



Transaction Capital Limited
(Incorporated in the Republic of South Africa)
Registration number: 2002/031730/06
JSE share code: TCP
ISIN: ZAE000167391
("Transaction Capital")

SOUTH AFRICAN NATIONAL TAXI COUNCIL (SANTACO) ACQUIRES A 25% STAKE IN SA TAXI FINANCE HOLDINGS PROPRIETARY LIMITED ("SA TAXI") FOR R1.7 BILLION

1. INTRODUCTION

Transaction Capital is pleased to announce that an equity partnership transaction has been concluded between SA Taxi (a major subsidiary of Transaction Capital) and SANTACO, whereby a newly established entity, K2018582630 (South Africa) Proprietary Limited (to be renamed Industry SPV (RF) Proprietary Limited) ("SANTACO SPV") will subscribe for 25% of the total increased issued share capital of SA Taxi valued at R1.701 billion (the "Transaction"). The Standard Bank of South Africa Limited and Futuregrowth Asset Management Proprietary Limited (acting as an asset manager on behalf of various persons) (collectively "Senior Funders") will co-fund the Transaction by way of preference shares (as described below) to the value of R1.180 billion, with SA Taxi providing R521 million of vendor finance through the issue of a new class of shares called "Notional Vendor Finance Shares".

SANTACO SPV is indirectly held by SANTACO's affiliated entities (being a company and a trust representing SANTACO's broad-based provincial structures ("SANTACO Trust")), ensuring that the economic benefits of this investment accrue to all levels of the minibus taxi industry.

This ground-breaking Transaction is transformational to the minibus taxi industry and its stakeholders, in addition to being earnings accretive to Transaction Capital in the medium term due to the financial benefit of the Transaction (being improved net interest margins from the lower leverage and interest expenses savings) as well as the operational benefits of an enhanced relationship with the minibus taxi industry.

2. RATIONALE FOR THE TRANSACTION

SA Taxi and SANTACO have engaged over several years to formalise the industry's participation in revenue streams of the minibus taxi industry value chain, and to achieve meaningful and sustainable commercial benefits for industry participants.

The relationship between SA Taxi and SANTACO has deepened considerably in recent years, culminating in a unique transformational equity partnership transaction that formalises SA Taxi's relationship with SANTACO. The Transaction is truly ground-breaking. It provides broad-based participation in the value chain of an entirely black-owned industry, comprised entirely of small and medium-sized enterprises (SMEs).

This industry has developed without government subsidy into the largest and most critical component of the South African integrated public transport network, which has, for many decades, been a core pillar of the South African economy and is responsible for connecting millions of South Africans to various centres of the economy every day.

SA Taxi's unique market position enhances its ability to have a meaningful impact through inclusive economic growth. SA Taxi's social impact extends to financial inclusion, job creation, skills development and economic transformation, all of which underpin the sustainability of the minibus taxi industry. SA Taxi fills a critical funding gap, providing credit to entrepreneurs who would otherwise be excluded from the formal economy and are underserved by traditional credit providers.

Since 2008, SA Taxi has provided loans of more than R21.9 billion to taxi operators, supporting the creation of an estimated 72 423 small SMEs resulting in more than 130 000 direct and more than 215 000 indirect jobs created. Of the 7 734 SMEs created by SA Taxi in 2018, 100% are black-owned, 23% are women-owned and 23% of these SME operators at the date of origination, are under the age of 35, all contributing to SME empowerment.

More broadly, enabling taxi operators to replace old vehicles with new, safer and lower emission minibus taxis improves this critically important component of South Africa's integrated public transport network.

The alignment of interests required to conclude the transaction has formalised the industry ecosystem to an extent not achieved before, which will provide a framework for wide-reaching initiatives to transform the minibus taxi industry from within, and to grow and support the sustainability of the industry at all levels.

As socially responsible corporate citizens, Transaction Capital and SA Taxi are cognisant of their businesses' responsibilities to the broader South African society and have accordingly entered into this equity partnership transaction to include historically disadvantaged persons that would, but for this transaction, remain excluded from the minibus taxi industry's value chain. Transaction Capital and SA Taxi have voluntarily taken on this initiative which delivers positive social impact.

