

Rand Merchant Investment Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2010/005770/06)
ISIN: ZAE000210688
Share code: RMI
(RMI or the Company)

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PROPOSED STRATEGIC RESTRUCTURE OF RMI

1. Introduction

Historically, RMI's strategy has focused on being an active and influential shareholder invested in a portfolio of principally life and property and casualty (P&C) insurance businesses which have an entrepreneurial and aspirational culture. More recently, RMI has deliberately focused on evolving its geographic and earnings mix to become an international P&C-biased insurance investor. In line with the ongoing execution of this strategy, and consistent with RMI's objective of continuing to maximise shareholder value via optimal corporate structures, shareholders are advised that the board of RMI (RMI Board) has resolved to restructure RMI's portfolio (the Restructure).

The Restructure comprises the following indivisible elements:

- the distribution of all the shares held by RMI in its two listed, life insurance-focused assets, Discovery Limited (Discovery) and Momentum Metropolitan Holdings Limited (Momentum Metropolitan), to RMI shareholders (the Unbundling); and
- an equity capital raise of up to R6.5 billion by way of a pro rata rights issue by RMI (Rights Issue), to optimise RMI's capital structure.

The RMI Board believes that the Restructure:

- provides structural alignment to the evolved strategy by creating a focused P&C investment group with exposure to, and influence over, unlisted insurers in South Africa, Australia, and the United Kingdom via OUTsurance Group Limited (OUTsurance), Youi Holdings Pty Ltd (Youi) and Hastings Group Holdings (Hastings);
- will create an efficient and agile corporate structure with regulatory robustness which optimises the capital structure and enhances the dividend yield; and
- will unlock material shareholder value through a reduction in the discount at which RMI currently trades to its underlying intrinsic value.

RMI has received in-principle support for the Restructure from shareholders, together representing approximately 65% of the issued shares in RMI. These shareholders comprise:

- RMI's largest shareholders, Remgro Limited (Remgro) and Royal Bafokeng Holdings (Pty) Limited (RBH);
- the founders of the RMB group of companies, Messrs Laurie Dippenaar, Paul Harris, GT Ferreira and Pat Goss; and
- RMI's large institutional shareholders, Coronation Asset Management (Pty) Ltd, Allan Gray (Pty) Limited and Abax Investments (Pty) Ltd (all on behalf of various clients).

The indicative salient terms, potential mechanism, and conditions of the Restructure are set out herein. Further details (which may, where circumstances dictate, be different to these indicative terms) will be provided to shareholders in subsequent announcements to be published on the Stock Exchange News Service (SENS) of the JSE Limited (JSE) in due course. It is envisaged that the Restructure will be completed by the end of Q2 2022.

2. The Unbundling

RMI is currently the largest shareholder in both Discovery and Momentum Metropolitan and is classified as a significant owner in the businesses in terms of the Financial Sector Regulation Act 9 of 2017.

RMI's association with Discovery and Momentum Metropolitan (historically through its sister company RMH Holdings Limited (RMH) and prior to the separate listing of the group's insurance businesses in 2011, which created RMI) dates from the early 1990s. The group acquired a controlling interest in Momentum Metropolitan in 1992 and also provided Adrian Gore and Barry Swartzberg with the seed funding and the life insurance licence to build Discovery in 1993.

Throughout this journey, RMI has achieved significant success with Discovery and Momentum Metropolitan by acting as the cornerstone shareholder, enjoying a close partnership with Adrian Gore, Barry Swartzberg, Hillie Meyer and their respective management teams and boards.

RMI believes that this approach has driven growth and innovation at Discovery and Momentum Metropolitan which has, in turn, created some of the most iconic financial services brands and products in South Africa and delivered strong financial returns. Discovery and Momentum Metropolitan have delivered c.308% and c.115% total return, respectively, since RMI's listing in 2011.

Discovery and Momentum Metropolitan are well-established businesses under the stewardship of leading management teams and boards. Both businesses have demonstrated the resilience of their underlying operations over many years, and particularly over the course of the devastating Covid-19 pandemic. The Unbundling will have no impact on the respective solvency positions of these businesses.

RMI is working with its management partners in these businesses to ensure a co-ordinated and managed process to enable the businesses to continue to focus on their core growth strategies, while providing more efficient ownership for RMI shareholders.

RMI will remain a committed and supportive strategic shareholder until the implementation of the Restructure. In this regard, shareholders are referred to the Discovery financial results for the year ended 30 June 2021 published on 2 September 2021, wherein Discovery advised its shareholders of a potential capital raise to fund its participation in a capital raise at Ping An Health Insurance. To the extent that Discovery funds this growth opportunity through equity rather than debt, RMI will support and intends to participate in this capital raising.

