

**EFFICIENT GROUP LIMITED**

Incorporated in the Republic of South Africa
(Registration number 2006/036947/06)
Share code: EFG ISIN: ZAE000151841
("Efficient" or "the Company")

CANCELLATION OF PROFIT SHARE AGREEMENT AND RENEWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION AND BACKGROUND

Shareholders are referred to the cautionary announcement dated 15 June 2018 ("**Cautionary Announcement**") wherein shareholders were advised that the Company had entered into negotiations for the cancellation of a profit sharing agreement which would result in future profits flowing to the Company.

On 12 August 2013, Efficient entered into the Joint Management and Profit Incentive Agreement with Robert Henry Walton ("**RW**"), as amended from time to time ("**Main Agreement**"), in terms of which, *inter alia*, it was agreed that RW would establish, contribute to and manage the businesses of the "**Efficient Invest Companies**" in return for a share of the profits of the "**Business**".

The Efficient Invest Companies comprise the Company's wholly-owned subsidiaries, Boutique Collective Investments (RF) Proprietary Limited ("**BCI**"), Boutique Investment Partners Proprietary ("**BIP**") and Instit Proprietary Limited ("**Instit**"). The Business comprises the collective businesses of the Efficient Invest Companies and in the case of Instit, includes Instit's 30% equity investment in Rudarius Capital Management Proprietary Limited ("**RCM**").

In terms of the provisions of the Main Agreement, RW is entitled to 66% of the net profit before tax (before payment of any profit share) of the Business ("**NPBT**") ("**Efficient Invest Profit Share**"), and the Company is entitled to 34% of the NPBT in the Business ("**EFG Profit Share**"). Additionally, BCI and RW entered into arrangements with certain employees of the Efficient Invest Companies nominated by RW ("**Nominees**") to participate in the Efficient Invest Profit Share, and with certain initial partners of BCI ("**Participating Partners**") who participate in the Efficient Invest Profit Share attributable to the profits of BCI ("**Profit Share Agreement**").

In terms of a contracted right in favour of Efficient that it may cancel the Main Agreement at 31 August 2018, as well as the earnings enhancing opportunity it creates for the Company by cancelling same, Efficient has elected to terminate, and RW and the Nominees are required to accept termination thereof in return for the payment of the Cancellation Fee set out in paragraph 2.4 below.

Accordingly, the board of directors of Efficient ("**the Board**") is pleased to advise shareholders that on 3 July 2018 ("**Signature Date**"), Efficient, RW, BCI and BIP entered into an agreement to, *inter alia*, terminate the Efficient Invest Profit Share ("**Cancellation Agreement**") on the terms and conditions set out therein ("**the Transaction**").

Additionally, in order to incentivise RW, the Nominees and other employees of the Efficient Invest Companies ("**Employees**") to remain in the employ of the Efficient group of companies ("**Efficient Group**") during the period from Signature Date until and including 31 August 2021 ("**Payment Date**") ("**Retention Period**"), and in order to incentivise the Participating Partners to remain partners of BCI for the Retention Period, Efficient, RW, BCI and BIP have, contemporaneously with the Cancellation Agreement, entered into an agreement to record the terms and conditions of the incentive payments to

be made to RW, the Nominees, the Employees and the Participating Partners at the expiry of the Retention Period (“**Incentive Agreement**”).

2. THE TRANSACTION

2.1 Nature of the business of the Efficient Group and the Efficient Invest Companies

The Efficient Group is a diversified financial services group focused on providing professional advice, custom-designed products and quality service across the entire financial services value chain. The Group’s offering includes financial planning services, asset management, multi-management, asset consulting, asset administration, fiduciary services, private client services, and independent employee benefits consulting services, which are offered to clients throughout South Africa.

The Efficient Group structure consists of a three-pillared organisational structure which centres around the following clusters:

Financial Services cluster, which comprises:

- Efficient Wealth;
- Efficient Independent Distribution Services;
- Stead Wealth;
- Exceed Asset Management;
- W-Allen White Brokers; and
- Secure Capital Investments,

and is focussed on providing professional financial planning services and financial products to clients.

