

Momentum Metropolitan Holdings Limited
(formerly MMI Holdings Limited)
Incorporated in the Republic of South Africa
Registration number 2000/031756/06
ISIN Code: ZAE000269890
JSE share code: MTM
NSX share code: MMT
(“**Momentum Metropolitan**” or “**Group**”)

PROPOSED ACQUISITION OF ALEXANDER FORBES SHORT-TERM INSURANCE BUSINESS IN SOUTH AFRICA

1. INTRODUCTION

The Board of Momentum Metropolitan is pleased to announce that the Group, through its wholly-owned subsidiary, Momentum Metropolitan Strategic Investments Proprietary Limited (“**MMSI**”), has entered into an agreement (“**Sale and Purchase Agreement**”) to acquire the Alexander Forbes Short-term Insurance (“**AFI**”) business, directly held through Alexander Forbes Limited (“**Seller**”), an indirect subsidiary of Alexander Forbes Group Holdings Limited, an entity listed on the JSE (“**Proposed Transaction**”).

2. RATIONALE FOR THE PROPOSED TRANSACTION

Momentum Metropolitan has identified short-term insurance as an industry segment into which the Group will invest capital to support its growth aspirations. This view has been strengthened by the strong performance over recent financial years from our existing short-term insurance operations, Guardrisk and Momentum Short-term Insurance (“**MSTI**”). This transaction accelerates and broadens the sustainable growth plans for this market segment.

AFI is a well-run insurance business with a stable and experienced management team. We believe that there is a strong cultural fit with the broader Momentum Metropolitan business. The Group’s targeted end-state is an integrated retail short-term insurance unit, combining MSTI and AFI. The integrated business will trade under the Momentum brand, using one insurance license.

AFI and MSTI are complementary businesses in many respects, including their target markets, product sets and customer value propositions. AFI brings with it a culture of excellent service and an established, specialised short-term insurance tied distribution force. MSTI will complement the combined business through its scientific underwriting and pricing capabilities and its modern insurance administration platform. Collectively, the businesses will achieve immediate scale, unlocking cost efficiency over time. It will also extract synergies in areas such as reinsurance, claims handling and procurement.

The Group plans a phased integration of AFI into MSTI and expect the process to be relatively smooth – in the same manner as when Guardrisk was acquired five years ago. This process will start after obtaining final approval from all relevant regulatory bodies.

3. PARTICULARS OF THE PROPOSED TRANSACTION

3.1 OVERVIEW OF THE BUSINESS

AFI targets the middle to high income market in South Africa, offering personal and commercial short-term insurance products. AFI’s business model focuses on personalised sales and superior client service. This has resulted in an in-force book that tilts towards high-net worth individuals and experiences better than industry average persistency.

3.2 OVERVIEW OF THE TRANSACTION AND PURCHASE CONSIDERATION

The assets to be purchased from the Seller and its related companies include:

- 100% of the shares in Alexander Forbes Administration Services Proprietary Limited, Alexander Forbes Direct Proprietary Limited and Alexander Forbes Insurance Company Limited;
- The information technology software which supports AFI; and
- The trademarks specific to AFI

for a total purchase consideration for R1 938 million (“**Base Price**”).

The rights, benefits and advantages of the business will accrue to Momentum Metropolitan from 1 April 2019 in terms of a ‘locked box structure’. In the event of any contractually non-permitted distributions after 1 April 2019, the Base Price will be adjusted downwards (“**Adjusted Price**”). The Adjusted Price will in turn be escalated at a rate of 6% per annum, nominal annually compounded monthly in arrears, from 1 April 2019 until finalisation of the transaction (“**Final Price**”). The maximum Final Price, if closing only occurs on the last date for the conditions precedent to be met (31 March 2020), would equate to R2 055 million. The Transaction is however expected to be implemented towards the end of 2019, assuming the necessary approvals are obtained timeously.

The transaction will close once all conditions precedent are fulfilled and the Final Price is determined in accordance with the relevant transaction agreements. The Final Price will be settled in cash and is guaranteed by Momentum Metropolitan on behalf of its subsidiary, MMSI, which will conclude the Proposed Transaction.

Additional ancillary agreements include a brand license agreement and transitional services agreement, applicable for an interim period, to ensure and enable a smooth transition for the business, its clients and employees. The transaction agreements include contractual undertakings normal for a transaction of this nature including warranties, interim undertakings, non-compete undertakings and termination rights.

3.3 CONDITIONS PRECEDENT

The Proposed Transaction is subject to the following conditions:

- Approval from the Prudential Authority;
- Approval from the South African Competition Authorities;
- Obtaining of either a compliance certificate or a written exemption from the Takeover Regulation Panel in respect of the transaction;

4. NET ASSET VALUE AND PROFITS ATTRIBUTABLE TO THE BUSINESS AS AT 31 MARCH 2019

AFI reported a profit after taxation for the year ended 31 March 2019 of R135 million. The net asset value of AFI as at 31 March 2019 was R322 million.

The annual financial statements for the business were prepared in accordance with International Financial Reporting Standards and the Companies Act 71 of 2008.

5. CATEGORISATION OF THE ACQUISITION

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

6. OTHER

The Group confirms, for purposes of paragraph 9.16 of the JSE Listings Requirements that nothing in the constitutional documents of the AFI entities will frustrate or relieve the Group from compliance with the JSE Listings Requirements.

Centurion

25 July 2019

Financial adviser
Investec Bank Limited

Legal adviser
Webber Wentzel

Sponsor in South Africa
Merrill Lynch South Africa (Pty) Limited

Sponsor in Namibia
Simonis Storm Securities (Pty) Limited