RMI's appointed non-executive directors will remain on the Discovery and Momentum Metropolitan boards respectively, until at least the implementation of the Restructure.

The Unbundling is intended to be executed by way of a pro rata distribution in specie by RMI in terms of section 46(1)(a)(ii) of the Companies Act 71 of 2008, as amended and section 46 of the Income Tax Act, 1962, as amended.

3. The Rights Issue

A consequence of the Unbundling is that RMI will require an equity raise to optimise its capital structure. A rights issue is considered the most equitable and efficient mechanism as it provides all shareholders with the opportunity to participate in the capital raise on a pro rata basis, ensuring no nominal dilution.

RMI's intention is to implement a fully committed and/or underwritten Rights Issue.

The gross proceeds of up to R6.5 billion will be used to:

- reduce RMI's gross debt from R11.8 billion as at 30 June 2021 to a gross debt level more commensurate with the asset base and anticipated dividend flow of the remaining assets, as RMI's shareholdings in Discovery and Momentum Metropolitan have served as collateral for the current leverage structure;

- sustain a target leverage ratio (defined as gross debt/attributable earnings) of no more than 2.5x;
- maintain a contingency buffer to support portfolio companies, as required; and
- target a dividend pay-out ratio of 50% of free cash flow generated.

RMI's primary lending banks, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Standard Bank of South Africa Limited, have indicated their support for the Restructure and the resultant capital structure and financial leverage position of RMI post implementation of the Restructure.

4. RMI: post the Restructure

4.1 RMI: P&C portfolio composition post the Restructure

Following the Unbundling, RMI will reflect, predominantly, the attractive fundamentals of:

- OUTsurance (89.1%), including OUTsurance's Australian business, Youi; and
- Hastings (30%), in partnership with the listed Nordic insurer, Sampo Group Plc (Sampo) that holds the remaining 70% interest.

Collectively, OUTsurance, Hastings and Youi provide access to c. 5.2 million customers, gross written premiums of more than US\$2 billion and leading positions in their respective geographies of South Africa (1 million policies, c. 18% market share in personal lines), Australia (1.1 million policies, c. 4% market share) and the United Kingdom (3.1 million policies, c. 8.3% market share). The underlying businesses' core financial metrics are robust and competitive relative to a global peer set.

	OUTsurance	Hastings	Youi
Gross written premium (2016 - 2021) (CAGR)	6.0%	6.3%	8.4%
Combined ratio OUTsurance and Youi: 30 June 2021 Hastings: 31 December 2020	76.0%	93.1%(1)	87.7%
Cash conversion OUTsurance and Youi (historic average) Hastings: 31 December 2020	>80%	66%	>80%
Solvency coverage ratio OUTsurance and Youi: 30 June 2021 Hastings: 31 December 2020 (1) Hastings tracks a combined operating ratio	1.8x	1.7x	3.0x

Strong cash generation and resilient capital positions underpin an attractive dividend pay-out profile for RMI post the Restructure. Shareholders are referred to the RMI results announcement for the year ended 30 June 2021 published on 20 September 2021 for detail of RMI's financial performance. The OUTsurance annual report for the year ended 30 June 2021 is available at www.outsurance.co.za.

OUTsurance, Youi and Hastings have at their core, sophisticated underwriting underpinned by operational excellence and digital enablement, which continues to generate strong margins. They provide innovative products and offerings, enabled by newly built and agile next generation insurance platforms, driving customer acquisition, retention and ultimately growth. Importantly, all the businesses are currently investing in future growth through organic and new initiatives and partnerships that will expand market segmentation, drive premium growth and ultimately profitability as scale is achieved. In addition to the organic growth initiatives at the P&C businesses, RMI will continue to pursue potential inorganic growth opportunities in attractive P&C markets.

An important tenet of the RMI investment approach is the ability of the RMI portfolio companies to form partnerships and, where possible, foster and establish intra-group links between its non-competing P&C local champions in their respective markets:

- The four-way partnership between RMI, OUTsurance/Youi, Hastings and Sampo (through its subsidiary, If P&C Insurance) facilitates a collaboration platform leveraging the 'best of' capabilities of each to create group effects and benefits;
- Examples include:
 - Hastings leveraging OUTsurance's call centre capabilities to outsource capacity to South Africa;
 - ongoing exchange between the businesses of information and ideas across topics such as pricing, direct/digital marketing capabilities, brand building, bodily injury insurance; and
 - capital optimisation with the financial strength of the shareholders providing opportunities for Hastings to reduce reliance on reinsurance and optimise pricing and structuring; and
 - Hastings and If P&C have identified areas of knowledge sharing and capital optimisation actions.

