Issue no. 18

CAPITAL iDEAS

July 2017

WWW.TRANSACTIONCAPITAL.CO.ZA

Transaction Capital

CONTENTS

FOREWORD

TRANSACTION CAPITAL HAS DELIVERED ROBUST ORGANIC EARNINGS GROWTH CONSISTENTLY SINCE IT LISTED ON THE JOHANNESBURG STOCK EXCHANGE (JSE) FIVE YEARS AGO. ALTHOUGH SA TAXI AND TCRS PERFORM BETTER IN A POSITIVE ECONOMIC ENVIRONMENT, THEY ARE ALSO DEFENSIVE BUSINESSES ABLE TO WITHSTAND DIFFICULT ECONOMIC CONDITIONS. THIS IS EVIDENCED BY THE GROUP BEING ABLE TO EXTEND ITS EARNINGS GROWTH INTO THE FIRST SIX MONTHS OF THE 2017 FINANCIAL YEAR TO MARCH 2017.

TCRS is a technology-led, data-driven provider of customer management solutions in South Africa and Australia. The division's scalable and bespoke platform improves its clients' ability to originate, manage and collect from their customers, mitigating risk and maximising value throughout the customer engagement lifecycle.

TCRS acts as an agent on an outsourced contingency or "fee-for-service" basis, or as a principal in acquiring and collecting on clients' non-performing loan portfolios. This diversified revenue model across various consumer credit sectors is central to its defensive positioning, which enables TCRS to continue delivering positive performance under a variety of market conditions.

Read more about TCRS's progress, business model and performance on pages 5 to 9.

In line with our strategy to buy and develop complementary businesses that support the growth of our divisions, and to diversify internationally, Transaction Capital acquired the following businesses in TCRS during the period:

> 100% of Recoveries Corporation in Australia, effective 1 January 2017.
> 75% of Road Cover, effective 1 December 2016.
> 51% of The Beancounter, effective 1 December 2016.

Our decision to acquire these businesses rested on their compelling investment cases. Each business is highly cash generative with a proven track record and scalable business model, which the group is well placed to develop through active management, sharing of skills, enhancing technology, monetising proprietary data, and the potential for bolt-on acquisitions.

SA Taxi is a vertically integrated platform incorporating vehicle procurement, retail, finance, insurance, repossession, spare part procurement and refurbishment capabilities. Combined with SA Taxi's proprietary data, these specialist competencies enable the division to extend asset-backed developmental credit, distribute bespoke taxi insurance, and sell focused vehicle models and other allied business services to taxi operators. By helping taxi operators to ensure the sustainability of their businesses, SA Taxi has a business model that delivers a commercial benefit while improving this fundamental mode of transport.

Read more about SA Taxi's progress and performance on pages 10 to 13.

Transaction Capital delivered strong results in the six months to 31 March 2017, despite the prevailing economic conditions. The group grew core headline earnings by 21% to R254 million. Core headline earnings per share were up 17% to 43.3 cents per share, diluted slightly by the 28.4 million shares issued as part of the R418.9 million accelerated bookbuild concluded on 2 February 2017, which was oversubscribed. This enhanced the group's balance sheet, increasing net asset value per share by 22% to 581.3 cents per share, and creates the capacity and flexibility for further acquisition opportunities.

Robust capital management is a core component of the group's strategy. The Q&A with Mark Herskovits on pages 15 to 17 covers important aspects of the group's funding philosophy, our increasing focus on impact investors (including our recent success in the United States), and details on the equity bookbuild mentioned above.

With defensive and diversified businesses, a strong and liquid balance sheet, and continued organic and acquisitive earnings growth, we anticipate that the group will exceed the earnings growth achieved last year. However, with difficult economic conditions likely to persist into the medium term, it is vital that we maintain our focus on the group's strategy and on delivering value to our clients.

David Hurwitz

TRANSACTION CAPITAL'S EVOLUTION

SINCE LISTING IN 2012, A NUMBER OF MANAGEMENT INTERVENTIONS HAVE BEEN UNDERTAKEN TO CREATE VALUE FOR OUR STAKEHOLDERS. THESE INTERVENTIONS HAVE SUPPORTED STRONG COMPOUND ANNUAL GROWTH RATES (CAGR) ACROSS KEY METRICS, AND CONTINUE TO DELIVER REAL VALUE.

WITH OUR SUCCESSFUL RETURN TO THE EQUITY MARKET IN FEBRUARY 2017, THE GROUP IS IN A STRONG POSITION TO DRIVE FURTHER ACQUISITIVE AND ORGANIC GROWTH IN THE YEARS TO COME.

