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Pepper Group to acquire Banco Primus

Investor presentation

July 2017

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About the Transaction

- Pepper Group Limited (“Pepper”) has signed a share purchase agreement to acquire 100% of Portuguese consumer finance business, Banco Primus S.A (Lisbon) (“Primus”) from parent company, Credit Foncier de France (“CFF”)
 - Primus offers Pepper a unique and immediate opportunity to acquire a well managed consumer credit bank in a highly profitable asset class and in an immediately adjacent market to our Spanish operations
 - The acquisition expands Pepper’s presence in the European market and provides a Portuguese banking license, with a branch in Spain, and the possibility to access other European banking markets over time, all of which help with the longer term funding options for our growing European lending business
- Upon the successful completion of certain conditions, Pepper will pay CFF €65 million in cash for 100% of the Primus shares⁽¹⁾
 - The purchase price equates to a Price to Book Value multiple of 0.89x⁽²⁾
 - 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 Banco Primus’ loan portfolios at close as well as to fund future originations
- The transaction is subject to Bank of Portugal and European Central Bank approval and is expected to complete during Q1 2018. We expect the regulatory process to take 6-9 months. A break fee of €2.75m is payable by Pepper in standard applicable circumstances
- 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. There is no certainty that an agreement will be reached or that the proposal will be implemented

(1) Based on 31 Dec 2016. The transaction documentation contemplates a customary purchase price adjustment mechanism for the period to completion. (2) Based on 31 Dec 2016 reported net assets for Primus.

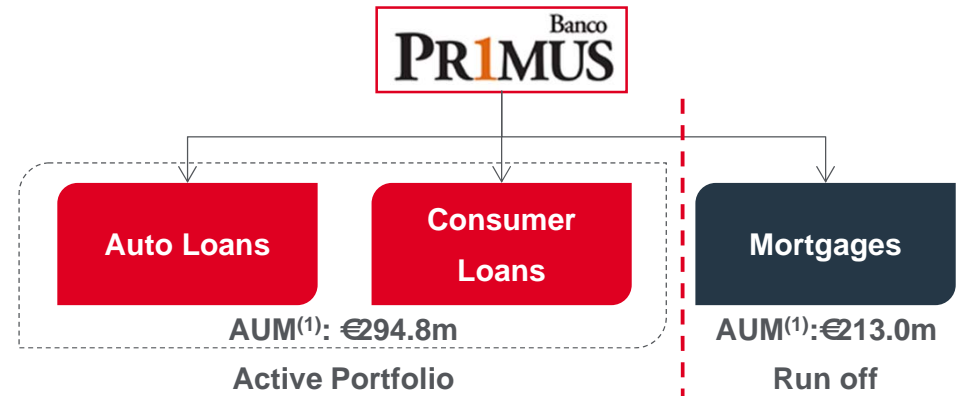
Banco Primus – Overview

Banco Primus is a licensed and regulated Portuguese bank specialising in used car financing.

