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The Directors  
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15 September 2020

Dear Sirs

## **REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO THE DIRECTORS OF TRADEHOLD LIMITED REGARDING THE DISPOSAL OF 1,111,212 ORDINARY SHARES IN REWARD INVESTMENTS LIMITED WHICH CONSTITUTES A SMALL RELATED PARTY TRANSACTION**

### **Introduction**

Tradehold Limited (“TDH” or the “Company”) has entered into an agreement with Reward Investments Limited (“Reward”), a subsidiary of Mettle Investments Limited (“Mettle”) on Tuesday, 15 September 2020 (“Buyback Agreement”) in terms of which Reward will buyback 1,111,212 ordinary shares of £1.00 each in its share capital (the “Buyback Shares”), constituting 10% of its issued share capital, from Tradegro S.á.r.l. Limited (“Tradegro”), a wholly owned subsidiary of TDH, for a cash consideration of £2,600,000 (“Consideration”) (the “Buyback”).

### **Fair and reasonable opinion required in terms of the Listings Requirements**

Mettle, the 90% shareholder in Reward, is an associate of Christo Wiese, a major shareholder and non-executive director of TDH and consequently a related party to TDH.

The Buyback constitutes a small related party transaction and in terms of Section 10.7 of the JSE Limited (“JSE”) Listing Requirements (“Listing Requirements”) TDH is required to, prior to completing the Buyback, provide the JSE with written confirmation from an independent professional expert acceptable to the JSE that the terms of the Buyback are fair as far as TDH shareholders are concerned (the “Fairness Opinion”).

BDO Corporate Finance Proprietary Limited (“BDO Corporate Finance”) has been appointed by the board of directors of TDH (“Board” or “Directors”) to provide the Fairness Opinion which will be available for inspection at the registered offices of TDH during normal business hours for a period of 28 business days from the date of the announcement published in respect of the Buyback.

### **Responsibility**

Compliance with the Listings Requirements is the responsibility of the Board. Our responsibility is to report on the fairness of the terms of the Buyback.

### **Explanation as to how the term “fair” applies in the context of the Buyback**

Schedule 5.7 of the Listings Requirements states that the “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received by shareholders, as a result of a corporate action, are equal to or greater than the value ceded by a company.

The Buyback would be considered fair to TDH if the Consideration is more than or equal to the fair value of the Buyback Shares, or unfair if the Consideration is less than the fair value of the Buyback Shares.

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## Details and sources of information

In arriving at our findings, we have relied upon the following principal sources of information:

- Buyback Agreement;
- Signed and draft consolidated and individual company financial statements of Reward for the year ended 28 February 2019 and 29 February 2020 respectively;
- Management accounts of Reward and Reward's 82.5% held subsidiary, Reward Finance Group Limited ("RFG") for the year ended 29 February 2020 and year-to-date period ended 31 July 2020;
- Forecast financial information of RFG for the financial years ending February 2021 to 2024;
- Discussions with Directors, management and/or advisors of TDH regarding the rationale for the Buyback;
- Discussions with Directors, management and/or advisors of TDH regarding historical and forecast financial information;
- Discussions with Directors, management and/or advisors of TDH on prevailing market, economic, legal and other conditions which may affect underlying value; and
- Publicly available information relating to Reward as well as peer companies and the specialist lending sector in general.

The information above was secured from:

- Certain Directors and management of TDH and their advisors; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing Reward and the specialist lending sector in the markets where Reward operates.