3. TRANSACTION CONSIDERATION

SANTACO SPV will acquire 25% of the enlarged issued share capital of SA Taxi via the following transaction mechanism:

- 3.1. senior Funders will, in equal proportions, subscribe for preference shares issued by a newly established company, K2018582884 (South Africa) Proprietary Limited (to be renamed Industry Holdco) ("SANTACO Holdco"), consisting of "A Preference Shares", "B Preference Shares", and "B1 Preference Shares" (collectively the "Preference Shares") for a total aggregate amount of R1.180 billion;
- 3.2. in turn, SANTACO Holdco will subscribe for ordinary shares in SANTACO SPV for R1.180 billion; SANTACO SPV will utilise the proceeds received from issuing the additional ordinary shares to SANTACO Holdco pursuant to 3.1 to subscribe for ordinary shares in SA Taxi (equal to 15.69% of the enlarged issued share capital in SA Taxi) for a total amount of R1.180 billion ("Ordinary Subscription Shares"); and

3.3. SA Taxi will provide vendor finance of R521 million by issuing a newly created class of shares called Notional Vendor Finance shares (“NVF Shares”) (the terms of which are set out in 7 below) to SANTACO SPV for a nominal amount. The NVF Shares to be issued to SANTACO SPV will equate to 9.31% of the enlarged issued share capital of SA Taxi.

4. **SANTACO SPV**

The Ordinary shares in SANTACO Holdco shall be held by an affiliated company of SANTACO and the SANTACO Trust. SANTACO SPV, a wholly-owned subsidiary of SANTACO Holdco, will subscribe for ordinary shares and NVF Shares in SA Taxi.

The beneficiaries of the SANTACO Trust comprise the broad-based provincial taxi councils. The beneficiary structure will ensure that ownership and associated economic benefits of the investment cascade down to provincial levels.

A governance framework has been instituted to:

- (i) govern the powers of SANTACO Holdco, SANTACO SPV and the SANTACO Trust to those commensurate with special purpose entities of this nature;
- (ii) ensure strict governance of the appointments of SANTACO representatives in SANTACO Holdco, SANTACO SPV and the SANTACO Trust; and
- (iii) ensure that dividends and future value from the realisation of the SANTACO Trust’s shareholding in SA Taxi flows back to minibus taxi associations, operators, commuters and other stakeholders with benefits in the form of special projects. In this regard, a committee with representatives from SANTACO and its affiliated entities and the Senior Funders has been formed to consider each project for approval. Cash flows will support relevant infrastructure and other developmental projects designed to create sustainable value for the industry and commuters. Partnerships with local government will be sought to leverage this investment in infrastructure for greater socio-economic impact.

Post the implementation of the Transaction, 90% of the dividends declared and paid by SA Taxi to SANTACO SPV and, ultimately to SANTACO Holdco, will be applied towards servicing the Preference Shares. A 10% trickle dividend will flow from the outset.

SANTACO SPV will be entitled to nominate 3 directors to the board of SA Taxi.

5. **USE OF PROCEEDS AND EFFECT OF TRANSACTION**

SA Taxi will raise net proceeds of approximately R1.167 billion (after transaction costs) from the issue of the Ordinary Subscription Shares to SANTACO SPV. Of this, SA Taxi will use approximately R1 billion to settle external and shareholder debt, with the remainder retained by SA Taxi to fund growth.

In the medium-term, SA Taxi will continue to grow earnings organically at rates similar to prior years. However, the financial benefit of the Transaction (being improved net interest margins from the lower leverage and interest expenses savings) and the operational benefits of a stronger enhanced relationship with SANTACO will support higher growth rates over the medium term.

This capitalisation of SA Taxi's balance sheet increases its net asset value by approximately R1.2 billion. This will reduce gearing significantly and position SA Taxi strongly for its next wave of organic growth. This growth will be funded predominantly by more efficiently priced senior debt. Despite the capitalisation, strong earnings growth in the coming financial year will enable SA Taxi to generate a return on equity of approximately 20% over the medium term.

