



MEDIA RELEASE

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Transaction Capital deploys R500 million for acquisitive growth

Johannesburg 22 November 2016: Transaction Capital, a provider of specialised financial and allied services in selected higher-risk and under-served segments of the financial services sector in South Africa, announced on 14 November that it is to acquire 100% of Recoveries Corporation Group Limited (“Recoveries Corporation”) in Australia. A\$33 million (approximately R356 million) is payable upon the acquisition becoming effective (expected in February 2017), with a further potential A\$10 million becoming payable over an earn-out period ending on 30 June 2018.

Today, in Transaction Capital’s 2016 year end results presentation, it announced a further two acquisitions, being a majority share in both Road Cover and The Beancounter.

Commenting on Transaction Capital’s acquisition strategy and rationale for these acquisitions, David Hurwitz, Transaction Capital’s chief executive said: *“We have applied stringent investment criteria when evaluating acquisitions, favouring quality assets operating within our focused market segments that will enable Transaction Capital to enhance its capabilities, and whose business model and value can be maximised through Transaction Capital’s active management. Local and international businesses meeting this investment criteria have been considered, and it is an added benefit that Recoveries Corporation generates hard currency returns which will diversify Transaction Capital’s earnings base.”*

“Although each of these acquisitions are justified on a standalone basis, Transaction Capital is excited about the growth prospects emanating from these acquisitions. All of the businesses acquired, Recoveries Corporation, Road Cover and The Beancounter, have scalable business models and proven track records whose competitiveness and value can be enhanced by Transaction Capital through active management, sharing of skills, enhancing technology and effective monetising of Transaction Capital’s proprietary data.”

Recoveries Corporation was founded in 1991 in Melbourne Australia and employs approximately 600 staff members across its Australian operations in Melbourne and Sydney, and its near shore call centre and corporate services centre in Suva, Fiji. The company is a provider of consumer customer management solutions to a well-diversified blue-chip client base within the government, insurance, banking and finance, utilities and

telecommunications market sectors within Australia. Services include debt recovery solutions, insurance claims recoveries, customer services and litigation management services.

As a leading market participant with proven technology, strong data analytics skills, and deep industry knowledge in the insurance recoveries market, Recoveries Corporation will augment Transaction Capital's competencies and facilitate the growth of its fledgling insurance recoveries offering in South Africa.

This transaction provides Transaction Capital with a strong entry point into the Australian market and the opportunity to expand geographically into a developed, English-speaking economy. Recoveries Corporation is an efficient platform that Transaction Capital intends to develop and scale by applying its analytics, pricing expertise and capital to the purchase of non-performing loan portfolios in a highly fragmented Australian debt collection market.

Roadcover is a Johannesburg based company, founded in 2005 which offers its proprietary value added services to the mass consumer market on a subscription basis. For a nominal monthly fee members obtain access to high quality legal and administrative services aimed at assuming on their behalf the complexity and expense associated with successfully lodging and processing claims against state-run public schemes or state insurance funds, with members receiving 100% of their awarded claims.

The rationale is to offer Road Cover's products to Transaction Capital's existing banking, retail, insurance, telecommunications and other clients, thus enabling these clients to generate higher risk-adjusted returns through their engagements with their customers at point of origination. In addition Road Cover's products can be offered into SA Taxi's clients and their commuter base.

The Beancounter, also a Johannesburg based company and founded in 2008, provides full outsourced accounting, payroll and tax services through "software-as-a-service" technology to SME's on a monthly retainer basis. The acquisition provides Transaction Capital with an early entry into the specialist, cloud accounting services market in South Africa, and will augment Transaction Capital Business Solutions' existing offering to its SME client, whilst creating the opportunity to cross-sell working capital solutions to The Beancounter's SME client base.

Post the abovementioned acquisitions, the group has R300 million of liquid cash on balance sheet.

Transaction Capital successfully raises more than R4 billion of debt ahead of South Africa's credit rating review

Transaction Capital is awarded a A- (Long Term, National Scale) and A1- (Short Term, National Scale) credit rating from GCR.