## Procedures

In arriving at our findings we have undertaken the following procedures and taken into account the following factors:

- Reviewed the terms and conditions of the Buyback Agreement;
- Reviewed the audited and other financial information related to Reward, as detailed above;
- Reviewed and obtained an understanding from management of TDH as to the historical and forecast financial information of Reward;
- Reviewed and obtained an understanding from management of TDH as to the forecast financial information of RFG for the financial years ending February 2021 to 2024. This review included an assessment of the recent historical performance to date as well as the reasonableness of the outlook assumed based on discussions with management and assessed the achievability thereof by considering historic information as well as macro-economic and industry-specific data;
- Performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the specialist lending sector in the United Kingdom generally;
- Held discussions with management of TDH regarding the past and current business operations, regulatory requirements, financial condition and future prospects of Reward and such other matters as we have deemed relevant to our inquiry;
- Held discussions with Directors, management and/or advisors of TDH regarding the rationale for the Buyback;
- Determined the fair value of the Buyback Shares by applying appropriate generally accepted valuation approaches and methods in use in the market from time to time in order to derive the fair value of a Reward share;
- Assessed the long-term potential of Reward;
- Performed a sensitivity analysis on key assumptions included in the valuation;
- Evaluated the relative risks associated with Reward and the specialist lending sector;

- Reviewed certain publicly available information relating to Reward and the specialist lending sector that we deemed to be relevant, including Company announcements and media articles, including available analyst coverage of the United Kingdom specialist lending sector in general; and
- Where relevant, representations made by Directors, management and/or advisors were corroborated to source documents or independent analytical procedures were performed by us, to examine and understand the industry in which Reward operates, and to analyse external factors that could influence the business of Reward.

### Assumptions

We arrived at our findings based on the following assumptions:

- That all agreements that are to be entered into in terms of the Buyback Agreement will be legally enforceable as against the relevant parties thereto;
- That the Buyback Agreement will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of the Company; and
- That reliance can be placed on the financial information of Reward.

### Appropriateness and reasonableness of underlying information and assumptions

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our findings by:

- Placing reliance on audit reports in the financial statements of Reward; and
- Determining the extent to which information in respect of Reward was confirmed by documentary evidence as well as our understanding of Reward and the economic environment in which it operates.

### Limiting conditions

This Fairness Opinion is provided in connection with and for the purposes of the Buyback. This Fairness Opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of shareholders.

Individual shareholders' decisions regarding the Buyback may be influenced by such shareholders' particular circumstances and accordingly individual shareholders should consult an independent advisor if in any doubt as to the merits or otherwise of the Buyback.

We have relied upon and assumed the accuracy of the information provided to us in deriving our conclusions. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of this Fairness Opinion, whether in writing or obtained in discussion with management of TDH, by reference to publicly available or independently obtained information. While our work has involved an analysis of, *inter alia*, the annual financial statements, and other information provided to us, our engagement does not constitute an audit conducted in accordance with generally accepted auditing standards.

Where relevant, forward-looking information of Reward relates to future events and is based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results of Reward will correspond to those projected. We have, however, compared the forecast financial information to past trends as well as discussing the assumptions inherent therein with management of Reward.

We have also assumed that the Buyback will have the legal consequences described in discussions with and materials furnished to us by representatives and advisors of the Company and we express no opinion on such consequences.

Our opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such developments.

We have been neither a party to the negotiations entered into in relation to the Buyback nor have we been involved in the deliberations leading up to the decision on the part of the Board to enter into the Buyback.

We do not, by this letter or otherwise, advise or form any judgement on the strategic, commercial or financial merits or risks of the Buyback. All such evaluations, advice, judgements or comments remain the sole responsibility

of the Board and their advisors. We have however, drawn upon such evaluations, judgements and comments as we deem necessary and appropriate in arriving at our opinion.

It is also not within our terms of reference to compare the merits of the Buyback to any alternative arrangements that were or may have been available to TDH. Such comparison and consideration remain the responsibility of the Board and their advisors.

### **Independence, competence and fees**

We confirm that neither BDO Corporate Finance nor any person related to us (as contemplated in the Listings Requirements), have any existing or continuing relationship with TDH or with any party involved in the Buyback as contemplated in paragraph 5.12 of Schedule 5 to the Listings Requirements and have not had such relationship within the immediately preceding two years. We also confirm that we have the necessary qualifications and competence to provide the Fairness Opinion on the Buyback.

