



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

TRANSACTION CAPITAL SUBSCRIBES FOR A NON-CONTROLLING 49.9% (ON A FULLY DILUTED BASIS) OF THE ORDINARY SHARES IN WE BUY CARS PROPRIETARY LIMITED, INVESTING INTO ITS THIRD ADJACENT MARKET

INTRODUCTION

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.

Both SA Taxi¹ and Transaction Capital Risk Services² (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 pre-lockdown levels. This has enabled Transaction Capital to carefully assess other potential opportunities for capital deployment occasioned by the current dislocation in markets.

The subscription for a non-controlling 49.9% interest in We Buy Cars Proprietary Limited, registration number 2015/130772/07 (WeBuyCars), detailed below, provides an exceptional opportunity for Transaction Capital to acquire a significant interest in a trader of used vehicles serving its clients through its vertically integrated, data and technology-led e-commerce and physical dealership infrastructure, operating in this resilient segment of South Africa's automotive market. Options are in place, which if exercised and implemented, after regulatory approval, would result in Transaction Capital increasing its interest in WeBuyCars at a future date.

The transaction will immediately be value accretive, converting interest income on undeployed capital into operating earnings, and accelerating Transaction Capital's earnings growth rate.

WeBuyCars will continue to operate as an independent business within its specialised market, adjacent to SA Taxi, with this investment establishing Transaction Capital's third market vertical. As such, the investment carries no integration risk for the group.

It is worth noting that this investment is a vote of confidence – from the leaders of both Transaction Capital and WeBuyCars – in South Africa's economic recovery and longer-term growth prospects. Both parties believe WeBuyCars can develop and grow into another exceptional business and reach its full potential notwithstanding the difficult economic conditions that will be with all of us for some time to come.

¹ SA Taxi Holdings Proprietary Limited, 73.9% owned by the group

² Transaction Capital Risk Services Holdings Proprietary Limited, 100% owned by the group

INVESTOR CONFERENCE CALL AND WEBINAR

Transaction Capital will host an investor briefing, together with the chief executive of WeBuyCars, at 15h00 (South Africa time) on Wednesday, 9 September 2020, with conference call details available on our website: <https://www.transactioncapital.co.za/index.php>.

A replay will be available shortly after the end of the call.

ACQUISITION BY WAY OF A SUBSCRIPTION FOR A NON-CONTROLLING STAKE OF 49.9% OF THE ORDINARY SHARES IN WeBuyCars

1. Overview

We are pleased to announce that Transaction Capital or its nominee (the Subscriber) has concluded an agreement (subscription agreement) to subscribe for a non-controlling 49.9% interest in WeBuyCars (the proposed transaction).

The shares in WeBuyCars, prior to implementation of the proposed transaction, are ultimately held as to 60% by the family trusts of the founders of WeBuyCars (Faan and Dirk van der Walt), as to 31.5% by a private equity investor, Fledge Capital Proprietary Limited (co-founded by Konrad Fleischhauer and Louis van der Watt, also co-founder of Atterbury Group) and as to 8.5% by other minority shareholders.

On completion of the proposed transaction, Transaction Capital will hold 49.9% of the issued shares in WeBuyCars with the remaining 50.1% being held by WBC Holdings which will ultimately be controlled by the family trusts of the founding shareholders, Faan and Dirk van der Walt.

