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

TransCapital Investments Limited
(Incorporated in the Republic of South Africa)
(Registration No. 2016/130129/06)
Bond Company code: TCII

STATEMENT BY THE GROUP CHIEF EXECUTIVE OFFICER AHEAD OF THE AGM

This statement details the information to be presented to shareholders at the annual general meeting (AGM) to be held on 7 March 2019. It will also inform management's interaction with investors and analysts from 25 to 27 March 2019, prior to Transaction Capital's closed period.

The significant economic headwinds in South Africa over the past few years persisted into 2019. Despite these conditions, our entrepreneurial management teams' unrelenting investment in innovative strategies, to further diversify and expand divisional earnings, supported a strong operational and financial performance in the first quarter of the 2019 financial year. We expect the ongoing precise implementation of these strategies to translate into robust organic earnings and dividend growth over the medium term, at least in line with the group's past performance.

SA Taxi and Transaction Capital Risk Services (TCRS) have demonstrated their resilience in this low-growth environment. The likelihood of a meaningful macro- and socio-economic recovery remains uncertain, and will be contingent on bold structural reforms that at best will be considered only after the national election in May. We have not factored into our guidance any prospect of economic upturn, so there may well be upside potential for our growth expectations over the next three to five years.

The group's balance sheet remains well capitalised, liquid and ungeared, with funding requirements for the 2019 financial year already secured and excess capital of more than R1 billion. Our growth expectations assume no accretive investment of the group's excess capital, making further upside possible in the medium term.

SA Taxi's strong balance sheet subsequent to the SANTACO transaction, coupled with the group's high-quality earnings growth supported by high cash conversion rates, positions the group to maintain its dividend policy and further improve pay-out rates over the medium term.

TRADING ENVIRONMENT

Our macroeconomic outlook is similar to that at the end of the 2018 financial year. Economic growth will remain sluggish, constrained by low consumer and business confidence, high unemployment and household debt, low wage growth, a volatile Rand, the 0.25% increase in interest rates in November 2018, rising costs of household essentials and stagnating credit extension. While the recent decline in fuel prices will alleviate some pressure on household spending and debt burdens, sustainably lower fuel prices over the medium term will be required for any meaningful improvement to materialise.

TRANSACTION CAPITAL RISK SERVICES (TCRS)

Operating context

Transaction Capital's Consumer Credit Rehabilitation Index (CCRI) showed that South African consumers' propensity to repay debt remained unchanged in the last quarter of 2018 compared to the quarter before, and deteriorated by 0.3% from a year ago. This indicates that consumers' ability to repay debt has neither improved nor deteriorated.

Acquisition of non-performing loans as principal

In South Africa, the economic climate and TCRS' data, scale and capital position continues to favour the acquisition of non-performing loan portfolios from risk averse clients who prefer an immediate recovery against their non-performing loans. TCRS acquired more non-performing loan portfolios during the first quarter of the 2019 financial year, compared to a year earlier. This acceleration in book acquisition, which is expected to continue over the financial year, has supported strong growth in estimated remaining collections and underpins future revenue growth within this business.

TCRS' cautious and selective approach in applying its analytics, pricing expertise and capital raising capabilities to acquire non-performing loan portfolios in Australia is gaining traction with additional portfolios acquired during the quarter.

Contingency and fee-for-service revenue

The South African contingency and fee-for-service collections business is performing in line with expectations in light of the difficult consumer credit environment. Management remains focused on improving effectiveness and efficiency through technology, industry sector specialisation and innovative new products.

Recoveries Corporation in Australia posted a robust performance and delivered operational efficiencies in the first quarter of 2019. Our strategy of augmenting management competencies, implementing TCRS' business information, payment automation and collection technologies, and outsourcing certain operations to our South African low-cost centre of excellence supported this pleasing result.

Other specialised credit sectors

Transaction Capital's business model, proven over close on two decades, is to effectively deploy permanent capital to originate or acquire alternative assets in the specialised credit sector. We are able to assess, mitigate, underwrite and price the inherent credit risk of these alternative assets to generate risk-adjusted interest returns, and to mobilise the optimal balance of equity capital and leveraged debt to fund their growth. Our ability to identify and partner with exceptional entrepreneurial founders and management teams, in building and scaling operational platforms to manage these assets and achieve capital appreciation, underpins the outcomes we have achieved for our shareholders to date.

After thorough analysis, we believe the fragmented segment of the European specialised credit market presents an attractive opportunity to leverage the TCRS business model. The European specialised credit market is many times larger than the South African and Australian markets, with known participants in this market being large credit management and collection platforms, asset managers or private equity funds. However, the segment of the market we are targeting is the smaller portfolios of higher-yielding alternative assets originated within the corporate and consumer sectors. Private specialist credit managers typically acquire these niche portfolios via bespoke, off-market sales processes.

Over recent years, we have created a partner network of specialist credit managers, alongside whom we will co-invest to acquire a diversified portfolio of specialised credit related assets over time. This strategy will give Transaction Capital and our shareholders unique access to niche European specialist credit managers, without concentration risk in any particular portfolio, asset class, asset originator, collection platform or geographic market. No investment in goodwill or in business integration costs or risks will be required.

