

**DEMUTUALIZATION AND CAPITAL RAISING PROGRESS
REPORT**



**A PRESENTATION TO
THE EXTRAORDINARY GENERAL MEETING
TO BE HELD ON 19TH OCTOBER 2021**

Table of Contents

1. Introduction	3
2. Recap - The Demutualisation & Capital Raising Project	4
2.1 Private placement	4
2.2 Use of funds	4
2.2.1 AA Service Centres	4
2.2.2 The Africa School of Mobility	4
2.2.3 Mobility Products Innovation	4
2.2.4 Business Expansion	5
2.3 Initial steps taken	5
3. Progress Report	5
3.1 Appointment of Transaction Advisors	5
3.2 Due Diligence	6
3.3 Considered demutualization and capital raising options	6
3.4 Adopted Capital Raising Approach	7
3.4.1 Review of the Ownership Framework	7
3.4.2 Implementation of Resolutions	8
3.4.3 Creation of a Holding Company	8
3.4.4 Creation of a Public Limited Company (PLC)	8
3.4.5 Graphical presentation	9
4. Future plans	9
5. Proposed Resolutions	9
6. Next Steps	10

1. Introduction

As the market leader in mobility solutions in the Country, AA Kenya has evolved over the past 100 years from navigating roads, setting petrol depots, running Safari Rally, importing vehicles on behalf of members to an Association with a wide array of mobility products and services.

AA has continued to show resilience for over 100 years now. In 2020, Covid-19 hit the world and started wrecking businesses and economies globally. The Association closed down 70% of its business for quite some time but still managed to report a net surplus for the year of Kes.10,677,085 with net assets standing at Kes.252,169,775.

The Association has continued to invest in its expansion strategy. Since the last AGM, the Association has opened 3 more branches in Harambee Avenue, Ruaraka and Kikuyu. The Association has also continued to improve its customer value proposition by expanding the range of benefits that customers continue to enjoy. Currently AA customers can enjoy the following benefits:

1. A discount of Kes.2 per Litre of petrol from any Total Petrol Station in the country.
2. 32.5% discount on tires, 30% discount on shocks, 35% discount on batteries & 10% discount on service from Kingsway Tyres centres.
3. 10% discount on parts & labor at DT Dobie.
4. 30% discount on battery purchase from Chloride Exide.
5. 25% discount on parts, 10% discount on service at Subaru Kenya.
6. 25% discount on parts, 10% on service at Oriel Kenya
7. 30% discount on Maxxis Tyres and vehicle accessories at Tire world
8. 21% discount on Synergy, Mixtech and start stop AGM battery.
9. 10% discounts on parts and labour at Toyotsu Auto mat.
10. 5%-15% discounts on music accessories from Rockford Fostgate.
11. Discounts on emergency road ambulances and air evacuation.

This is in addition to the usual benefits of road assist, rescue, towing and recovery etc. as described in every category.

More importantly, AA has a clear growth plan for a sustainable business into the future. The 5 years' strategic plan envisions a strong corporate body that will revolutionize mobility industry in Kenya and beyond. However, the desired strategic direction for the Association requires capital.

2. Recap - The Demutualisation & Capital Raising Project

A report was presented to the members of the Association at the AGM in January 2021 and approval granted that the Association demutualizes and raises capital from members through a Private Placement. This was based on the deliberations on the future of the business and the desired strategic direction for the Association. Below is a recap of some of the agreed items:

2.1 Private placement

Private Placement was identified as the preferred Capital Raising option because it's easier and flexible way of raising capital, given members trust and belief in their club. It has faster turnaround time and the transaction costs are lower among other reasons. Private Placement would involve sale of AA shares to AA Members.

2.2 Use of funds

It was agreed that the funds raised through the private placement will be invested in the following strategic projects:

2.2.1 AA Service Centres

One-stop-shop mobility solutions for members providing best-in-class vehicle service and repair needs. These centres will also serve as outlets through which other AA products will be sold, such as vehicle inspection and valuation, sale of International Driving Permits and Carnet de Passage, among other AA products.