Services and Solutions cluster, which comprises:

- Naviga Solutions;
- Efficient Private Clients;
- Efficient Board of Executors;
- Efficient Benefit Consulting; and
- Select Manager,

and is focused on empowering and enabling the financial advisor to provide market-leading and value-added services to the clients of the financial advisor.

Investments cluster, which comprises:

- BCI;
- BIP;
- Instit; and
- Efficient Select,

and is focused on investing in and growing financial services opportunities where the Efficient Group believes it can add value for its clients through a competitive advantage.

BCI is the premier provider of co-branded collective investment schemes in South Africa, while BIP is one of the largest independent retail multi-management investment consulting companies in the country.

2.2 The rationale for the Transaction

The Board believes that the Transaction is earnings enhancing to the Efficient Group. The Transaction also allows for a change in RW’s role to focus on the growth and distribution strategy of the broader Services and Solutions and Investments clusters, including co-branded partner solutions, in terms of which the Group has agreed a rewarding incentive structure with the team of the new division to be established, namely Solutions and Investment Distribution, based on the outperformance of budgeted growth in assets under administration, consultation and management.

2.3 Conditions precedent and effective date

The Transaction is subject to the fulfilment or waiver, as the case may be of the following conditions precedent by no later than the Effective Date, being 31 August 2018, or such later date as agreed to in writing by the parties to the Cancellation Agreement (“**Parties**”):

- 2.3.1 Efficient receiving confirmation that the required funding to finance the payment of the Cancellation Fee as set out in paragraph 2.4 below has become unconditional. It is recorded that Efficient intends raising the required funding through a combination of finance to be provided by a financial institution and funding to be secured through the issue of Efficient shares to third party funders;
- 2.3.2 Efficient obtaining the requisite approvals, including Board, shareholder and any other relevant approvals, including JSE Limited (“**JSE**”) approval, that may be required to conclude the transactions provided for in the Cancellation Agreement;
- 2.3.3 Efficient obtaining a tax ruling from the Commissioner of the South African Revenue Services (“**SARS**”) confirming that the Cancellation Fee will qualify as a tax-deductible expense and that RW will be able to reclaim the tax portion on the Invested Portion as set out in paragraphs 2.4.5 and 2.4.6 below; and
- 2.3.4 each of the Efficient Invest Companies obtaining the necessary approvals to conclude the transactions provided for in the Cancellation Agreement.

The conditions precedent set out in this paragraph 2.3 are for the benefit of Efficient and any condition may be waived (in full or in part) (unless the condition is incapable of waiver) by the Company in its discretion by written notice to the other Parties to be received on or before the Effective Date, whereupon such condition shall be deemed to be fulfilled.

If the condition referred to in paragraph 2.3.3 above cannot be fulfilled by the Effective Date, the Parties shall meet and negotiate in good faith to determine an alternate or new cancellation fee acceptable to RW and Efficient.

2.4 Cancellation Fee

As consideration for the cancellation of the Main Agreement and more specifically the Efficient Invest Profit Share, RW and the Nominees shall be paid a total amount of R378 453 000 by the Efficient Invest Companies (“**Cancellation Fee**”) as follows:

- 2.4.1 the aggregate Cancellation Fee payable by BCI, being an amount of R349 813 000, to RW and the BCI Nominees as consideration for the cancellation of the BCI profit share arrangement forming part of the Efficient Invest Profit Share, shall be allocated and paid to RW as to R320 113 000 and the balance thereof, being R29 700 000, to the BCI Nominees in the ratios set out in the Cancellation Agreement on the Effective Date;
- 2.4.2 a general staff payment (“**General Employee Payment**”) in the amount of R12 050 000, payable to BCI Employees in the amounts set out in the Cancellation Agreement on the Effective Date;
- 2.4.3 the aggregate Cancellation Fee payable by BIP, being an amount of R16 390 000, to RW and the BIP Nominees as consideration for the cancellation of the BIP profit share arrangement forming part of the Efficient Invest Profit Share, shall be allocated and paid to RW as to R3 220 000, and the balance thereof, being an amount of R13 170 000, to the BIP Nominees in the ratios set out in the Cancellation Agreement on the Effective Date;
- 2.4.4 a General Employee Payment in the amount of R200 000, payable to BIP Employees in the amounts set out in the Cancellation Agreement on the Effective Date.
- 2.4.5 subject to paragraph 2.4.6 below, an amount of R50 000 000 of the Cancellation Fee to be paid to RW on the Effective Date will be invested by RW (“**Invested Portion**”).

