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

STATEMENT BY THE GROUP CHIEF EXECUTIVE OFFICER AHEAD OF THE AGM

The information in this announcement will be presented to shareholders at our annual general meeting (AGM) on 5 March 2021. It will also inform our interaction with investors and analysts prior to our closed period. The information in this announcement has not been reviewed and reported on by the group's external auditors.

PROSPECTS IN THE CURRENT YEAR

On balance, the group performed largely in line with our expectation in the first four months of our 2021 financial year (FY21). This was supported by the diversification across and within our businesses. Based on our current assessment of operating conditions and growth prospects, we expect the group to resume its strong organic growth trend in FY21. Headline earnings per share should exceed FY19 levels at rates in line with pre pandemic growth rates, with the group resuming dividend payments this year.

SA Taxi, Transaction Capital Risk Services (TCRS) and WeBuyCars continue to demonstrate their resilience, relevance and responsiveness in an environment still dominated by the effects of the COVID-19 crisis. With no further operational adjustments required to accommodate pandemic-related restrictions, our divisional management teams have been able to focus fully on their strategic organic growth initiatives. Our businesses are therefore well positioned to drive organic growth, despite uneven rates of recovery in their markets. Their highly relevant business models and leading positions in market sectors with defensive characteristics underpin our expectations for growth and returns in FY21, and beyond.

PROSPECTS IN THE MEDIUM TERM

We remain confident of the group's return to a sustainable trajectory of superior high-quality earnings and dividend growth over the medium term. Our agile response to the strategic, financial and operational implications of the pandemic have held the group in good stead as the crisis has unfolded. This demonstrates that we have the leadership skill and financial capacity to weather the difficult conditions ahead. In particular, the group's deeply embedded culture of entrepreneurship and integrity is as much an underpin of our resilience as our robust financial position and prudent capital management strategy.

The strong recovery of our divisions and the meaningful strategic progress they have made, prove their ability to navigate the volatile dynamics accompanying the pandemic. Moreover, the group executive office continues to support them in refining their competitive value propositions, diversifying their revenues, expanding their total addressable markets and securing the capital required to implement their strategies.

Their operating models, financial structures and growth plans are aligned to prevailing market realities and emerging opportunities. To this end, they continue to strengthen their relationships with stakeholders and deliver measurable economic, social and environmental value in their sectors, thereby enhancing their longer-term growth, risk and sustainability profiles.

Although the pandemic continues to exact a heavy toll in key economies, a successful rollout of vaccines should reduce the risk of further global economic shocks. However, with its socioeconomic vulnerabilities exacerbated by the pandemic, sharp downturns in socioeconomic conditions in South Africa remain the primary downside risk to our medium-term expectations for growth and returns.

BALANCE SHEET AND LIQUIDITY

Transaction Capital's balance sheet is robust, with a healthy balance between equity and debt funding, and ample capacity to fund our strategic organic growth initiatives. Undrawn debt facilities are in place to fund expected loan origination at SA Taxi and the acquisition of non-performing consumer loan portfolios to be collected as principal (NPL Portfolios) at TCRS, into FY22. Furthermore, WeBuyCars' capital-light business model requires low levels of debt.

Besides the long-term nature of our assets, undrawn debt facilities of R900 million at holding company level and the R248 million of new equity raised from Royal Bafokeng Holdings in January 2021 have bolstered the group's capital structure. This provides sufficient strategic flexibility and financial headroom should socioeconomic conditions worsen significantly.

SA TAXI

OPERATING CONTEXT AND MARKET POSITIONING

SA Taxi's business model enables safer and more reliable mobility access for millions of commuters through tailored developmental finance, insurance and allied services to minibus taxi operators. This, in turn, promotes the sustainability of the minibus taxi industry. This industry is indispensable to South Africa's economic productivity and is an early beneficiary of economic and social recovery.