CAGR HY12 TO HY17

HY HEADLINE EARNINGS PER SHARE

21%

MARKET CAPITALISATION

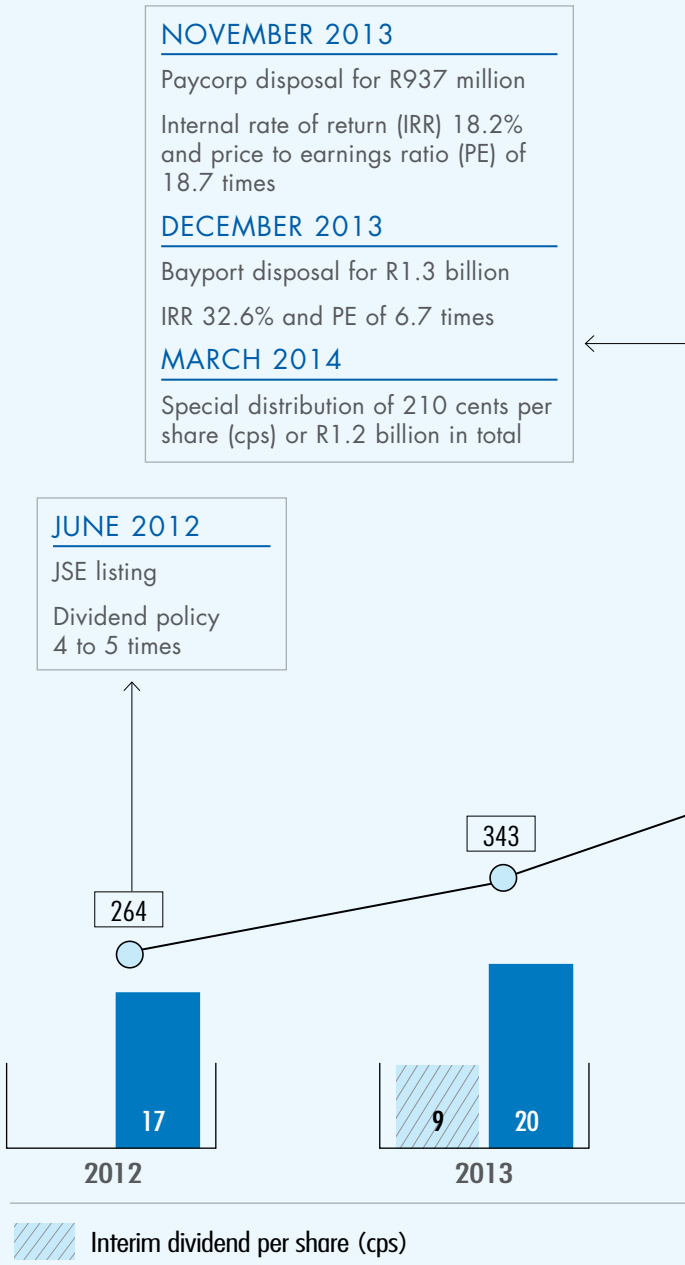
17%

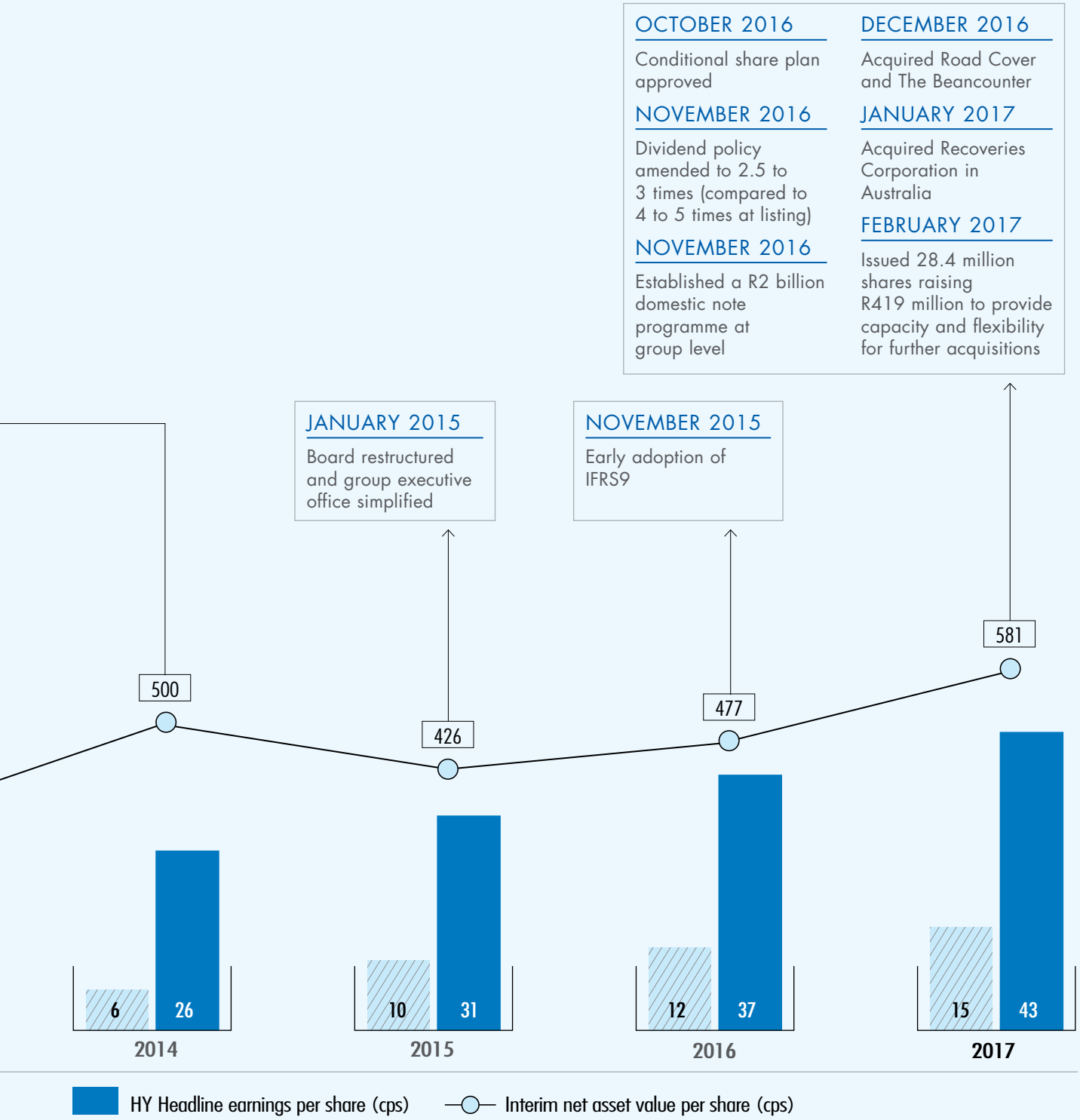
INTERIM NET ASSET VALUE PER SHARE

17%

INTERIM DIVIDEND PER SHARE

36%




OCTOBER 2016
Conditional share plan approved
NOVEMBER 2016
Dividend policy amended to 2.5 to 3 times (compared to 4 to 5 times at listing)
NOVEMBER 2016
Established a R2 billion domestic note programme at group level
DECEMBER 2016
Acquired Road Cover and The Beancounter
JANUARY 2017
Acquired Recoveries Corporation in Australia
FEBRUARY 2017
Issued 28.4 million shares raising R419 million to provide capacity and flexibility for further acquisitions
JANUARY 2015
Board restructured and group executive office simplified
NOVEMBER 2015
Early adoption of IFRS9
500
426
477
581
6
26
10
31
12
37
15
43
2014
2015
2016
2017
HY Headline earnings per share (cps)
Interim net asset value per share (cps)

OUR GROUP STRUCTURE

WITH FINANCIAL AND OPERATIONAL HIGHLIGHTS

FOR THE HALF YEAR ENDED 31 MARCH 2017 (COMPARED TO THE HALF YEAR ENDED 31 MARCH 2016)

Transaction Capital

CEO: David Hurwitz, 12-year group tenure

R254 MILLION[1]	43.3 CPS	581.3 CPS	15 CPS	16.1%	R9.2 BILLION[2]
HEADLINE EARNINGS ▲21%	HEADLINE EARNINGS PER SHARE ▲17%	NET ASSET VALUE PER SHARE ▲22%	INTERIM DIVIDEND PER SHARE ▲25%	RETURN ON EQUITY HY16 15.9%	MARKET CAPITALISATION

SA Taxi

driving our nation forward

CEO: Terry Kier, 10-year group tenure

R144 MILLION[1]	R7.8 BILLION	R195 MILLION
HEADLINE EARNINGS ▲22%	GROSS LOANS & ADVANCES ▲16%	NON-INTEREST REVENUE ▲30%

3.3%	24.1%	17.2%
CREDIT LOSS RATIO HY16 3.4%	RETURN ON EQUITY HY16 25.4%	NON-PERFORMING LOAN RATIO HY16 18.0%

A vertically integrated taxi platform incorporating vehicle procurement, retail, finance, insurance, repossession, spare part procurement and refurbishment capabilities, combined with SA Taxi's proprietary data to deploy developmental credit, distribute bespoke taxi insurance, sell focused vehicle models and other allied services to taxi operators, thus ensuring the sustainability of a fundamental mode of transport.

Transaction Capital Risk Services

CEO: Dave McAlpin, 9-year group tenure

R93 MILLION[1]	R930 MILLION	80.3%
HEADLINE EARNINGS Core ▲33% Excluding acquisitions ▲17%	PURCHASED BOOK DEBTS ▲63%	COST-TO-INCOME RATIO HY16 81.5%

R210 MILLION	20.6%	R1.5 BILLION
VALUE OF PURCHASED BOOK DEBTS ACQUIRED ▲ >100%	RETURN ON EQUITY HY16 27.7%	ESTIMATED REMAINING COLLECTIONS ▲40%

A technology-led, data-driven provider of customer management services in South Africa and Australia through a scalable and bespoke platform, enabling its clients to mitigate risk through their customer engagement lifecycle.