The after-tax portion of the Invested Portion (i.e. after provision has been made for the payment of the applicable tax to SARS), will be invested by RW into Collective Investment Schemes for the Retention Period and will be managed by RW for RW’s own benefit.

During the Retention Period, the after-tax portion of the Invested Portion invested will be ceded in security by RW to Efficient and will only be released by Efficient on 31 August 2021.

- 2.4.6 In the event of RW terminating his employment within the Efficient Group or such employment being terminated due to dismissible conduct, RW shall be liable to repay the full R50 000 000 to Efficient and RW shall recover the tax paid over from SARS and pay over that portion of the Invested Portion, as and when the amount is refunded or credited by SARS to RW.

Should RW die, become disabled or is dismissed under circumstances other than for reason of dismissible conduct, at any time during the Retention Period, RW or his estate shall be and remain entitled to his share of the Invested Portion as and when that amount becomes payable in accordance with the provisions of the Cancellation Agreement, as if he remained employed in the Group for the full Retention Period.

2.5 Restraint Payment

- 2.5.1 It has been agreed by the Company, RW and certain Nominees (“**Restraint Nominees**”) that the Restraint Nominees shall be paid an amount of R19 730 000 (“**Restraint Payment**”) in consideration for providing the restraint undertakings as set out in the Cancellation Agreement (“**Restraints**”) on the Effective Date, in accordance with the provisions set out therein.
- 2.5.2 The aggregate Restraint Payment payable to the Restraint Nominees by BCI, being an amount of R13 300 000, will be paid to RW as to R8 000 000 and the balance thereof, being R5 300 000, to the Restraint Nominees of BCI in the ratios set out in the Cancellation Agreement.
- 2.5.3 The aggregate Restraint Payment payable to the Restraint Nominees by BIP, being an amount of R6 430 000 will be paid to RW as to R2 000 000 and the balance thereof, being R4 430 000, to the Restraint Nominees of BIP in the ratios set out in the Cancellation Agreement.
- 2.5.4 In terms of the Restraints, it has been agreed, *inter alia*, that from the date of termination of employment with the Efficient Group as the case may be:
 - 2.5.4.1 RW, being a Restraint Nominee, will not compete with the Business for a period of 10 years; and
 - 2.5.4.2 the Restraint Nominees will not canvas business or supply cobranded collective investment portfolios or any of the services rendered by BIP, for a period of five years.

2.6 Payment and interest

All payments that are due and payable in terms of the Cancellation Agreement, being a total amount of R398 183 000 comprising the Cancellation Fee and the Restraint Payment, shall be paid within 60 days of the Effective Date. Interest shall accrue on the outstanding balance of such amount calculated at the Prime Rate from the Effective Date to date of payment, both dates inclusive.

3. INCENTIVE AGREEMENT

As set out in paragraph 1 above, Efficient, RW, BCI and BIP have entered into the Incentive Agreement.

3.1 Conditions precedent

The Incentive Agreement is subject to the fulfilment or waiver, as the case may be, of the following conditions by no later than the Effective Date, or such later date as agreed to in writing by the parties to the Incentive Agreement:

- 3.1.1 Efficient obtaining the requisite approvals, including Board, shareholder and any other relevant approvals, including JSE approval, that may be required to conclude the transactions provided for in the Incentive Agreement;
- 3.1.2 each of the Efficient Invest Companies obtaining the necessary approvals to conclude the transactions provided for in the Incentive Agreement; and
- 3.1.3 the Parties having concluded the Cancellation Agreement and such agreement becoming unconditional in accordance with its terms.

The conditions set out in this paragraph 3.1 are for the benefit of Efficient and any condition may be waived (in full or in part) (unless the condition is incapable of waiver) by the Company in its discretion by written notice to the other parties to the Incentive Implementation Agreement to be received on or before the Effective Date, whereupon such condition shall be deemed to be fulfilled.

