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

PRE-CLOSE UPDATE AND TRADING STATEMENT IN RESPECT OF THE 12 MONTHS ENDING 30 SEPTEMBER 2020

PROSPECTS STATEMENT

Transaction Capital is an investor in and operator of alternative assets in credit related and specialised market verticals, with a near 20-year track record for high-quality earnings growth and attractive risk-adjusted returns. SA Taxi, WeBuyCars and Transaction Capital Risk Services (TCRS) have demonstrated resilience in their agile responses to the volatile dynamics accompanying the COVID-19 pandemic. Their operational, financial and strategic flexibility have allowed them to quickly align their operating models, financial structures and growth plans to prevailing economic realities and emerging opportunities, with operational activity in most instances nearing or exceeding pre-lockdown levels. It has also become clear that their business models will be more relevant in a post COVID-19 environment.

COVID-19 has proven that the minibus taxi industry is indispensable to South Africa's economic productivity. The industry has recovered quickly and transitioned smoothly to near-normalised operational activity as lockdown restrictions have been eased and the economy re-opens. SA Taxi's strong market position, its track record as a pioneer in the industry and its vertically integrated business model positions it well to serve clients along the full minibus taxi value chain as South Africans go back to work.

Notwithstanding the heavy reliance most South Africans place on the minibus taxi industry, personal vehicles remain a necessity and an aspiration for many South Africans, given long travel distances and limited public transport options. New vehicle sales have contracted for seven years, impacted by adverse economic conditions now amplified by COVID-19. As consumers' disposable income has come under strain, and a weakening rand has pushed up new vehicle prices, more consumers are opting to trade down from new to used vehicles. Marked shifts in what consumers can afford and changes in consumer buying patterns are likely to accelerate growth in the used vehicle segment. COVID-19 has also heightened consumers' preference for online channels, with experts estimating that e-commerce adoption in South Africa has leap-frogged some five years into the future as the desire for contactless services has escalated. WeBuyCars' uniquely composed offering, high levels of trust, optionality, convenience and competitive pricing positions it well to benefit from the current used vehicle market context, with its credible e-commerce platforms positioning it for further growth.

TCRS supports its clients' ability to continue extending credit to their customers, by freeing up their operational infrastructure and balance sheet capacity, and rehabilitating indebted consumers. This facilitates the effective functioning of the consumer credit market, which will be critical to South Africa's economic recovery and growth aspirations. As the credit health of consumers deteriorates, and more customers roll into default, TCRS's capital flexibility, extensive collections infrastructure and new work-from-home capabilities position it well to win new agency collection mandates, and accelerate capital deployment in acquiring non-performing consumer loan portfolios to be collected as principal (NPL Portfolios). The organic growth initiatives articulated previously, specifically to acquire NPL Portfolios in South Africa, Australia and Europe, remain valid and will be pursued.

Transaction Capital's financial position is robust. The measures taken to strengthen our capital structure and ensure adequate liquidity, and the long-term nature of our assets, provide ample financial capacity to fund our organic growth initiatives even as recessionary conditions intensify. Ample liquidity is available in the form of undrawn bank facilities at SA Taxi and TCRS, and Transaction Capital is in the process of increasing its available holding company facilities by at least R680 million, to underpin accelerated organic growth opportunities. SA Taxi's access to liquidity remains unfettered, with more than R1.5 billion of new facilities concluded since 1 April 2020, after the national lockdown was announced, such that its funding requirements for loan origination into the 2022 financial year (FY22) are already secured.

Stakeholders will be aware of the actions taken to enhance the group's financial flexibility and strategic agility, most recently the R560 million of new capital raised via an accelerated bookbuild in June 2020 (detailed in our SENS announcement of 17 June 2020), and the specific issuance of R329 million of new share capital to fund part of the investment into WeBuyCars (detailed in our SENS announcement of 8 September 2020). These two share issues have bolstered our equity base by almost R1 billion.

