



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 group")



TransCapital Investments Limited
(Incorporated in the Republic of South Africa)
Registration number: 2016/130129/06
Bond company code: TCII

PRE-CLOSE STATEMENT FOR THE YEAR ENDING 30 SEPTEMBER 2021

PROSPECTS AND TRADING ENVIRONMENT

Transaction Capital has performed largely in line with expectation in the 2021 financial year ("FY2021"). Strong organic growth from our divisions, SA Taxi and Transaction Capital Risk Services ("TCRS"), and high-growth earnings from our acquisition of WeBuyCars, underpin our expectations for headline earnings per share growth which should exceed FY2019 levels by mid-teen percentages, and the payment of a full-year dividend. Our divisions' highly relevant business models and leading positions in defensive market sectors, and the diversification across and within each of them, support this robust performance in the prevailing economic climate.

The trading environment in the second half of FY2021 has been challenging, given a prolonged and more severe third wave of COVID-19 infections, and the resultant tightening of lockdown restrictions imposed in June 2021 which curbed business activity in South Africa. The height of the third wave in mid-July coincided with 10 days of civil unrest in the South African provinces of KwaZulu Natal and Gauteng, further straining an already fragile economy.

In SA Taxi, the disruption of public transport services related to these events, as well as taxi conflict in the Western Cape, hampered minibus taxi activity. Despite these challenges, SA Taxi is on track to post an operational, credit and financial recovery, with earnings nearing FY2019 levels. On the other hand, TCRS and WeBuyCars continue to perform in line with or above expectations. As announced on 4 August 2021, our additional investment of 25% in WeBuyCars obtained the approval of the competition authorities, enabling the group to consolidate 74.9% of WeBuyCars' earnings for two months of FY2021. We expect future earnings from this division to exceed our expectations at the time of making our initial investment, given favourable market trends.

We remain confident that the group can maintain a sustainable trajectory of superior high-quality earnings and dividend growth in line with pre-pandemic growth rates over the medium term. Our prudent capital management approach, which has been validated in the COVID-19 period, and our deeply embedded culture of entrepreneurship and integrity, support this expectation.

Transaction Capital remains well capitalised, with adequate access to liquidity. On 8 July 2021, we successfully completed an accelerated bookbuild, raising R1.17 billion of equity capital. This further strengthened our balance sheet, enhancing our financial flexibility and strategic agility to execute on opportunities resulting from market dynamics pursuant to the COVID-19 pandemic.

OPERATIONAL UPDATE

WeBuyCars

WeBuyCars has a leading position in a defensive market segment and has continued to trade throughout the COVID-19 pandemic, with volumes of vehicles traded in the second half of FY2021 exceeding expectations.

As disposable income comes under pressure and new vehicle prices increase, more consumers are buying used rather than new vehicles. Sales of new passenger and light commercial vehicles in South Africa were approximately 38 900 in August 2021, showing a 9.6% decrease when compared to August 2019, before COVID-19. COVID-19 has also shifted consumer buying patterns, with significantly higher e-commerce adoption driving strong demand in online trading.

WeBuyCars continues to invest in its e-commerce platform, which is yielding positive results in the current COVID-19 environment. E-commerce sales now account for approximately 30% of total monthly sales, with the majority being concluded through its business-to-business (“B2B”) platform, creating efficiencies in the dealer sales channel. Business-to-consumer (“B2C”) e-commerce capabilities were introduced earlier in the year and continue to show an increasing uptake.

The business is also expanding its physical footprint, with two additional vehicle supermarkets secured in the second half of FY2021. The Germiston branch, which opened on 1 June 2021, created additional capacity of 850 parking bays, bringing the total national capacity to above 5,800 bays. Agreements to purchase The TicketPro Dome in Johannesburg have been concluded. This supermarket will initially add 1,100 parking bays to the footprint and has a total capacity of 1,400 bays.

SA TAXI

The minibus taxi industry is indispensable to South Africa’s economic productivity. Most South Africans rely on public transport, and the minibus taxi industry is the largest and most vital service in the country’s integrated public transport network. Spending on minibus taxi transport is largely non-discretionary, making the industry defensive in tough economic conditions.

Foundational to SA Taxi’s business model are propriety data sets and analytics capabilities that allow us to manage credit and insurance risk in real time. SA Taxi’s vehicle mobility datasets show that all our clients have been able to operate since June 2020, albeit with travel distances slightly below pre COVID-19 averages. In March 2021 to May 2021, vehicles financed by SA Taxi travelled 92% of pre COVID-19 distances on average. However, tightening restrictions in June 2021, the spate of civil unrest and taxi conflict in some parts of the Western Cape province, impacted the industry’s ability to operate at these levels. Average distances travelled were between 82% and 92% from June 2021 to August 2021, which had a knock-on impact on SA Taxi’s clients’ ability to afford finance instalments and insurance premiums. Despite these environmental pressures, SA Taxi’s strong market position, 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.