If the condition referred to in paragraph 2.3.3 above cannot be fulfilled by the Effective Date, the Parties shall meet and negotiate in good faith to determine an alternate or new incentive payment acceptable to RW and Efficient.

3.2 Incentive Payment

As an incentive to remain as employees of the Efficient Group or partners of the relevant Efficient Invest Companies for the Retention Period, as the case may be, RW, the Nominees, the Employees and the Participating Partners shall, subject to paragraph 3.2.6 below, be paid the Incentive Payment, being a total amount of R69 567 000, as set out in paragraphs 3.2.1 to 3.2.5 below.

The “**Future Value**” referred to in this paragraph 3.2 means the value of the amounts reflected in the Incentive Agreement as at the Effective Date (“**Present Value**”), adjusted with the rate of return equal to the annual rate as published by BCI Money Market Fund (class B, JSE code BMMFB) as if that amount was invested in the relevant Money Market Fund for the period over which the future growth must be determined.

- 3.2.1 BCI shall pay to RW and the BCI Nominees the Future Value of the aggregate Incentive Payment payable by BCI to RW and the BCI Nominees as incentive to remain employees of the Efficient Group, being an amount of R40 220 000, which amounts shall be allocated and paid to RW as to R26 720 000 and the balance thereof, being R13 500 000, to the BCI Nominees in the ratios set out in the Incentive Agreement, on the Payment Date;
- 3.2.2 the aggregate Future Value of a further General Employee Payment (“**Further General Employee Payment**”) payable by BCI, being an amount of R12 050 000, shall be allocated and paid to the BCI Employees employed with the Efficient Group on the Payment Date in the ratios set out in Incentive Agreement on the Payment Date;
- 3.2.3 BCI shall pay to each Participating Partner who is still a partner of BCI on the Payment Date, who has not given notice to terminate its co-branding agreement and whose portfolio assets are not less than certain predetermined thresholds, as incentive to remain a Participating Partner of BCI, the Present Value of the “**Participating Partner Incentive Payment**”, being an aggregate amount of R19 567 000, which amounts shall be allocated and paid to the Participating Partners in the ratios set out in the Incentive Agreement on the Payment Date;
- 3.2.4 BIP shall pay to RW and the BIP Nominees the Future Value of the aggregate Incentive Payment payable by BIP to RW and the BIP Nominees as incentive to remain employees of the Efficient Group, being an amount of R9 780 000, which amounts shall be allocated and paid to RW as to R1 380 000 and the balance thereof, being R8 400 000, to the BIP Nominees in the ratios set out in the Incentive Agreement on the Payment Date;
- 3.2.5 the aggregate Future Value of the Further General Employee Payment payable by BIP, being an amount of R200 000, shall be allocated and paid to the BIP Employees employed with the Efficient Group on the Payment Date in the ratios set out in Incentive Agreement on the Payment Date.
- 3.2.6 Should RW or a Nominee or an Employee terminate his employment within the Efficient Group, or such employment is terminated due to such an Employee being found guilty of dismissible conduct during the Retention Period, he shall forfeit his share of the Incentive Payment or the further General Employee Payment, as the case may be, and his share shall accrue to and be paid over to RW on the Payment Date, and in the case of RW, to EFG.

Should any Employee die, become disabled or be dismissed under the circumstances other than for reason of a dismissible conduct, at any time during the Retention Period, such Employee or his estate shall be and remain entitled to his share of the Further General Employee Payment, as and when such amount is payable in accordance with the provisions of the Incentive Agreement, as if the relevant Employee remained employed in the Efficient Group for the full Retention Period.

3.3 Payment and interest

All payments that are due and payable in terms of the Incentive Agreement, being a total present value of R81 817 000 comprising the Incentive Payment and the Further General Employee

Payment, shall be paid on the Payment Date, failing which, interest shall accrue on the outstanding balance of such amount calculated at the Prime Rate plus 2% from the Payment Date to date of payment, both dates inclusive.