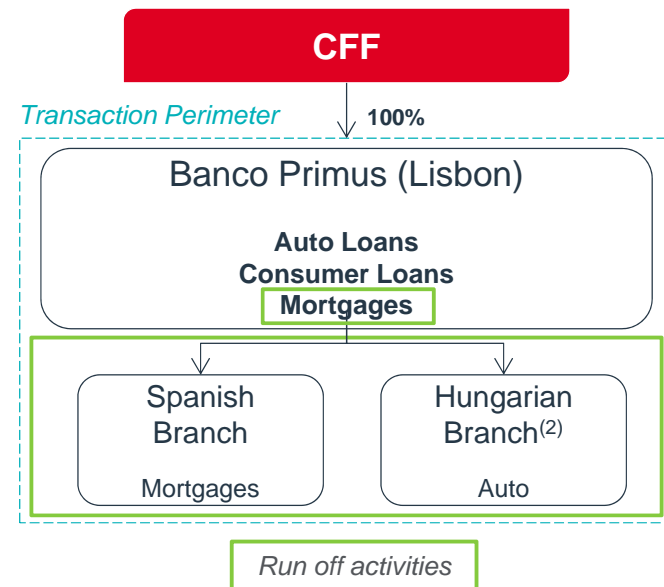
Company Overview

- Primus operates as a 100% subsidiary of French Banking group, Credit Foncier and is currently regulated by the Bank of Portugal and ultimately the ECB
- The business is based in Portugal and has branches in Spain and Hungary, where it operates as a “passporting” branch of the Portuguese entity
- With additional approvals, Primus will be able to raise deposits in each of these countries, however they are not doing so today
- The Hungarian portfolio is in run-off and is expected to have completely run down shortly after the transaction is complete
- Distributes its products through 6 regional offices, two internal sales teams and an active distribution network
- Primus was established in 2005 with an initial focus on personal loans and mortgages
- In 2011, Primus ceased origination of new mortgage loans in Spain and Portugal and stopped its car financing business in Hungary, and is currently managing these 3 businesses in run-off
- In 2012, Primus completed a strategic shift, refocusing its core business toward the Portuguese car financing segment after having added auto loans to its asset base in 2008
- Primus further strengthened its offers within the auto segment through the launch of personal loans in 2014 and motor loans in 2016
- Primus operates in the super prime space of the Portuguese used auto loan market providing for an immediate opportunity for Pepper to leverage its underwriting capabilities to broaden the credit spectrum into the near-prime sector also as well as portfolio servicing

Business Units Overview



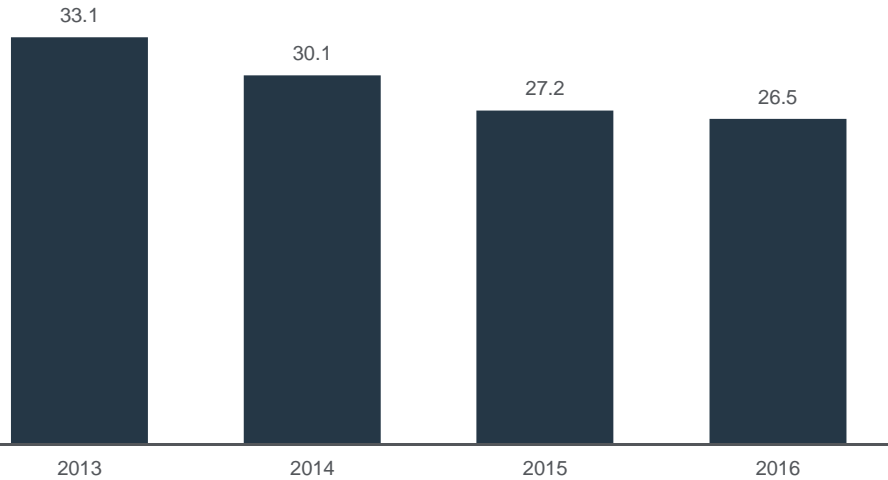
Current Ownership Structure



(1) As at 31 Dec 2016. (2) Closure expected in 2018 due to the amortization of performing loans, and the anticipated sale of the remaining NPL for 1.5% of the gross book value.

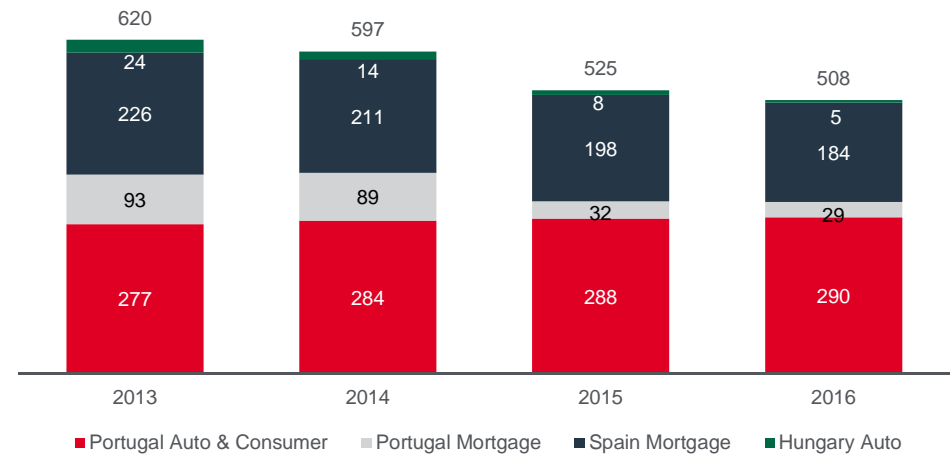
Banco Primus' Financial Performance

Net Revenue⁽¹⁾
(€m)