Despite market sentiment, Transaction Capital intensified its fundraising activities successfully raising more than R4 billion of debt during the last 12 months, enjoying uninterrupted access to both local and international funding pools, with many more potential funding transactions currently being pursued.

SA Taxi returned to the local listed debt capital markets during August 2016 tapping its S&P Global rated and JSE listed securitisation programme, Transsec 2, successfully issuing R513 million of debt. The tap issuance was privately placed with nine investors, three of which were first time investors, at a weighted average cost of funding of 241 basis points above 3 month JIBAR, which is approximately 100 basis points lower than SA Taxi's average cost of funding.

Commenting on Transaction Capital's capital raising activities Hurwitz said: *"Transaction Capital has fulfilled most of its annual debt requirements for the 2017 financial year. The resilience of SA Taxi and its strong credit performance has resulted in S&P Global upgrading the credit ratings on various notes in SA Taxi's Transsec 1 securitisation."*

Hurwitz added: *"SA Taxi continues to diversify funding sources, pursuing the offshore capital markets. SA Taxi has accessed more than R1.5 billion of debt funding from the European DFIs (Developmental Finance Institutions) since 2010, and is successfully penetrating global DFI markets."*

In line with Transaction Capital's strategy to diversify its funding structures and instruments, it today established a R2 billion JSE listed Domestic Note Programme, which has been awarded a A- (Long Term, National Scale) and A1- (Short Term, National Scale) credit rating from GCR. It is expected that this programme will enable Transaction Capital to gain access to a new capital pool at an attractive cost to fund both organic and acquisitive growth.

Transaction Capital delivers 17% organic earnings and 36% dividend growth

Transaction Capital's operations delivered strong financial results despite challenging market conditions persisting throughout the 2016 financial year. Headline earnings and headline earnings per share increased by 17% to R458 million and 80.6 cents per share respectively. SA Taxi grew headline earnings by 20% whilst Transaction Capital Risk Services (TCRS) grew headline earnings by 25%.

Transaction Capital is in the process of finalising three acquisitions in its TCRS division which will be funded out of the group's excess cash.

The company's dividend policy has been amended to a reduced cover ratio of 2.5 to 3 times (previously 3 to 4 times). This change has been implemented due to the improved quality of earnings as evidenced by high cash conversion rates and lower balance sheet risk, stable capital requirements, and the net ungeared position of the holding company. All of these factors allow for a higher sustainable dividend policy. Following the interim dividend of 12 cents per share, Transaction Capital declared a final gross cash dividend of 18 cents per share increasing the total dividend per share for the year by 36% to 30 cents per share.

Commenting on Transaction Capital's performance, David Hurwitz, said: *"SA Taxi and TCRS are businesses intentionally positioned within carefully chosen markets to take advantage of South Africa's demographic and socio-economic trends, enabling them to deliver both a social and commercial benefit. This alignment has enabled consistent organic earnings growth since listing on the Johannesburg Stock Exchange more than four years ago, which continued during the 2016 financial year.*

While both SA Taxi and TCRS perform better in a positive economic environment, they are also highly defensive businesses intentionally positioned to withstand a challenging macro- and socio-economic context, as currently experienced in South Africa. Against the backdrop of a stressed low-growth economy it is gratifying that Transaction Capital continues to deliver strong financial and operational performance and has increased headline earnings by 17% organically in 2016."

Divisional review:

SA Taxi

SA Taxi is a vertically integrated minibus and metered taxi platform utilising specialist capabilities and enriched proprietary data to judiciously deploy developmental credit and allied business services to empower SMEs, ensuring the sustainability of a fundamental mode of transport. SA Taxi's strategic and operational results have translated into pleasing financial performance in 2016, with headline earnings increasing by 20% to R249 million.

