

28 July 2014

Dorchester

Loans | Insurance | Debt Recovery

Company Announcement

DORCHESTER ENTERS LOCK UP AGREEMENT AHEAD OF TAKEOVER OFFER FOR TURNERS AUCTIONS

Dorchester Pacific Limited (NZX:DPC) today announced it has entered into a Lock Up Agreement with Bartel Holdings Limited (Bartel), a 20.8% shareholder in Turners Auctions Limited (Turners). Bartel has agreed to accept, in respect of its Turners ordinary shares, a takeover offer Dorchester intends to make for all the ordinary shares in Turners it does not already hold. Dorchester currently owns 19.85% of the ordinary shares in Turners. Dorchester and Bartel between them hold 40.65%.

Dorchester advises that it intends to make a full takeover offer for 100% of Turners' equity securities under Rule 8 of the Takeovers Code, under which Dorchester will offer Turners' shareholders;

- cash consideration of \$3.00 per Turners ordinary share; **or**
- 2 year 9% p.a. interest bearing Convertible Notes to be issued by Dorchester with an option to convert to Dorchester ordinary shares; **or**
- Dorchester ordinary shares (with a guaranteed allocation of up to 60% of the consideration due to accepting Turners shareholders, pro rata thereafter); **or**
- any combination of cash, Convertible Notes or Dorchester ordinary shares, subject to the limitations on Dorchester ordinary shares referred to above.

In addition, Dorchester will be seeking payment by Turners of a fully-imputed special dividend of \$0.15 per Turners share to existing shareholders, once acceptances are received from Turners shareholders giving Dorchester an aggregate holding in Turners in excess of 50%.

Bartel has agreed to accept a combination of 60% Dorchester ordinary shares and 40% Convertible Notes as consideration for its Turners shares, conditional on the takeover proceeding.

The takeover offer is not conditional on Dorchester achieving a particular threshold of acceptances, other than achieving at least 50.1% control as required by the Takeovers Code.

Dorchester CEO and Executive Director, Paul Byrnes, said funding for the acquisition will be a combination of a share placement, the issue of Convertible Notes and some bank funding.

“We anticipate raising between \$25 million and \$27.5 million at \$0.25 per share through the issue of Dorchester shares to Turners shareholders, including Bartel, and a placement. We also expect to issue around \$15 million of Convertible Notes including to Bartel. Final numbers will of course depend on the level of acceptances and the combination of shares, Convertible Notes and cash options taken up by Turners shareholders.

“Our major shareholders have indicated an interest in participating in both the share placement and the Convertible Notes issue. We are also considering how we can give all Dorchester shareholders the opportunity to participate in the placement through a Share Purchase Plan. This may leave \$5 million to \$7.5 million to be placed with qualifying investors in a market placement although we will have bank funding in place to more than cover this in any event.”

It is expected that a formal Takeover Notice will be issued during the month of August. At that time the date of Dorchester’s Annual Meeting of shareholders will be set. Resolutions in relation to the takeover offer will be considered at that meeting.

Commenting on the rationale for the acquisition, Mr Byrnes said:

“There is a natural alignment and synergy between Dorchester and Turners Auctions, which we talked about at the time of our investment in Turners, last April. Seventy percent of our finance lending is for motor vehicles and our insurance business has a focus on motor vehicle related insurance products. We have also signaled our interest in participating in the origination or ‘front end’ of an end-to-end financial services business. And, at board level, we have been very supportive of Turners’ multi-channel strategy.

“With Dorchester’s shareholder funds increasing to over \$100 million following the share placement - compared to Turners current shareholders funds of around \$18 million - we believe we can add significant ‘horse power’ to grow the business in a much shorter time frame than might currently be possible. We believe the takeover will be particularly positive for Turners’ existing customers and staff, as it will create many new opportunities.

“With respect to Turners shareholders, we think the effective consideration of \$3.15 per share (including the \$0.15 Turners special dividend) is a pretty good outcome given the market price of around \$1.80 per share 15 months ago when we joined the register. Of course we are hoping that Turners shareholders will come to the same view as Bartel has, in not only assessing the takeover price as attractive, but also seeing value in the opportunity to participate in the growth and profit momentum of the enlarged business.”