2.2.2 The Africa School of Mobility

This will be a Centre of Excellence for all mobility needs in Kenya, as well as needs within AA Clubs in Africa. The school will be structured to offer training on Road Safety, Plant Operation, Vehicle Inspection and Valuation, Mechanical Engineering. It will also serve as the school of Mobility.

2.2.3 Mobility Products Innovation

As a market leader in Mobility, the Association plans to rollout innovative products in the area of Motor Vehicle Inspection and Valuation, rescue and road assist, and vehicle running expenses. This will include introducing innovative products such as Mobile Valuation, AA Rapid Rescue and Accident Scene Management solution and the AA e-mileage rates.

2.2.4 Business Expansion

This includes geographical expansion by opening branches in every County and other strategic areas. Linked to this will be the re-branding and repositioning the Association in the market.

2.3 Initial steps taken

As reported in the last AGM, AA had joined the Nairobi Securities Exchange (NSE) Ibuka Programme and made initial consultations with Capital Markets Authority (CMA). The Association had also consulted widely with various experts .

3. Progress Report

After the AGM approvals, the Association appointed a steering committee to progress this discussion with guidance of the Governing Council. Below is a summary of the progress made so far:

3.1 Appointment of Transaction Advisors

A panel of experts in Capital Raising were appointed with the single mandate of guiding the process of demutualisation and Capital Raising. This was done through a rigorous exercise of Interviews and vetting the top experts in the area of Investment, Legal and Public relations. The following firms were appointed.

Category	Appointed Firm
Lead Transaction Advisor	Standard Investment Bank
Legal Advisor	MMC ASAFO
PR Agency	Tim Sky Media

After the initial meetings with the consultants, the Association was advised that a private placement would involve only a maximum of 100 people. Given that the Association has more than 100 members who will be participating, then capital would have to be raised through a Restricted Public Offer (RPO). An RPO is a private placement where the number of participants is more than 100 people.

3.2 Due Diligence

The Lead Transaction and Legal Advisors have so far conducted financial, operational, commercial and legal due diligence. They also reviewed and provided guidance on the best options for corporate restructuring and approach to Capital Raising.

The due diligence exercise confirmed that:

- a) the Association is of sound financial health and is commercially viable;
- b) the Association is legally compliant as required, including taxation, statutory and governance;
- c) the Association has strong operational controls;
- d) the Association has an organization structure that is well adapted to address the core functions of the Association;
- e) the Association has robust human resource policies and procedures. The procedures have been developed in line with global HR policies and procedures and the policy manual was reviewed by the Federation of Kenya Employers (FKE);
- f) the Association has a good Governance Structure and that the Governing Council, as presently constituted and mandated, has good corporate governance, especially with regards to independence in oversight of management. The Governing Council forms a good foundation for the constitution of a founding or transitional board to manage the intended entity limited by shares.

3.3 Considered demutualization and capital raising options

Five options were considered in an attempt to get the best approach to the restructuring and raising of capital. Various merits and demerits were considered by the experts together with management and the Governing Council. The five options are:

- a. Demutualization and creation of a Public Limited Company
- b. Demutualization and creation of a Holding Company and Public Limited Company (PLC)
- c. Demutualization and creation of a Cooperative Society and Public Limited Company (PLC)
- d. Retention of Business As-Is, and creation of an Operating Company to be assigned operations rights.
- e. Review of the AA Ownership Framework, creation of a Holding Company and an operating Public Limited Company (PLC)

3.4 Adopted Capital Raising Approach

After considering various areas of concerns and looking at the merits and demerits of each, it was agreed that option (e) will deliver the best outcome. It was then agreed that the Association will raise capital through option (e) above. That is by first reviewing the AA ownership framework, introducing a one membership category only, then demutualizing the Association to create a Holding Company and an operating Public Limited Company (PLC). One of the main challenges noted is, that AA lacks a clear ownership framework as it is now. The proposed capital raising approach seeks to address this challenge first by introducing one category of members.

