Transaction Capital Limited
(Incorporated in the Republic of South Africa)
Registration number: 2002/031730/06
JSE share code: TCP
ISIN: ZAE000167391
Tax reference number: 9466/298/15/6
("Transaction Capital" or "the company" or "group")

ANNUAL GENERAL MEETING (AGM) STATEMENT BY THE GROUP CHIEF EXECUTIVE OFFICER AHEAD OF THE COMPANY'S AGM TO BE HELD TOMORROW, 2 MARCH 2017

This statement made by the group chief executive officer details the information that will be covered in meetings with analysts and investors to be held on 24 March and 27 March 2017 ahead of its closed period for the 6 months ending 31 March 2017.

INTRODUCTION

Transaction Capital is a non-deposit taking financial services group comprising two distinct divisions, being SA Taxi and Transaction Capital Risk Services (TCRS), operating in highly specialised market segments perceived to be of higher risk. Both of these divisions are 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 (JSE) more than four years ago, which has continued into the 2017 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 difficult economic conditions. Thus, notwithstanding the challenging macro- and socio-economic environment, which has remained a key feature of the South African operating context, it is gratifying that Transaction Capital's operations delivered stable financial results and the company has made continued progress towards its strategic, operational and financial objectives in the first four months of the 2017 financial year.

Each of the divisions is performing in line with expectations regarding growth rates, with the following being the most notable developments.

TRANSACTION CAPITAL RISK SERVICES (TCRS)

Of the 24.25 million credit-active South African consumers as of September 2016, 9.85 million have impaired credit records. TCRS's ability to grow revenue from outsourced or agency collections has remained constrained during the year, mainly caused by negative key economic indicators such as increased inflation, increased interest rates, low economic growth and high unemployment, all contributing to increased financial pressure on an already distressed consumer credit sector.

In addition to these macro- and socio-economic challenges which impact the consumers' ability to repay their debts, changes to the legislative environment have resulted in more responsible, but lower levels of credit extension. Despite the regulatory environment being somewhat more stable in the last 12 months, historical amendments regarding affordability assessments, the prescription of debt, interest rate caps and credit life insurance are resulting in a decline in the volumes of matters handed over to TCRS by clients governed by the National Credit Act (NCA), particularly credit retailers. Notwithstanding these lower volumes, it is encouraging that recent handovers are reflective of improved credit quality emanating from more responsible credit extension by credit providers.

Thus TCRS's performance has been impacted by muted growth in revenue from outsourced or agency collections within the local credit retail, banking and specialist lending sectors, in particularly difficult trading conditions. Cognisant of this environment, it is TCRS's strategy to grow revenue from adjacent sectors not regulated by the NCA, including the outsourced collection of outstanding claims in the insurance, telecommunication and public sectors.

TCRS' diversified business model, comprising both fees for agency collections and the acquisition of non-performing loan portfolios as a principal, is central to TCRS's defensive positioning, which enables it to continue delivering positive performance under a variety of market conditions. Within the current economic context, TCRS can apply its strong balance sheet and extensive data to the selective acquisition of the increased number of non-performing loan portfolios available for purchase at beneficial prices from clients who require an immediate recovery. As predicted at the 2016 financial year end, TCRS has acquired numerous large non-performing loan portfolios during the first quarter of the 2017 financial year, all of which are expected to deliver positive future performance.

Technological enhancements during the 2016 financial year included the establishment of TCRS's Master Data Universe, an internal database of 9.2 million unique consumer records, and the implementation of an enhanced predictive dialer alongside the existing preview dialer. As planned, TCRS started implementing workforce management enhancements early in the 2017 financial year. These technological and operational enhancements have resulted in increased call centre activity and improved right party contact, which together with other aggressive cost containment initiatives should contribute to an improved cost-to-income ratio.

Transaction Capital applies stringent investment criteria when evaluating acquisitions, favouring a narrow focus on quality assets operating within its existing or adjacent market segments. Furthermore, it seeks to acquire businesses whose competitiveness and value can be enhanced by active management, acquisitive activity, sharing of skills, enhancing technology and the ability to monetize its proprietary data. In line with this strategy, Transaction Capital entered into three earnings accretive acquisitions within the TCRS division during the first quarter of the 2017 financial year, being:

- 100% of Recoveries Corporation, effective on 1 January 2017;
- 75% of Road Cover, effective on 1 December 2016; and
- Majority share of The Beancounter, effective on 1 December 2016.