4.2 Hastings option

RMI holds its Hastings interest through Main Street 1353 Proprietary Limited (Main Street), an entity jointly owned by RMI and OUTsurance. The privatisation of Hastings in partnership with Sampo was completed in November 2020. Per the terms of a shareholders' agreement entered between Main Street and Sampo, RMI and OUTsurance have an option to increase their ownership in Hastings from 30% to up to 40% by May 2022 at the original delisting offer price (Hastings Option). Any decision to exercise the Hastings Option, will be based on the financial merits of the potential transaction at the time. If exercised, the post Restructure balance sheet allows for RMI to fund its portion of the Hastings Option.

4.3 RMI Investment Managers Group and AlphaCode

RMI has a portfolio with a net asset value of R1.6 billion (representing 2.4% of its reported net asset value as at 30 June 2021), in two emerging businesses in its portfolio, being its fintech businesses held through AlphaCode, as well as RMI Investment Managers (RMI IMG). These businesses comprise investee companies in various stages of growth and capital requirements.

The underlying portfolio has been resilient, with a positive growth outlook for the businesses:

- RMI IMG: despite the difficult operating environment, RMI IMG's financial performance was better than expected due to both strong assets under management (AUM) growth (24% year-on-year to a combined R168 billion AUM across the affiliate portfolio) and the generation of performance fees; and
- AlphaCode: the portfolio companies continue to meet and exceed key financial metrics, attract growth funding from blue chip investors and are recognised as leaders in their chosen markets.

RMI remains committed to these businesses and its co-shareholders and management partners and will continue to support, drive scale, profitability, relevance (in the context of the overall RMI portfolio) and liquidity.

4.4 RMI: strategic positioning post the Restructure

Post the Restructure, RMI will continue to position itself as a strategic, active and value adding specialised investor focused on the P&C insurance segment. RMI will build on its track record of investing in dynamic companies with unique and disruptive business models and working with its management partners on long-term strategy, capital allocation, incentive structures, orderly succession planning, facilitating M&A, investment in growth opportunities and fostering collaboration, where appropriate.

RMI's focus post the Unbundling, will exhibit a preference for unlisted businesses that are not otherwise accessible to investors which, over time, should result in a market capitalisation more reflective of the underlying intrinsic value of the portfolio as its management partners are able to flexibly drive long-term strategic opportunities outside of public market constraints and investment horizons.

Any future investment by RMI will be assessed against its strategy, undertaken within its capital management framework and in line with its financial return requirements. Further detail on RMI's future growth strategy will be provided prior to the completion of the Restructuring.

5. Approvals required and timetable

Implementation of the Restructure will be subject to conditions precedent customary for transactions of this nature, including obtaining the necessary regulatory (including the Prudential Authority) and shareholder approvals. The RMI shareholder authorisations required to implement the Rights Issue are expected to be obtained on or about the date of the Company's annual general meeting, which is anticipated to be held on or about 24 November 2021.

The Rights Issue is intended to be implemented prior to the Unbundling and completion of the Restructure.

A detailed announcement relating to the terms of the Unbundling and the Rights Issue, including the related timetable, will be made following receipt of the requisite regulatory approvals which is expected in the first quarter of the 2022 calendar year.

The RMI Board reserves the right, in its discretion, to decide not to proceed with the Restructure and/or to change any aspects thereof.

6. Investor presentation and results for the year ended 30 June 2021

RMI's results presentation is expected to take place virtually at 12pm SAST on Monday, 20 September 2021 and can be accessed by qualified investors via the following link: <https://event.webinarjam.com/channel/RMIH> or via an invitation on RMI's website at: www.rmih.co.za.

An investor presentation on the Restructure, the results for the financial year ended 30 June 2021 and a recording of the presentation will also be available on RMI's website: www.rmih.co.za.

The financial information contained in this announcement has not been reviewed or reported on by RMI's auditors or reporting accountants.

20 September 2021

Sole financial adviser and JSE transaction sponsor:

Merrill Lynch South Africa (Pty) Ltd t/a BofA Securities

Legal adviser:

Webber Wentzel

Disclaimers

Shareholders should note that the RMI Board reserves the right, in its discretion, to decide not to proceed with the Restructure and, as such, the Restructure may or may not proceed.

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