The issue of the Ordinary Subscription Shares and the notional vendor finance made available by SA Taxi through the issue of the NVF Shares will result in Transaction Capital consolidating 81.4% of SA Taxi's earnings. Although Transaction Capital's proportionate share of SA Taxi's earnings will be smaller, earnings are expected to increase due to the settlement of debt and together with the benefits of greater alignment with the minibus taxi industry, this groundbreaking Transaction is expected to be earnings accretive to the Transaction Capital group in the medium-term. Furthermore, Transaction Capital's net asset value per share is estimated to increase by approximately 105 cents per share immediately after the implementation of the Transaction.

The use of notional vendor finance by way of the issue of the NVF Shares has resulted in a once off (non-cash) share based payment cost, to be recognized in SA Taxi's income statement in the current financial period. This cost, together with other once off costs related to the Transaction will be excluded from core earnings in SA Taxi and the Transaction Capital group's financial results.

6. PREFERENCE SHARE TERMS

- 6.1. Each A Preference Share and each B Preference Share will confer on its holder the right to receive a preferential cumulative cash dividend from date of issue to the redemption date of such A and B Preference Shares. The A Preference Shares shall be required to be compulsorily redeemed at various intervals during a period of 7 years calculated from the date on which they are issued. In this regard, all A and B Preference Shares must be redeemed on the day immediately prior to the seventh anniversary of the date on which they are issued ("Maturity Date"). If there are any breach or insolvency events that occur prior to such date, SANTACO Holdco shall be obliged to redeem the Preference Shares earlier.
- 6.2. Each B1 Preference Share will confer on its holder the right to receive a preferential once off cash dividend after the A and B Preference Shares have been redeemed, based on the net asset value of SANTACO Holdco exceeding R500 million (before tax).

7. NVF TERMS

The terms of the NVF Shares, being a new class of shares to be created in SA Taxi, shall include, inter alia, the following:

- 7.1. a notional vendor finance balance of R521 million will initially be established on the date on which the NVF Shares are subscribed for ("NVF Balance"). The NVF Balance will:
 - 7.1.1. increase by (i) the equity cure balance paid by TC Corporate Support (Pty) Ltd, a wholly-owned subsidiary of Transaction Capital, ("TCCS") in terms of the Equity Cure mechanism (as more fully described in 9 below); and (ii) a notional growth rate of 4% (nominal annual rate compounded semi-annually); and

- 7.1.2. decrease by (i) the amount of any notional dividends (as contemplated in 7.3.2 below)
- 7.2. holders of the NVF Shares shall be entitled to the same voting rights in respect of the NVF Shares as the holders of the ordinary shares in SA Taxi are entitled to;
- 7.3. holders of the NVF Shares shall be entitled to receive dividends declared by SA Taxi from attributable cash profits pro rata to the total number of both classes of shares in issue. 10% of the proceeds of such dividends will be distributed to SANTACO SPV, which will in turn distribute the amounts to SANTACO Holdco for the benefit of it and its shareholders. The remaining 90% of dividend proceeds (which will be distributed to SANTACO SPV, which will in turn distribute the amounts to SANTACO Holdco) will be applied as follows:
 - 7.3.1. firstly, to settle amounts owing by Industry Holdco in terms of, inter alia, the Preference Shares;
 - 7.3.2. secondly, after settlement of amounts owing by Industry Holdco in terms of, inter alia, the Preference Shares, to reduce the NVF Balance (via the declaration of a notional dividend and notional offset against the NVF Balance); and
 - 7.3.3. thirdly, once the NVF Balance is reduced to nil, be paid out to SANTACO SPV, to the extent that there are NVF Shares remaining after a determination has been made regarding the number of NVF Shares that may be redeemed by SA Taxi to reduce the NVF Balance to nil;
- 7.4. if the NVF Balance, at any time is nil, the NVF Shares (to the extent that there are any remaining NVF Shares) shall convert into ordinary shares in SA Taxi on a one-for-one basis at that time; and
- 7.5. the Ordinary Subscription Shares and the NVF Shares will be pledged to Senior Funders as security for SANTACO SPV's obligations to Senior Funders (as guarantor for the obligations of SANTACO Holdco under the subscription agreement referred to in 3.1). If the security provided by the Ordinary Subscription Shares to Senior Funders is insufficient, after realisation, to settle all amounts owing by SANTACO SPV to Senior Funders, Senior Funders shall be entitled to realise their security in respect of the NVF Shares which shall immediately convert into ordinary shares on a one-for-one basis.