Financial ratios and results exclude once-off acquisition costs of R22 million incurred during the half year ended 31 March 2017.
1. Headline earnings attributable to the group, excluding minority interest | 2. Market capitalisation as at 31 March 2017

GROUP STRATEGIC AND OPERATIONAL HIGHLIGHTS

STRATEGIC POSITIONING OF OPERATING DIVISIONS

Delivering robust organic growth

- Occupy leading market positions
- Highly defensive businesses
- Vertically integrated and diversified business model
- Continued investment in technology and data
- Platforms to develop new products and expand into new markets

UNGEARED AND LIQUID BALANCE SHEET

- **28.4 million** shares issued raising **R419 million**
- Net asset value per share ▲ **22%**
- Liquid capital **~R600 million**
- Capacity and flexibility to continue investing in organic and acquisitive opportunities

DEBT CAPITAL MARKETS

Uninterrupted access to the debt capital markets

- Despite political instability and South Africa's sovereign rating downgrade
- SA Taxi raised **>R4 billion** in HY17
- 2018 fully funded
- Accessed **>R2 billion** of debt funding from European DFIs since 2010
- Secured **>R2 billion** of debt facilities from US-based DFIs during HY17
- Established a **R2 billion** domestic note programme

INTERIM DIVIDEND

- Interim dividend per share ▲ **25%** to **15cps**
- Interim dividend cover of **2.9 times** (HY16 3.1 times)
- Compound annual growth rate (CAGR) of **36%** since HY14

ACQUISITIONS

Three acquisitions within TCRS

- 100% of Recoveries Corporation, effective 1 January 2017
- 75% of Road Cover, effective 1 December 2016
- 51% of The Beancounter, effective 1 December 2016
- Performing in line with expectations
- Integration is a key strategic and operational focus

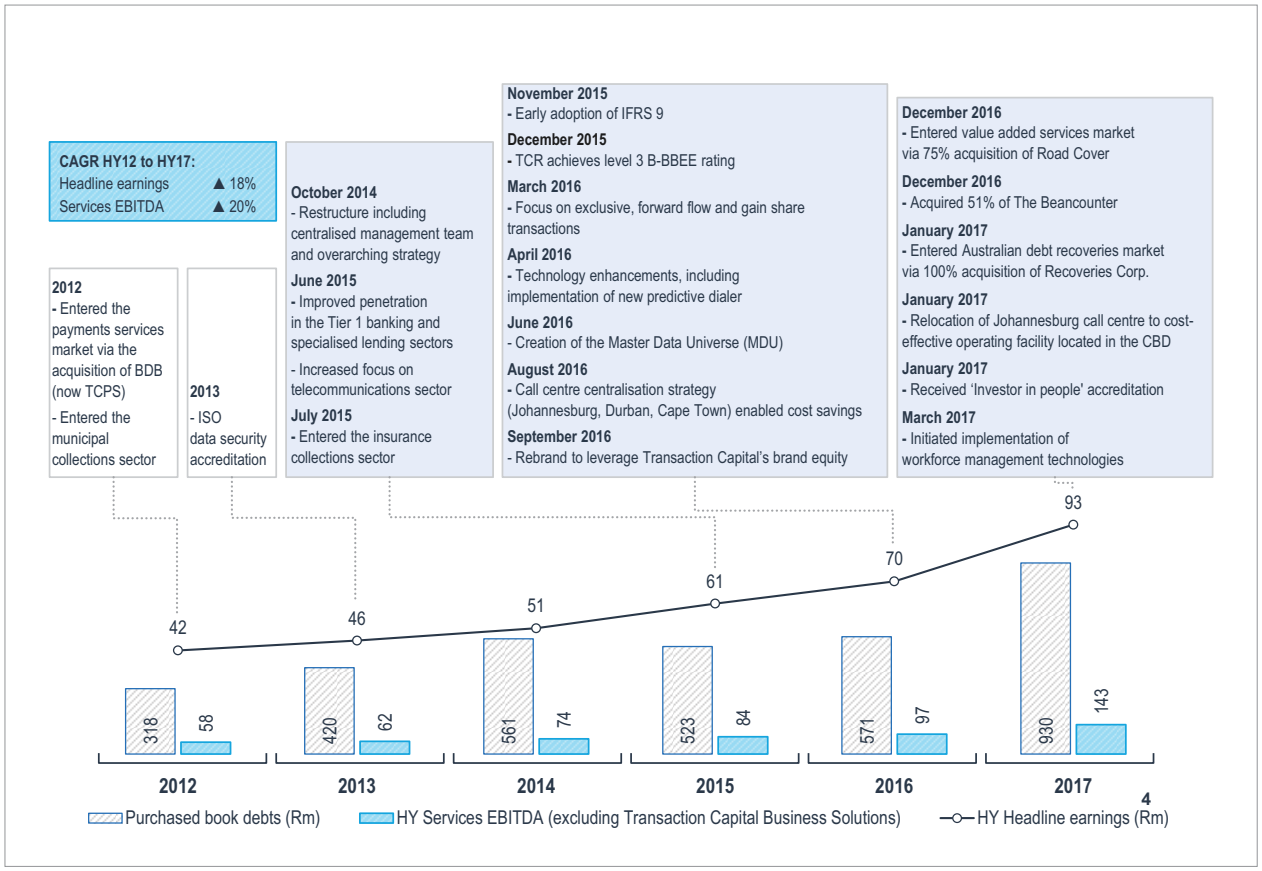
GROWTH OPPORTUNITIES

- Exploring the purchase of non-performing loan portfolios as a principal in Australia
- Growth of TCRS's fledgling insurance recoveries offering in South Africa
- Road Cover products offered through TCRS's clients to SA Taxi's client and commuter base and directly to consumers
- Bolt-on acquisitions

TRANSACTION CAPITAL RISK SERVICES

TCRS has continued to diversify its business model to further entrench its defensive positioning and grow its market share, in line with the group's core strategic requirements. This has included diversification in business mix and geography (through the acquisition of Recoveries Corporation in Australia), as detailed on pages 6 to 7.