The parties to the proposed transaction have also concluded:

- 1.1 a subscription put option agreement in terms of which Transaction Capital will, upon exercise of the subscription put option by WBC Holdings Proprietary Limited (WBC Holdings), being the majority shareholder of WeBuyCars at that time, be obliged to subscribe for, subject to the fulfilment of certain conditions including obtaining the necessary regulatory approvals, 10% of the shares in WBC Holdings. The subscription put option must be exercised within 5 business days of the first anniversary of the Effective Date (refer to 9 below). Upon the subscription put option being exercised and implemented (after obtaining regulatory approvals), Transaction Capital's shares in WeBuyCars will be exchanged for shares in WBC Holdings, resulting in Transaction Capital owning 59.9% of the shares in WBC Holdings (equating to an effective 59.9% in WeBuyCars);
- 1.2 a subscription call option agreement in terms of which Transaction Capital will, upon exercise of the subscription call option, be entitled, subject to the fulfilment of certain conditions including obtaining the necessary regulatory approvals and shareholder approvals (if any), to subscribe for (i) 25% of the shares in WBC Holdings (if WBC Holdings does not exercise the subscription put option referred to in 1.1. above or if certain conditions to the subscription option fail) or, (ii) if the subscription put option in 1.1 above is exercised by WBC Holdings and implemented, 15% of the shares in WBC Holdings. The subscription call option must be exercised on 31 October 2023. Upon the subscription call option being exercised and implemented (after obtaining regulatory approvals, if required), Transaction Capital will own 74.9% of the shares in WBC Holdings (equating to an effective 74.9% in WeBuyCars).

2. Introducing WeBuyCars

WeBuyCars is a uniquely positioned, highly competitive and entrepreneurial founder-led business, with an impressive 20-year track record. As a highly experienced buyer and seller of used vehicles, it trades through its vertically integrated, data and technology-led e-commerce and physical infrastructure, supported by a national footprint that includes seven “vehicle supermarkets” and 19 “buying pods”.

As a well-known and reputable brand, WeBuyCars provides a reliable, affordable and convenient alternative to selling or buying a new vehicle. With vehicle valuations determined by artificial intelligence and not individual buyer sentiment, sellers can be certain of a fair price and immediate cash settlement on acceptance of the offer. With no affiliation to any particular make of vehicle, WeBuyCars offers an extensive range of popular vehicle brands and a simple, seamless buying experience. Buyers are given independent vehicle condition reports and high-resolution photos to facilitate their purchase decisions.

Its extensive and continuously enriched proprietary vehicle, price, consumer and other data enables WeBuyCars to adjust its pricing according to the value of and demand for a vehicle. This protects its margins and drives high stock turn, which supports predictable earnings and high cash conversion rates.

3. Rationale for the investment in WeBuyCars

Transaction Capital has a proven track record of creating value by identifying, pricing and investing in businesses in resilient markets, that have the potential to achieve scale and leading positions in their market segments. WeBuyCars presents an almost perfect fit with the group’s investment framework, meeting most of our investment criteria even when conservatively applied.

Our due diligence investigation has confirmed WeBuyCars’ immediate and longer-term potential. Transaction Capital’s entrepreneurial ownership mindset, underpinned by the ongoing involvement of our founders, makes Transaction Capital a good shareholder for founder-led businesses like WeBuyCars. On a standalone basis, WeBuyCars is a resoundingly strong and specialised business with more than 20 years of experience in buying and selling used vehicles. Although it is well established, we believe that WeBuyCars is well placed to grow its scale and competitiveness. Most importantly, we are investing in a company whose owner-managers are deeply invested in growing the value of their business.

An important feature of Transaction Capital’s attraction to WeBuyCars is our reputation for operating trusted brands that contribute to the formalisation and development of markets with low levels of consumer trust and service levels, and to elevate consumer, regulator and investor confidence in these markets. Our status as a responsible and ethical corporate citizen, which operates according to the highest standards of fiduciary duty, governance and compliance, subject to the scrutiny expected of a listed entity, is a powerful differentiator in these market spaces and will, in its capacity as a shareholder of reference, deepen WeBuyCars’ credibility.

3.1 Market context

Notwithstanding the heavy reliance most South Africans place on the minibus taxi industry, personal vehicles remain a necessity for many South Africans, given long travel distances and limited public transport options. Furthermore, vehicle ownership is an aspiration deeply rooted in South African culture. However, new vehicle sales have contracted for seven years, impacted by adverse economic conditions and changes in consumer buying patterns. 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, and to own their vehicles for longer.