Furthermore, we confirm that our professional fees are not contingent upon the success of the Buyback. Our fees are not payable in TDH shares.

### **Valuation approach**

Reward is a holding company of a group engaged in asset-based lending and invoice discounting via its 82.5% held subsidiary, RFG.

The valuation of the Buyback Shares has been prepared on the basis of “Market Value”. The generally accepted definition of “Market Value” is the value as applied between a hypothetical willing vendor and a hypothetical willing prudent buyer in an open market and with access to all relevant information.

“Market Value” for financial services firms is commonly derived by applying one or more of the following valuation methodologies:

- Fair price to book value (“P/BV”);
- Price Earnings (“PE”) Multiples; and
- Discounted cash flows (“DCF”) models of which dividend discount model (“DDM”) and residual income model (“RI”) are the primary approaches adopted in the market.

We performed a valuation of RFG by applying the DCF methodology as our primary approach based on both the DDM and RI methods. In addition, we considered the fair P/BV approach as a secondary methodology to support the results of the DCF valuation.

We note that RFG is funded via three principal loans, an intercompany group loan from Reward as well as loans from Foresight Group and Sandy Limited. The loans from Reward and Sandy Limited are subordinated and the Foresight Group loan is subject to a covenant that the equity of RFG (including subordinated loans treated as equity) must be at least 50% of the value of the Foresight Group loan. Interest on the Foresight Group loan is charged at a fixed rate of 7.4% per annum. Interest on the Sandy Limited loan is charged at a fixed blended rate of 6.875%. Interest on the Reward loan is charged at 3-month sterling LIBOR plus 3%.

The valuation of Reward is based on the aggregate of a 82.5% interest in RFG plus the fair value of the Reward loan, determined by applying an appropriate market-related borrowing rate to discount forecast cash flows, as well as other financial assets held by Reward being primarily cash balances.

The key assumptions are detailed below:

- RoE - we estimate this to be 12% based on actual results and the forecast for FY24;
- Ke - We calculate the cost of equity based on the following formula:  $Ke = \text{Risk free rate ("Rf")} + (\text{beta} * \text{Equity Risk Premium ("ERP")})$  where  $Rf = 2.0\%$  (based on the current UK 10-year bond yield of 1.2% and a quantitative easing adjustment of 0.8%),  $\text{beta} = 1.2x$ ,  $\text{ERP}$  is 6.0% and unsystematic risk premium is 3.5%. This translates into a  $Ke$  of 12%; and
- Terminal g - We apply a 2% terminal “g” which is equivalent to long-term UK GDP forecasts.

The valuation was performed taking cognisance of risk and other market and industry factors affecting RFG.

In performing our valuation analysis of RFG, we considered the sensitivity of the valuations to changes in assumptions around key value drivers. We found that the key internal value drivers of the DCF valuation of RFG are estimates of projected earnings growth and sustainable return on equity.

External value drivers to the DCF valuation, including key macro-economic parameters and prevailing market and industry conditions in the micro lending industry, were considered in assessing the forecast cash flows and risk profile of Reward.

The sensitivity analysis did not indicate a sufficient effect to alter our opinion in respect of the Buyback.

### **Conclusion**

BDO Corporate Finance has considered the terms and conditions of the Buyback and, based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Buyback are fair to TDH shareholders.

Our views are based on market, economic, industry, monetary and other conditions (where applicable) prevailing on and our analysis of the information made available to us up to Monday, 14 September 2020 (the “Last Practicable Date”). We assume no responsibility to update, revise or reaffirm our opinion, factors or assumptions in light of any subsequent development after the Last Practicable Date that may affect our opinion or factors or assumptions contained herein.

We have assumed that all conditions precedent, including any material regulatory and other approvals or consents required in connection with the Buyback have been fulfilled or obtained.

Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

Yours faithfully



N Lazanakis

Director

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