Currently, AA has various categories of members who pay an annual subscription fee of between Kes. 2,500 to 50,000 to subscribe to AA services and so the amount depends on the services one subscribes to. For example, a classic member will pay Kes. 6,500 to get free tows of up to 40 Kilometres per year while a premier member will pay Kes. 50,000 to get unlimited tows within the year of subscription, in addition to other benefits such as Ambulance and air rescue covers.

The aim is to continue offering these services but separate them from membership. They will henceforth be referred to as AA covers with the current benefits per category. For example a Classic member will be renamed to AA Classic cover holder with the same benefits. The current subscription remains valid and renewal of subscription remains the same on due dates. The same applies to all the other categories. This will be anchored in the constitution and once the EGM approves these documents, it becomes binding on all current members whether active or otherwise.

The expected steps in this approach will include:

3.4.1 Review of the Ownership Framework

This involves creation of a new and sole category of membership to be referred to as “Full Members”. Full Members will be entitled to all the rescue and other services provided by the Association at discounted service fees; allotment of shares in the event of demutualization of the Association; a share in the distributable assets of the Association in the event of dissolution equivalent to such member’s contribution; and Voting Rights

Full Membership of the Association will be by payment of a one-off membership fee of Kenya Shillings Fifty Thousand (Kes. 50,000) and a discounted fee of Kenya Shillings Forty Thousand (Kes. 40,000) for current active members. This review of ownership framework requires an amendment to the AA Constitution and Rules. All Life Members shall be exempted from the

requirements under Rule 3.3.1 of the draft amended Constitution and shall automatically convert to Full Membership. They shall also continue to enjoy the same benefits as AA Life cover holders. The draft amended Constitution and Rules proposes that members who will not have paid the Full Membership Fee by the cut-off date will continue to access AA benefits through AA Covers provided in various categories as provided in Rule 4.2 of the draft amended Constitution. Such members will therefore be referred to as AA Cover Holders on adoption of the amended Constitution and Rules. They will continue enjoying benefits as defined in the AA Constitution & Rules.

3.4.2 Implementation of Resolutions

Based on proposed Resolutions at the 2021 EGM and guided by Members' approvals, AA will proceed to implement the Full Membership Framework, and convert the current membership categories to AA Cover Holders. Management will conduct roadshows to market and recruit the Full Members. Various marketing activities will also be directed at reaching out to all current and past members of the Association to register as Full Members.