TCRS's PROGRESS SINCE 2012



TRANSACTION CAPITAL RISK SERVICES
continued

DIVERSIFYING TCRS's BUSINESS MODEL

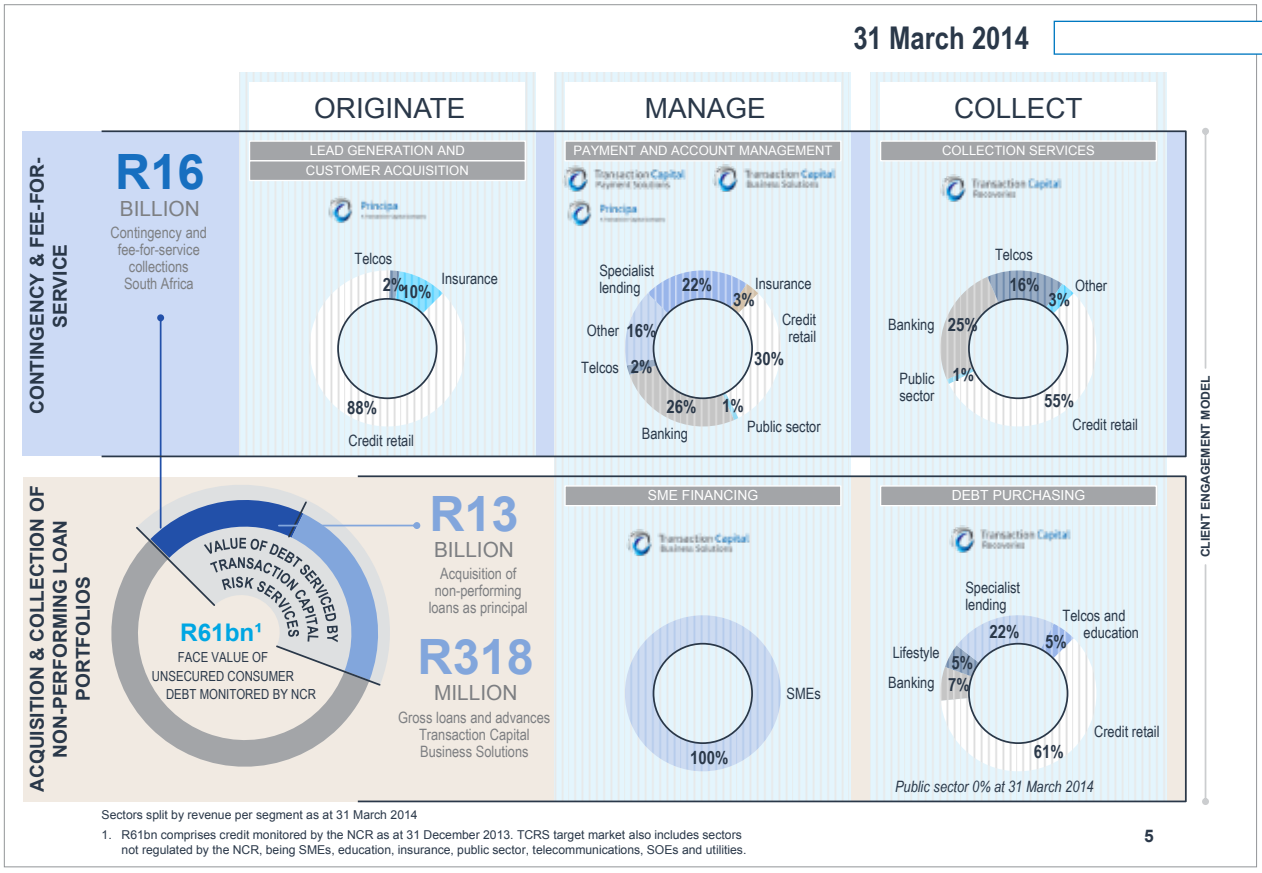
OUR PROGRESS FROM 2014 TO 2017

TCRS's business model has evolved over the years to be more diversified, enhancing its defensive positioning.

In 2014 the bulk of TCRS's revenue was generated from collection services. Furthermore, the majority of this revenue was earned from clients operating in the credit retail sector.

Firstly, our business model today is less dependent upon collection services. In this regard the payment and account management, SME services, and lead generating and customer acquisition arms of TCRS, encompassing Principa,

BUSINESS MODEL EVOLUTION

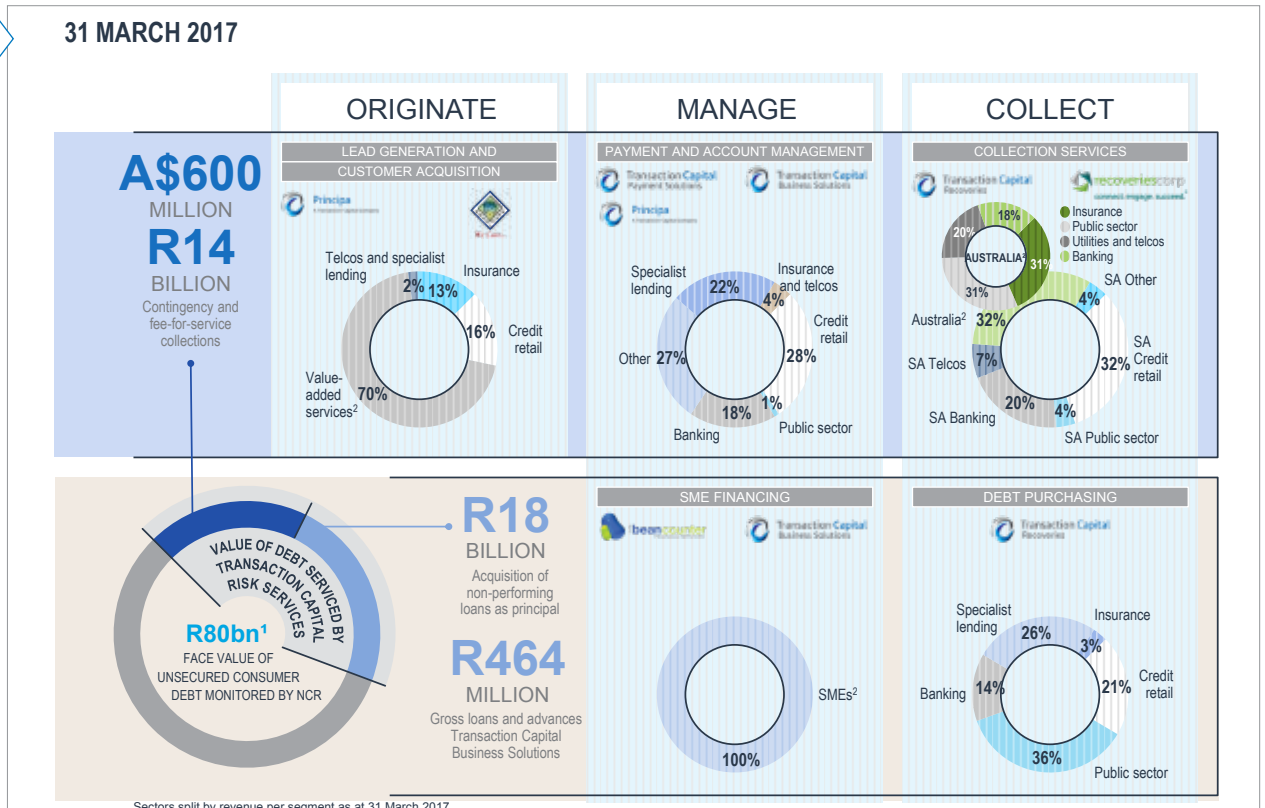


Road Cover, Transaction Capital Payment Solutions, Transaction Capital Business Solutions and The Beancounter, are now significant contributors to earnings.

Furthermore, the business no longer earns the majority of its revenue from clients operating within the credit retail sector. TCRS earns its revenue from more than 80 distinct clients, operating within the banking, specialist lending, telecommunication, credit retail, insurance and public sectors.

We have also diversified geographically through the acquisition of Recoveries Corporation in Australia, which earns approximately AUD45 million of annual revenue from the insurance, utilities, telecommunication, banking and public sectors.

The evolution of our business model has enabled TCRS to grow earnings organically by 17% despite the tough economic environment. When you include the effects of the acquisitions, earnings grew by an impressive 33%.



TRANSACTION CAPITAL RISK SERVICES
continued

FINANCIAL PERFORMANCE

FOR THE HALF YEAR ENDED 31 MARCH 2017

TCRS DELIVERED STRONG ORGANIC EARNINGS GROWTH WHICH WAS FURTHER ACCELERATED BY THE THREE ACQUISITIONS IMPLEMENTED THIS YEAR.