SA Taxi's strategic, operational and financial highlights:

- SA Taxi launched its retail dealership, anticipated to sell, finance and insure an estimated 2 600 vehicles per year which will constitute approximately 30% of the vehicles financed by SA Taxi in 2017.
- SA Taxi's auto body repair centre commenced operations in February 2016 and spans more than 20 000 square meters, with approximately 200 refurbished taxi vehicles being repaired per month.
- SA Taxi launched its metered taxi business, Zebra Cabs, with the intention of consolidating, recapitalising and formalising the existing metered taxi industry. SA Taxi plans to have 3 000 metered taxis in its portfolio by 2020.
- Non-interest revenue increased by 30% to R315 million, mainly driven by cash generative revenue resulting from an increase in SA Taxi's vehicle retail and short term insurance activities. 84.5% of SA Taxi's financed portfolio is insured directly through SA Taxi (compared to 81.4% at the half-year), with an additional 3 756 insurance policies taken up by non-financed clients.
- Growth in gross loans and advances was positively impacted by Toyota increasing vehicle prices by 13.6% since October 2015 resulting in 15% growth in gross loans and advances.
- SA Taxi's credit loss ratio improved to 3.1%. Non-performing loan ratio improved to 17.4% due to a combination of continued strong collection performance and conservative credit granting criteria, which are continuously enhanced via the analytics applied to SA Taxi's telematics data.
- A more conservative provisioning methodology was assumed during 2015 upon the adoption of IFRS 9. A greater component of the portfolio is currently categorised as lower risk when compared to the prior year (70.5% currently in the lowest risk stage (being Stage 1), versus 68.6% at 30 September 2015). This is driven by SA Taxi's record collection levels, lower non-performing loans and lower credit losses. Provision coverage has reduced but remains adequate as evidenced by a better quality loans and advances portfolio. With provision coverage levels at 6.7%, SA Taxi's after tax credit loss is conservatively and consistently covered 3.1 times.

Transaction Capital Risk Services (TCRS)

TCRS is a technology-led, data-driven provider of customer management and capital solutions through a scalable and bespoke platform, enabling its clients to mitigate risk through their customer engagement lifecycle. In this challenging operating environment, it is pleasing that TCRS grew headline earnings by 25% to R168 million in 2016. Operational leverage was achieved as total costs reduced by 6%, with return on sales increasing to 15.3%.

TCRS's strategic, operational and financial highlights:

- In 91% of its 254 mandates, which increased by 41% during 2016, TCRS is ranked to be the top or second recoveries agent.
- Technological enhancements include the establishment of TCRS's Master Data Universe ("MDU"), an internal database of 9.2 million unique consumer records. This MDU is expected to create operational leverage in the years to come. An enhanced predictive dialer was implemented in call centres resulting in increased activity, improved right party contact and associated increase in payments. This together with other cost containment initiatives contributed to an improved cost-to-income ratio of 77.4%.
- TCRS acquired 13 new non-performing loan portfolios from various South African consumer lenders in 2016 for R184 million. TCRS owns 167 principal portfolios valued at R728 million, an increase of 30%.
- Recent book acquisitions are expected to deliver positive future performance, as estimated remaining collections increased to R1 313 million.
- The strength of TCRS's services was reaffirmed in 2016 with the GCR upgrade of the primary and special servicer ratings assigned to Transaction Capital Recoveries to SQ1-(za) and SQ1(za) respectively; with the outlooks accorded as stable.

Commenting on Transaction Capital's prospects, Hurwitz said: *"Transaction Capital is pleased with the current composition of its portfolio and the defensive positioning of its divisions, which enables it to prosper despite South Africa's challenging macro- and socio-economic context. The constitution of Transaction Capital's portfolio of assets under two distinct divisional pillars has enabled Transaction Capital to focus on deploying its capital and resources to drive organic and acquisitive growth, thus enhancing the scale and entrenching the leading market positions of its divisions."*

Transaction Capital remains committed to investing in the organic growth of SA Taxi and TCRS, to augment and develop these platforms, to enhance their scale and entrench their leading market positions, thereby generating societal and stakeholder value. Transaction Capital has a proven track record of creating value by identifying, pricing, acquiring and integrating new businesses, and then developing them to achieve scale and leading positions in their market segments."

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