

RECM and Calibre Limited
(Incorporated in the Republic of South Africa)
Registration number 2009/012403/06
Preference Share Code: RACP
ISIN: ZAE000145041
("RAC" or "the Company")



PREPARED COMMENTS FROM RAC SHAREHOLDERS MEETING

At a director's meeting with preference shareholders, which was held directly after the Annual General Meeting on 27 July 2016, the following prepared comments were shared with attendees. In the interest of sharing the information equally with all shareholders, the statement is also published on SENS and on the RAC website www.racltd.co.za.

PORTFOLIO CHANGES SINCE YEAR END

As disclosed in our year end results, RAC entered into a transaction to take over control of Goldrush from the founding family. This transaction has now become unconditional. RAC will pay R100mn in cash, and issue 2.2 million shares at a price of R23.18 per share. There is a further payment of R70,2mn due by September 2017. RAC now owns 52% of Goldrush.

College SA is progressing well on its path from a traditional distance learning business towards becoming a blended learning provider offering its own qualifications, with a focus on tertiary education and training. College SA is in the process of acquiring two businesses that provide training and continuous professional development for accounting students and professionals globally. RAC will provide R16mn for its share of the acquisitions.

RAC has continued to add to its minority stakes in certain listed businesses which it regards as undervalued. After the above transactions RAC has deployed most of the capital at its disposal, including the R150mn facility it obtained last year.

BUSINESS UPDATES ON OUR SIGNIFICANT INVESTMENTS

Goldrush (44% of Portfolio)

Business at Goldrush is progressing well. Organic growth from existing operations is running at mid-teen levels. This growth is being enhanced through the roll-out of existing licenses, acquisitions and applications for new licenses. Both the transactions to purchase Boss Gaming and Entertainment (Pty) Ltd. ("Boss Gaming") and Crazy Slots (Pty) Ltd. ("Crazy Slots") have closed since year end, with regulatory approvals expected in due course. After acquiring Boss Gaming, Goldrush now has over 30 Bingo licenses nationwide. Crazy Slots adds a 1000 machine route operator's license in Gauteng to Goldrush, of which 280 machines have been rolled out. This brings the total number of licensed Limited Payout Machines in the group to 4 800, of which about 1 100 have been rolled out. Both transactions bring scale synergies to bear. Goldrush has recently been awarded 2 further Bingo licenses and 4 sports-betting licenses. The 7 Bingo licenses in KZN are still subject to further regulatory developments in the province.

Transhex/West Coast Resources (15% of Portfolio)

At Transhex, the Baken mine continues to struggle as it approaches its end of life. Mining operations in Angola are doing well, but the macro-economic environment in the country is challenging. West Coast's operations look promising at this preliminary stage, but it is still too early to come to any firm opinions about the expected grades. The management team at Transhex is continually evaluating new projects.

Retail (13% of Portfolio)

Dischem continues to grow organically. It seems that a listing of the business could be on the cards. This could unlock significant value for RAC shareholders, as our investment in Dischem is via Fledge – an entity which offers no liquidity and where we have no influence. As such, we value our stake in Dischem at roughly half of what similar listed companies are trading.

Outdoor Investment Holdings continues to trade well, as management executes on its stated growth strategy of brand extension and backwards integration into the supply chain.

Shareholders will note that we have now disclosed the valuations of OIH and Fledge (the company that holds our stake in Dischem) separately.

College SA (3% of portfolio)

College SA is transitioning from a traditional distance learning provider that primarily distributes and supports third party education material in printed format, to an e-learning provider with its own accredited qualifications. As such it is investing in infrastructure, designing accredited qualifications and made a few acquisitions which speed up our progress in both of these areas. We believe the tertiary education sector has tremendous growth potential, driven by demographics and the reduced availability of public funding. However, our insights are not unique; there are many competitors in this space. Despite these competitive forces, management of College SA believes they are building a credible and differentiated product. RAC supports them in this.

JB Private Equity Investors Partnership/Sentula (5% of portfolio)

During the past year Sentula continued to suffer from losses in its contract mining activities while the drilling and blasting as well as crane lifting businesses suffered from a slow-down in revenue growth and some margin compression. A portion of the proceeds from the recent rights issue was used to reduce the debt of the group, while the rest was primarily invested in working capital. A restructuring of the contract mining business has been completed and further future losses should be limited.