1
- ***Headline earnings ↑33% to R93m***
- *Organic earnings growth ↑17%[1]*
- *Excludes once-off acquisition costs of R22m*
- *Accretive cash deployment converting cash yield into earnings*

THIS PERFORMANCE WAS SUPPORTED BY ROBUST GROWTH IN CONTINGENCY AND "FEE-FOR-SERVICE" REVENUE, AS WELL AS REVENUE GENERATED FROM THE ACQUISITION AND COLLECTION OF NON-PERFORMING LOAN PORTFOLIOS AS A PRINCIPAL.

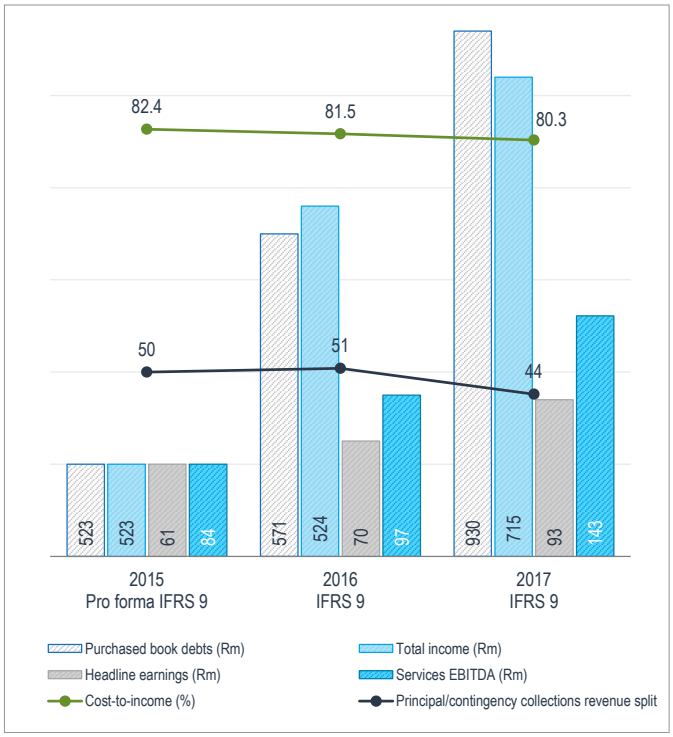
2
- *Growing revenue from adjacent sectors*
- *Insurance, telecommunications and public sector contributing 9%[1]*

3
- ***↑19% (HY16: 9%)***
- *Purchased book debts ↑63% to R930m*
- *13 portfolios acquired for R210m (FY16: R184m)*
- *Current economic context stimulates acquisition of non-performing loan portfolios*
- *180 portfolios owned in total*

THE TECHNOLOGICAL AND OPERATIONAL ENHANCEMENTS IMPLEMENTED LAST YEAR, TOGETHER WITH AGGRESSIVE COST CONTAINMENT INITIATIVES, CONTRIBUTED TO AN IMPROVED COST-TO-INCOME RATIO.

4
- ***80.3% (74.9% excluding acquisitions) from 81.5%***
- *Total costs ↓7%[1]*
- *Continued investment in data (MDU), technologies (dialer and workforce management) and analytics yielding efficiencies*
- *Frugal cost management*

1. Excluding the effect of acquisitions.



OPERATIONAL PERFORMANCE

Transaction Capital Recoveries

R300 MILLION
COLLECTED EACH MONTH

▲32% (since HY16)
REVENUE PER EMPLOYEE

RESULTING FROM

~550 000
PAYMENTS RECEIVED EACH MONTH

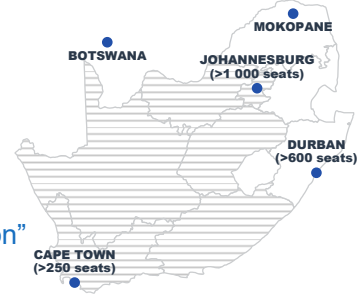
~4.35 MILLION
VOICE INTERACTIONS EACH MONTH

~25 MILLION
OUTBOUND CALLS FROM THE DIALER EACH MONTH

Workforce management technologies improved to schedule the workforce

- Quick to scale
- Quick to train

"Investor in people organisation"
Accreditation in January 2017



Transaction Capital Payment Solutions

~250 000
DISBURSEMENTS FOR CLIENTS EACH MONTH

~500 000
DEBIT ORDERS AND NAEDO TRANSACTIONS PROCESSED FOR CLIENTS EACH MONTH

RESULTING IN

~R2.2 BILLION
OF PAYMENTS PROCESSED FOR CLIENTS EACH MONTH

Transaction Capital Business Solutions

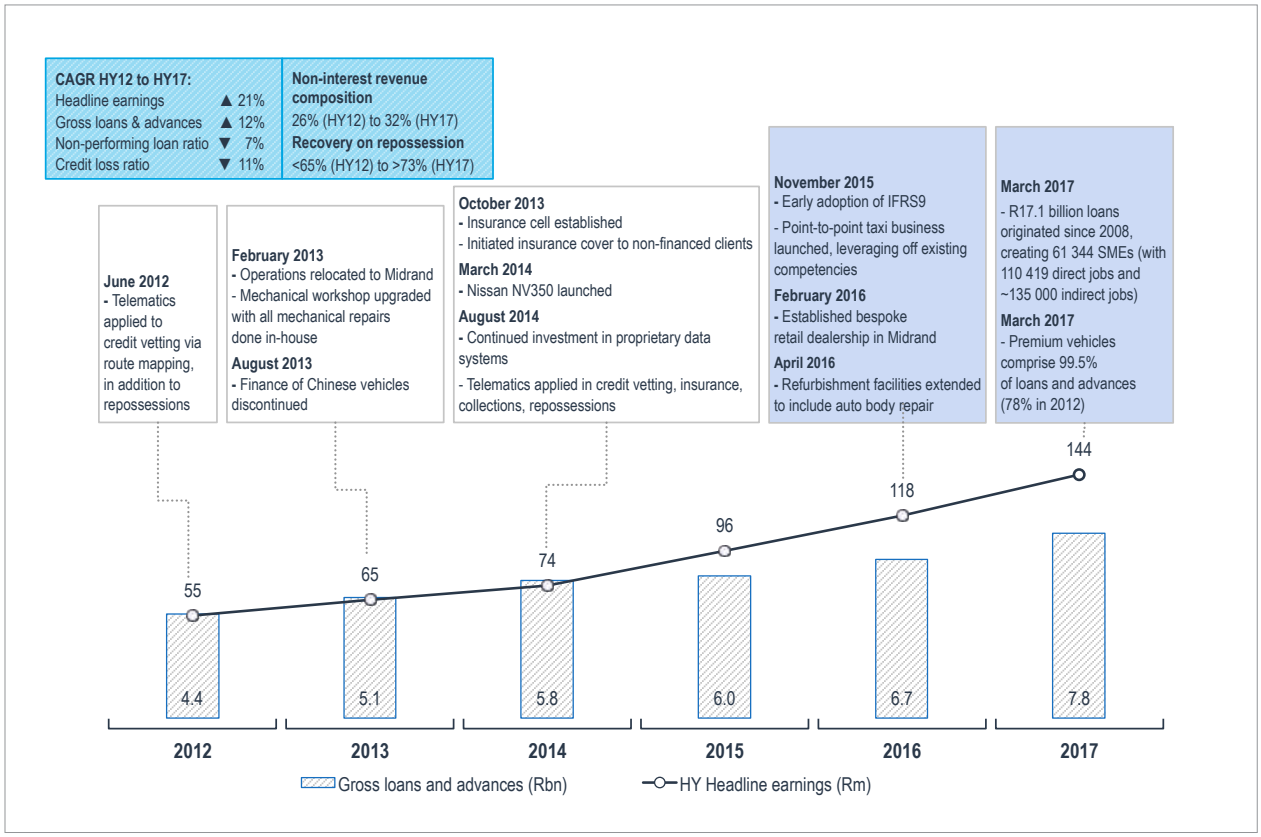
▲10% to R464 MILLION
GROSS LOANS AND ADVANCES