SA Taxi applies leading-edge analytics to its real-time vehicle mobility datasets to manage credit and insurance risk. SA Taxi's telematics data (tabled below) shows the recovery in average activity of its minibus taxi fleet, benchmarked against pre COVID-19 levels. The recent impact of the 'risk-adjusted level 3' lockdown, implemented from 28 December 2020 in response to a severe resurgence in COVID-19 infections, is indicated.

	Level 5 27 Mar - 30 Apr 2020	Level 4 May 2020	Level 3 1 Jun – 17 Aug 2020	Level 2 18 Aug – 20 Sep 2020	Level 1 21 Sep – 27 Dec 2020	Risk-adjusted Level 3 28 Dec 2020 – 28 Feb 2021
Operating vehicles	69%	90%	100%	100%	100%	100%
Average distance travelled per vehicle	65%	88%	87%	88%	97%	94%
Drive time	47%	80%	94%	96%	100%	96%

The restrictions implemented were more targeted than during the initial level 3 lockdown, a welcome signal of government's appreciation of the critical need to find a better balance between saving lives, protecting the national healthcare system and the least possible disruption to economic recovery.

The restrictions had a moderate impact on SA Taxi's recovery to pre COVID-19 levels of business activity. While our minibus taxis were able to operate, average distance travelled per minibus taxi and drive time reduced. Although our telematics systems are not able to measure passenger load, these are also likely to have declined. However, the more nuanced approach to the recent COVID-19 resurgence has lowered the risk of a return to more severe restrictions on the industry. This should minimise the economic damage despite further surges in infection rates anticipated before population immunity is reached.

A marked improvement in COVID-19 infections allowed some easing of restrictions on 1 February 2021 and again on 1 March 2021. This should see commuter activity recover further in the coming months. However, the economic malaise is likely to contain this to below or at pre COVID-19 levels. Given the strain on the minibus taxi industry, it is regrettable that the industry's extensive negotiations with government have yielded no relief of any kind during the pandemic.

As SA Taxi's operators are typically underbanked, they have also been precluded from the SME loan guarantee scheme implemented by the National Treasury, South African Reserve Bank and the Banking Association of South Africa. SA Taxi continues to back the industry in calling for government support, including a permanent subsidy, given the industry's criticality as the largest and most vital service in the country's integrated public transport network.

Despite the pressure, 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. In view of the current socioeconomic conditions, the division has implemented strict cost control measures to support positive operational leverage. Furthermore, the strategic benefits of our relationship with SANTACO, strengthened during the COVID-19 crisis, will support SA Taxi's earnings growth in the years ahead.

SA TAXI FINANCE, SA TAXI AUTO REPAIRS (INCLUDING AUTOBODY REPAIR AND MECHANICAL REFURBISHMENT) AND SA TAXI AUTO PARTS

SA Taxi Finance grew gross loans and advances in the low- to mid-teens in the first four months of FY21. The retention of market share and higher retail prices for new vehicles supported this growth. Toyota vehicle prices have increased by 3.5% since 1 October 2020, with more increases expected this calendar year. Despite these increases and the generally difficult conditions for operators, demand for new and pre-owned vehicles remains far higher than supply, in line with pre COVID-19 levels. SA Taxi continues to grow its loan book and preserve credit quality in the current environment. To this end, it is targeting better quality, experienced minibus taxi operators, indicated in lower loan approvals.

SA Taxi's strategy to drive the sale and finance of its fully refurbished pre-owned minibus taxis continues to enjoy strong momentum, as operators opt for this affordable yet reliable alternative to buying a new vehicle in the challenging economic environment. SA Taxi Auto Repairs' increased refurbishment capacity will support higher pre-owned vehicle supply to our dealerships and, in turn, loan originations.

We expect historically low interest rates and a lower average cost of borrowing to support the recovery in net interest margin to levels similar to FY19.

Collections on SA Taxi's gross loans and advances portfolio showed a steady recovery until the risk-adjusted level 3 restrictions were implemented in December 2020, and remain at these levels. As a result, we expect them to recover over a longer period than envisaged at the time of our FY20 results.