Last Month Dorchester advised the market of its profit guidance for its existing businesses of \$10 million - \$11 million for the current financial year, with this increasing to around \$15 million for the year to 31 March 2016.

“If the takeover proceeds we would expect the Dorchester group profit before tax in the 2016 year to be in the \$20 million to \$25 million range, depending on our ultimate shareholding in Turners”, said Mr Byrnes.

Dorchester Chairman, Grant Baker, said that while the takeover offer may appear to be a bold move for Dorchester, the acquisition of a controlling stake in Turners is entirely consistent with Dorchester’s well signaled M&A criteria and profit strategy.

“It perfectly fits our strategic plan in that it’s an industry we understand and offers scale and sustainable earnings. We believe additional synergies will arise from a more significant investment position.”

Mr Baker said the acquisition will be earnings per share accretive for Dorchester and that funding is quite manageable.

“Dorchester’s balance sheet will still remain relatively conservative, with some headroom for pursuing further opportunities.”

ENDS

For further information please contact:

Paul Byrnes

CEO/Deputy Chairman
Dorchester Pacific Limited
DDI: (09) 308 4988
Mobile: 021 644 441

Grant Baker

Chairman
Dorchester Pacific Limited
Mobile: 021 729 800

Karyn Arkell

Karyn Arkell & Associates
Mobile 027 475 3511

About Dorchester Pacific (Dorchester)

Dorchester is a financial services company with four operating entities, Dorchester Finance, Oxford Finance, DPL Insurance and EC Credit. EC Credit was acquired in November 2012 and Oxford Finance was acquired in April 2014.

Dorchester Finance provides secured lending to consumers (70%) and small and medium businesses (SME's) (30%). The value of the loan book is approximately \$40 million with 70% of total lending on private and commercial motor vehicles. The business operates out of Dorchester's offices in the Auckland CBD with its customer strength in the Auckland, South Auckland and Hamilton regions.

Oxford Finance provides secured lending mostly to consumers through a mix of channels including motor vehicle dealers, finance brokers, smaller finance companies and direct lending. The value of the book is approximately \$50 million with 75% of loans being motor vehicle financing. The business is based in Levin with a strong presence in the Wellington, Wairapapa, Taranaki, Hawkes Bay, Waikato and Bay of Plenty areas. Oxford Finance was acquired by Dorchester on 1 April 2014 for a (cash) purchase price of between \$11.3 million and \$12.3 million depending on earnings of the business for the 12 months to 31 March 2015. A profit contribution of \$3 million earnings before interest and tax is forecast for that period.

DPL Insurance is an underwriter and distributor of insurance products under 'Dorchester Life' and 'Mainstream' brands. Dorchester Life products include EasyLife and Funeral Plan. The major growth focus is on 'Mainstream' motor vehicle related insurance products including private motor vehicle insurance, motor vehicle breakdown insurance, loan repayment insurance and GAP insurance. DPL Insurance has a financial strength rating of B+ from credit rating agency A.M. Best.

EC Credit provides debt recovery and credit management services in New Zealand and Australia. Debt recovery clients include banks, institutional and corporate clients and SME businesses, with collections on a contingency basis. EC Credit also sells terms of trade, credit reporting and legal services to SME customers in New Zealand and Australia. The company is headquartered in Napier with offices in Australian states, and employs approximately 150 staff and agents.

EC Credit was acquired in November 2012 for a total consideration in cash and shares of approximately \$18 million and contributes an earnings before interest or tax in excess of \$4 million.

Dorchester acquired a stake of just under 20% in NZX listed Turners Auctions Limited (Turners) in April 2013. Turners is a market leader in the second hand car, truck and machinery market in New Zealand with three revenue streams, Fleet (purchase and sale of used vehicles sourced from New Zealand and Japan), Finance (lending on motor vehicles with

insurance product offerings) and Auctions (sales of vehicles and machinery on behalf of vendors including lease companies, government, finance companies and motor vehicle dealers).

The Dorchester Group reported a profit after tax of \$8.2 million for the year to 31 March 2014. In June 2014 the company provided profit guidance of \$10 million - \$11 million for the financial year to 31 March 2015 with this increasing to around \$15 million for the year to 31 March 2016. These forecasts include a full contribution from Oxford Finance but no contribution from further merger and acquisition activity.