Since Jacques Badenhorst joined Sentula as CEO, the business has embarked on a number of strategic initiatives. These are progressing as planned and once implemented, will give Sentula a strong foundation to build on for the future

LATEST NET ASSET VALUE (“NAV”) PER SHARE (ORDINARY AND PREFERENCE)

As at 25 July 2017, the NAV per share came to R20,43 – up by 3.9% from year end. This NAV has not been audited or reviewed by the company’s external auditors. It should be noted that this change only reflects changes in prices of our listed assets, as well as the effects of the Goldrush transaction. Our unlisted, untraded assets (almost 75% of our portfolio) have not been revalued. This will happen at the time of our interim results.

Our businesses are generally young and growing rapidly. As mentioned previously, it is hard to value them with a high degree of certainty and judgement is required. We therefore tend to err on the side of caution, building in a significant margin of safety in arriving at our fair values – a margin of safety absent in the prices of many listed companies today. Put differently, at the stated valuations of our assets we are eager investors into the various businesses.

We continue to believe that our accounting NAV understates the long term intrinsic value of our business. Our recent issuance of participating preference shares in RAC at a price of R23.18 per preference share probably provides a closer indication of the intrinsic value, as evidenced in an arms-length transaction between two knowledgeable parties. We also received two independent offers to buy out minorities in Sovereign Foods and Gooderson Leisure. RAC owns substantial minority stakes in both companies. Both offers are at prices substantially above the price RAC paid to acquire the stakes, as well as the ruling prices used for our year-end valuation. These offers, together with the recently announced transaction at KVV Holdings Limited, where the operating assets are being sold for a substantial premium to the recent market capitalization of the company, provides further evidence of our above assertion.

The composition of our portfolio at 25 July 2016 is as follows:

	% Ownership	Cost R'm	Fair Value R'm	% of Portfolio
Investment				
Gaming		403.3	626.7	44.3
Goldrush	52.2	403.3	626.7	44.3
Mining, Engineering		231.2	291.5	20.6
Transhex	25.1	94.2	98.6	7.0
West Coast Resources	27.2	39.0	112.6	8.0
JB Private Equity Investors Partnership	90.0	69.6	64.7	4.6
ELB Group	2.5	28.4	15.6	1.1
Retail		72.0	183.2	12.9
Fledge Holdings	50.0	30.5	126.8	9.0
Safari and Outdoor	28.3	41.5	56.5	4.0
Food, Beverage		85.6	124.9	8.8
Sovereign Food	11.3	48.0	72.6	5.1
KWV	5.1	32.3	40.4	2.9
KLK Landbou	5.8	5.3	11.9	0.8
Other investments		78.5	114.7	8.1
Conduit Capital	7.0	20.9	45.5	3.2
Excellerate Holdings	5.5	14.7	26.3	1.9
College SA	83.5	42.9	42.9	3.0
Non-core investments		34.6	24.8	1.8
Cash			49.3	3.5
Portfolio value			1 415.15	
Liabilities			(195.2)	
ABSA Prefs			(153.5)	
Net Asset Value			1 066.46	
Net Asset Value per share			20.43	

GENERAL OBSERVATIONS

The combined effects of a weak currency and weak economy have transpired to reduce the valuations of many industrial South African businesses to bargain basement levels. This has positive implications on RAC. Whilst we are receiving premium priced buy-out offers for some of our businesses, the price expectations of sellers in the listed market have reduced somewhat, making more acquisitions possible at sensible valuations. Price expectations in the private market remain stable for now.

As mentioned previously, we prefer to acquire interests in privately owned businesses, as the management of businesses in the public, listed market are often subject to debilitating levels of governance and bureaucracy. In this regard, our investment strategy is to buy good businesses, with good management at good prices. If you are involved in any business that meets these criteria and that needs capital or a responsible owner with a true long term orientation, please give us a call. We don't make many promises, but we promise not to waste your time.

Any forward looking statements in this announcement have not been reviewed or reported on by our auditors.

Cape Town
27 July 2016

Sponsor:
Questco (Pty) Ltd