We expect provision coverage to remain at levels similar to FY20. The credit loss ratio is likely to remain slightly above the upper limit of our 3% to 4% target range, with the NPL ratio improving to mid-20% in FY21.

SA TAXI PROTECT

SA Taxi Protect's competitive advantage is its ability to reduce its cost of claim through efficiencies in SA Taxi Auto Repairs and SA Taxi Auto Parts, which supports competitively priced insurance premiums. With most of SA Taxi Finance's clients choosing to insure their vehicles through SA Taxi Protect, gross written premiums have continued to show strong growth. Comprehensive vehicle insurance claims remain stable in line with past performance, with a slight increase in credit life claims.

TRANSACTION CAPITAL RISK SERVICES

OPERATING CONTEXT AND MARKET POSITIONING

TCRS's business model helps to facilitate the effective functioning of consumer credit markets and payment systems, which are critical to socioeconomic recovery. It uses its proprietary data, analytics and digital collection capabilities to support its clients' ability to extend credit to their customers by freeing up their operational and balance sheet capacity, rehabilitating indebted consumers, and enabling efficient payment and transaction processing platforms.

In anticipation of the medium-term effects of COVID-19, TCRS implemented world-class work-from-home capabilities and proactively restructured its staff complement, which largely comprises call centre agents. The work-from-home operating model is yielding higher productivity per agent due to more flexible working hours. Importantly, this has been achieved without compromising data security or its staff's access to its technology suite and databases. Furthermore, TCRS's omni-channel capability enabled it to continue contacting and transacting with consumers. The positive response of consumers to non-voice and digital channels, specifically in Australia, supported higher levels of right party contact and online payments. These productivity benefits will enable the division to reach even higher levels of efficiency, deepening TCRS's resilience further as it seeks to drive earnings growth in tough market conditions.

South Africa

Transaction Capital's Consumer Credit Rehabilitation Index, which measures South African consumers' propensity to repay debt, had deteriorated 3.3% by December 2020 compared to the prior year and 1.7% compared to the prior quarter. Despite the lowest repo rate in five decades, erosion of household income and increasing over-indebtedness will persist. Critically high unemployment will escalate the economic strain in the consumer sector, especially as payment relief and government support measures come to an end, with concomitant reductions in credit extension and retail sales.

Australia

As the significant government stimulus programme winds down, the Australian economy is being supported by historically low interest rates and higher job creation, with unemployment falling to only 6.6% at the end of December 2020. However, despite the 4% GDP growth expected for 2021, higher savings and lower debt levels, the Australian consumer is likely to face greater economic stress as debt moratoriums and insolvency suspensions are lifted. With credit growth being driven by low interest rates and increasing property prices, consumer debt over the medium term is likely to climb from an already high base, with household debt to income currently at around 190%.

COLLECTION SERVICES

Acquisition of non-performing loan portfolios (NPL Portfolios) as principal

In South Africa, we still expect growth in the market for NPL Portfolios to accelerate as the impact of COVID-19 plays out over the medium term. The pressure on consumer facing entities will escalate as their credit experience deteriorates. These adverse conditions augur well for TCRS, as its clients deal with larger NPL Portfolios and increased strain on their collection capabilities.

In the first half of FY20, TCRS invested R483 million in South Africa and R73 million in Australia in acquiring NPL Portfolios, indicating pre COVID-19 levels of book buying activity. With fewer NPL Portfolios coming to market, and in line with its lower risk appetite in the volatile conditions, this fell to R177 million in the second half of FY20. We have already deployed R290 million in acquiring NPL Portfolios in the first four months of FY21 and, as market dynamics become clearer, there may be unprecedented opportunity to accelerate capital deployment in this strategic growth initiative.

Collections on NPL Portfolios owned as a principal in South Africa are in line with our expectations, with lower costs yielding higher margins.