- Decrease over the period is mainly due to the decline of the runoff activities
- Net revenue is mostly driven by the Portuguese auto activity
- Primus has achieved both volume and margin increases on auto and consumer loans

Lending Assets
(€m)

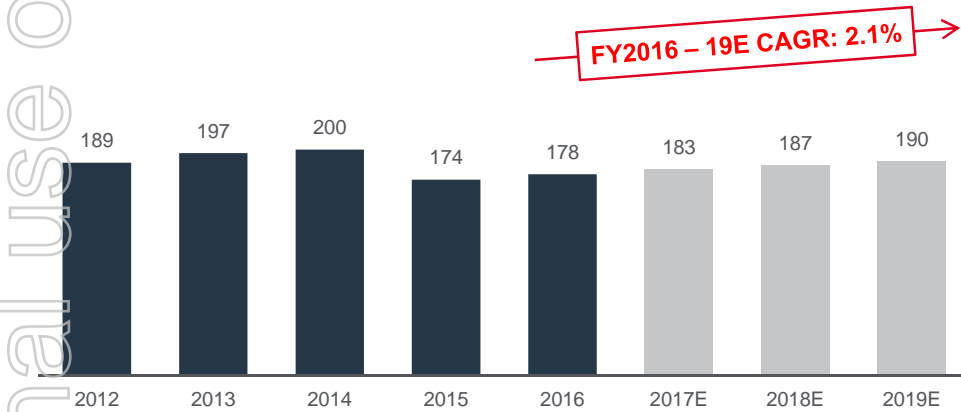


- Decrease in total lending assets is mainly driven by the winding up of legacy portfolios, along with the disposal of non performing Portuguese mortgages
- While there has been a decrease in total lending assets, Primus has been able to significantly increase the origination of auto loans through its efficient pricing model and strong distribution capabilities, capturing a significant market share

(1) Net Revenue comprises of net Interest Income, net commissions and other income.

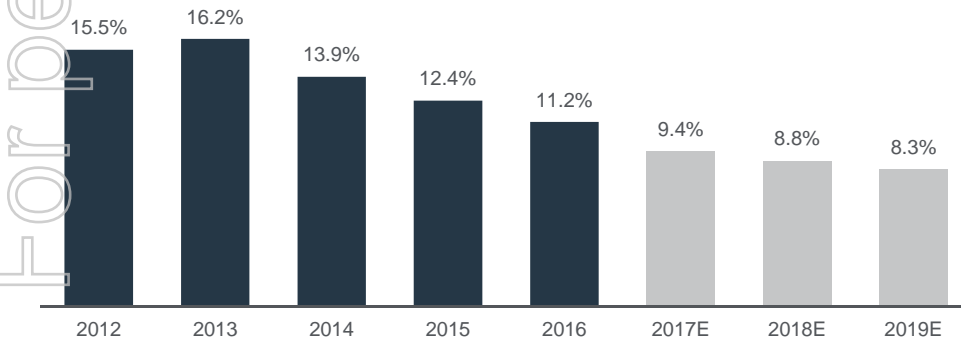
Macro Environment – Portugal

GDP Growth (€bn)



