

## MEDIA RELEASE

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### **Transaction Capital demonstrates a decisive recovery, with core headline earnings from continuing operations up 29% from 2019's pre-COVID levels**

- Strong recovery in earnings positions the group to return to its long-term track record of growth in the 2021 financial year
- Recovery in earnings demonstrates resilience and relevance of business models despite the effects of COVID-19
- Dividends resumed with declaration of interim dividend of 19 cents per share
- Transaction Capital negotiating to increase its shareholding in WeBuyCars to 74.9%

#### **Results overview**

Transaction Capital resumed its long-term track record of earnings growth in the six months ended 31 March 2021. The group achieved core headline earnings of R437 million, up 56% from the prior year and demonstrating a compound annual growth rate of 17% over the past 7 years. Core headline earnings per share from continuing operations grew at lower rate of 43% to 65.5 cents, due to the value and earnings accretive issue of 59.6 million shares in the past 12 months. This performance was driven by a combination of organic growth from the group's divisions, SA Taxi and Transaction Capital Risk Services (TCRS), and acquisitive growth from the WeBuyCars investment.

The investment in a non-controlling 49.9% interest in WeBuyCars in September 2020 has been immediately value and earnings accretive, contributing R113 million to core headline earnings for the period. SA Taxi grew core headline earnings by 13% to R228 million, with the group's attributable portion growing 15% to R188 million. TCRS grew core headline earnings from continuing operations by 27% to R131 million. Comparing the half year results to 2019's pre-COVID half year performance, the group's core headline earnings and core headline earnings per share from continuing operations grew by 29% and 18% respectively.

Across all three businesses, current operational activity is near to, or exceeding pre COVID-19 levels. In addition, no further operational adjustments have been required to accommodate pandemic-related restrictions. The group's financial result is underpinned by a robust recovery in operational metrics.

Commenting on the group's performance, CEO of Transaction Capital, David Hurwitz said: *"Our business models have gained in relevance in this COVID-19 environment. At SA Taxi, minibus taxi remains the largest and most vital service in the public transport network, whilst other modes of public transport have floundered. At TCRS, COVID-19 has increased indebtedness and impaired consumer's ability to service debt, creating larger NPL Portfolios for TCRS to manage or acquire. And, at WeBuyCars, as consumers' disposable income comes under strain and new vehicle prices continue to rise, consumers are increasingly opting for used vehicles driving growth in this sector."*

Transaction Capital raised R1.2 billion of new equity over the past 12 months, which was used to part-fund the investment in WeBuyCars in September 2020. At the end of the FY2021 half year period, the group held debt facilities of R900 million at holding company level, together with substantially larger undrawn facilities at the divisions, providing ample liquidity to fund strategic and organic growth initiatives.

In light of the group's strong recovery in earnings and a robust balance sheet, the Transaction Capital board resolved to declare a dividend of 19 cents, at a rate of 3.4 times cover. *"Our conservative capital management strategy was tested and validated during FY2020, and has ensured a robust group balance sheet"*, said Hurwitz. *"The undeployed capital held prior to COVID-19, together with the equity raised and debt facilities secured at holding company level, allowed us to conclude the transformational investment in WeBuyCars, entering an attractive new market vertical with strong growth prospects."*

Transaction Capital today, also released a cautionary announcement notifying shareholders that it is currently in negotiations to increase its shareholding in WeBuyCars to 74.9%. Should the proposed transaction to acquire control of WeBuyCars be concluded successfully, the exceptional growth prospects of this business will accelerate and support a sustainably higher growth trajectory for the group.

Looking ahead, Hurwitz says, *"Based on our current assessment of operating conditions and growth prospects, headline earnings per share for the full year should exceed 2019 levels in line with pre pandemic growth rates. Over the medium term, we are confident the group will maintain a sustainable trajectory of superior high-quality earnings and dividend growth."*

### **WeBuyCars**

WeBuyCars is a trusted principal trader of used vehicles through its vertically integrated e-commerce and physical infrastructure, offering finance, insurance and other allied products. This uniquely composed offering, which combines customer convenience and competitive pricing, positions it well to benefit from the current market context.

Private vehicles remain a necessity and an aspiration for many South Africans, given long travel distances and limited public transport options. As disposable incomes come under added strain and new vehicle prices rise, consumers will continue to trade down from new to used vehicles. Besides the constraints to affordability, the disruption of global vehicle production during the pandemic has led to stock shortages in certain new vehicles, driving demand for used vehicles up even further.

The business has aligned its operating model for the current environment, reaching new heights in terms of vehicles bought and sold, revenue and e-commerce penetration. Approximately 8,000 vehicles were bought and sold in March 2021, 45% above pre-COVID levels. Its medium-term target to increase the volume of vehicles traded to 10 000 vehicles per month remains on track.