Although the capital we have earmarked for this growth opportunity is small in proportion to Transaction Capital's asset base, it will further diversify TCRS' earnings base and we expect it to deliver double-digit hard currency risk-adjusted interest returns. For a relatively small initial investment, the added benefit of gaining a deeper understanding of the European collections industry, with the potential to participate in emerging opportunities in future, is already proving meaningful. In time, we intend to build and operationalise a scalable business platform to achieve capital appreciation. This platform will manage our European assets, leveraging off TCRS' high South African IP and know-how, and its low-cost collection infrastructure combined with leading technologies.

Conclusion

Strong performances from acquiring and collecting on non-performing consumer portfolios, excellent results from Recoveries Corporation in Australia, together with ongoing cost containment, continue to support TCRS' improving cost-to-income ratio and earnings growth.

SA TAXI

South African National Taxi Council (SANTACO) transaction and industry initiatives

The ownership transaction between SA Taxi and SANTACO was finalised on 6 February 2019. Shareholders are referred to the SENS announcements on 22 November 2018 and 6 February 2019 (available at http://www.transactioncapital.co.za/SENS.php) for more detail on the transaction. This transaction is expected to support growth in the finance, insurance and retail businesses, and unlock further opportunities to provide allied services within the broader taxi community, enabling a deeper penetration of the total addressable market. SA Taxi working closely with SANTACO leadership, has made good progress on various initiatives designed to deliver sustainable benefits to SA Taxi, its clients and the industry as a whole.

Of the R1.2 billion net proceeds from the transaction, SA Taxi has settled approximately R1 billion of interest bearing debt, with the remainder retained to fund growth. We expect the financial benefit of the transaction (improved net interest margins from the lower leverage and interest expenses savings) and the operational benefits of a stronger relationship with SANTACO to be significantly accretive to SA Taxi's and Transaction Capital's earnings over the medium term.

The vendor funding made available by SA Taxi will result in Transaction Capital consolidating 81.4% of SA Taxi's earnings, compared to 98% prior to the transaction. Despite this, we expect the growth in the actual amount of SA Taxi earnings to be consolidated by Transaction Capital to be in line with growth rates achieved in prior periods.

Operating context

The structural dynamics detailed in previous announcements and the group's latest integrated report, support the minibus taxi industry's resilience despite challenging macro-economic conditions in South Africa. Fuel prices declined by more than 20% between October 2018 and February 2019, which should alleviate some pressure on minibus taxi operators. Even after today's fuel price increase of approximately 70c per litre, prices have declined by 15% since October 2018. As mentioned above, lower fuel price levels are needed over the medium term for any meaningful benefits to materialise.

Vehicle retail

Although Toyota increased vehicle prices by 2.5% since September 2018, SA Taxi's Midrand retail dealership experienced strong momentum during the first quarter of 2019. The Polokwane dealership, opened in October 2018, is performing in line with expectations. Additional dealerships are being considered.

Vehicle financing

SA Taxi's loans and advances continue to grow in the low- to mid-teens, with effective capital management keeping net interest margins above 11%. The credit loss ratio improved marginally compared to the first quarter of 2018 but remained within the division's risk tolerance of 3% to 4%. The difficult economic conditions, partially offset by a robust collection performance, high quality of loans originated and conservative credit granting criteria resulted in a marginal increase in SA Taxi's non-performing loan ratio compared to the end of 2018.

SA Taxi returned to the local listed debt capital markets in February 2019 launching Transsec 4, a R2.5 billion Moody's credit rated and JSE-listed debt securitisation programme. The Transsec 4 issuance auction commenced today. SA Taxi's funding requirements for the 2019 financial year are already secured.

Vehicle insurance

SA Taxi continues to broaden its client base and product offering by focusing on enhancing customer service, benefits and existing products, and launching new products. The broker network distribution strategy has gained traction, contributing to strong growth in gross written premium. Operational efficiencies in SA Taxi's combined autobody and mechanical refurbishment facility resulted in improved loss ratios in the financed and open market insurance portfolios.

Autobody repair, mechanical refurbishment, salvage and parts procurement and distribution

SA Taxi's autobody repair and mechanical refurbishment facility is designed to reduce the cost of refurbishment, thereby lowering both insurance claim costs and credit losses in the event of repossession. Its parts procurement and distribution, and vehicle salvage operation established in March 2018, called Taxi Auto Parts or TAP, contributed to improved efficiencies. TAP enables SA Taxi to import and locally procure new parts at lower cost, as well as quality refurbished parts via its salvage operation.

These are distributed to SA Taxi's own refurbishment centre as well as its network of preferred external autobody repairers. TAP also optimises the salvage value of vehicles.

The TAP retail initiative, which sells well-priced new and refurbished vehicle parts to taxi operators, is exceeding our initial expectations.

Conclusion

SA Taxi's operational and financial performance remains robust with consistent growth in gross loans and advances, a stable net interest margin, stable credit performance and similar growth in non-interest revenue. Its cost-to-income ratio remains below 50%.

INTERIM RESULTS ANNOUNCEMENT

Transaction Capital's interim results for the half year ended 31 March 2019 are expected to be released on SENS on Wednesday, 15 May 2019.

The information in this announcement has not been reviewed and reported on by the group's external auditors.

Dunkeld West
6 March 2019

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