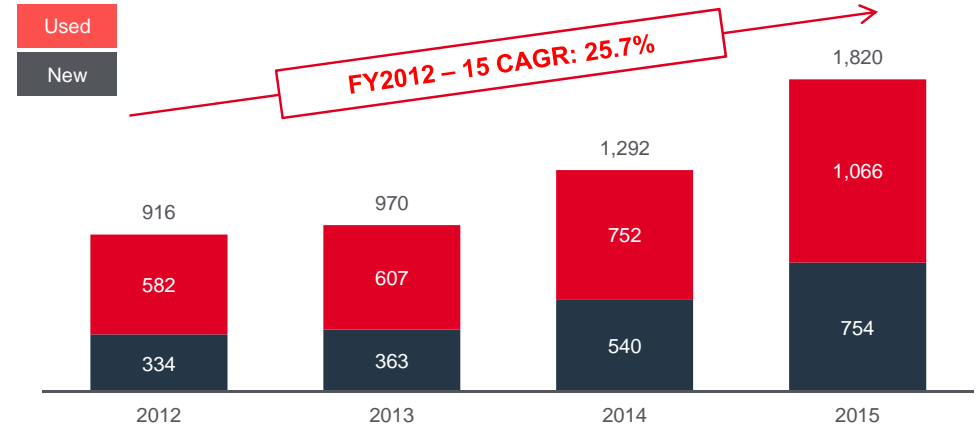
Source: World Bank, Bank of Portugal. FX: US\$:€ = 0.87204.

Unemployment Rate



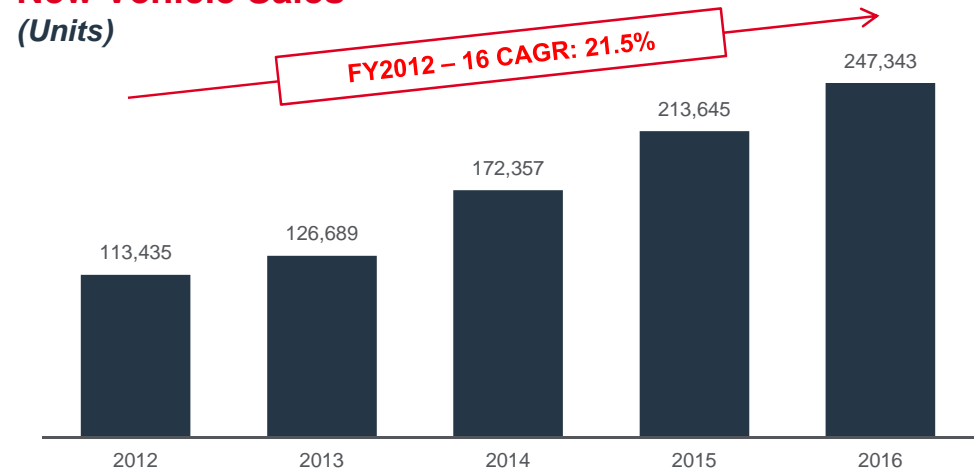
Source: World Bank, Bank of Portugal.

Auto Loans Origination (Individuals) (€\$m)



Source: Bank of Portugal.

New Vehicle Sales (Units)