As reported in the group's interim results, we adopted a conservative approach regarding the anticipated impact of COVID-19 on future cashflows and expect Transaction Capital to deliver subdued operational performance for the 2020 financial year as a result. However, with our operational activity nearing or exceeding pre-lockdown levels, and SA Taxi and TCRS well placed to build on their long-term track record of growth, we see a return to the group's trend of strong organic growth (compared to 2019 pre COVID-19 levels) for the 2021 financial year (FY21) and beyond.

As detailed in our SENS announcement of 8 September 2020,Transaction Capital acquired a 49.9% interest in WeBuyCars, establishing Transaction Capital's third market vertical. This investment is immediately value accretive to Transaction Capital, converting interest income on undeployed capital into operating earnings. We are confident and excited about our investment into WeBuyCars, which will support an even higher growth rate for Transaction Capital.

PRE-CLOSE UPDATE

Transaction Capital has achieved compound annual growth in core headline earnings per share of 20% over the past five years to our 30 September 2019 financial year end (FY19). Prior to the effects of COVID-19, the group was on track to deliver earnings growth in line with past performance and guidance given at the time of our AGM in March 2020. But as with most businesses the world over, COVID-19 disrupted our operations and interrupted our long-term growth trend. The non-cash COVID-19 related adjustments to SA Taxi's credit provisioning model and the valuation model for non-performing consumer loan portfolios (NPL Portfolios) owned by TCRS, applied at half year 2020 (HY20), reflect our conservative approach in accounting for the anticipated impact of COVID-19 on future cash flows based upon the available information at that time. This conservatism has continued into the second half of the year, adjusted as we gain additional information as the pandemic progresses.

However, unlike most businesses, our resilient divisions in highly defensive market sectors have been quick to recover. As we near our 2020 financial year end (FY20), SA Taxi and TCRS remain operationally sound, highly efficient and well capitalised. Both divisions continue to execute on their medium-term growth strategies (set out in our announcement at the time of our HY20 results), while effectively managing the lingering operational and financial impacts of the COVID-19 pandemic and related restrictions.

Despite COVID-19 related operational disruptions during the second half of FY20, the group's core pre-provision profit from continuing operations (being profit before tax prior to impairment provisions at SA Taxi, and the amortisation of TCRS's carrying value of purchased book debts), is expected to increase by more than 7% for FY20, supported by positive operational leverage.

SA TAXI

The minibus taxi industry's return to normal activity can be seen in SA Taxi's telematics data (tabled below), which shows the recovery in average activity of its minibus taxi fleet as the national lockdown has been eased, benchmarked against 2019 pre COVID-19 levels.

	Lockdown Level 5 (27 Mar - 30 Apr 2020)	Lockdown Level 4 (1 - 31 May 2020)	Lockdown Level 3 (1 Jun – 17 Aug 2020)	Lockdown Level 2 (18 Aug – 6 Sep 2020)

Vehicles operating	68%	90%	100%	100%
Kilometres travelled	44%	79%	87%	86%

Collections on SA Taxi's gross loans and advances portfolio for the second half of the financial year have recovered month-on-month, in line with the easing of restrictions and resulting increased fleet activity, demonstrating the resilience of SA Taxi's cashflows and assets. However, due to the extended lockdown the minibus taxi industry remains under financial strain, and we expect collections to now only normalise to pre COVID-19 levels early in the 2021 calendar year, being a longer period than disclosed in the half-year results. This has been adequately provided for in the form of an increased COVID-19 adjustment in SA Taxi's credit provisioning model. Despite the price inelasticity of minibus taxi services, the industry had not materially increased fares in the last two years, and minibus taxi operators have absorbed the financial impact of a hostile environment over this period. Accordingly, fare increases were implemented in various associations earlier this year, assisting minibus taxi operators to better afford their financial obligations.

