

Sanlam Limited
(Incorporated in the Republic of South Africa)
Registration number 1959/001562/06
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A2X share code: SLM
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ISIN: ZAE000070660
("Sanlam")

PROPOSED ACQUISITION OF A 25.0% NON-CONTROLLING MINORITY SHAREHOLDING IN A WHOLLY OWNED SUBSIDIARY OF AFRICAN RAINBOW CAPITAL FINANCIAL SERVICES HOLDINGS PROPRIETARY LIMITED ("ARC FS") BY SANLAM LIFE INSURANCE LIMITED (THE "PROPOSED TRANSACTION")

1. Introduction

Sanlam shareholders ("**Shareholders**") are referred to the announcement made on the Stock Exchange News Service ("**SENS**") of the JSE Limited ("**JSE**") on 31 October 2018 when Sanlam announced its package of broad-based black economic empowerment ("**B-BBEE**") transactions. As part of the package, Sanlam announced that it may potentially acquire a 25.0% minority shareholding in ARC FS.

The board of directors of Sanlam (the "**Sanlam Board**") is pleased to announce that an agreement has been reached in respect of a transaction between Sanlam and ARC FS, subject to the fulfilment of certain suspensive conditions, for Sanlam Life Insurance Limited ("**Sanlam Life**") to acquire a 25.0% non-controlling minority shareholding in a wholly-owned subsidiary of ARC FS ("**ARC FS SubCo**").

The Proposed Transaction entails:

- i. The creation of ARC FS SubCo, a subsidiary of ARC FS, into which ARC FS will transfer its investments in all relevant financial services businesses that ARC FS has invested into other than those mentioned in (ii) below (the "**ARC FS Internal Restructure**");
- ii. ARC FS retaining its banking related investments, comprising of TymeBank, Al Fund and Ooba;
- iii. Amounts drawn under the R2.0 billion preference share facility approved by Shareholders to Ubuntu-Botho Investments Proprietary Limited ("**UBI**") ("**Ubuntu-Botho Facility**") will also be transferred from ARC FS to ARC FS SubCo while the necessary security will remain in place; and
- iv. Sanlam Life acquiring a 25.0% minority shareholding in ARC FS SubCo through a subscription for new shares in ARC FS SubCo and the acquisition of shares from ARC FS.

Following the conclusion of the Proposed Transaction, Sanlam Life will be a 25.0% minority shareholder of ARC FS SubCo with ARC FS retaining the majority 75.0% shareholding.

African Rainbow Capital Proprietary Limited ("**ARC**") is a wholly-owned subsidiary of UBI which is, for the purposes of the JSE Listing Requirements, a material shareholder

in Sanlam and accordingly deemed a related party. ARC FS is owned 50.1% by ARC and 49.9% by the ARC Fund¹.

2. Rationale for the Proposed Transaction

The Proposed Transaction is a deliberate investment to contribute towards Sanlam's realisation of its South African growth strategy.

As noted in the circular to Shareholders dated 12 November 2018, UBI is Sanlam's B-BBEE shareholder and it was envisaged that ARC FS would assist Sanlam in the execution of its South African strategy, through enhancing empowerment in the financial services sector and in its own operations. In addition, it was agreed that ARC FS would *inter alia* hold strategic investments funded by way of the Ubuntu-Botho Facility. Through this investment, Sanlam will share in the value creation within the underlying ARC FS SubCo investments.

3. Overview of the Proposed Transaction

3.1. Background to ARC FS and ARC FS SubCo

ARC FS is the entity that holds all the financial services investments in the UBI group of companies ("**UBI Group**") other than the shareholding in Sanlam which is held directly by UBI. Additionally, ARC FS holds the other investments acquired through the utilisation of the Ubuntu-Botho Facility.

Prior to completion of the Proposed Transaction, ARC FS SubCo shall hold ARC FS's investments in the following financial services entities: Alexander Forbes Group Holdings ("**Alexander Forbes**"), Afrocentric Investment Corporation, Rand Mutual Holdings, Capital Legacy, Colourfield, Umvuso, Indwe, QED, African Rainbow Life, Global ASP, LifeCheq, Lima Mbeu, National Care Solutions, InFund Solutions, Khumo Capital, Sinayo Capital, Constellation Capital, Bravura, A2X, Edge Growth and Alternative Prosperity.

ARC FS SubCo shall also hold ARC FS's effective 25.0% shareholding in Sanlam Investments Holding Proprietary Limited ("**SIH**") through a newly incorporated investment holding company ("**SIH HoldCo**") in which Sanlam will hold the remaining 75.0%. This transaction was announced to Shareholders on 20 August 2020 and completed on 7 December 2020.