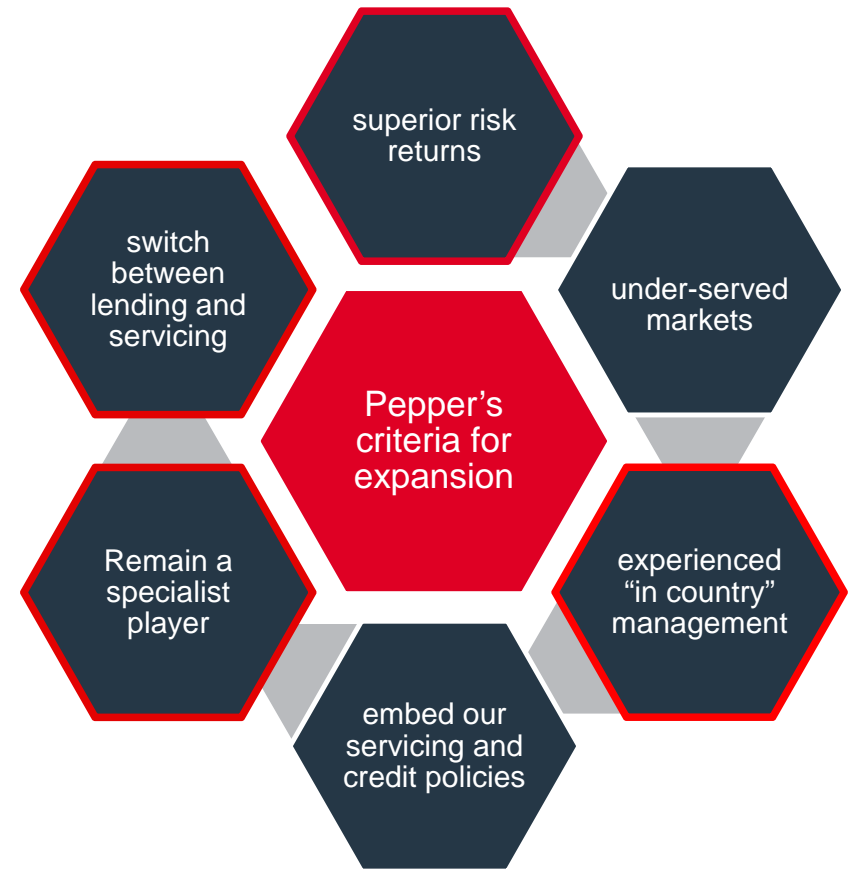


Source: Autoinforma.

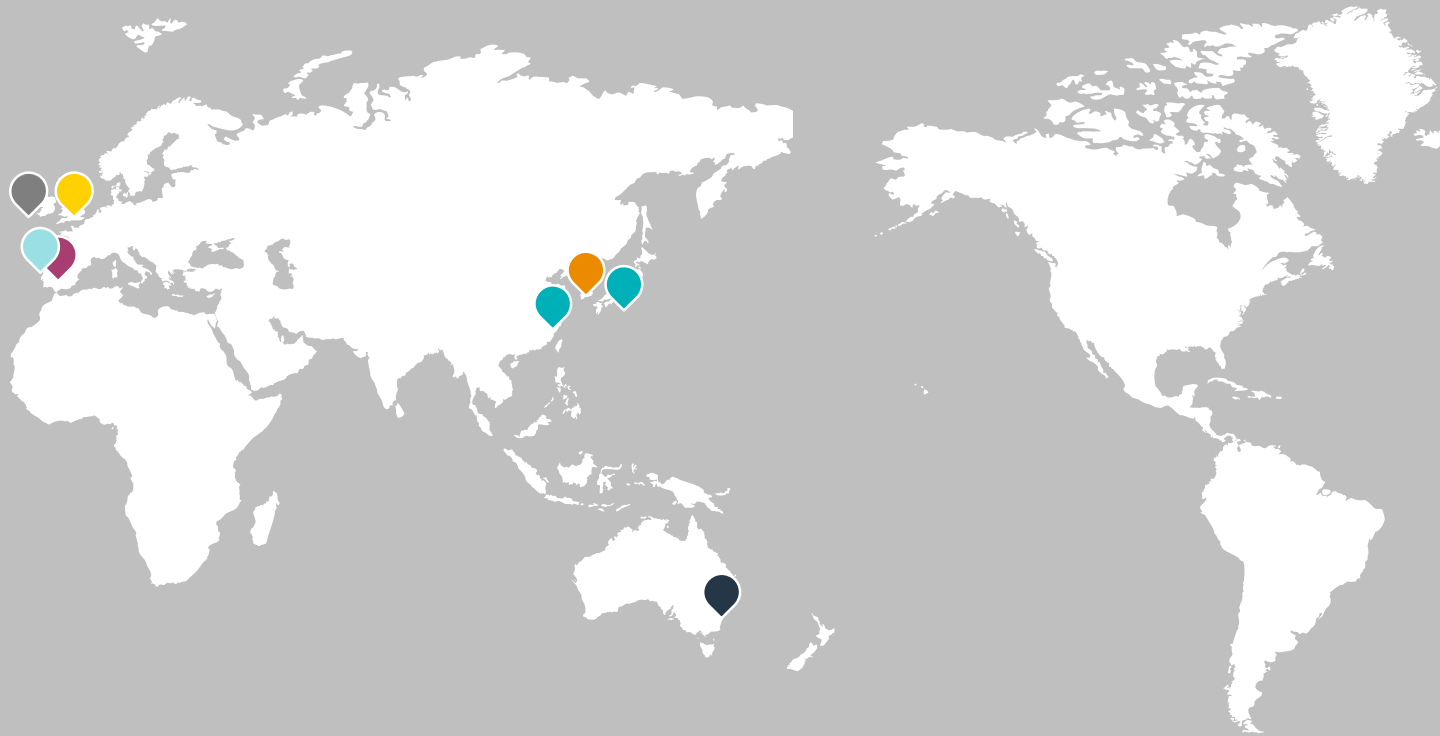
Banco Primus Meets a Number of Pepper's Expansion Criteria