9

SA TAXI

SA Taxi's business model delivers a commercial benefit while improving this fundamental mode of transport, by helping taxi operators to ensure the sustainability of their businesses. It has enjoyed continued growth in gross loans and advances, diversified funding sources and reduced credit losses, which resulted in consistent earnings growth.

SA TAXI'S PROGRESS SINCE 2012



SA TAXI'S VERTICALLY INTEGRATED BUSINESS MODEL

IN SOUTH AFRICA THERE ARE:

~200 000 MINIBUS TAXIS

~17 000 TO 20 000 POINT-TO-POINT TAXIS

SA Taxi driving our nation forward

R7.8 BILLION GROSS LOANS AND ADVANCES

FINANCE	INSURANCE	RETAIL	AUTO BODY AND MECHANICAL
27 142 FINANCED VEHICLES ON BOOK	22 058[1] INSURED THROUGH SA TAXI	~R650 MILLION ANNUAL VEHICLE TURNOVER IN SA TAXI RETAIL DEALERSHIP	>20 000m² COMBINED REFURBISHMENT CENTRE
1 in 3 OF NATIONAL FINANCED TAXI FLEET IS FINANCED AND INSURED BY SA TAXI	>85% SA TAXI'S FINANCED CLIENTS INSURE WITH SA TAXI ~4 000 NON-FINANCED MINIBUS TAXIS	150 new and ~80 pre-owned VEHICLES SOLD PER MONTH THROUGH SA TAXI'S DEALERSHIP	~220 per month VEHICLE REFURBISHMENT CAPACITY

UNDERPINNED BY DATA AND TELEMATICS

- APPLIED IN CREDIT VETTING, INSURANCE, COLLECTIONS AND VEHICLE RECOVERY
- ON AVERAGE EACH OF OUR VEHICLES TRAVELS 6 500 KMS PER MONTH
- OUR VEHICLES TRAVEL ON 6 500 ROUTES COVERING OVER ~800 000 KMS
- ↑7% REVENUE FROM TELEMATICS SERVICES

1. 100% of taxis financed by SA Taxi are fully insured.
Source: National Household Travel Survey 2013 | SA Taxi's best estimate through our engagement with the industry & extrapolation of internal data.

SA TAXI
continued

FINANCIAL PERFORMANCE

FOR THE HALF YEAR ENDED 31 MARCH 2017

WITH ROBUST GROWTH IN GROSS LOANS AND ADVANCES, STABLE NET INTEREST MARGINS, STRONG GROWTH IN NON-INTEREST REVENUE, IMPROVING CREDIT PERFORMANCE AND A MARGINALLY HIGHER COST-TO-INCOME RATIO IT IS EVIDENT THAT SA TAXI'S CREDIT, OPERATIONAL AND FINANCIAL PERFORMANCE IS RESILIENT.

THIS TRANSLATED INTO PLEASING ORGANIC GROWTH IN HEADLINE EARNINGS FOR THE PERIOD.

1
- ***16% to R7.8bn***
- *Number of loans originated 11%*
- *Credit granting criteria remain conservative*

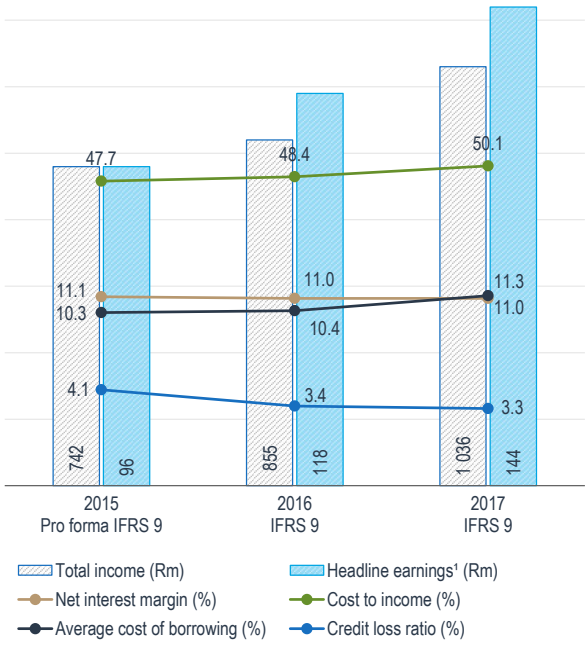
3
- ***30% to R195m***
- *Vehicles sold via SA Taxi's dealership*
- *Comprehensive insurance*
- *Revenue from telematics services*

5
- *from 48.4% to 50.1%*
- *Investment in retail dealership, auto body repair centre, point-to-point taxi business*

2
- ***11.0%***
- *Funding costs by 90bps to 11.3%*
- *foreign debt component, fully hedged to Rand*
- *Average interest rate is 24.9% on origination (NCA maximum cap of 34%)*

4
- *NPL improved from 18.0% to 17.2%*
- *Credit losses improved from 3.4% to 3.3%*

6
- ***22% to R144m***



OPERATIONAL PERFORMANCE

OPERATOR PROFILE

VEHICLES ON BOOK

1.2	86%	23%	3.7 YEARS	>85%
VEHICLES PER CUSTOMER	TOYOTA VEHICLES	LOANS ORIGINATED TO REPEAT CUSTOMERS (HY16 TO HY17)	AVERAGE AGE OF VEHICLE	INSURED WITH SA TAXI