SA Taxi Finance, SA Taxi Auto Repairs and SA Taxi Auto Parts

We expect SA Taxi Finance to grow gross loans and advances in the low teens for FY2021, compared to FY2020. Prior to April 2021, loan originations showed a strong recovery but slowed in the second half of the financial year. The focus on Quality Renewed Taxis (QRTs) continues to provide SA Taxi’s clients with an affordable yet reliable alternative to buying a new minibus taxi. This strategy is delivering good results,

further enabled by new minibus taxi price increases. QRTs now constitute approximately 40% of total loans originated, up from 32% in FY2020. SA Taxi Auto Repairs' increased refurbishment capacity will support higher QRT vehicle supply to our dealerships, and in turn, loan originations.

Collections on SA Taxi's gross loans and advances portfolio showed a steady month-on-month recovery from April 2020, until the risk-adjusted level 3 restrictions came into effect from December 2020. Collection levels again trended towards pre COVID-19 levels from March 2021, but the risk-adjusted level 4 restrictions from June 2021, coupled with the civil unrest and taxi conflict, subdued this recovery trend. We expect collections to recover over a longer period than we initially envisaged, but with marked improvement in repossessions. This should improve the NPL ratio to the mid 20% range, with the credit loss ratio likely to remain in the upper end of our 3% to 4% target range. Provision coverage remains conservative to protect the balance sheet.

SA Taxi Protect

With most of SA Taxi Finance's clients choosing to insure their vehicles through SA Taxi Protect, gross written premium revenue continues to show strong growth above pre COVID-19 levels. Comprehensive vehicle insurance claims are in line with past performance and as expected, COVID-19 has resulted in higher credit life claims and higher lapse rates.

TRANSACTION CAPITAL RISK SERVICES (TCRS)

Following the strategic realignment of TCRS earlier this year, the business is now structured to deliver in the three key areas of collections, transactions and business outsource services. Notable progress has been made in the second half of FY2021 on resourcing to enable the delivery of this strategy.

Transaction Capital's Consumer Credit Rehabilitation Index, which measures South African consumers' propensity to repay debt, shows a continuous deterioration since December 2019, with a further decline of 2.6% in Q2 of 2021. Despite the lowest repo rate in five decades, erosion of household income and increasing over-indebtedness will persist. South Africa's unemployment remains critically high placing immense economic strain on the consumer sector, especially as payment relief and government support measures come to an end, with concomitant reductions in credit extension.

The Australian government has opted for an aggressive COVID-19 elimination strategy, implementing severe lockdown restrictions based on small outbreaks of COVID-19 cases in various regions. This has had an adverse impact on performance in our Australian business, as outlined further below.

Collection Services

In its most significant business activity, TCRS acts either as a principal in acquiring and then collecting on non-performing consumer loan ("NPL") portfolios, or as a service provider on an outsourced contingency or fee-for-service ("FFS") basis.

In South Africa, TCRS has successfully navigated the impact of the third wave of infections to deliver a strong performance. The acquisition of NPL portfolios has almost normalised and is approaching annual investment levels of approximately R1 billion, last achieved pre COVID-19. Collections on NPL portfolios owned as a principal as well as contingency, and FFS collections, are in line with our expectations, with lower costs yielding improved margins.

In Australia, the sporadic lockdowns have made the business impact of COVID-19 more severe in FY2021, compared to FY2020. Trading conditions are subdued with fewer NPL portfolios being offered for sale, banks showing greater leniency on outstanding credit, and the introduction of debt moratoriums.

PRE-CLOSE INVESTOR CONFERENCE CALL AND WEBINAR

Transaction Capital will host a pre-close investor conference call at 15h00 (South Africa time) on Thursday, 30 September 2021. Please send an email to tc-investor-relations@transactioncapital.co.za to register for this webinar. A replay will be available shortly after the end of the call.

RESULTS ANNOUNCEMENT

Transaction Capital's results for the 12 months ending 30 September 2021 will be released on SENS on Tuesday, 16 November 2021.

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

Hyde Park
23 September 2021

Enquiries:

Nomonde Xulu - Investor Relations

Email: nomondex@transactioncapital.co.za

Corporate & Equity Markets Broker and JSE Equity Sponsor: Investec Bank Limited

Debt Sponsor: RAND MERCHANT BANK (A division of FirstRand Bank Limited)