We aim to generate superior returns in segments which have favourable local market dynamics

- Primus offers a well managed consumer credit platform in a highly profitable asset class and in an immediately adjacent market to our core Spanish operation
- Primus' banking license across multiple jurisdictions will allow us to raise deposits in Portugal, post obtaining the relevant approvals
- Further, the possibility of activating the Spanish branch for deposit taking allows for further funding sources and asset generation opportunities for the future
- We expect €1m of run-rate efficiency gains from combining our Spanish platform with Primus



Pepper's Presence in Europe is Growing



AUM: \$50.8bn[^]

Staff Globally:
1,800 – Pepper
145 - Primus

<small>Est 2001</small> Australia & NZ	<small>Est 2012</small> Ireland	<small>Est 2013</small> UK	<small>Est 2013</small> Spain	Portugal	<small>Est 2013</small> South Korea	<small>Est 2015</small> China & HK*
<ul style="list-style-type: none"> • Residential mortgages • Auto & equipment finance • 3rd Party Asset servicing • Property advisory • Personal loans 	<ul style="list-style-type: none"> • Residential mortgages • 3rd Party asset servicing • Commercial real asset lending 	<ul style="list-style-type: none"> • Residential mortgages • 3rd Party asset servicing 	<ul style="list-style-type: none"> • Point of Sale finance • Personal loans • 3rd Party asset servicing • Residential mortgages (in run-off) 	<ul style="list-style-type: none"> • Auto finance • Personal loans • Residential mortgages ((in run-off)) 	<ul style="list-style-type: none"> • Deposits • Residential mortgages • Personal loans • Auto finance • SME lending 	<ul style="list-style-type: none"> • Personal Loans • Credit Cards

Attractive Transaction Funding Structure

- Pepper is paying A\$95m (€65m⁽¹⁾) for 100% of the shares of Primus with ancillary transaction costs of A\$6.3m
- The transaction will be funded through a combination of cash in the business, the release of capital from existing warehouse facilities and a capital contribution from Pepper
- Pepper has a number of options to fund its capital requirement and given the likely extended duration until completion we will update the market closer to expected completion in relation to how this will be funded most efficiently

Sources and Uses of Funds (Dec 16 balance date)

Uses of Funds	A\$m	Sources of Funds	A\$m
Cash consideration to acquire Primus ⁽²⁾	95.0	Existing cash in business	7.0
Transaction Costs	6.3	Release of capital from existing warehouse facilities	29.2
		Pepper capital requirement	65.1
Total	101.3	Total	101.3

(1) Calculated based on an exchange ratio of A\$1=€0.6844 as at 31 Dec 2016 (per XE.com). (2) The transaction documentation contemplates a customary purchase price adjustment mechanism for the period to completion.

