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25 September 2017

Pepper Receives Improved Proposal from KKR Credit to allow 10 cent per share Special Dividend

Pepper Group Limited (“**Pepper**”) announces that it has received an improved proposal from Red Hot Australia Bidco Pty Ltd (“**Bidco**”), an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates (“**KKR Credit**”) under which Pepper shareholders receiving Cash Consideration¹ under the Scheme that Pepper and KKR Credit agreed to propose to Pepper shareholders on 10 August 2017² will receive value of \$3.70 a share, comprising:

- \$3.60 in cash per share under the Scheme; plus
- a special dividend (the “**Special Dividend**”) of up to 10 cents per share on all shares held by Pepper shareholders as at the Dividend Record Date³ for which the shareholder receives Cash Consideration (and which will be fully franked),

(the “**Improved Proposal**”).

As a result of KKR Credit’s Improved Proposal, the Pepper Board (including each member of the Independent Board Committee) has determined to enter into an amending deed with Bidco to give effect to the Improved Proposal and unanimously recommends that Pepper shareholders vote in favour of the Scheme (as amended) in the absence of a Superior Proposal and an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Pepper shareholders. The amending deed is attached as Appendix A.

KKR Credit has indicated that the Improved Proposal represents KKR Credit’s final offer and will not be increased, in the absence of a Superior Proposal.

Perpetual Limited (and its related bodies corporate) (together “**Perpetual**”) which controls 14.76% of the total Pepper shares has indicated to Pepper that in light of the Improved Proposal, it intends to vote in favour of the Scheme, in the absence of a proposal which Perpetual considers (acting in good faith) is a superior proposal. Perpetual has given Pepper its consent to the inclusion of this statement of intention in this announcement.

¹ Either because Pepper Shareholder did not make a valid Election to take either the Scrip or Retention Option, or due to the scale back arrangements.

² See Pepper’s announcement of the Scheme dated 10 August 2017 (the “Scheme Announcement”).

Capitalised terms that are not defined herein have the meaning given to them in the Scheme Announcement

³ The Dividend Record Date for the payment of the Special Dividend will be the third business day after the date on which Pepper lodges the court order approving the Scheme with ASIC, with the record date for the Scheme being the fifth business day after such date. Under the amending deed, Pepper will not register any transfers of shares after the Dividend Record Date

Further, Mr Seumas Dawes, Chairman of Pepper, Mr Michael Culhane, Group Chief Executive Officer and Mr Cameron Small, Group Chief Financial Officer, and each of their respective affiliates, who together hold or control 35.4% of the total shares⁴ have confirmed their intention to vote in favour of the Scheme, to elect the Equity Alternative, and to not dispose of, or purport or agree to dispose of, any of the Pepper shares they control until and including the Implementation Date otherwise than pursuant to the Scheme, in the absence of the Pepper Board recommending a Superior Proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Pepper shareholders.

Special Dividend

The payment of the Special Dividend will not reduce the cash amount to be paid under the Scheme, or the consideration under the Scrip Option. Further, the payment of the Special Dividend is separate to, and will not reduce, the interim dividend of 3 cents per share determined by the Pepper Board in respect of the half year ended 30 June 2017 and payable on 5 October 2017.

Under the amending deed, Pepper has undertaken to convene an Extraordinary General Meeting of Pepper shareholders for the purposes of approving by a resolution or resolutions as required under the Corporations Act and Pepper's Constitution to permit a special dividend of this kind. This meeting will immediately precede the Scheme meeting, currently expected to be held on 15 November 2017.

The approval of the Pepper shareholders by the requisite majorities to the Scheme is linked to the approval of the Pepper shareholders to the amendment of Pepper's Constitution to permit the payment of the Special Dividend, such that each approval is only effective if the other approval is also obtained.

Subject to shareholders approving the amendment of Pepper's Constitution to permit the payment of the Special Dividend at the Extraordinary General Meeting and compliance with all relevant laws at the time, the Pepper Board intends to determine the Special Dividend in an amount of 10 cents per eligible share and on a fully franked basis. The Special Dividend would only become payable if the Scheme becomes Effective and be paid on or before implementation of the Scheme.

Under the amending deed, both the approval of shareholders of the amendment of Pepper's Constitution to permit the payment of the Special Dividend at the Extraordinary General Meeting and the determination by the Pepper Board of the Special Dividend are conditions precedent to the Scheme becoming Effective.

⁴ Excluding certain incentive securities held directly or indirectly by each of Mr Culhane and Mr Small, in respect of which they do not currently have voting rights.

Next Steps

Pepper shareholders do not need to take any action at the present time.

A Scheme Booklet containing information relating to the Scheme, reasons for the Directors' unanimous recommendation, details of the Scheme meeting and the Independent Expert's Report is expected to be sent to shareholders in October 2017.

Shareholders will be given the opportunity to vote on the Scheme at a meeting which is expected to be held in mid-November 2017. Subject to shareholder approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in December 2017.

