



Pepper Group Limited  
Level 27, 177 Pacific Hwy  
North Sydney NSW 2060  
t +61 2 8913 3030  
f +61 2 9463 4666  
pepper.com.au

20 July 2017

## Pepper Group to acquire 100% of Portuguese consumer finance lender Banco Primus

### Key highlights

- Pepper Group Limited (“Pepper”) has signed a share purchase agreement to acquire 100% of Portuguese consumer finance bank, Banco Primus S.A Lisbon (“Primus”) from parent company Credit Foncier de France (“CFF”).
- The transaction remains subject to a standard change of control approval from the Bank of Portugal and the European Central Bank and is expected to complete during Q1 2018.
- Upon completion, Pepper will pay CFF €65 million (A\$95 million<sup>1</sup>) in cash for 100% of the Primus shares<sup>2</sup>.
  - The purchase price equates to a Price to Book Value multiple of 0.89x<sup>3</sup>
  - Management expects the transaction to be EPS accretive in the first full year of ownership
- The transaction will be funded by a mixture of senior debt and equity. Pepper has a number of alternatives by which it can fund the capital requirement of this transaction and has already secured the necessary senior debt funding commitments of ~€500m to fund Primus’ loan portfolios at close.
- Primus expands Pepper’s presence in the European market and with regulatory change of control permission will provide a banking license in Portugal along with a branch in Spain
- Primus will retain its existing strategy and management team while seeking to work closely with various Pepper businesses, in particular with Pepper Spain.
- Pepper remains in exclusive discussions with KKR Credit Advisors (US) LLC (KCA) on behalf of itself, certain of its affiliates and/or certain funds, clients or accounts managed or advised by KCA or its affiliates in relation to a potential control transaction under which Pepper shareholders may receive \$3.60 per share and with permission for the Directors to declare and pay a fully franked dividend of up to \$0.03 per share.

**Pepper Group Limited** (ASX:PEP) and CFF have signed a share purchase agreement (SPA) under which Pepper proposes to acquire 100% of the shares and voting interests in Primus.

Primus is a licensed and regulated Portuguese bank that specialises in used car financing, and personal loans, with offices in Portugal, Spain and an office in Hungary that has a small portfolio which will be run off in the next 12 months. It has A\$677.7 million in assets as of 31 December 2016.

<sup>1</sup> Calculated based on an exchange ratio of A\$1=€0.6844 as at 31 Dec 2016 (per XE.com).

<sup>2</sup> Based on 31 December 2016 balance date. The transaction documentation contemplates a customary purchase price adjustment mechanism for the period to completion

<sup>3</sup> Based on 31 December 2016 reported net assets for Primus

Primus is the 5<sup>th</sup> largest auto finance provider in Portugal and since 2012, Portugal's auto loan market has experienced a compound annual growth of over 25%<sup>4</sup>. The outlook for this market is expected to remain strongly positive in the near term.

Under the terms of the transaction, upon completion, Pepper will pay A\$95 million<sup>5</sup> (€65 million) for 100% of the equity of Primus. The transaction documentation contemplates a customary purchase price mechanism for consideration in relation to pre-completion cashflows with the vendor. The transaction remains subject to a standard change of control approval from the Bank of Portugal and the European Central Bank and is expected to complete during Q1 2018.

The transaction will be funded by a mixture of senior debt and equity. The Group has a number of options by which it can fund the capital requirement of this transaction and Pepper has negotiated ~A\$720 million<sup>6</sup> (~€500 million) in securitised funding commitments to repay the debt provided by Primus' parent CFF as well as to fund future originations. Total size of the facilities will depend on the book size at closing.

Primus offers Pepper the opportunity to acquire a well-managed consumer credit platform in a familiar asset class. It also provides the Group with a significant strategic benefit, with the ability (subject to further regulatory approvals) to take deposits in Portugal and Spain which will allow for further asset growth in both jurisdictions. In line with all its global acquisitions, Pepper Group intends to retain the in-country expertise inherent within management at Primus.

Pepper Group's Group Chief Executive Officer, Mike Culhane commented on the transaction as follows:

"This transaction represents the next step in Pepper's long term growth strategy that sees us expand into market segments and countries where we see the opportunity for significant risk adjusted returns due to favourable local market dynamics.

"The acquisition of Banco Primus extends Pepper's consumer finance presence in Europe. Over time, we plan to grow our Banco Primus and Pepper Spain businesses by expanding the Portuguese and Spanish licenses to allow us to take deposits. As we have seen in South Korea, the flexibility deposits provide allows for more innovation in product design resulting in more growth.

"Hugo Carvalho da Silva and his team at Banco Primus have managed the run off non-core portfolios in Spain, Portugal and Hungary exceptionally well while, at the same time, building out one of the most well respected car financing businesses in Portugal. The combination of lending and asset servicing skills within the team are a perfect fit for Pepper's core business lines".

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<sup>4</sup> Source: Bank of Portugal

<sup>5</sup> Calculated based on an exchange ratio of A\$1=€0.6844 as at 31 Dec 2016 (per XE.com)

<sup>6</sup> Calculated based on an exchange ratio of A\$1=€0.6844 as at 31 Dec 2016 (per XE.com)

Once the acquisition is closed, Hugo Carvalho da Silva will become a member of the Global Executive Committee at Pepper and Primus will share its IP within the wider Pepper business while continuing to deliver its local strategy in Portugal. The opportunity also exists for Pepper Spain and Primus to work together on a number of cross-selling and new product opportunities.

It is expected that synergy benefits of approximately A\$1.5 million p.a. will be realised across Pepper's and Primus' European operations as a result of this transaction.

### **Update on discussions with KCA**

Consistent with the announcement made on 5 July 2017, Pepper remains in exclusive discussions with KCA in relation to a potential control transaction and will update the market as required under its continuous disclosure obligations. There is no certainty that an agreement will be reached or that the proposal will be implemented.

For more information please contact:

#### **Investors**

Melinda Hofman  
Corporate Affairs Manager  
Pepper Group Limited

+612 9463 4675  
+61 (0) 438 855 991

#### **Media**

Tim Allerton  
City Public Relations

+612 9267 4511  
+61 (0) 412 715 707