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Strategic partnership with Banco Popular

Pepper Group and Banco Popular enter into a International consumer finance alliance

- Pepper Group and Banco Popular to create a 50-50 Joint Venture in the Spanish unsecured consumer finance market.
- Pepper Group and Banco Popular to form an alliance to pursue new international business opportunities in Europe, Asia and the Americas focusing on consumer finance.
- Banco Popular is the 6th largest banking group in Spain, with total assets of €160 billion and 4.8 million clients in 17 countries.
- To create alignment of interest Banco Popular will, at their request, subscribe for an initial 5% equity stake¹ in Pepper Group Limited at a price determined under a formula, likely to be no more than \$2.60 per share.
- Banco Popular to provide a committed, 5 year, \$100 million equity funding facility to support future growth.
- JV will be the 5th largest provider in the Spanish Point of Sale finance market and will have access to Banco Popular's extensive customer base.
- One-off gain on sale for Pepper Group of between \$23-25 million before tax and restructuring charges. Amount is dependent on the timing of approvals for the transaction.

Spanish consumer finance joint venture

Pepper Group Limited (ASX: PEP) ("Pepper Group") and Spain's 6th largest banking group, Banco Popular ("Popular"), have agreed to establish a joint venture (JV) in the Spanish unsecured consumer finance market, while also creating a global unsecured consumer finance alliance that provides both companies with further avenues for future growth.

The JV will be owned 50% by Popular and 50% by Pepper Group and will combine each partner's respective unsecured consumer finance companies in Spain. The combined business will have a total loan book outstanding of approximately \$404 million as of 31 December 2015, making it the

¹ On a fully diluted basis.

5th largest player in the Spanish Point-of-Sale (“PoS”) Finance market and will have access to Banco Popular’s extensive customer base.

The JV will be formed by Pepper Group selling its Spanish business to a Popular subsidiary following which Pepper Group will be issued with 50% of the shares in the combined business. This series of transactions gives rise to substantial gain on the sale for Pepper Group that will vary between A\$23 million and A\$25 million before tax and restructuring charges depending on the timing of the Bank of Spain approval for the transaction. Anticipated charges resulting from the transaction are expected to reduce the gain by A\$9 million.

The JV will combine the proven management expertise of both organisations in the unsecured consumer finance market, and also leverages the core strengths of both businesses. These include Pepper Group’s proven cross-sell expertise in the origination of larger-ticket, higher yielding Personal Loans to existing PoS Finance customers with strong repayment and performance histories and Popular’s extensive retail branch network and embedded customer base across Spain. The combined business will also have a complementary national network of PoS merchants across a diverse range of industry segments such as electro, furniture, optical, bedding, dental and beauty.

A long term distribution agreement has been established between the two companies to support the origination of market leading unsecured consumer lending products via Popular’s branch network and customer database along with Pepper Group’s state of the art origination platform.

"We genuinely believe that the combination of Pepper Group and Popular will create a consumer finance powerhouse in Spain", said Patrick Tuttle, Pepper Group's Co-Group Chief Executive Officer. "This joint venture will combine Pepper Group's market-leading point-of-sale technology and proven personal loan cross-sell expertise, with Popular's deep merchant relationships, branch and customer networks, and highly efficient funding platform in the Spanish market", he added.

Mike Culhane, Co-Group Chief Executive added: "This deal also demonstrates to Pepper Group's shareholders the embedded value we have been able to create in the geographically diverse consumer lending and loan servicing platforms which we have established in large consumer markets like Spain."

According to Tuttle: "Popular's decision to select Pepper Group as the bank's preferred consumer finance partner in the point-of-sale finance and personal loan segments speaks volumes for the quality of our business and our senior management expertise, not only in the Spanish market but also globally given the intended international reach of our joint venture agreement".

The JV is subject to certain conditions precedent being met, including Bank of Spain approval and certain funding conditions.

International consumer finance alliance

In addition to the JV, Popular and Pepper Group will also pursue new business opportunities internationally with the aim of building a global unsecured consumer finance business, focusing on opportunities in Europe, Asia and the Americas.

