities with the intention of achieving double digit hard currency returns and further diversify its geographic earnings base. The investments will comprise direct co-investments, partnerships with specialist credit managers in selected portfolios and investments in specifically identified debt funds, thereby accessing the European distressed debt market without concentrated risk to any particular distressed debt portfolio, asset type, collection platform or geographic region. Leverage may be introduced as appropriate.

An initial investment by TCRS and Genki of approximately €3 million each is expected to occur within Western Europe before Transaction Capital's March 2019 half-year end. In time, TCRS intends to progressively participate in more sizeable prospects with the ultimate intention to build a European distressed debt business of scale, with the potential to leverage off TCRS's South African low-cost collection infrastructure and technology. This could be achieved without creating unnecessary business integration costs.

3. TRANSACTION STRUCTURE

The following initial investment structure will be utilised:

- A subsidiary of TCRS, Transaction Capital Risk Services International (Pty) Ltd (TCRSI) will subscribe for 50% of the shares in a newly established company, Turicum Ventures Ltd (Turicum).
- The other 50% shareholding will be held by Genki.
- A shareholders' agreement between TCRSI and Genki will be entered into to govern the joint venture arrangement, the terms of which will be approved by the independent non-executive directors of the Audit, Risk and Compliance Committee. All shares in Turicum will rank equally and all contributions to and returns from the joint venture will be made on an equal, pro-rata basis. No fees will be charged between the parties.
- To the extent appropriate, alternate joint venture investment structures between TCRSI and Genki may be considered.

4. RELATED PARTIES TRANSACTION

Jawno and Mendelowitz are executive directors of Transaction Capital, with Rossi being a non-executive director. Each of Jawno, Mendelowitz and Rossi are contingent discretionary beneficiaries of trusts that each own directly or indirectly an effective 9.72% of Transaction Capital. In addition, Jawno, Mendelowitz and Rossi are also contingent discretionary beneficiaries of trusts that each own 33.3% of Genki.

The transaction has been categorized as a small related party transaction in terms of section 10.7 of the JSE Limited Listing Requirements (JSE LR).

5. FAIRNESS OPINION

Due to the joint venture nature of this transaction, the JSE Limited has dispensed with the requirement to obtain a fairness opinion in terms of section 10.7 of the JSE LR.

Dunkeld West
19 December 2018

Enquiries:
Phillipe Welthagen - Investor Relations
Telephone: +27 (0) 11 049 6700

Sponsor:
RAND MERCHANT BANK (A division of FirstRand Bank Limited)