These acquisitions enable earnings diversification from a geographic and sectoral perspective, with the majority of Recoveries Corporation's revenue generated from the insurance, telecommunication, utility and public sectors in Australia. The integration of these businesses and ensuring that they deliver on their initial investment cases remains a key strategic and operational focus during 2017.

In this challenging operating environment, and despite modest growth in local revenue from outsourced or agency collections, it is pleasing that TCRS has acquired non-performing loan portfolios at beneficial prices, implemented and initiated the integration of the three acquisitions, and continued with its technological enhancements and cost containment initiatives, thus enabling it to perform in line with expectations.

SA TAXI

The public transport system remains the dominant mode of transport in South Africa, with the majority of commuters who utilise public transport being heavily reliant on minibus taxis. The national minibus taxi fleet of approximately 200 000 privately owned vehicles is responsible for 69% of all South African household commuter trips, estimated to encompass more than 15 million commuter trips per day. For the majority of South African commuters, minibus taxi transport is a non-discretionary expense that offers the most accessible means of travel. These factors make the minibus taxi industry resilient and defensive despite the difficult socio-economic and consumer environment.

SA Taxi estimates that of the 200 000 national minibus taxi fleet, only 70 000 to 80 000 of these are financed with the remainder of the fleet estimated to be older than six years. This under-capitalised and ageing fleet, intensified by the under-supply of premium minibus taxi vehicles in our local market, continues to create a robust demand for the new and refurbished vehicles, finance, short-term comprehensive insurance and related services provided by SA Taxi, and also allows SA Taxi to be selective on credit risk.

SA Taxi's loans and advances portfolio of circa R7.5 billion, comprising just less than 27 000 vehicles, accounts for approximately one in every three of the financed national minibus taxi fleet. Credit granting criteria remained consistently conservative with SA Taxi's number of active loan clients increasing by about 5%. Toyota increased vehicle prices by a further 2% in December 2016 resulting in a total effective increase of 16% during the 2016 calendar year, such that a Toyota minibus now retails for more than R400 000. Growth in gross loans and advances is positively impacted by vehicle price increases resulting in mid-teen growth in SA Taxi's gross loans and advances.

A further second order effect of Toyota increasing new minibus vehicle prices is that pre-owned vehicle prices follow a similar trend and SA Taxi's pre-owned product becomes more viable to its customer base enabling SA Taxi to recover more when re-selling repossessed vehicles.

SA Taxi's credit loss ratio remains stable and well within in the risk tolerance of 3% to 4%. SA Taxi is able to recover more than 72% of the loan value when re-selling repossessed vehicles, as the security value of a taxi vehicle is enhanced via SA Taxi's mechanical refurbishment centre. The average cost to repair repossessed vehicles has continued to reduce, resulting from further efficiencies achieved post SA Taxi's investment into its combined auto body repair and mechanical refurbishment centre. The efficiency of the procurement, repair and resale operations of the refurbishment facility combined with increasing vehicle prices, both assist in maintaining low levels of ultimate credit loss.

The non-performing loan ratio remains within management’s expectations due to a combination of continued strong collection performance, loans of superior credit quality being originated via its retail dealership and conservative credit granting criteria, which are continuously enhanced via the analytics applied to SA Taxi's telematics data.

In line with SA Taxi’s strategic objective to achieve deep vertical integration within South Africa’s taxi industry, in February 2016 SA Taxi established a retail dealership in Midrand exclusively selling taxi vehicles. This dealership is considered to be one of the largest dedicated taxi dealerships in the country selling Toyota, Nissan and Mercedes minibuses, and bespoke Toyota Corolla metered taxi vehicles.

The profitability of vehicles financed directly through SA Taxi’s dealership outstrips the profitability of loans originated through other sales channels (i.e. affiliated and non-affiliated dealerships). This can be ascribed to a greater proportion of non-interest revenue earned (being product margin and insurance revenue) and better loan performance. Thus retailing of both new and pre-owned taxi vehicles continues to present an organic growth opportunity with management focusing on a number of strategies to drive growth in the retail dealership. Whilst growth in gross loans and advances remains in line with expectations, the composition of loans originated shifted more towards affiliated and non-affiliated dealerships.

SA Taxi’s auto body repair centre commenced operations at the beginning of February 2016. This centre, estimated to be the largest buyer of Toyota spare parts in Africa, is designed to feed SA Taxi’s dealerships with approximately 200 quality refurbished taxi vehicles per month. This, together with its retail dealership channel and well-regarded brand, has enabled SA Taxi to establish the sale, financing and insuring of pre-owned vehicles as a core and profitable product offering to the market. SA Taxi plans to grow its participation in this highly liquid market.