Pro Forma Balance Sheet and Funding

- The Primus balance sheet will be funded by a mixture of senior debt and equity
- Pepper has already secured the necessary senior debt funding commitments of ~€500m to fund Banco Primus' loan portfolios at close which will be funded through bankruptcy-remote warehouse funding lines. Total size of the facilities will depend on the book size at closing
- The warehouse facilities are being provided by two international banks with a tenor of close to 2 years, with a step up for an additional 6 months post expiry of initial term
- Pepper will hedge a component of its capital contribution requirement

Summarised Balance Sheet (A\$m)⁽¹⁾

	Pepper Group 2016A	Banco Primus Pro Forma 2016A	Pro Forma
Cash and Equivalents	360.1	7.0	367.1
Net Receivables	1,359.9	--	1,359.9
Investments	312.3	59.3	371.6
Other Assets	144.6	18.1	162.7
Goodwill and Intangibles	62.7	--	62.7
Total Assets	2,239.6	84.4	2,324.0
Borrowings	141.7	--	141.7
Deposits	1,383.1	--	1,383.1
Provisions	34.8	4.3	39.1
Other Liabilities	222.7	14.3	237.0
Total Liabilities	1,782.3	18.6	1,800.9
Equity	457.2	65.8	523.0

(1) Pro forma (excluding limited recourse funding vehicles).

Summary and Outlook

- The transaction provides Pepper with an opportunity to acquire a bank specialised in the attractive Portuguese auto lending market
 - The transaction is in line with Pepper's ongoing expansion strategy and allows us to leverage our existing European platforms
 - Despite a competitive market dynamic, Primus has achieved strong market share in the used auto loans market
 - Various long term and short term integration plans are in place to utilise our existing European platforms
- The expected closure of the transaction is Q1 2018 and Pepper has a number of options to fund the capital requirement over the intervening time period and management expects the transaction to be EPS accretive in the first full year of ownership
- Pepper reaffirms full year guidance of at least \$67.5m Adjusted NPAT for CY17. This guidance is before performance fees and subject to market conditions
- 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



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Pro Forma Balance Sheet

(A\$m)	Statutory ⁽¹⁾			Pro Forma ⁽²⁾		
	Pepper Group	Banco Primus	Pro Forma	Pepper Group	Banco Primus	Pro Forma
Cash and Cash Equivalents	782.1	7.0	789.1	360.1	7.0	367.1
Securities	80.7	-	80.7	80.7	-	80.7
Derivative financial assets	35.5	-	35.5	-	-	-
Receivables	77.7	-	77.7	128.7	-	128.7
Other assets	28.1	2.6	30.7	28.0	2.6	30.6
Loans and advances	7,072.8	652.6	7,725.4	1,231.2	-	1,231.2
Deferred tax assets	15.4	15.5	30.9	13.9	15.5	29.4
Investments	135.5	-	135.5	312.3	59.3	371.6
Property, plant and equipment	22.0	-	22.0	22.0	-	22.0
Goodwill	22.2	-	22.2	22.2	-	22.2
Intangible assets	40.5	-	40.5	40.5	-	40.5
Total Assets	8,312.4	677.7	8,990.1	2,239.6	84.4	2,324.0
Deposits	1,383.1	-	1,383.1	1,383.1	-	1,383.1
Derivative liabilities	2.6	-	2.6	-	-	-
Trade and other payables	31.7	-	31.7	29.5	-	29.5
Current tax liabilities	5.5	3.0	8.5	5.5	3.0	8.5
Borrowings	6,252.8	593.4	6,846.2	141.7	-	141.7
Other liabilities	148.2	11.3	159.4	187.7	11.3	199.0
Provisions	34.8	4.3	39.1	34.8	4.3	39.1
Total Liabilities	7,858.7	612.0	8,470.6	1,782.3	18.6	1,800.9
Net Assets	453.8	65.8	519.5	457.2	65.8	523.1
Issued Capital	298.1	65.8	363.8	298.1	65.8	363.9
Other Reserves	(15.9)	-	(15.9)	(12.5)	-	(12.5)
Retained earnings	172.0	-	172.0	172.1	-	172.1
Total equity excl. non-controlling interests	454.2	65.8	520.0	457.7	65.8	523.5
Non-controlling interests	(0.4)	-	(0.4)	(0.4)	-	(0.4)
Total equity	453.8	65.8	519.5	457.2	65.8	523.1

(1) Statutory (including limited recourse funding vehicles). (2) Pro forma (excluding limited-recourse funding vehicles).