In South Africa there are a total of 10.8 million³ new and used passenger vehicles in circulation. This vehicle 'car parc' has grown steadily, increasing the size of the overall market at around 5% to 6% per year over the last decade, despite the contraction in new vehicle sales. New vehicle sales are forecast to fall 31% to 372 000 vehicles in 2020⁴ before recovering by 20% to approximately 450 000 vehicles in 2021 (10% below 2019 levels)⁵. In comparison, only about 3% of total vehicles (approximately 350 000) are written off every year, resulting in vehicle 'car parc' growth. The large used segment of the market, which conservatively trades more than one million used vehicles a year, has shown a compound annual growth rate of 1.7% over the last five years. This steady growth has been achieved despite the segment being fragmented and inefficient, characterised by low levels of consumer trust.

Favourable trends amplified by COVID-19, both in marked shifts in what consumers can afford and their growing preference for online channels, are likely to accelerate growth in the used vehicle segment. Although the adoption of e-commerce in the vehicles market has been slower than in other categories (such as electronics), experts estimate that e-commerce adoption in South Africa has leap-frogged some five years into the future as the desire for contactless services has escalated. Industry players that offer the most trustworthy, secure and credible e-commerce platforms will gain significant competitive edge in the vehicles market in the coming years.

3.2 WeBuyCars' position in the used vehicle market segment

WeBuyCars competes with dealership groups that are either affiliated to Original Equipment Manufacturers (OEMs), which limit the brand optionality and pricing flexibility they can offer, but hold them to high standards of service and marketing; and independent dealership groups that can offer greater choice of brands but have limited available stock and tend to attract low levels of consumer trust. These dealerships will invariably be stockholders that carry inventory on their balance sheets. Newer entrants to the market have generally been online marketplaces that facilitate buying and selling of vehicles between trade and private customers, and earn a commission, subscription and/or advertising fees, but do not carry inventory. In many instances WeBuyCars will compete against these platforms.

As a buyer, distributor and retailer of vehicles, also offering allied products and services, WeBuyCars provides a uniquely composed offering across this value chain with a credible brand and high levels of trust, optionality, convenience and competitive pricing. WeBuyCars currently buys more than 6 000 vehicles a month on average from private consumers, allowing it to offer a large variety of vehicles for sale. Some of these are sold directly to dealerships via online auction on its e-commerce platform, with the majority sold to private consumers. Buyers are not restricted to any one brand of vehicle or limited in their choice of affordable options with the majority of vehicles sold being older than 5 years at a price ranging between R40 000 and R160 000.

WeBuyCars earns an acceptable risk adjusted gross margin on vehicle sales (vehicle margin), with additional gross margin earned on add-on products (product margin). The latter includes agency fees earned from finance, insurance related and allied products (F&I products) sold on behalf of major banks

³ Lightstone - vehicle parc consists of passenger & light commercial vehicles

⁴ Moneyweb | <https://www.moneyweb.co.za/news-fast-news/new-car-sales-to-drop-to-17-year-low-on-pandemic/>

⁵ Naamsa reported new light commercial and passenger vehicle sales in South Africa at approximately 491 000 in 2019; Company estimates, applying historical Naamsa results, estimates new vehicle sales at approximately 450 000 for 2021

that provide asset-backed and unsecured vehicle finance, leading insurance providers as well as vehicle tracking businesses.

Participating in both the purchase and sale of used vehicles enables WeBuyCars to leverage 20-years of proprietary vehicle price, consumer and other data to generate granular insights to adjust its pricing according to the value and demand for a particular vehicle. This preserves its margins and ensures a high stock turn, indexed to customer affordability.

