Transaction Capital

MEDIA RELEASE

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Transaction Capital extends its track record of high-quality earnings growth

Results for the half year ended 31 March 2019

- **Headlines earnings: ▲17%** to **R363 million**
- **Headlines earnings per share: ▲17%** to **59.4 cents**; Growth of **19% per year** over the **past 5 years**
- **Interim dividend per share**: **▲29%** to **27.0 cents**; Growth of **35% per year** over the **past 5 years** supported by **high cash conversion rates**
- **Net asset value per share: ▲30%** to **810.4 cents**
- **Excess capital: ▲**from **R650 million** to more than **R1 billion creating future earnings upside from accretive capital deployment**
- **Strong financial position:** Well capitalised, liquid, with funding requirements for the 2019 financial year and beyond already secured

Transaction Capital, the owner of SA Taxi and Transaction Capital Risk Services (TCRS), is an active investor in and operator of credit-orientated alternative assets. Today the group published its interim results for the six months ended 31 March 2019 reporting headline earnings growth of 17% despite the strained macro-economic environment, and low consumer and business confidence.

Commenting on this performance, Hurwitz, CEO of Transaction Capital said: *"SA Taxi and TCRS continue to demonstrate their resilience against the negative macroeconomic trends. Transaction Capital's entrepreneurial management teams will continue to invest in and implement growth strategies with discipline and precision. We expect this to translate into robust organic earnings and dividend growth over the medium term, at least in line with the group's past performance.*

We have not factored into our guidance any prospect of an economic upturn in South Africa, which may materialise post the national election last week, so there may well be upside potential for our growth expectations over the next three to five years.

In addition, the accretive deployment of our R1 billion of excess capital also provides potential for future earnings upside."

Elaborating on how Transaction Capital's performance is achieved and its growth prospects, Hurwitz continued: *"Central to our business model is to identify value assets; to apply our specialist expertise to assess, mitigate and price the inherent credit risk of these alternative assets; and to fund their growth with an optimal balance of equity appropriately leveraged with debt.*

We believe that our ability to identify and partner with entrepreneurial management teams who are able to build sustainably competitive and efficient technology-driven operational platforms underpins our business model.

Our track record for generating resilient risk-adjusted returns from our assets, enhanced by capital appreciation in the value of our operating platforms, has been proven over nearly two decades.

To drive future earnings growth, we continue to identify opportunities to leverage the high IP, leading technologies and low-cost operational infrastructure of our South African operations into adjacent market segments, related alternative asset classes and geographic markets."

SA Taxi

SA Taxi is a vertically integrated taxi platform providing developmental finance, insurance and other services to empower small and medium-sized enterprises (SMEs) and create shared-value opportunities thus enabling the sustainability of South Africa's minibus taxi industry.

Minibus taxi transport is an essential service and a non-discretionary expense for most South Africans. It accounts for more than 15 million commuter trips per day in contrast to bus and rail which together account for less than two million, and remains the life blood of the transport system in South Africa.

"With around 69% of all South African households using minibus taxis, the minibus taxi industry remains the largest and most critical component of the country's integrated public transport system. The minibus taxi industry is a significant proponent of socio-economic activity in South Africa, moving the majority of our population to work and back every day, and by being a major employer in its own right. By working closely with the SANTACO leadership, we have made great progress in ensuring that our initiatives deliver sustainable benefits to our clients, the industry as a whole, and more importantly, the 15 million commuting population" commented Hurwitz.

SA Taxi delivered 31% growth in headline earnings, with the group's attributable portion up 22%. SA Taxi's loans and advances portfolio, comprising 31 543 vehicles, grew 14% to R10.1 billion.

On 6 February 2019, SA Taxi and the South African National Taxi Council (SANTACO) finalised the transformational ownership transaction that resulted in SANTACO owning a 25% stake in SA Taxi's business. With SANTACO now a shareholder, SA Taxi aims to deliver growth over the medium term to the benefit of taxi operators and the broader minibus taxi industry. This will include accessing cheaper funding, serving low-risk customers at lower interest rates, growing its open market insurance book and designing bespoke insurance offerings for the uninsured segment of the minibus taxi market.

Net proceeds from this transaction strengthened SA Taxi's balance sheet and improved net interest margins from lower leverage. This, as well as operational benefits from the relationship with SANTACO, has been earnings accretive for SA Taxi and Transaction Capital.

SA Taxi aims to leverage off its Black Elite fuel rewards programme to develop its Connected Services offering. This growth strategy will be focused on eventually transacting with South Africa's 250 000 minibus taxi operators. With approximately 14 000 cards distributed and in excess of 6.5 million litres of fuel pumped since its launch in April 2018, the Black Elite fuel programme delivers commercial benefits to SA Taxi's clients. Further rewards programmes are under consideration.