3.2. Transaction Base Valuation

The base valuation of the 25.0% minority shareholding in ARC FS SubCo at 30 June 2020 is R739 million ("**Transaction Base Value**") prior to acknowledging the impact of the subscription component of the Proposed Transaction as mentioned in 1(iv) above and 3.3. below.

Listed assets are valued at the 30-day VWAP at 30 June 2020. In the case of Alexander Forbes, dividends (special and ordinary) paid post 30 June 2020 (up to the Effective Date) and any premium applied by ARC in its own valuation are excluded from the valuation for the purposes of the Proposed Transaction. No marketability discount is applied to the valuation of the listed assets, as Sanlam Life will have a call

¹ An *en commandite* partnership established in South Africa and governed by its partnership agreement, of which African Rainbow Capital Investments Limited is the limited partner and UBI General Partner Proprietary Limited (a wholly-owned subsidiary of Ubuntu-Botho) is the general partner.

option over a number of unencumbered listed shares held by ARC FS SubCo at any given time ("**Call Option Shares**"). The number of Call Option Shares shall not exceed Sanlam Life's proportionate share of such listed shares held by ARC FS SubCo. The call option will provide liquidity to Sanlam Life by enabling it to acquire the Call Option Shares from ARC FS SubCo at any given time and sell it in the open market.

The 25.0% effective shareholding in SIH will be included in the Transaction Base Value at the base value of R787.5 million used for purposes of that transaction.

An additional discount of 10% was applied to the reported fair value of the unlisted assets as at 30 June 2020, which include relevant minority and liquidity discounts.

The total value of the portfolio has been adjusted for the net debt/cash included within the portfolio, including the amount outstanding in terms of the Ubuntu-Botho Facility. Furthermore, a deduction to the total value of the portfolio will be made for any dividends received from the unlisted assets to the extent distributed by ARC FS SubCo as permitted in terms of the transaction agreements until the effective date of the Proposed Transaction ("**Effective Date**").

3.3. Investment in ARC FS SubCo

Sanlam Life shall acquire its minority shareholding of 25.0% in ARC FS SubCo through a combination of an acquisition of shares from ARC FS (the "**Acquisition Shares**") and a subscription for new shares in ARC FS SubCo (the "**Issuance Shares**").

As a first step, Sanlam Life will subscribe for the Issuance Shares for an amount equal to R100 million. Following the subscription for the Issuance Shares, ARC FS SubCo will have at least R300 million in cash which will ensure that it is adequately capitalised and such funds shall be deployed to support the growth of ARC FS SubCo investments.

The Acquisition Shares will be acquired directly from ARC FS and the purchase consideration will take cognisance of the subscription amount paid in respect of the Issuance Shares.

3.4. Transaction Price

The aggregate base consideration for the Issuance Shares and the Acquisition Shares calculated with reference to the Transaction Base Value as set out in 3.2 will be R764 million and reflects the minimum consideration for the 25.0% minority shareholding in ARC FS SubCo.

The value of the unlisted assets, adjusted for any dividends – from the date of declaration thereof – from the underlying unlisted assets, will be rolled forward to the Effective Date at the funding rate applicable to the Ubuntu-Botho Facility (85% of the prime interest rate ("**Prime Rate**"). On the assumption that the Effective Date of the transaction is 1 May 2021 and no changes to the Prime Rate, the rolled forward aggregate consideration for the Issuance Shares and the Acquisition Shares is expected to be approximately R799 million.

3.5. Governance

Sanlam Life will be entitled to:

- i. Appoint such number of directors to the board of directors of ARC FS SubCo as is proportionate to its shareholding in ARC FS SubCo; and

- ii. Appoint members to the investment committee of ARC FS SubCo and all other subcommittees of the board of directors of ARC FS SubCo proportionate to its shareholding in ARC FS SubCo.

3.6. Asset Outperformance Participation Amount

Sanlam Life will pay an asset outperformance participation amount (inclusive of VAT) which shall be calculated based on net asset value (“NAV”) growth in excess of the stipulated hurdle rate, subject to, among others, the following provisions:

- The hurdle rate will range from risk free rate plus 3% to risk free rate plus 8%, with performance participation ranging from 4% to a maximum of 25%, respectively;
- The performance participation will be calculated every three years based on the growth in NAV at the end of each year, in the three-year period, not being less than the previous highest NAV;
- Prior declines in NAV and accumulated performance hurdle (from the Effective Date) will be recouped prior to re/commencing payments of performance fees;
- The arrangement will run for a period of nine years only; and
- The interest in SIH HoldCo will be excluded for purposes of determining the performance fee.

