Transaction Capital Limited
(Incorporated in the Republic of South Africa)
Registration No: 2002/031730/06
JSE share code: TCP
ISIN: ZAE000167391
("Transaction Capital" or "the Company")

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

STATEMENT BY THE GROUP CHIEF EXECUTIVE OFFICER AHEAD OF THE AGM

This information will be presented to shareholders at the annual general meeting (AGM) on 11 March 2020. It will also inform our interaction with investors and analysts from 23 to 25 March 2020, prior to our closed period.

Transaction Capital is an active investor in and operator of credit-orientated alternative assets including distressed debt, specialty credit and other alternative assets. Strong decentralised divisional management teams manage these assets within the group's well-governed, efficient operational platforms. Transaction Capital Risk Services (TCRS) and SA Taxi are strategically well positioned in their markets, delivering good commercial returns and meaningful social impact. With support from the group executive office, both divisions continue to refine their competitive value propositions, diversify their revenues within existing markets and expand their total addressable markets.

We expect divisional management's unrelenting focus on delivering their strategies to translate into robust organic earnings and dividend growth over the medium term, in line with past performance, despite continued economic headwinds.

The group's balance sheet is ungeared and liquid at holding company level. Our capital strategy remains conservative and appropriate for the current economic environment, with undeployed capital of approximately R775 million. We have allocated the majority of this capital to strategic organic growth initiatives. Earnings upside is possible as we deploy this capital over the medium term.

In February 2020, Transaction Capital's founders, Jonathan Jawno, Michael Mendelowitz and Roberto Rossi, through their respective shareholding vehicles, concluded an accelerated bookbuild to sell a portion of their interests in Transaction Capital. The bookbuild was well supported and oversubscribed, with 69 million shares placed at R23.50 per share. The founders remain materially invested in Transaction Capital, each retaining 5.9% for a total combined shareholding of approximately 17.7% or 109 million shares, valued at R2.6 billion (at the deal price of R23.50).

International investors made up 80% of the bookbuild, with the group's international shareholder base now exceeding 30%, from 5.8% at September 2017. The free float has increased to more than 80% from 68%, which should result in higher daily trading volumes.

TRADING ENVIRONMENT

Our macro-economic outlook for South Africa remains unchanged since the end of the 2019 financial year. Economic growth is weak and retrenchments are exacerbating already critically high unemployment. With low wage growth, rising costs of household essentials and high household debt, consumer and business confidence is low. The state-owned power utility is struggling to maintain a steady supply of electricity, even at these low levels of economic activity, and represents a major threat to the economy. Accelerated structural reform of the economy and of the electricity supply sector, is required for any meaningful improvement in economic growth over the medium term.

We are tracking the spread and effects of COVID-19 with concern, which to date has had no impact on the group.

TCRS and SA Taxi continue to demonstrate resilience as highly defensive businesses with increasingly diverse revenue streams, able to deliver good commercial returns even in this low-growth environment.

TRANSACTION CAPITAL RISK SERVICES (TCRS)

OPERATING CONTEXT

South Africa

Transaction Capital's Consumer Credit Rehabilitation Index (CCRI), which measures South African consumers' propensity to repay debt, has shown a 1.1% improvement since December 2018. Despite this slight improvement and a recent 0.25% cut in interest rates, it remains uncertain if the higher unsecured credit extension reported in 2019 will benefit South Africa's economic growth or consumer health.

Australia

The outlook for the Australian debt collection market, which is materially larger than in South Africa, remains stable. Economic growth is constrained, with a slowdown in household consumption and declining home prices, although unemployment levels are steady. Despite high levels of household debt to income at approximately 190%, lower interest rates and greater leniency in debt affordability assessments are supporting moderate credit extension. The socioeconomic impact of the bush fires that began in September 2019 and continued into early 2020 has put pressure on Australian consumers.

COLLECTION SERVICES

Acquisition of non-performing loan portfolios (NPL Portfolios) as principal

The domestic economic climate still favours the acquisition of NPL Portfolios from risk adverse clients looking for an immediate recovery against their non-performing loans. Higher unsecured credit extension in 2019 should support growth in this sector of the market, which is underdeveloped and growing. TCRS is leading its development by introducing new sellers to the market and broadening the category of NPL Portfolios traded. Historically, the division focused on acquiring NPL Portfolios of written-off unsecured retail debt via auction. TCRS has extended its total addressable market to include NPL Portfolios prior to write-off, those collected via legal process and those sold on a bilateral or recurring contractual basis.

Unsecured consumer loan portfolios make up the largest portion of the Australian collections market, an asset class in which TCRS has almost 20 years' experience in South Africa. In the first quarter of 2020, TCRS continued to follow a cautious and selective approach to growing its exposure to this market. The division plans to accelerate the acquisition of NPL Portfolios, underpinned by its growing Australian database and analytics and pricing expertise.

Across both our markets, we expect total acquisitions of NPL Portfolios in the 2020 financial year to be in line with the R1 185 million invested during the 2019 financial year. Revenue growth in the collection of NPL Portfolios acquired as a principal will continue to offset the impact of the slowdown in contingency and fee-for-service (FFS) collection revenue.