CREDIT PROFILE OF LOANS ON BOOK

67 MONTHS	>R6 000	16.5%
AVERAGE LOAN TERM	MINIMUM MONTHLY OPERATOR PROFIT	AVERAGE DEPOSIT¹

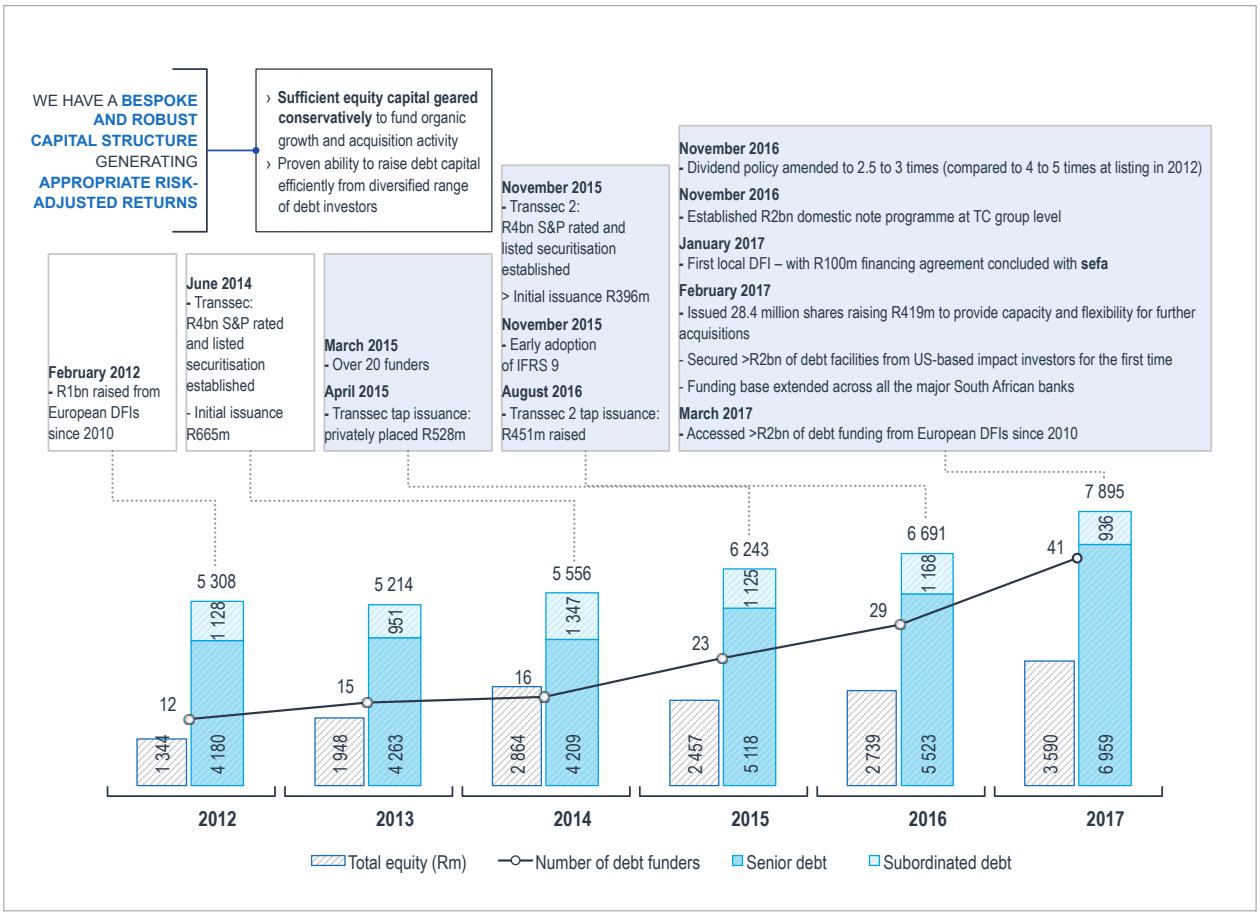
24.9%	45 MONTHS	61%	600
WEIGHTED AVERAGE INTEREST RATE AT ORIGINATION	WEIGHTED AVERAGE REMAINING TERM	AVERAGE APPROVAL RATE	AVERAGE EMPIRICA SCORE

Percentages calculated based on rand value

1. Average deposit on new vehicles

CAPITAL MANAGEMENT

OUR CAPITAL AND FUNDING EVOLUTION SINCE 2012 SUPPORTING THE GROUP'S INVESTMENT CASE



Mark Herskovits
Transaction Capital executive director: capital management

Q *How does Transaction Capital's funding philosophy differentiate the group?*

Our funding philosophy is the guiding light for the capital management team; it is in place to ensure we have sufficient capital for our operations and to serve the group's acquisitive strategy. In approaching investors on behalf of the group, our success lies in being seen as a highly professional team, with a reputation for being a trustworthy counterparty, and one that meets the expectations of this key stakeholder. After all, investors provide the capital that is the lifeblood of our business.

The group manages and owns businesses that are not traditional in nature, and success in these businesses requires differentiated thinking to operate them sustainably and profitably over time. Each of our businesses face unique risks, and being part of a group of companies that has chosen to play in these areas speaks to an underlying ethos that requires innovation to be successful. Consequently, innovation for the capital management team has grown out of the innovation inherent in Transactional Capital. To reflect that, we updated the philosophy to bring innovation front and centre in how we manage capital, and it now forms the platform on which the rest of the philosophy sits.

Q *How is the capital management team being innovative in this space?*

Most corporates in South Africa outsource capital management, but we have built an in-house team of 12 people whose sole focus is to manage capital. For Transaction Capital, it is a competency that is core to our existence, and we would not be able to attract the funding we need through a cookie-cutter approach. We also need a large team to manage the complexity of our funding structures.

As we have seen in the success of both TCRS and SA Taxi, having sufficient resources to focus on a niche idea and a niche operation really does enable innovation. In serving our unique businesses, we have specialists in different areas of capital raising who come together to focus on creating solutions across the group. And in supporting businesses that are unusual in many ways, we need to be as innovative as the businesses themselves as we don't fit into an average profile that is easy for investors to assess and understand. To attract investors, we have to raise our game to overcome their preconceptions and educate them on the realities of our business, so that they feel confident in our ability to manage the risks and provide them with a return.

Also, there are many different kinds of investors who have different philosophies, mandates and legal requirements governing how they invest. To attract funding from these different investors, we have to offer different solutions, which means that there is no 'one size fits all' solution that my team can offer. We have spent years creating different outlets for different investors to invest in what is essentially the same asset class. That broadens our access to funding by customising funding vehicles to their specific requirements.

A good example is two different structures that we have created in SA Taxi. One structure is rated by international rating agency S&P Global and listed on the JSE, which appeals to a group of investors who must have a rating and a listing to be able to invest. We also have a completely different entity, an operating company in SA Taxi, which is more of a bank loan structure that works for banks and development funding institutions (DFIs) who provide bilateral and syndicated loans (which are unrated and unlisted). As the whole legal construct is different across both vehicles, there is little overlap and we have very few funders invested in both.

Creating different entry points for investors requires a high degree of innovation, as we don't want to turn investors away because we can't offer them a product that suits their requirements.

How are investors and the businesses themselves protected across the different structures?

A core part of our philosophy is that we don't intermingle different risks across different parts of the group. Essentially, each business stands alone and is self-sufficient, so each does not rely on any other in the group to continue operating. We also ringfence the risk, preventing any risk of contamination across the different businesses or funding entities. Again, this allows for multiple entry points for investors, as they do not need to be concerned about issues in any other entities.

While our approach leads to more complex structures, we have a large team in place to deal with the complexity and we are able to successfully manage risk levels for investors by ring-fencing each entity.

With different investors becoming more aware of the impact of their investments, how is the group tapping into this increasingly important investor group?

The mandates of impact investors look to fulfil specific objectives beyond pure financial returns. This is generally in businesses that generate some kind of social good, in areas like the environment, education or financial inclusion. In SA Taxi, we meet the criteria across a number of impact pillars, specifically financial inclusion (by providing access to finance for taxi operators who generally cannot access traditional funding), business creation and support (in helping create and sustain more than 60 000 small businesses), and job creation (where it is well known that small and medium-sized businesses are the engine of job creation). Also, more broadly, SA Taxi provides a national infrastructure benefit as 70% of South Africans rely on minibus taxis for transport, making it the de facto public transport system in the country.