<table>
<tr><th>SA TAXI</th><th>FY19 Reported</th><th>HY20 Reported</th><th>FY20 commentary and expectations</th></tr>
<tr><td>Gross loans and advances (Rm)</td><td>10 753</td><td>11 304</td><td rowspan="2">Gross loans and advances are expected to grow in the mid-teen percentages supported by higher vehicle retail prices, retention of market share and continued momentum in the sale and finance of SA Taxi's fully refurbished pre-owned minibus taxis.

The growth in gross loans and advances has been positively impacted by Toyota vehicle price increases of 5.5% since 1 October 2019, with more increases still expected this calendar year.

The number of loans originated however is expected to decrease by more than 20% from FY19 levels as the closure of Toyota's manufacturing plant and SA Taxi Auto Repair's facilities during the lockdown curbs the availability of new and pre-owned vehicle stock.

Due to the slowdown in collection activity and disruption in repossession activity as a result of COVID-19, portfolio attrition was slower than historical levels where approximately 20% of SA Taxi's book rolled off per year.</td></tr>
<tr><td>Number of loans originated (Number)</td><td>8 591</td><td>3 876</td></tr>
<tr><td>Net interest income (NII) (Rm)</td><td>1 217</td><td>677</td><td rowspan="3">Mid-teen percentage growth in gross loans and advances has translated into low double digit percentage NII growth. The benefits from the settlement of R1.0 billion of interest-bearing debt (utilising the proceeds received when SANTACO acquired 25% in SA Taxi in February 2019) will be offset by negative endowment impact resulting from progressive interest rate cuts. This has placed NIM under mild pressure, expected to be slightly below 12%, despite the average cost of borrowing expected to reduce to less than 10%. Historically, and over the medium term, SA Taxi targets a NIM of between 11% and 12%.</td></tr>
<tr><td>Net interest margin (NIM) (%)</td><td>12.2</td><td>12.2</td></tr>
<tr><td>Average cost of borrowing (%)</td><td>11.1</td><td>10.9</td></tr>
<tr><td>Credit loss ratio (post COVID-19 adjustment) (%)</td><td>3.2</td><td>6.1</td><td rowspan="4">The restrictions placed on the minibus taxi industry together with the disruption to commuter movement resulting from the national lockdown, has impacted SA Taxi's clients' ability to afford loan instalments during this period. Despite loan collections recovering well, they are now expected to normalise to pre COVID-19 levels early in the 2021 calendar year - a longer period than anticipated in the half-year results. This has been adequately provided for in the form of an increased COVID-19 adjustment in SA Taxi's credit provisioning model. SA Taxi has raised a forward-looking provision to account for this impact, increasing provision coverage to be between 6% and 7% for FY20, where after it should reduce to prior levels of approximately 4.5 % to 5.5%.

Due to the COVID-19 impact mentioned above, SA Taxi's credit loss ratio is expected to increase above historically reported levels and the target range of 3% to 4%, to between 7% and 8%. By FY22 SA Taxi's credit loss ratio is</td></tr>
<tr><td>Non-performing loan ratio (NPL ratio) (%)</td><td>17.9</td><td>19.1</td></tr>
<tr><td>Provision coverage post COVID-19 adjustment (%)</td><td>4.8</td><td>5.4</td></tr>
<tr><td>Total impairment expense (Rm)</td><td>(322)</td><td>(338)</td></tr>
</table>