3.3 WeBuyCars' growth potential

3.3.1 Enhancing unit economics and margin potential

WeBuyCars has a medium-term target to increase the volume of vehicles traded per month, by expanding its nationwide footprint and enhancing brand awareness to capture growing demand. It also seeks to optimise its operations to further improve vehicle acquisition and stock turn efficiency.

In addition WeBuyCars has the opportunity to improve its product margin earned by enhancing commercial arrangements with existing F&I providers, increasing F&I take-up among existing clients and ultimately converting WeBuyCars into a principal provider of certain F&I products. Further opportunity to drive up product margin will come from adding relevant new allied products, including vehicle tracking and telematics services.

3.3.2 Deeper penetration of the used vehicle value chain by WeBuyCars to build finance, insurance related and allied product offerings as principal

Opportunities to further penetrate the used vehicle value chain underpin WeBuyCars' strong organic growth prospects. An assessment of the WeBuyCars' international peer group shows that leading international participants in this market segment with the highest valuation multiples are fully integrated along the entire used vehicle value chain. Penetrating more of the used vehicle vertical will enable WeBuyCars to extract operational and financial synergies across buying, selling (mainly online), financing, insuring and providing specialised and relevant value-added products and services to clients. This will also enable WeBuyCars' to extend its services to clients that are unable to access credit through traditional channels, which SA Taxi has done so successfully.

3.3.3 Harnessing technology and data to drive e-commerce potential

WeBuyCars' established business-to-business (B2B) e-commerce capability, which connects to a variety of third party dealerships, and its proven but nascent business-to-consumer (B2C) functionality, underpins its longer-term growth prospects. Significant potential exists to drive penetration and uptake of its B2C offering. On-line and e-commerce trading will drive higher levels of efficient and reliable service, while dissolving physical and geographic barriers, with the expectation being that e-commerce in the South African vehicles market will gain traction.

4. Subscription price and funding thereof

Based on an enterprise value of R3.69 billion, the subscription price payable by Transaction Capital for 49.9% of the ordinary shares in WeBuyCars will be a maximum of R1.84 billion (Subscription Price), payable as follows:

- 4.1.1 on the Effective Date (refer to 9 below) R1.47 billion in cash, and 16 467 000 newly issued ordinary shares in Transaction Capital (at a price of R20 per share), for an aggregate value of R329.3 million, will be transferred to WeBuyCars;

- 4.1.2 Transaction Capital will finance the payment of the R1.47 billion from a combination of existing cash resources (approximately R900 million), existing debt facilities (approximately R220 million) and by way of funding from WeBuyCars in the amount of R349.3 million which will be facilitated through a subscription by WeBuyCars of preference shares in the Subscriber;
- 4.1.3 on the first anniversary of the Effective Date (refer to 9 below) , R40million paid as follows:
(i) R20 million in cash, and (ii) R20 million by newly issued ordinary shares in Transaction Capital (valued at the 30 day volume weighted average price per ordinary share at such time) .
- 4.2 The Subscriber has provided a warranty to WeBuyCars that the volume weighted average price per ordinary share in Transaction Capital for the 30 day period immediately preceding the first business day immediately following the second anniversary of the Effective Date will not be less than R18.00. The underpin shall not be payable if prior to the second anniversary of the Effective Date, Transaction Capital has procured an offer for the shares at a price per share that is greater than or equal to R20.00 and the shareholders of WeBuyCars prior to the Effective Date rejects such offer.
- 4.3 Ample liquidity is available in the form of undrawn bank facilities at SA Taxi, TCRS and at Transaction Capital holding company level. However, as market dynamics in the aftermath of COVID-19 become clearer, certain strategic growth initiatives in TCRS and TC Global Finance⁶ provide unprecedented opportunities to accelerate capital deployment for attractive risk-adjusted returns and capital appreciation. To this end, Transaction Capital is in the process of increasing its available holding company facilities by R680 million, to underpin these accelerated organic growth opportunities once the transaction with WeBuyCars has been completed. In a future announcement, the group will be requesting shareholder approval to provide authority for Transaction Capital to issue up to 5% of its share capital to potentially raise cash proceeds for organic growth opportunities if required.

