PRESS RELEASE

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Transaction Capital delivers a strong performance for the six months ended 31 March 2022 with earnings growing at rates higher than pre-pandemic levels

- Transaction Capital's performance in the first half of the 2022 financial year supports management's view that the group can maintain a sustainable trajectory of superior high-quality earnings
- Returns are expected to increase as the acquisition of WeBuyCars delivers accretive earnings growth
- Interim dividend declared of 33 cents per share

Results overview

In the first six months of the 2022 financial year (HY2022), Transaction Capital extended its track record of high-quality organic earnings growth. Core headline earnings increased 38% to R603 million, and core headline earnings per share grew by 28% to 83.7 cents.

While South Africa has entered a post-lockdown period, the economic recovery that the country started to experience in 2021 may be subdued in 2022, driven by frequent power outages, high unemployment, rising fuel and energy prices, inflationary pressures, and other global economic shocks. These factors continue to drive sluggish growth across most sectors, resulting in reduced commuter activity.

Commenting on the group's performance, CEO of Transaction Capital, David Hurwitz said: "Despite these challenges, SA Taxi's operational, credit and financial performance remains on track. WeBuyCars and Transaction Capital Risk Services continue to perform above our expectations with earnings growing at rates higher than historic levels."

Transaction Capital remains well capitalised, with adequate liquidity to execute on its divisions' organic growth initiatives and to respond to opportunities arising from market dynamics.

In light of the group's strong financial performance, robust balance sheet and medium-term prospects, the board declared an interim dividend of 33 cents per share, at a rate of 2.5 times cover based on the earnings for the six months ended 31 March 2022.

WeBuyCars

WeBuyCars continues to disrupt used vehicle ownership and trade in South Africa, through a unique combination of vehicle trading via its e-commerce and physical infrastructure, together with finance, insurance and other ancillary products. As a leading mobility platform, this uniquely composed offering, which combines a convenient, trustworthy and satisfying customer experience with competitive artificial intelligence (AI) led pricing, drives WeBuyCars' brand value.

To broaden its mobility offering to private consumers, WeBuyCars launched its principal vehicle finance product during HY2022. This offering combines SA Taxi's competencies in assessing credit risk and providing vehicle finance, and WeBuyCars' ability to efficiently underwrite and recover on the value of used vehicles. This unique offering is the first in a range of innovative mobility products aimed at disrupting the used vehicle ownership model in South Africa and which will continue to drive WeBuyCars' high earnings growth trajectory.

WeBuyCars, which is now the principal sponsor of South Africa's national Blitzboks rugby team, continues to invest significantly in its brand marketing and online lead generation. Its business-to-consumer (B2C) e-commerce capabilities, which were introduced in 2021, now account for approximately 18% of total online sales, up from circa 8% at the end of the 2021 financial year. This online sales strategy is balanced with ongoing expansion of WeBuyCar`s' physical footprint, which has enabled the business to reach its target of 10 000 vehicle sales per month sooner than expected. In the last 6 months, WeBuyCars opened its largest vehicle supermarket at the Dome in Johannesburg with a capacity of 1 125 bays and has also opened smaller dealerships in Polokwane and Nelspruit with 220 and 370 bays respectively. In the next 12 months, it plans to introduce a further three dealerships in various locations in South Africa.

"WeBuyCars is well-positioned to gain market share through its physical and e-commerce platforms by driving a differentiated customer experience enhanced by AI-led pricing, proprietary data sets and other technology advantages", says Hurwitz. "We expect future earnings from WeBuyCars to continue to grow at similar rates over the medium-term."

WeBuyCars grew headline earnings by 58% to R406 million in HY2022, with the group's attributable portion increasing 122% to R251 million. Transaction Capital increased its effective shareholding in WeBuyCars in August 2021 to 74.2% and as a result now consolidates a greater component of WeBuyCars earnings.

Commenting on WeBuyCars' recent expansion into Morocco, Hurwitz says: "This is the first step in our international expansion aspirations. We will continue to explore further expansion opportunities in select markets."

SA Taxi

SA Taxi has steadily come through the impacts of COVID-19, demonstrating the resilience of the business and South Africa's minibus taxi industry. However, the slow recovery of some sectors, the effects of the civil and taxi unrest in 2021 and the recent floods in KwaZulu-Natal have suppressed commuter activity. Although commuter activity is increasing as activity in South Africa recovers post the pandemic, it remains lower than pre-pandemic levels and is not expected to normalise in the short-term.

With the industry's profitability under strain, taxi operators are under pressure to afford their loan instalments and insurance premiums. Retail prices for minibus taxis have risen 6.6% since September 2021 to April 2022, with the recommended retail price of a Toyota HiAce diesel vehicle now at R528 800. At 31 March 2022, the 12-month average for petrol and diesel prices were, respectively, 28% and 29% higher than a year ago. In the past, minibus taxi fares have been increased to absorb these cost pressures, with fares increasing by approximately 9.3% per year between 2013 and 2020. However, no fare increases were levied over the COVID-19 period to aid financially constrained commuters. The industry is now assessing the medium-term impacts of these challenges and is expected to announce fare increases in the near future.