*"In the medium term, WeBuyCars' digital capabilities and credible e-commerce platform will support even higher growth,"* says Hurwitz. *"In addition, WeBuyCars continues to expand its geographic footprint and plans to develop additional vehicle supermarkets and buying pods in select high-demand locations across South Africa to support growth."*

The group expects future earnings from the WeBuyCars investment to be at least in line with their expectations at the time of making their initial investment in September 2020, given favourable market trends and its compelling competitive advantages. Should the acquisition of a greater shareholding in WeBuyCars be concluded, this will provide Transaction Capital with a greater share of earnings in a highly relevant business with exceptional growth prospects. *"We believe the exceptional growth prospects of this business will accelerate and support a sustainably higher growth trajectory for the group"*, adds Hurwitz.

### **SA Taxi**

The minibus taxi industry is indispensable to South Africa's economy and is an early beneficiary of economic and social recovery. As an essential service, the minibus taxi industry has operated throughout the national lockdown, albeit with restrictions on distance and occupancy. Many South

Africans rely on public transport, with the minibus taxi industry being the largest and most vital service in the integrated public transport network.

Commuters are increasingly choosing minibus taxis over other modes of public transport due to convenience and accessibility. The National Household Travel Survey released in March 2021 indicates a decline in commuter use of bus and rail services from 2013 to 2020 (down 28% and 64%, respectively), compared to a 16% increase in the use of minibus taxis over the same period.

Industry profitability has been impacted by rising taxi vehicle prices, with a 3.5% increase since October 2020 and further increases expected this calendar year. Furthermore, with passenger loads per trip down due to COVID-19, the industry's profitability will remain under strain. In this context, SA Taxi's refurbished pre-owned minibus taxis, or quality renewed taxis as branded by SA Taxi, provide an affordable yet reliable alternative to buying a new vehicle. New vehicle loan originations for the period declined 3% compared to a 48% increase in quality renewed taxi loan originations.

Commenting on the outlook for the SA Taxi business, Hurwitz says, *"As the industry consolidates its recovery, SA Taxi's strong reputation, its track record as a pioneer in the industry and its vertically integrated business model position it well to serve clients along the full minibus taxi value chain. Foundational to its business model are proprietary vehicle mobility data sets and analytics capabilities that allow SA Taxi to predict risk and manage it in real time. This, in turn, promotes the sustainability of the minibus taxi industry."*

## **TCRS**

Unemployment in South Africa is at historically high levels, with 32.5% of adults and 61.3% of youth unemployed. In addition, employee earnings growth in the formal sector has been below inflation over the past year, and the United Nations Development Programme (UNDP) anticipates that 34% of households might exit the middle class into the vulnerable group due to the effects of COVID-19. These effects continue to put pressure on a highly indebted consumer base.

Of the 27.2 million credit-active South African consumers, almost 40% (10.6 million) had impaired credit records. Transaction Capital's Consumer Credit Rehabilitation Index, which measures consumers' propensity to repay debt, has deteriorated 2.8% by March 2021 compared to the prior year and 1.3% compared to the prior quarter.

Despite the lowest interest rate in five decades, erosion of household income and increasing over-indebtedness will persist. While credit extension has begun to grow recently, critically high unemployment will escalate the economic strain in the consumer sector as payment relief and government support measures come to an end. Transaction Capital notes, however, that around one third of consumers making monthly repayments on their debt via TCRS are not formally employed, reflecting some resilience in South Africa's informal sector.

Commenting on the outlook for the TCRS business, Hurwitz says, *"TCRS' business model will gain relevance as the protracted effects of COVID-19 drive up indebtedness and impair consumers ability to service their debt. As the balance sheets and operations of consumer facing entities come under pressure, we believe their appetite to outsource or sell non-performing loan portfolios for collection will increase significantly."*

## **About Transaction Capital**

Transaction Capital actively identifies and invests in alternative asset classes, in which its best-in-class technology, proprietary data and analytics capabilities enable us to generate outstanding returns. This extends to operating unique, high-potential businesses in market sectors where historically low levels of stakeholder trust provide compelling opportunities for disruption. Transaction Capital partners with expert,

entrepreneurial and co-invested management teams to scale, grow and position these highly specialised, digitally advantaged and vertically integrated businesses to offer market-leading value propositions.

The Transaction Capital group's diversified businesses are strategically relevant, operationally resilient and robustly governed, which underpin their ability to respond effectively and ethically to complex market dynamics. As trusted partners, they support their clients' commercial viability and collaborate with their stakeholders to drive meaningful, long-term socioeconomic impact. This enhances their growth, risk and sustainability profiles and secures the group's ability to consistently deliver exceptional shared value outcomes.

**ENDS**

**Issued by:** Transaction Capital

**For more information contact Transaction Capital:**

Nomonde Xulu - Investor Relations

Email: [nomondex@transactioncapital.co.za](mailto:nomondex@transactioncapital.co.za)