5. Conditions precedent

The proposed transaction is subject to fulfilment or waiver (where appropriate) of, *inter alia*, the following conditions precedent on or before 30 September 2020:

- 5.1 the conclusion and implementation (to the extent applicable) of agreements to give effect to the proposed transaction (Transaction Documents) as well as a shareholders agreement in relation to WeBuyCars and those agreements becoming unconditional in accordance with their terms;
- 5.2 confirmation from WeBuyCars that its shareholding structure is that specified in the subscription agreement;
- 5.3 the delivery by WeBuyCars of a share certificate confirming the Subscriber as the holder of the 49.9% of the shares in WeBuyCars, which share certificate will be held by the attorneys of WeBuyCars until implementation;
- 5.4 the delivery of directors and shareholders resolutions authorising the conclusion and implementation of the proposed transaction;
- 5.5 Transaction Capital delivers to WeBuyCars a capacity and authority opinion from Transaction Capital's attorney's relating to its capacity and authority to enter into the Transaction Documents;
- 5.6 each of the Parties to the Transaction Documents (other than Transaction Capital) delivers to Transaction Capital a capacity and authority opinion from WeBuyCars' attorneys reflecting each of their capacity and authority to enter into the Transaction Documents; and

⁶ TC Global Finance Limited, 50% owned by the group.

5.7 the parties obtaining the approvals or waiver, as the case may be, required for implementation of the proposed transaction from the Takeover Regulation Panel established in terms of section 196 of the Companies Act, 2008.

6. Warranties and Indemnities

The subscription agreement contains negotiated warranties and indemnities in favour of Transaction Capital from the existing shareholders of WeBuyCars, including from the founders of WeBuyCars.

7. Employment and Restraints of Trade

Transaction Capital has negotiated that the founders of WeBuyCars will sign new service, restraint and confidentiality agreements with WeBuyCars.

8. General

8.1 The value of the tangible net assets of WeBuyCars as at 31 March 2020 was approximately R700 million.

8.2 WeBuyCars' profit after tax for their financial year ended 31 March 2020 attributable to its net assets was R357 million.

8.3 The value of the net assets and the profits attributable to the net assets have been extracted from WeBuyCars' audited unsigned financial statements for year ended 31 March 2020. These results were prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS). Transaction Capital is satisfied with the quality of the financial statements from which these results have been obtained.

9. Effective date

Transaction Capital and WeBuyCars have agreed that the Effective Date is the date on which the last of the conditions precedent are fulfilled or waived.

The risk and benefit attaching to the shares will pass to Transaction Capital or its nominee on the Effective Date.

10. Categorisation

The proposed transaction is a Category 2 transaction as contemplated in the Listings Requirements of the JSE Limited.

11. Further announcement

Shareholders will be notified once the last of the conditions precedent has been fulfilled or waived.

PROSPECTS

SA Taxi and TCRS are strategically positioned to deliver good commercial returns and meaningful social impact in variable economic conditions. Both have demonstrated resilience in their responses to COVID-19, with their respective market sectors displaying their defensive character, and operational activity in most instances nearing pre-lockdown levels. It has 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 operations 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, and the country seeks stronger and more inclusive 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 consumer credit markets, 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).

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. 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). The organic growth initiatives set out at the time, specifically to acquire NPL Portfolios in South Africa and in Europe, remain valid and will be pursued.

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 due to the effects of COVID-19. However, with our operational activity in most instances nearing pre-lockdown levels (mentioned above), 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 (above 2019 pre COVID-19 levels) for the 2021 financial year and beyond. We are confident and excited about the prospect of investing in WeBuyCars, which will support an even higher growth as WeBuyCars fully realises its medium-term growth potential.

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

Hyde Park
8 September 2020

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