3.7. Independent Fairness Opinion

In terms of paragraph 10.7 of the Listings Requirements, the Proposed Transaction is categorised as a small related party transaction.

Accordingly, the Sanlam Board is required to provide the JSE with written confirmation from an independent professional expert confirming that the terms of the Proposed Transaction are fair insofar as the Shareholders are concerned (the “**Fairness Opinion**”). A positive Fairness Opinion is one of the suspensive conditions to the Proposed Transaction.

In compliance with paragraph 10.7 (b) of the Listings Requirements, the Sanlam Board appointed BDO Corporate Finance Proprietary Limited (“**BDO**”) as independent expert to provide it with the Fairness Opinion.

BDO has furnished an opinion to the Sanlam Board confirming that the terms of the Proposed Transaction are fair insofar as the Shareholders are concerned. This opinion has been provided to the JSE.

The opinion of BDO will be available for inspection at Sanlam’s registered office, 2 Strand Road, Bellville Cape Town, 7530, for a period of 28 days from the release of this announcement. It will also be made available during this period on request from Sanlam’s Company Secretary. Please email request to Sana-Ullah.Bray@sanlam.co.za.

3.8. Conditions and other key terms to the Proposed Transaction

In addition to receipt of a positive Fairness Opinion, the Proposed Transaction is subject to certain suspensive conditions referred to in paragraph 1, including (but not limited to) approvals from the relevant regulatory authorities to the extent required, and the implementation of the ARC FS Internal Restructure.

The definitive transaction agreements to give effect to the Proposed Transaction contain warranties and indemnities customary for a transaction of its nature.

The definitive transaction agreements include a shareholders' agreement in respect of ARC FS SubCo which incorporates an undertaking by ARC FS not to make material or strategic investments in businesses which compete with ARC FS SubCo, reserved matters in respect of which shareholders will need to agree, customary pre-emptive rights and deemed offer provisions.

3.9. Independent Committee Recommendation

The Sanlam Board established a Committee of Independent Non-Executive Directors ("**iNED Committee**"), comprising of all non-executive directors of Sanlam who are independent of Sanlam and UBI, to evaluate matters involving Sanlam and the UBI Group which may give rise to conflict of interest. The chairperson of the iNED Committee is Mr. Elias Masilela.

Following the iNED Committee's consideration of the Proposed Transaction, it recommended to the Sanlam Board that Sanlam Life enter into the Proposed Transaction.

4. Financial effects of the Proposed Transaction

The Proposed Transaction will be funded from Sanlam Life's existing cash resources.

Sanlam Life's 25.0% minority non-controlling shareholding in ARC FS SubCo shall be treated as an investment in an associate.

When considered separately, ARC FS SubCo's net assets at 30 June 2020 and losses attributable to the net assets as measured by loss after tax for the twelve-month period ended 30 June 2020 are R2,808 million and R230 million respectively, as prepared in terms of International Financial Reporting Standards ("IFRS"). The IFRS financial statements are not prepared on a fair value basis and therefore do not reflect changes in the valuation of the underlying investments. Accounting losses as a result of fair value changes relating to Alexander Forbes for the period it was held as a financial asset before it became an associate of ARC FS and the Alexander Forbes flip-up (pursuant to which ARC FS transferred all of its shares in Alexander Forbes Limited in return for shares in Alexander Forbes) were significant drivers of the loss. This information is unaudited and extracted from management accounts.

Sanlam has considered the information and is satisfied with the quality of the management accounts.

5. JSE transaction categorisation

In terms of the JSE Listing Requirements, the Proposed Transaction is a small related party transaction and accordingly it does not require Shareholder approval.

6. Effective Date

The Effective Date will be dependent on the fulfilment of the suspensive conditions to the Proposed Transaction and is expected to occur during the first half of 2021.

7. Conference call

A conference call for analysts, investors and the media will take place at 16h00 (South African time) today. Investors and media who wish to participate in the conference call should register by navigating to:

www.diamondpass.net/8129601

Registered participants will receive their dial-in number upon registration. We advise participants to register and dial in 5-10 minutes prior to the commencement of the conference call at 16h00.

Access Numbers for Recorded Playback:

Recorded playback will be available until 23 December 2020.

Access code for recorded playback: 38293

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Bellville
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