Impairment of loans and advances (Rm) COVID-19 Adjustment (Rm)	(322) (-)	(212) (126)	expected to normalise around or slightly above the upper limit of the 3% to 4% targeted range. While loan collections are anticipated to be lower for the rest of the calendar year, the absolute value of cash collected over the full term of the loans is not expected to decrease, rather it will be collected over an extended period. Cash flows will be protected as the useful life of a minibus taxi significantly exceeds SA Taxi's average loan term of 71 months. Reduced origination of new loans and the disruption to collections has resulted in an increase in the NPL ratio, expected to be slightly above 30%. The NPL ratio is expected to improve to the mid 20% range in FY21 with continued improvements in FY22.
Non-interest revenue (NIR) (Rm)	584	321	SA Taxi's insurance business is the main contributor to NIR. Gross written premiums are expected to grow at rates lower than expectation (at mid-teen percentages), due to disruption in new and pre-owned vehicle supply. This, together with higher lapse rates, has negatively impacted new policy origination levels. The gross revenue from SA Taxi's retail dealerships in FY20 is also expected to be lower than FY19 due to the disruption in new and pre-owned vehicle supply, and the closure of SA Taxi's dealerships during the lockdown.
Core total expenses (Rm)	(796)	(412)	Containing operating expense growth remains a focus. SA Taxi's core cost-to-income ratio is expected to improve from the FY19 level of 44.2%.
Capital adequacy ratio (%)	22.4	21.4	SA Taxi is well capitalised, with a Tier I capital adequacy ratio of more than 15% and more than R2 billion of equity.

TCRS

TCRS's collection revenues in South Africa and Australia for April 2020 through to August 2020 have recovered well, but are now projected to recover slower and over a longer period than disclosed in the half-year results. This too has been adequately provided for in the form of a COVID-19 adjustment to our valuation model for NPL Portfolios owned by TCRS.

TCRS's successful transition of more than 1 300 call-centre agents to work-from-home, without compromising data security or access to technology, is yielding higher productivity per agent due to more flexible working hours, which will enable the division to reach higher levels of efficiency.

TCRS	FY19 Reported	HY20 Reported	FY20 commentary and expectations
Non-interest revenue (NIR) (Rm)	2 018	1 108	TCRS's collection revenue is expected to grow in the mid-to-high teen percentages, with collection revenues in South Africa and Australia for April 2020 to date remaining better than the anticipated 70% of pre COVID-19 levels disclosed in the HY20 results announcement. Despite the operational disruption caused by COVID-19, TCRS's omni-channel and data analytics capability enables it to continue contacting consumers. The positive response of consumers to non-voice and digital channels, specifically in Australia, is contributing to higher levels of right party contact and online payments. The significant proportion of annuity-based collections via recurring payment arrangements has also supported current collection rates.
Carrying value of purchased book debts (Rm)	2 382	2 775	The carrying value of purchased book debts is expected to increase by low double-digit percentages for FY20 due to lower than expected levels of NPL Portfolio acquisitions, and the COVID-19 adjustment to the carrying value of this asset.

COVID-19 adjustment (Rm)	(-)	(65)	While collections from our NPL Portfolios performed better than initially expected the damage that COVID-19 has inflicted on the South African economy, reflected in "Transaction Capital's latest Consumer Credit Rehabilitation Index", is severe. Unemployment is expected to increase to more than 35% in the short term and economic recovery is expected to be slow. TCRS's future collections are projected to recover slower and over a longer period than expected at the time of the half-year results announcement, in a "swoosh" like recovery. Over the medium to long-term, estimated remaining collections (ERC) applicable to the existing NPL Portfolios are expected to be in the region of 4% lower, necessitating a larger adjustment to the carrying value of purchased book debts. The adjustment for FY20 will be in the region of R250 million to R300 million. TCRS targets a collection multiple ranging from 1.6 to 2.2 times the amount invested in purchasing a portfolio, depending on the characteristics applicable to the portfolio being considered. Historically, TCRS has bought these portfolios well, with a healthy margin of safety, as can be seen with historical multiples exceeding these levels. TCRS expects a marginal impact to collection multiples going forward, with the most recently acquired vintages being impacted more severely. TCRS is able to adjust its pricing methodology to the prevailing environment, with future NPL Portfolios purchased being priced conservatively to achieve targeted returns and collection multiples. Over the last 2 years TCRS has spent approximately R600 million acquiring NPL Portfolios in the second half of the financial year. Due to the disruption of COVID-19, TCRS expects to spend approximately R300 million in the second half of FY20, in addition to the R556 million spent up to HY20. In South Africa, the market for NPL Portfolio acquisitions is underdeveloped and growing. As the impact of COVID-19 plays out over the medium-term, we expect this market's growth rate to accelerate. COVID-19 has caused operational disruption in our clients' and competitors' call centre operations, leaving our clients with larger levels of NPL Portfolios to manage. As consumer-facing entities seek to reduce fixed costs and shift to variable cost structures, we expect their appetite for outsourcing collections or selling NPL Portfolios to increase significantly. TCRS is well positioned to service the higher levels of activity and has almost 20 years of experience in South Africa in acquiring NPL Portfolios at attractive risk-adjusted returns. In FY21 TCRS expects to invest less than the R1.2 billion reported for FY19 on a "business as usual basis". However, as market dynamics in the aftermath of COVID-19 become clearer, this may provide an unprecedented opportunity to accelerate capital deployment. Should this materialise, TCRS's investment could exceed FY19 levels. Similarly, management expect investment in excess of R1 billion for FY22.
Cost price of purchased book debts acquired (Rm)	1 186	556	
Total expenses excluding amortisation (Rm)	(1 353)	(729)	For FY20 TCRS expects double digit cost growth, as we implemented work-from-home capability and incurred costs in reducing the staff complement. These initiatives will benefit the business into FY21.