Pepper is being advised by Citigroup and Jones Day. The Independent Board Committee is being advised by Highbury Partnership and Herbert Smith Freehills.

ENDS

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About Pepper Group Limited

Pepper Group Limited (Pepper) is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally, many of which are underserved by traditional bank and other prime lenders. Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001.

Pepper offers a broad range of lending products including residential mortgages, auto and equipment finance, point-of-sale finance and personal loans. Pepper also provides loan servicing for its own products as well as for third parties across residential mortgages, consumer unsecured and secured loans and commercial real estate (CRE) backed loans. Pepper has become a specialist lending and loan servicing group through a combination of organic growth and targeted acquisitions across Australia, New Zealand, Ireland, the United Kingdom, Spain, South Korea, and Hong Kong and China through its 12% equity interest in PrimeCredit.

At 30 June 2017, Pepper had \$53.3 billion of assets under management (AUM).

APPENDIX A
SID SECOND AMENDMENT DEED

For personal use only



Second amending deed

Pepper Group Limited

Red Hot Australia Bidco Pty Limited

Jones Day
Level 41, Aurora Place
88 Phillip Street
Sydney NSW 2000
Tel: 61 2 8272 0500
Fax: 61 2 8272 0599
www.jonesday.com

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Date 25 September 2017

Parties

Pepper Group Limited (ACN 094 317 665) of 27/177 Pacific Highway, North Sydney, NSW 2060 (**Pepper**)

Red Hot Australia Bidco Pty Limited (ACN 620 321 600) of c/ KKR Credit Advisors (US) LLC, 555 California Street, 50th Floor, San Francisco, California 94104 (**Bidder**)

Background

- A The parties entered into a Scheme Implementation Deed on 10 August 2017 (as varied by an amending deed dated 21 September 2017) setting out the terms on which the Bidder will acquire at least 90% of the shares in Pepper by way of a scheme of arrangement to be implemented between Pepper and its shareholders (**Scheme Implementation Deed**).
- B Clause 18.1 of the Scheme Implementation Deed provides that the Scheme Implementation Deed can only be amended or replaced by another document executed by or on behalf of each of the parties.
- C The parties wish to amend the Scheme Implementation Deed in the manner set out in this deed.

Agreed terms

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

Unless the context otherwise requires, in this deed, a word or phrase defined in the Scheme Implementation Deed has the same meaning as in the Scheme Implementation Deed.

1.2 Interpretation

Clause 1.2 of the Scheme Implementation Deed applies to this deed.

2. AMENDMENTS TO SCHEME IMPLEMENTATION DEED

2.1 Amendment

- (a) The Scheme Implementation Deed is amended as follows:
- (i) Clause 1.1 is amended so that the following definition is inserted immediately before the definition of 'EBITDA':
- 'Dividend Record Date has the meaning given in the Scheme.'*
- (ii) Clause 1.1 is amended so that the following definition is inserted immediately before the definition of 'Subsidiary':
-

'Special Dividend means a fully franked (to the extent franking credits are available) special dividend, payment of which is conditional upon the Scheme becoming Effective and to be payable on or before the Implementation Date, of \$0.10 per Pepper Share on all Pepper Shares held by a Pepper Shareholder as at the Dividend Record Date:

(a) if the Pepper Shareholder has not made a valid Election;

(b) that will be Transferring Shares by operation of clause 6.5(b) of the Scheme; or

(c) in respect of which clause 5.4(g) of the Scheme will operate to deem the Pepper Shareholder to receive Scheme Consideration in the form of cash.'

- (iii) Clause 1.1 is amended so that subsection (p) of the definition of 'Pepper Prescribed Occurrence' is deleted and replaced with:

'Pepper makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie), other than the Permitted Dividend, the Special Dividend or to a Pepper Group Member;'

- (iv) Clause 1.1 is amended so that the following definition is inserted immediately before the definition of 'Whole Loan Sale':

'Transferring Share has the meaning given in the Scheme.'

- (v) Clause 3.1(c) is deleted and replaced with the following:

'Shareholder approval: Pepper Shareholders:

(i) agree to the Scheme at the Scheme Meeting by requisite majorities under section 411(4)(a)(ii) of the Corporations Act; and

(ii) pass a resolution or resolutions at the extraordinary general meeting convened in accordance with clause 5.2(u) as required under the Corporations Act and Pepper's constitution to permit the payment of the Special Dividend.'

- (vi) Clause 3.1(n) is amended by deleting the word 'and' from the end of that clause.

- (vii) Clause 3.1(o) is amended by deleting '.' and replacing it with '; and'.

- (viii) A new clause 3.1(p) is inserted immediately following clause 3.1(o) as follows:

'Declaration or determination of Special Dividend: the Special Dividend is either declared or determined by the Pepper Board.'

- (ix) Clause 3.2(d) is amended by adding a reference to 'clause 3.1(p)'.