Outside of Spain, we are also incredibly excited about the potential for our newly-formed joint venture to acquire or establish new consumer finance platforms in new markets across Europe,

Asia and the Americas which are either underserved by existing providers or where we see opportunities to generate strong risk-adjusted returns in niche consumer finance segments", said Mike Culhane, Pepper Group's Co-Group Chief Executive Officer.

Banco Popular to emerge as a strategic shareholder in Pepper Group

As part of the overall transaction, Popular has agreed to become a strategic shareholder in Pepper Group with the following commitments:

- **Initial Subscription:** To create alignment of interest, Popular, at their request, will subscribe for 5%¹ of Pepper Group shares at a price determined under a formula, likely to be no more than \$2.60 per share. Subject to the final subscription price that will be determined via a VWAP formula (subject to capping and other provisions), Pepper Group will raise approximately \$23million.
- **Additional Subscription:** Popular and Pepper Group have also entered into a 5 year, equity funding facility, under which Popular has agreed to subscribe for additional equity of up to \$100 million, subject to a shareholding cap at 19.99%.² Pricing will be determined based on a VWAP formula referenced to the prevailing market at the time of issuance. Normally the VWAP period will include the 30 trading days before the earlier of the date of the relevant Drawdown Notice or the date of announcement of the Drawdown (the 'relevant date'), and also the 30 trading days after the relevant date, but the period may be varied in certain circumstances.
- The issuance of the initial 5%¹ and up to a number of further shares which (together with the initial 5%¹) would use up Pepper Group's 15% annual placement capacity under ASX Listing Rule 7.1³, will not require shareholder approval, but the issuance of the remaining shares under the facility will be required to be approved by Pepper shareholders⁴. An approval resolution in relation to those remaining shares is expected to be put to Pepper's shareholders at a future general meeting.⁵

The issuance of equity under the equity facility is at Pepper Group's sole election⁶, and proceeds can be applied by Pepper Group to support growth across all of Pepper Group's operations. The facility can be terminated or suspended in certain circumstances.

Popular will be entitled to a Board seat if its shareholding exceeds 13%.

Mike Culhane commented, "Pepper Group's balance sheet remains extremely strong following our IPO last year, however it was important for Popular to become a strategic shareholder. It demonstrates their alignment with Pepper Group in pursuing future international consumer finance opportunities. We are very encouraged by the strong support that Popular has provided to Pepper Group as we execute our growth agenda."

² This excludes any shares that Popular has acquired outside the transaction, in respect of which divestment provisions apply in the event they would cause a subscription under the transaction to breach section 606 of the Corporations Act. The draw down of this facility is also subject to Pepper's solvency and other financial measures being satisfied

³ Calculating this as though the shares were to be issued at prices based on Pepper's share price pre—announcement of the transaction

⁴ Popular and its associates will not be entitled to vote on this resolution.

⁵ The approval resolution will cap the permitted level of issuance under the resolution.

⁶ Although in certain circumstances if funds are raised outside the facility Banco Popular will have certain top-up rights.

Trading update and reconfirmation of CY16 guidance

Pepper Group is due to report its 1H16 results on 25 August 2016.

Based on unaudited accounts, Pepper Group expects to achieve an Adjusted NPAT of between \$23 million and \$23.5 million for the six months ended 30 June 2016.

Pepper Group reconfirms its CY16 guidance of at least an Adjusted NPAT of \$59 million. This guidance excludes the expected gain from the JV as indicated above.

-ENDS-

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About Pepper Group Limited

As a people focused lender, Pepper specialises in flexible loan solutions based on individual credit assessment. Pepper Group has over 600,000 customers worldwide through Australasia, Asia and Europe, and \$44.4 billion in assets under management, comprising \$6 billion in lending assets and a servicing portfolio of \$38.4 billion. Pepper Group is listed on the Australian Securities Exchange.

About Banco Popular

Banco Popular is the 6th largest banking group in Spain, with total assets of € 160 Billion and 4.8 million clients in 17 countries. Banco Popular operates through 7 banks, including Miami-based TotalBank and Banco Popular Portugal, and representative offices in 14 countries.