SA Taxi’s short-term insurance business presents a unique strategic opportunity for growth. SA Taxi requires its financed minibus taxis to be fully insured, and has thus designed a bespoke insurance product to meet its taxi owners’ specific needs, including comprehensive vehicle cover, passenger liability as well as business interruption cover. SA Taxi is responsible for product design, distribution, premium collections and claims management, and participates in the underwriting profits associated with this insurance business.

More than 85% of SA Taxi’s financed portfolio are insured directly through SA Taxi, with more than 4 000 additional insurance policies taken up by non-financed clients. Looking forward, SA Taxi intends to enhance its control over the parts procurement and refurbishment processes wherever possible via its combined auto body repair and mechanical refurbishment centre, providing an opportunity to earn additional margin and hence improve insurance underwriting profits.

The introduction of newly developed insurance products later this year specifically designed for taxi operators, such as credit life and warranty products, will further support the sustainability of SA Taxi’s SME customers. Similarly, in the medium-tem, management will look to offer Road Cover products into SA Taxi’s client and potentially commuter base.

In addition to the developmental finance, vehicle retail and bespoke insurance businesses within the minibus taxi sector, SA Taxi continues to leverage its distinctive competencies to create defensible positions within identified adjacent market segments, such as the metered taxi sector. Although this business is not yet a significant profit contributor, management remains focused on developing a sustainable and profitable metered taxi business over time.

SA Taxi's use of data and analytics has progressed over the years from repossession (tracking a vehicle's physical location), to credit decision-making (to assess prospective profitability of a proposed route), to collections (determining current profitability based on kilometres travelled in a specific month), to insurance (whether the vehicle's average movement pattern has changed pointing to potential vehicle damage or theft). Leveraging this data to develop an application for minibus taxi operators represents the next step in SA Taxi's technology evolution.

With moderate growth in gross loans and advances, stable net interest margins, promising growth in non-interest revenue, stable credit performance and a marginally higher cost-to-income ratio, SA Taxi's credit, operational and financial performance remains in line with expectations.

FUNDING AND CAPITAL MANAGEMENT

Transaction Capital employs a conservative capital management strategy. Post the finalisation of the three acquisitions discussed above which were funded out of Transaction Capital's excess cash, and with growing concerns regarding a potential downgrade of South Africa's credit rating, Transaction Capital intensified its fundraising and capital management activities.

The three acquisitions within TCRS resulted in excess cash of R500 million being deployed in December 2016. Post the completion of these acquisitions, Transaction Capital raised additional equity capital in order to create capacity for the company to continue to pursue acquisition opportunities that meet its stringent criteria as they arise, while allowing for the flexibility of immediate cash settlement. On 2 February 2017, Transaction Capital issued 28 400 000 ordinary shares (R418.9 million of capital) via an accelerated book build process. The book build was oversubscribed, with the shares priced at R14.75 per share, a 1.3% discount to the 30 day volume weighted average price of R14.95 as at 1 February 2017. In addition, the equity raise is also expected to help continue building trading liquidity in Transaction Capital shares.

SA Taxi has enjoyed continued uninterrupted access to both local and international funding pools, accessing more than R4.5 billion of debt since the beginning of the 2016 financial year, and already fulfilling its annual debt requirements for the 2017 financial year and beyond. SA Taxi continues to diversify its funding sources, pursuing offshore capital pools. SA Taxi has accessed more than R1.5 billion of debt funding from the European DFI (Developmental Finance Institution) capital markets since 2010, and is successfully penetrating other global DFI markets.

Transaction Capital's balance sheet remains well capitalised, liquid and ungeared at a holding company level. Capital adequacy levels remain high and the group is well positioned to take advantage of and fund organic and acquisitive growth opportunities.

OUTLOOK

Transaction Capital's strategy is to drive organic and acquisitive growth within its divisions, by achieving deep vertical integration within current and adjacent market segments. The ability of Transaction Capital's divisions to operate in higher-risk or under-served market segments rests on their narrow focus, deep specialisation, enriched proprietary data and analytical capabilities, leading technology systems and excellent people to mitigate risk.

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 group remains focused 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.

Shareholders are advised that the financial information on which this trading update is based has not been reviewed and reported on by the group's external auditors. Transaction Capital's financial results for the six months to 31 March 2017 are expected to be released on the Stock Exchange News Service of the JSE on Wednesday 24 May 2017.

Dunkeld West
1 March 2017

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