- (x) Clause 5.2(s) is amended by deleting the word 'and'.

- (xi) Clause 5.2(t) is amended by deleting '.' and replacing it with '; and'.
-

(xii) A new clause 5.2(u) is inserted as follows:
'convene an extraordinary general meeting of Pepper Shareholders for the purpose of them considering and voting on a resolution or resolutions as required under the Corporations Act and Pepper's constitution to permit the payment of the Special Dividend.'

(xiii) Clause 7.1(b)(i) is amended by the insertion of *'(including, for avoidance of doubt, payment of the Special Dividend)'* immediately after the word 'deed'.

(b) Annexure A of the Scheme Implementation Deed is amended as follows:

(i) Clause 1.1 is amended so that the following definition is inserted immediately before the definition of 'Effective':

'Dividend Record Date means 7.00pm on the date that is three Business Days after the Effective Date, or such other date as may be agreed in writing between Bidder and Pepper or as may be required by ASX.'

(ii) Clause 1.1 is amended to delete and replace the definition of 'Qualifying Tax Payer' with the following:

'Qualifying Tax Payer means a Scheme Shareholder other than a Foreign Scheme Shareholder who has:

(a) declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in a Taxable Event for them or their associate (including a beneficiary of a trust of which they are the trustee) without the benefit of Rollover Relief; and

(b) lodged with their Election Form provided to Pepper a copy of a certificate from their professional tax adviser (in a form prescribed by Pepper) certifying that the declaration made by them under paragraph (a) is correct.'

(iii) Clause 1.1 is amended to delete and replace the definition of 'Record Date' with the following:

'Record Date means 7.00pm on the date that is five Business Days after the Effective Date, or such other date as may be agreed in writing between Bidder and Pepper or as may be required by ASX.'

(iv) A new clause 5.4(g) is inserted as follows:

'If a Scheme Shareholder has made a valid Holdco Election and this clause 5 has been applied to their holding of Scheme Shares, with the effect that that Scheme Shareholder will receive Scheme Consideration in the form of both Holdco Shares and cash, then that Scheme Shareholder will be deemed to receive cash Scheme Consideration in respect of that number of Scheme Shares equal to the total amount of cash to be paid to that Scheme Shareholder as Scheme Consideration divided by \$3.60.'

- (v) Clause 7.1 is amended to replace each reference to the words 'Record Date' with 'Dividend Record Date'.
- (vi) Clauses 7.2(a), 7.2(b) and 7.2(d) are amended to replace the words 'Record Date' with 'Dividend Record Date'.
- (c) The amendments to the Scheme Implementation Deed (including any Annexures) take effect on and from the date of this deed.

2.2 Amendments not to affect validity, rights, obligations

- (a) This deed is intended only to vary the Scheme Implementation Deed and not to terminate, discharge, rescind or replace it.
- (b) The amendments to the Scheme Implementation Deed do not affect the validity or enforceability of the Scheme Implementation Deed.
- (c) Nothing in this deed:
 - (i) prejudices or adversely affects any right, power, authority, discretion or remedy which arose under or in connection with the Scheme Implementation Deed before the date of this deed; or
 - (ii) discharges, releases or otherwise affects any liability or obligation which arose under or in connection with the Scheme Implementation Deed before the date of this deed.

2.3 Confirmation

On and with effect from the date of this deed, each party is bound by the Scheme Implementation Deed as amended by this deed.

2.4 Acknowledgement

Each party acknowledges that this deed is issued in accordance with the Scheme Implementation Deed.

3. GOVERNING LAW

This deed is governed by the laws of New South Wales, Australia. Each party irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales, Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this deed.

4. COUNTERPARTS AND AUTHORITY

This deed may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

For personal use only

Executed and delivered as a deed.

Executed by Pepper Group Limited
(ACN 094 317 665) in accordance with
section 127 of the *Corporations Act 2001*
(Cth):


Director Signature

Director/Secretary Signature

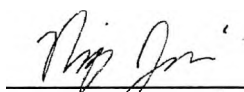
Print Name

Print Name

Executed by Red Hot Australia Bidco Pty Limited (ACN 620 321 600) in accordance
with section 127 of the *Corporations Act 2001*
(Cth):



Director Signature



Director/Secretary Signature

YEW HWAN CHEAM

Print Name


NIRAJ JAVERI

Print Name

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Executed and delivered as a deed.

Executed by Pepper Group Limited
(ACN 094 317 665) in accordance with
section 127 of the *Corporations Act 2001*
(Cth):



Director Signature
Melanie Willis

Print Name



Director/Secretary Signature
JOHN WILLIAMS

Print Name

Executed by Red Hot Australia Bidco Pty Limited
(ACN 620 321 600) in accordance
with section 127 of the *Corporations Act 2001*
(Cth):

Director Signature

Print Name

Director/Secretary Signature

Print Name