3.4.3 Creation of a Holding Company

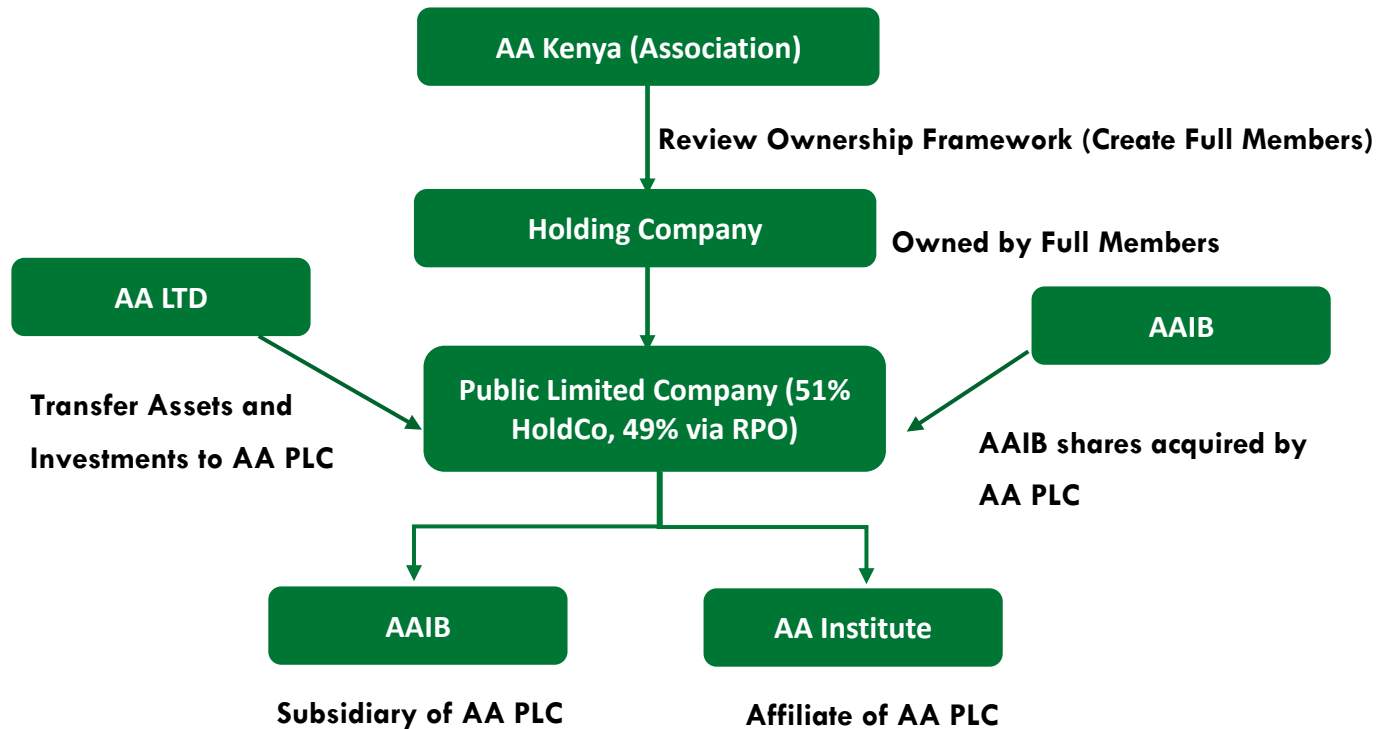
This stage would involve setting up of a Holding Company where Full Members would then be allocated shares in the Holding Company. The Holding Company would therefore be 100% owned by Full Members and would be a non-operating company with controlling stock in the operating Company. In other words, the holding company will take care of the Association's interest into the future by virtue of owning majority shareholding in the operating company, AA PLC.

3.4.4 Creation of a Public Limited Company (PLC)

The PLC would be the trading company under which all AA Products and Services would be offered. On establishment of the PLC, the HoldCo would retain control of the PLC through its shareholding. It is at this stage that AA would raise Capital through the Restricted Public Offer. The assets of the Association, currently held by AA Limited would be transferred to the PLC. AA Insurance Brokers would be a subsidiary of the PLC, while AA Institute would be an affiliate of the PLC (by virtue of the fact that AA Institute is currently registered as a Society).

3.4.5 Graphical presentation

Below is a graphical presentation of the proposed AA structure.



4. Future plans

Once the Association is demutualized and the first step in capital raising is done through an RPO, the new corporate may consider listing in the Nairobi Securities Exchange.

5. Proposed Resolutions

It is based on this context that AA seeks approval from members to:

- a) Amend the constitution to accommodate these changes, correct apparent typographical errors, bring clarity in some areas and provide for signature of the Governing Council to promulgate the constitution;
- b) Provide for the Full Membership as provided in the amended constitution and to a payment of one-off membership fee of Kes. 50,000 and a 20% discount for current active members to pay Kes. 40,000.
- c) Mandate the Governing Council members to progress all aspects of this process and make all necessary decisions
- d) Mandate the Governing council to form the first boards of the new companies

6. Next Steps

The following next steps are envisioned to this process:

- Members Approval at the Extraordinary General Meeting on 19th October 2021
- Enrollment of Full Members
- Conversion of any member not paid up by the cutoff date to an AA Cover Holder
- Creation of a Holding Company
- Creation of a Public Limited Company
- Capital Raising through the Restricted Public Offer

The Management of the Association and the Governing Council request the members to support this initiative and vote for it at the EGM.

Signed

Francis Theuri

CHIEF EXECUTIVE OFFICER, AA KENYA