TRADING STATEMENT

In accordance with section 3.4(b) of the Listings Requirements of the JSE Limited shareholders are advised that Transaction Capital is satisfied that a reasonable degree of certainty exists with regards to the group's financial results for the year ending 30 September 2020. Transaction Capital will deviate from its historical earnings growth track record, as a result of increased impairment provisions at SA Taxi, and a downward revaluation of TCRS's purchased NPL Portfolios. The group has adopted a conservative approach regarding the impact of COVID-19 on cashflows during the period from 27 March 2020 to date, and the anticipated impact of COVID-19 on future cash flows emanating from assets to be held at 30 September 2020.

The table that follows provides guidance for the expected decreases in the group's earnings for the 12 months ending 30 September 2020.

	12 months ended 30 September 2019 (Actual reported)	Guidance 12 months ending 30 September 2020 (Expected number range)	Guidance 12 months ending 30 September 2020 (Expected percentage range)
Continuing Earnings			
Basic Earnings	R713m	R213.9m to R285.2m	-70% to -60%
Basic EPS	116.5 cents	35.0 cents to 46.6 cents	-70% to -60%
Headline Earnings	R705m	R211.5m to R282.0m	-70% to -60%
Headline EPS	115.2 cents	34.6 cents to 46.1 cents	-70% to -60%
Core Headline Earnings	R789m	R236.7m to R315.6m	-70% to -60%
Core HEPS	129 cents	38.7 cents to 51.6 cents	-70% to -60%
Total Earnings			
Basic Earnings	R727m	R145.4m to R218.1m	-80% to -70%
Basic EPS	118.8 cents	23.8 cents to 35.6 cents	-80% to -70%
Headline Earnings	R719m	R143.8m to R215.7m	-80% to -70%
Headline EPS	117.5 cents	23.5 cents to 35.3 cents	-80% to -70%
Core Headline Earnings	R803m	R160.6m to R240.9m	-80% to -70%
Core HEPS	131.3 cents	26.3 cents to 39.4 cents	-80% to -70%

The difference between core headline earnings from continuing operations and total operations can be attributed to the accounting of Transaction Capital Business Solutions, Company Unique Finance and Principa Decisions as discontinued operations, as reported on SENS on 13 May 2020 in Transaction Capital's interim results for the half year ended 31 March 2020. Due to the effect of these discontinued operations, which became effective in the first half of the 2020 financial year, it is management's view that the most appropriate metric to measure performance for FY20 is core HEPS and EPS from continuing operations.

Shareholders are advised that the information contained in this announcement has not been reviewed or reported on by the group's auditors.

Hyde Park
15 September 2020

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Company Sponsor
Rand Merchant Bank (A division of FirstRand Bank Limited)