In Australia, TCRS's acquisition of NPL Portfolios in the first four months of FY21 was muted, in line with our cautious and selective approach in this market. A material decline in delinquencies, derived from the benefits associated with the government stimulus programmes and debt moratoriums, resulted in fewer NPL Portfolios coming to market. Furthermore, the appetite of banks to sell their NPL Portfolios has continued to decline in favour of contingency and fee-for-service (FFS) collection mandates. TCRS's diversified business model positions it well to respond effectively to this shift.

Contingency and fee-for-service collections

Recoveries Corporation in Australia continues to see lower volumes of matters handed over for collection as credit providers continue to implement debt moratoriums and less aggressive collection strategies. In contrast, clients in South Africa are seeking the benefit of variable cost structures via outsourced collection services. Cost efficiencies from TCRS's work-from-home capabilities lent further support to a good performance from the South African business.

TRANSACTIONAL SERVICES

The integration of Transaction Capital Payment Solutions, Accsys and Fihrst to create a more resilient and efficient payment and transaction processing platform, continues to progress well. Transaction Capital Transactional Services, established in July 2020, is performing in line with our expectations.

WeBuyCars

OPERATING CONTEXT AND MARKET POSITIONING

As disposable income has come under strain and new vehicle prices have increased, more consumers are opting to trade down from new to used vehicles. New vehicle sales of 34 784 in January 2021 showed a 13.9% decrease compared to a year earlier. COVID-19 has amplified this trend, with affordability constraints accelerating the growth in used vehicle sales. As new vehicles prices climb, further upside for the used vehicle segment will come from increased pricing power, lifting profit potential per vehicle sold. COVID-19 has also shifted consumer buying patterns, with significantly higher e-commerce adoption driving strong demand in online trading.

In addition, disruption to global vehicle production during the pandemic has led to stock shortages in the new vehicle market, further driving up demand for used vehicles. Larger vehicle dealers, who rely mostly on rental vehicle stock to meet this demand, are now facing dwindling stock levels as rental companies complete their widescale de-fleeting in response to the downturn in their markets. This places vehicle traders who source stock directly from consumers, such as WeBuyCars, in a favourable stock position.

WeBuyCars is a trusted principal trader of used vehicles, offering finance, insurance and other allied products through its vertically integrated physical and e-commerce infrastructure. It can leverage its proprietary data and artificial intelligence capability to dynamically adjust pricing according to vehicle value and demand. This uniquely composed offering, which combines customer convenience and competitive pricing, positions it well to benefit from its market context. In the medium term, its credible e-commerce platform will support even higher growth.

FINANCIAL AND OPERATIONAL PERFORMANCE

WeBuyCars continues to implement its strategy to expand geographically, grow its e-commerce offering and drive higher penetration of financial and insurance (F&I) products. This has seen it reaching new heights in several categories in the first quarter of FY21, including total revenue and units bought and sold. A strong recovery in volumes traded, now exceeding levels seen in the second half of FY20, underpinned this excellent performance.

WeBuyCars' medium-term target to increase the volume of vehicles traded to 10 000 vehicles per month, to capture growing demand, remains on track. Optimising its vehicle acquisition and stock turn efficiency also continues to be a key focus. We expect future earnings from this investment to be at least in line with our expectations, given the favourable market trends and WeBuyCars' compelling competitive advantages. The exceptional growth prospects of this asset should support a sustainably higher growth trajectory for the group.

TC GLOBAL FINANCE (TCGF)

The group has to date invested £8.2 million in the higher-yielding niche of the international specialised credit market. We believe our strategy remains appropriate and will be pursued over the medium term. TCGF performance is in line with expectations given the current market environment in Europe.

ABOUT TRANSACTION CAPITAL

Transaction Capital actively identifies and invests in alternative asset classes, in which our 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. We partner 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.

Our 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.

INTERIM RESULTS ANNOUNCEMENT

Transaction Capital's results for the half year ending 31 March 2021 will be released on SENS on Wednesday, 12 May 2021.

Hyde Park
4 March 2021

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