8. EQUITY CURE

If a financial covenant given by SANTACO Holdco and/or SANTACO SPV to Senior Funders in relation to the Preference Shares (and the terms upon which the Preference Shares were subscribed for), is breached, TCCS undertakes to pay an amount not exceeding R250 million ("Equity Cure") into a ring-fenced bank account which may be utilised as cash collateral or may be utilised by SANTACO Holdco to redeem all or a portion of the Preference Shares.

9. **CONDITIONS PRECEDENT**

The Transaction is subject to fulfilment or waiver (where appropriate), inter alia, of the following suspensive conditions by 31 March 2019 or such later date as may be agreed by the relevant parties to the Transaction:

- 9.1. resolutions passed by the boards and/or shareholders of SANTACO Holdco, SANTACO SPV and SA Taxi to implement the Transaction;
- 9.2. the filing of the amended memoranda of incorporation of both SANTACO Holdco and SANTACO SPV to include, inter alia, ring-fencing provisions required by the Senior Funders;
- 9.3. the conclusion of the amended and restated trust deed relating to the SANTACO Trust to the satisfaction of SA Taxi and the Senior Funders;
- 9.4. the obtaining of the consent of certain SA Taxi funders to implement the Transaction;
- 9.5. the delivery of various documents by SANTACO Holdco and/or SANTACO SPV to the Senior Funders including payment instructions and formalities certificates confirming certain factual representations to the Funders;
- 9.6. the furnishing of legal opinion/s in respect of the Transaction relating, inter alia, to the enforceability of the funding documents.

10. **EFFECTIVE DATE**

The effective date of the Transaction shall be the date on which Senior Funders subscribe for the Preference Shares in SANTACO Holdco.

11. **FURTHER INFORMATION REGARDING TRANSACTION CAPITAL AND SA TAXI**

Transaction Capital owns businesses that operate in highly specialised, under-served segments of the South African and Australian financial services markets. Its divisions, SA Taxi and Transaction Capital Risk Services (TCRS), are diversified and scalable business platforms that leverage their specialised expertise, proprietary data and technology to create value for customers.

Positioned deliberately in relation to socio-economic dynamics, both divisions are highly defensive businesses able to deliver good commercial returns and positive social impact in different economic conditions. Each of them has an entrepreneurial and experienced management team and operates according to a mature governance framework.

Since Transaction Capital listed on the JSE Limited in June 2012 it has achieved compound annual growth in earnings per share of about 20%, with high cash conversion rates.

SA Taxi is a vertically integrated business platform that provides a comprehensive financial and allied services offering to minibus taxi operators. The division offers a unique blend of vehicle procurement, retail, repossession and refurbishment capabilities with asset-backed developmental finance and insurance specifically designed for the minibus taxi industry.

12. **FINANCIAL INFORMATION**

12.1. For the 6 months ended 31 March 2018, the net assets of SA Taxi were R1 463 million, inclusive of gross loans and advances of R8 907 million and interest-bearing liabilities of R7 364 million.

12.2. SA Taxi delivered profit after tax of R176 million for the 6 months ended 31 March 2018. These unaudited figures were prepared in accordance with the International Financial Reporting Standards.

Full year results for Transaction Capital to be released on the Stock Exchange News Service (SENS) on or about 20 November 2018.

13. **CATEGORISATION**

The Transaction is a Category 2 transaction as contemplated in the Listings Requirements of the JSE Limited.

14. **FURTHER ANNOUNCEMENT**

Shareholders will be notified once the last of the conditions precedent set out in 0 has been fulfilled or waived.

Any forecast financial information contained in this announcement has not been reviewed or reported on by Transaction Capital's external auditors.

Dunkeld West
19 November 2018

Enquiries:

Phillipe Welthagen - Investor Relations
Telephone: +27 (0) 11 049 6700

Financial Advisor, Lead Mandated Arranger and Transaction Sponsor
The Standard Bank of South Africa Limited