Contingency and fee-for-service collections

Recoveries Corporation in Australia remains focused on improving efficiency and effectiveness through the deployment of business information and collection technologies proven in South Africa. Outsourcing certain functions from Australia to our South African low-cost centre of excellence, could support future efficiencies. Given the widespread impact of the bush fires, Recoveries Corporation continues to operate responsibly and respectfully in collecting from consumers.

The South African contingency and FFS division is performing in line with our expectations given the tough consumer credit environment.

TRANSACTIONAL SERVICES, VALUE-ADDED SERVICES AND TRANSACTION CAPITAL BUSINESS SOLUTIONS (TCBS)

The challenging operating environment in South Africa continues to impact Transaction Capital Payment Solutions and Road Cover (as service businesses), and TCBS (as a service and capital provider to small- and medium-sized enterprises). However, these businesses continued to contribute to TCRS's earnings growth in the first quarter of the 2020 financial year.

TC GLOBAL FINANCE (TCGF)

We established TC Global Finance in 2019 to pursue growth opportunities in select international markets. The fragmented European specialised credit market, which is many times larger than the South African and Australian markets, presents attractive growth opportunities. TCGF is targeting niche higher-yielding credit-orientated alternative assets directly through bilateral transactions and indirectly through co-investments with our network of specialist credit managers across Europe. This strategy gives us unique access to this market niche, without concentration risk in any asset class or overexposure to an asset originator, collection platform or geographic market.

To date, we have deployed €10.7 million in TCGF, up from €1.4 million at 30 September 2019.

CONCLUSION

We expect strong performances from acquiring and collecting on non-performing consumer portfolios in South Africa and Australia, and further efficiencies from our ongoing investment in technologies, which will support TCRS's earnings growth in the year ahead.

SA TAXI

OPERATING CONTEXT

The minibus taxi industry has felt the strain of the challenging macro-economic conditions in recent years, particularly affected by high vehicle and fuel prices. However, the structural dynamics detailed in previous announcements and the group's latest integrated report, continue to support its relative resilience. Despite strong demand, the industry has been mindful of the economic hardship faced by commuters and fare increases were kept moderate in 2019, with increases expected this year.

SA TAXI FINANCE AND SA TAXI AUTO REPAIRS (INCLUDING AUTOBODY REPAIR AND MECHANICAL REFURBISHMENT)

SA Taxi Finance grew loans and advances in the mid-teens in the first quarter of this year. Higher retail prices for vehicles, retention of Toyota minibus market share, the launch of a lower interest rate product for better quality customers and higher loan origination volumes on Nissan vehicles supported this growth. Momentum in the sale and finance of its fully refurbished pre-owned minibus taxis also contributed as operators seek a more affordable but reliable alternative to buying a new minibus taxi in a challenging economic environment.

A portion of the proceeds from the South African National Taxi Council (SANTACO) ownership transaction was utilised to settle R1.0 billion of interest-bearing debt. As a result, we expect an improvement in net interest margins from last year. This capital structure benefit and the operational benefits of a stronger relationship with SANTACO have been accretive to SA Taxi's and Transaction Capital's earnings. We expect these benefits to support earnings growth over the medium term.

Non-performing loan and credit loss ratios should be similar to the 2019 financial year. Better recoveries on repossessed vehicles, supported by efficiencies in parts procurement and repairs, together with a slight increase in pre-owned vehicle prices, should keep credit losses within SA Taxi's risk tolerance of 3% to 4%.

Funding requirements for the 2020 financial year are already secured.

SA TAXI PROTECT

All of SA Taxi Finance's clients are required to have fully comprehensive insurance with the majority electing to be insured through SA Taxi Protect, supporting stable growth rates. In addition, efforts to broaden its insurance client base by targeting open market clients (insurance clients not financed by SA Taxi Finance) via its broker network are showing pleasing results. The insurance claims administration system, which went live last year, has strengthened SA Taxi Protect's client value proposition. SA Taxi

Protect’s key competitive advantage remains its ability to reduce its cost of claim through efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts, which supports a competitively priced insurance premium.

SA TAXI AUTO PARTS

SA Taxi Auto Parts imports and locally procures new minibus taxi parts directly from source. Its salvage operation also recovers and refurbishes used parts from vehicles that are not economically viable to repair, reducing vehicle refurbishment cost.

SA Taxi Auto Parts retails and wholesales well-priced new and pre-owned auto parts to taxi operators, targeting existing clients and operators in the open market. Exposing SA Taxi’s brand and services to a wider market segment in this way provides the opportunity for cross selling, supporting organic revenue growth.

SA TAXI REWARDS

SA Taxi Rewards provides benefits based on fuel and tyre spend, regardless of whether the minibus taxi operator is a finance or insurance client. Extending the rewards to include parts procurement is under consideration. SA Taxi is using telematics and other data accumulated from its rewards programmes to drive positive behaviour changes in the minibus taxi industry.

CONCLUSION

We expect SA Taxi’s operational and financial performance to remain robust, with consistent growth in gross loans and advances, improving net interest margins, credit performance within risk tolerances and higher non-interest revenue.

INTERIM RESULTS ANNOUNCEMENT

Transaction Capital’s results for the half year ending 31 March 2020 will be released on SENS on Wednesday, 13 May 2020.

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

Dunkeld West
10 March 2020

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