4. ACCOUNTING AND TAX TREATMENT

The Transaction and associated Cancellation Fee will be treated as an expense in terms of International Financial Reporting Standards. Additionally, in terms of paragraph 2.3.3 above, in the event that the Efficient Group obtains a tax ruling from SARS that the Cancellation Fee will qualify as a tax-deductible expense, the Cancellation Fee as apportioned will be eligible for deduction from taxable income in BCI and BIP, respectively in the financial year in which it is incurred and, to the extent taxable income is less than the apportioned Cancellation Fee, in subsequent years.

5. NET ASSETS AND PROFITS

The values of the net assets of each of the Efficient Invest Companies, being BCI, BIP and Instit, as at 31 August 2017 were R16 million, R4 million and R0.04 million, respectively. The profits after tax attributable to each of BCI, BIP and Instit for the year ended 31 August 2017 were R26 million, R3 million and R0.03 million, respectively.

During the 12 months ended 31 August 2017, R83 million (six months ended 28 February 2018: R45 million) was paid to RW and the Nominees in terms of the Efficient Invest Profit Share relating to the Efficient Invest Companies. The after-tax effect of the profit share payment on the Efficient Invest Companies was R59 million (six months ended 28 February 2018: R33 million).

If the Cancellation Agreement had been in effect at the beginning of the 2017 financial year, the net assets of each of BCI, BIP and Instit as at 31 August 2017 would have been R70 million, R10 million and R0.1 million, respectively, and the profits after tax attributable to each of BCI, BIP and Instit for the year ended 31 August 2017 would have been R80 million, R9 million and R0.09 million, respectively.

If the Cancellation Agreement had been in effect at the beginning of the 2017 financial year, the net assets of Efficient as at 31 August 2017 would have been R299 million, (they were R262 million), and the profits for the year ended 31 August 2017 would have been R84 million (they were R47 million).

The Cancellation Fee is a once-off expense and will not have a continued effect on the statement of comprehensive income and is not included in the illustration above.

The following financial information is based on management accounts and has not yet been reviewed by the Company's auditor and could be subject to change. The following numbers are shown prior to the impact of the Efficient Invest Profit Share i.e. for 100% of net assets and profit after tax of the aforementioned companies. The values of the net assets of each of the Efficient Invest Companies, being BCI, BIP and Instit, as at 28 February 2018 were R46 million, R9 million and R2 million, respectively. The profits after tax attributable to each of BCI, BIP and Instit for the half year ended 28 February 2018 were R42 million, R5 million and R2 million, respectively.

6. RELATED PARTY IMPLICATIONS

As RW is an Executive Director of the Efficient Group and a material shareholder of the Company, he is considered to be a 'related party' in terms of paragraphs 10.1(b)(i) and (ii) of the JSE Listings Requirements. Accordingly, the Transaction constitutes a 'related party transaction' in terms of the Listings Requirements and is subject to an independent majority of Efficient Group shareholders voting in favour thereof in general meeting. As related parties, RW and his associates are precluded from voting on the Transaction. However, as shareholders in the Efficient Group, they may be taken into account in determining a quorum for the purposes of the general meeting.

7. CLASSIFICATION OF THE TRANSACTION AND FURTHER DOCUMENTATION

As the Transaction is classified as a Category 1 related party transaction, in terms of paragraph 10.4(f) of the JSE Listings Requirements, the Company is required to obtain a fairness opinion on the Transaction from an independent expert ("**Fairness Opinion**") and the Board is required to include a statement in the circular to be issued to shareholders confirming whether the Transaction is fair to shareholders.

Accordingly, a circular containing full details of the proposed Transaction, including, *inter alia*, the Fairness Opinion and a notice to convene a general meeting of shareholders of the Efficient Group in order to consider and, if deemed fit, to pass with or without modification, the resolutions necessary to approve and implement the Transaction, will be sent to shareholders in due course.

8. RENEWAL OF CAUTIONARY ANNOUNCEMENT

Further to the Cautionary Announcement, and as set out in this announcement, shareholders are advised that as negotiations are still in progress in respect of the funding required to finance the cancellation of the Main Agreement, and which if successfully concluded, may have a material effect on the price of the Company's securities, they are advised to continue exercising caution when dealing in the Company's securities until a further announcement is made.

Johannesburg
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Sponsor and Joint Corporate Advisor to the Efficient Group
Merchantec Capital

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