The case for impact investing in TCRS is less straightforward, but organisations like the World Bank argue that collections businesses have an important role to play in ensuring the effectiveness of a credit system. The argument is that companies like TCR collect on poorly performing debt that removes that burden from the balance sheets of banks, which can then be redeployed into the system. But most investors are not currently seeing collections as an impact investment, so we continue to apply a more traditional funding strategy for this business.

In TCBS, there is a clear impact in providing funding to our target market of small businesses, who cannot access traditional funding as they are perceived to have higher risk. In supporting these small businesses, our positive impact on the economy is recognised and funded accordingly, and we already have two impact investors invested in TCBS, being FMO and Futuregrowth.

We are fortunate to be in a space where impact investing is highly relevant for us, and we are very deliberate in tapping this market. We are also working hard to assess and measure the social impact of our businesses, as well as looking at other areas of impact. For instance, we believe SA Taxi has an environmental benefit by taking old vehicles off the road and replacing them with newer, more fuel-efficient vehicles. We are in the process of quantifying this value in order to build our environmental impact credentials to appeal to investors focused on this area.

Transaction Capital recently closed a deal with a group of investors in the United States (US). Why the focus on entering the US market?

It was a deal two years in the making that was driven by our philosophy to diversify sources of funding. Our target was a group of US impact investors, the main one being a US government owned DFI. As a huge investor in this space, getting funding from the US government means that we have broken into a different league – which represents huge kudos for the group. As part of the requirements for what is called the US Nexus, the US government was joined by three other private impact investors. They needed the legal documentation to be under New York law, so we set up a new entity within SA Taxi to house them, called the SA Taxi Impact Fund.

It was a complicated transaction in dealing with four separate counterparties, but we are proud to have closed the biggest funding deal of the group to date – a USD200 million transaction. It has been a transformative deal in raising the group's profile internationally and gives us a massive funding boost to a level we have never seen before.

Was it difficult to close the deal in the midst of the threat of downgrades and the actual downgrades that followed?

It certainly was a challenge, but interestingly, one of the benefits of dealing with impact investors is that their level of risk tolerance is different to more traditional investors – and they aren't scared off by a downgrade. While their lens is still commercial and they do not take undue risk, they do take a more balanced view. And by necessity, the kinds of investments they make are in higher-risk countries, often more so than in South Africa. Ideally, you want to work with investors who can see through the risk, and not vacillate over the cycles that countries go through.

But reputation is a big issue for US impact investors, who do not want to be tainted by any investment they undertake. They spend a great deal of effort to check that the social benefits are real and can be measured. For these US based investors in particular, we have detailed reporting requirements that we will be completing periodically so they can assess that we are delivering on our social impact commitments.

As you mentioned, diversifying debt funding sources is vital for the group. Where does the recent equity bookbuild fit into the funding strategy for Transaction Capital?

Equity is a different kind of funding to debt, with different return expectations and risk appetites from respective investors. Consequently, we apply a very different approach to debt and equity. For example, while debt needs to be raised constantly, we don't need to tap equity nearly as often. Also, equity generally has the highest cost of capital, so it should only be raised sparingly and for specific reasons.

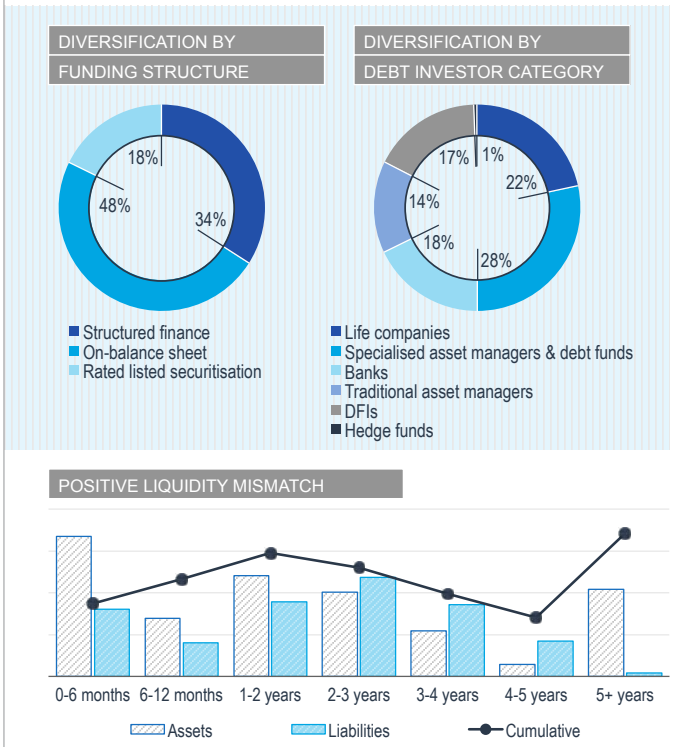
After completing our three acquisitions last year, we needed to raise capital to fund our future acquisitive strategy. We decided that the best approach was to raise equity as our share price was strong, which essentially made it cheaper.

We did an accelerated bookbuild over two days, which was oversubscribed and only carried a small discount of 1% relative to the 30-day moving average. It is the first time that we have tapped the equity markets since listing, and the interest of investors certainly shows the value they see in Transaction Capital. With a strong balance sheet and good liquidity, we have strong credentials as a buyer and are in a position to move quickly on future acquisitions.

It is still a really challenging environment in South Africa. How can the group continue to attract investors as a key stakeholder?

None of the innovations that we have seen in capital management are possible without strong underlying businesses that attract investors. We are fortunate that the businesses are performing well and continue to exceed market expectations, which ensures that our access to capital, be it debt or equity, remains strong. But we should never take it for granted and can never fall into complacency in any part of the business. Remember that the markets are fickle; if we falter, we will quickly feel the impact in the capital markets, which will damage the goodwill that we have worked so hard to build. In these uncertain times, each of us, in every division and every business, has a duty to ensure the continued success of the group.

DELIVERING AGAINST OUR FUNDING PHILOSOPHY



INNOVATION

Innovation is encouraged to cultivate unorthodox thinking and develop pioneering funding solutions

- **Diversified and engaged debt investors**
- **Judicious risk mitigation**
- **Optimal capital structures**

IN A STRONG POSITION FOR 2018

- › Uninterrupted access to the debt capital markets
  - › Despite political instability and SA's sovereign rating downgrade in April 2017
- › Fully funded for 2018
- › Capital adequacy position remains robust at 35.2%
  - › 26.6% equity
  - › 8.6% subordinated debt
- › Net ungeared and liquid group balance sheet
- › Liquid cash of ~R600m on balance sheet

WHISTLE

BLOW THE WHISTLE

ON **UNETHICAL** OR **FRAUDULENT** BEHAVIOUR.

You can report any suspected unethical or fraudulent behaviour safely and anonymously to Whistle Blowers in 11 different languages, 24 hours a day, 7 days a week, year-round on:

0800 212 767

Or contact Whistle Blowers via:
Email: **information@whistleblowing.co.za**
Fax: **086 522 2816**
Online: **www.whistleblowing.co.za**

Your details will be kept safe and will not be given to your company, even if you choose to give Whistle Blowers your details so you can get progress information on your report.

Unethical behaviour can take many different forms and have different levels of severity. **If you see it, report it!**