In this context, SA Taxi's fully refurbished Quality Renewed Taxis (QRTs) provides an affordable yet reliable alternative to buying a new vehicle. SA Taxi has built out its capacity to refurbish more QRTs, whilst increasing access to spare parts by enhancing its import processes. The increased refurbishment capacity will support higher QRT vehicle supply, and in turn, grow QRT loans originated. This strategy will partly absorb the disruption to the supply of new minibus taxis due to the flooding of Toyota's facility in KwaZulu-Natal.

Despite the prevailing pressures on the taxi industry, almost all of SA Taxi's operating metrics have improved when compared to pre-pandemic levels. However, the financial impact that the industry challenges have on SA Taxi's clients is apparent in loan collection levels, which have not recovered to pre-pandemic levels. SA Taxi delivered headline earnings attributable to the group of R181 million in the current period, 4% below 2021.

Over 20 years, SA Taxi's business model has evolved from a speciality financier within the minibus taxi sector into a vertically integrated mobility platform offering access to minibus taxi ownership, finance, insurance, maintenance and other allied services. SA Taxi participates in the entire taxi industry value chain, which underpins its track record of quality earnings.

Commenting on the outlook for SA Taxi, Hurwitz says: "Our strategic focus in the second half of FY2022 will be on optimising our core business lines and dealing with the impact of the recent flooding of Toyota's plant in Kwa-Zulu-Natal. In addition, to broaden our addressable market, we will also continue to look for opportunities to develop new offerings for the broader mobility ecosystem that leverage off SA Taxi's market position."

Transaction Capital Risk Services (TCRS)

Over the years, TCRS has built a competitive advantage through a combination of unique technology, data and analytics competencies to provide collection services that facilitate the effective functioning of consumer credit markets. As the requirements of our clients expanded to a greater need to outsource their non-core services, TCRS recognised an opportunity to create a range of digitally driven business services as a trusted partner to a global client base, leveraging off its South African technology platform and call centre intellectual property (IP). These business activities are diversified across geographies, sectors and clients. This market positioning is yielding returns, with TCRS's headline earnings attributable to the group growing by 25% to R164 million in HY2022, which is at a rate higher than historic levels.

Whilst the unemployment rate in South Africa climbed to 35.3% in the fourth quarter of the 2021 calendar year, in contrast, there is a significant shortage in skilled labour across many developed economies. The ‘great resignation’ which is an economic trend beginning in early 2021, and primarily impacting the United States but also the United Kingdom and Europe has resulted in global skills shortages as employees have voluntary resigned from their jobs en masse. In anticipation of the medium-term effects of the COVID-19 pandemic, TCRS implemented a world-class technology-led work-from-home operating model, which is yielding higher productivity per agent. These capabilities position the business to help clients mitigate the impact of the global shortage of human resources and skills, through a digitally enabled solution. The digital customer services segment is an exciting opportunity for TCRS to leverage its ZAR cost base, local technology platform and IP, as well as its experience in managing outcomes-based call centre operations to earn international revenue and create jobs locally.

Commenting on the outlook for TCRS Hurwitz says: “The evolution of TCRS into a global digital services business leverages the competitive advantage that we have built over the last two decades and offers distinct avenues for international revenue growth, particularly as South Africa grows as a popular destination for outsourced customer engagement solutions. For the remainder of FY2022 our strategic focus will be to accelerate the acquisition of purchased book debts in South Africa and grow the digital customer services business locally and internationally.”

Prospects

In HY2022 Transaction Capital began the strategic repositioning of its business models in line with their evolution over the years. Through its divisions, WeBuyCars and SA Taxi, Transaction Capital enables the mobility of private and public commuters in South Africa. “We see these businesses evolving further into a mobility platform”, says Hurwitz. TCRS’s strategy is centred on the group’s vision to create a range of digitally driven business services as a trusted partner to a global client base.

Commenting on the strategic repositioning of the group and the launch of its new branding, Hurwitz says: “This strategic repositioning of our business coincides with Transaction Capital’s 10-year anniversary of listing on the JSE. We see it as an opportune time to reinforce our well-established business models which have underpinned our consistent growth and returns since 2012 while simultaneously defining our future positioning, through an evolution of the Transaction Capital brand.”

Concluding on the group’s medium-term prospects, Hurwitz says: “We remain confident in the group’s ability to continue generating superior commercial returns, while creating positive, long-term value for all our stakeholders and broader society.”

About Transaction Capital

Transaction Capital identifies, invests in and operates a diversified portfolio of high-potential businesses, in markets where historically low levels of client service and stakeholder trust provide compelling opportunities for disruption. Our businesses apply their specialised expertise as well as technology and data advantages to provide competitive and innovative solutions that deliver outstanding commercial benefits to clients driving the development of our industries. This, in turn, enables the group to consistently generate strong financial returns for our stakeholders.

We partner with expert, entrepreneurial and significantly coinvested management teams to scale and grow unique, vertically integrated businesses. Deliberately positioned in relation to socioeconomic dynamics in defensive market segments, our businesses are strategically and operationally relevant, resilient and agile. Over many years we have proven our ability to align our operating models, financial structures and growth plans to prevailing socioeconomic realities and emerging opportunities.

Our businesses are robustly governed and aligned to the group’s culture of entrepreneurship and integrity, which underpin their ability to respond effectively and ethically to complex market dynamics. As trusted partners, we collaborate with our stakeholders to create net positive socioeconomic returns with enduring benefits. This enhances our growth, risk and sustainability profiles and secures the group’s ability to sustainably deliver exceptional shared value.

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