SA Taxi's insurance business continues to be the main driver of non-interest revenue. Gross written premium grew by 22% to just over R400 million in the half year ended March 2019. Looking forward, broadening of SA Taxi's insurance client and product base is expected to drive organic growth. There is still scope to reduce the cost of insurance claims and credit losses via technology, data management and predictive analytics, along with procurement and operational efficiencies in its autobody repair facility.

SA Taxi's result was supported by improved efficiencies from Taxi Auto Parts (TAP), established in March 2018, as a parts procurement and distribution, and vehicle salvage operation. Shortly thereafter the TAP retail initiative was launched which benefits taxi operators by retailing well-priced new and refurbished vehicle parts to the industry. This initiative is exceeding initial expectations and presents a promising organic non-interest revenue growth opportunity, supporting the expansion of SA Taxi's national dealership network.

Transaction Capital Risk Services (TCRS)

TCRS is a technology-led, data-driven provider of customer management and capital-related solutions in South Africa and Australia. Through a bespoke, scalable fintech platform combined with its technology and propriety data, TCRS helps its clients mitigate risk and maximise value for clients throughout the customer engagement cycle. In the process, TCRS rehabilitates over-indebted customers.

TCRS grew headline earnings 13% to R134 million in the half year ended 31 March 2019 despite the challenging macro-economic environment in South Africa. Strong performances from acquiring and collecting on non-performing consumer portfolios, excellent results from Recoveries Corporation in Australia, together with ongoing cost containment and resource efficiency, supported this result.

Of the 25.9 million credit-active South African consumers as at December 2018, close to 40% have impaired credit records. TCRS maintains propriety data on almost all these distressed consumers. According to the Transaction Capital Consumer Credit Rehabilitation Index, which reviews the rehabilitation prospects of more than 5 million South African consumers, the overall national consumer propensity to repay debt deteriorated by 0.4% in the first quarter of 2019 compared to the fourth quarter of 2018. This was, however, marginally better than a year ago with a 0.3% improvement.

Commenting on the state of the South African consumer, Hurwitz said: ***"The pressure on consumers intensified throughout 2018 and the first quarter of 2019. With the increase in the cost of household essentials exceeding wage growth, consumers are expected to struggle to reduce debt over the medium term."***

TCRS's diversified business model reduces concentration risk and supports performance in varying market conditions.

Within its most significant business activity, collection services, TCRS acts either as a principal in acquiring and then collecting on non-performing loan (NPL) portfolios, or as a service provider on an outsourced contingency or fee-for-service (FFS) basis. These business activities are diversified across consumer and commercial sectors, clients and geographies, which lowers concentration risk and supports performance in different market conditions. TCRS's collection services delivered organic revenue growth of 18%.

In South Africa, the economic climate continues to favour the acquisition of NPL portfolios from risk averse clients who prefer an immediate recovery against their NPL portfolios. In the first half of 2019, TCRS acquired 13 portfolios with a face value of R2.1 billion for R404 million in South Africa, and invested a further R33 million into Australian portfolios. At 31 March 2019, it owned 254 principal portfolios with a face value of R23.5 billion, valued at R1.7 billion, up 68% from R1.0 billion a year ago. Future performance is well underpinned with estimated remaining annuity revenues from this book growing by more than 60% to R3.6 billion.

Recoveries Corporation in Australia posted a robust performance, delivering operational efficiencies. Greater management depth and implementing business information, payment automation and collection technologies supported this pleasing result. Outsourcing certain functions to TCRS's South African low-cost centre of excellence, currently in pilot phase, should support future efficiencies.

TCRS remains well positioned to take advantage of bolt-on acquisition opportunities that may arise.

In the medium term, the division's organic growth will be complemented by the growth opportunities within Transaction Capital Specialised Credit (TCSC). This includes an extension of Transaction Capital Business Solutions' (TCBS) offering from SMEs to include lower risk mid-tier or smaller listed corporate entities, differentiating its value proposition by offering complementary capital solutions that could include distressed debt, mezzanine, specialised property and principal finance.

The fragmented segment of the international specialised credit market, which is many times larger than the South African and Australian markets, presents an attractive growth opportunity, where TCRS will target smaller portfolios of credit-orientated alternative assets. This will be done in partnership with regional private specialist credit managers. To date TCRS has co-invested in one NPL portfolio in Europe for €1.3 million, with initial returns in line with expectations. The progression and pace of capital deployment in this business will be conservative, and dependent on the risk-adjusted returns achieved on the initial investments we make.

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