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 10 March 2022. 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 Transaction Capital's external auditors.

PROSPECTS

Transaction Capital's performance in the first four months of the 2022 financial year (FY2022) has been strong, in line with our expectation. Although the COVID-19 pandemic continues to redefine the global operating context, the group's historic growth trend resumed during 2021. By the end of the 2021 financial year (FY2021), our divisions had largely recovered to pre-COVID levels of business activity and earnings growth. Based on our current assessment of operating conditions and growth prospects, we expect headline earnings per share (HEPS) in FY2022 to exceed FY2021 HEPS at a rate higher than pre-pandemic growth rates. This performance is supported by a continued steady recovery by SA Taxi, and high-growth earnings from WeBuyCars and Transaction Capital Risk Services (TCRS), which are both on track to grow at a rate higher than prior years.

SA Taxi, TCRS and WeBuyCars continue to demonstrate their resilience and relevance in an environment still characterised by the effects of the pandemic. All our divisions have compelling strategic organic growth initiatives under way and in development and continue to deliver strong operational performance in tough markets. In addition, Transaction Capital has springboard opportunities to accelerate earnings growth in the short to medium term, including international expansion through TCRS and WeBuyCars, where we are able to leverage our homegrown competencies and rand-denominated resources to grow organically. This spread of opportunity will enable us to further diversify our revenue and risk profile to yield higher growth and deeper resilience.

Against a backdrop of socioeconomic fragility and systemic threats, a stagnant local economy and global uncertainty, we have demonstrated our ability, both strategically and operationally, to allocate capital towards identifying and driving growth in dynamic markets and volatile operating conditions. Transaction Capital's recovery in this environment illustrates the entrepreneurial mindset and operational resilience of our businesses. We remain confident that the group can continue to generate strong commercial returns in the medium term, while simultaneously deepening our support for our industry stakeholders and creating net positive, long term value for broader society.

OPERATIONAL UPDATE

WeBuyCars

WeBuyCars is a leading principal trader of used vehicles through its vertically integrated e-commerce and physical infrastructure, offering finance, insurance and other ancillary products. This uniquely composed offering, which combines customer convenience and competitive pricing, positions it well to benefit from current market conditions.

The outlook for the used vehicle market in South Africa is resoundingly positive. Structural support for the resilience and future growth includes cash-strapped consumers trading down to less expensive used vehicles, a trend given momentum by the economic implications of COVID-19. In addition, mobility trends from 2013 to 2020, show that more people are moving from being passengers in personal vehicles to owning their first car, with vehicle ownership an aspiration deeply rooted in South African culture. Further, the recent microchip shortage and supply chain disruptions have affected the global supply of new vehicles, an added tailwind for the used vehicle sector.

WeBuyCars reached new heights in several categories during FY2021, including total revenue and units bought and sold. This trend has continued into the first four months of FY2022, with the volumes of vehicles sold per month being just under our 10 000 short-term target. The increase in the number of vehicles traded has been driven in part by the expansion of WeBuyCars' physical footprint. During the last three months, we have launched our largest vehicle supermarket at the Dome in Johannesburg, with a total capacity of 1400 bays, and a smaller dealership in Polokwane with 175 bays. This is pursuant to our geographic expansion strategy to establish physical dealerships across South Africa, which will vary by size depending on the size and demand of the town, ranging from our large vehicle supermarkets with more than 800 bays in major centres to dealerships holding less than 200 vehicles in small centres. This strategy is augmented by our newly designed buying pods, which are conveniently located in high traffic areas such as shopping centres.

The COVID-19 lockdown has irreversibly accelerated digital adoption and the shift to purchasing goods and services online. WeBuyCars has increased investment into its e-commerce platform as well as brand marketing and online lead generation. Online sales remain at approximately 30% of total monthly sales with business-to-consumer (B2C) e-commerce capabilities, which were introduced in 2021, now accounting for approximately 16% of total online sales, up from circa 8% at the end of FY2021. In the medium-term, WeBuyCars' digital capabilities and e-commerce platform will support more efficient stock turn and even higher growth.

WeBuyCars earns a gross margin on vehicle sales, with additional margin earned on finance and insurance (F&I) products. The latter includes commissions earned from F&I products sold on behalf of banks, insurance companies and a vehicle tracking business. Take-up of F&I products continues to increase, with approximately 17% of all sales now including F&I. In addition, pursuant to our strategy to offer vehicle finance as a principal, this year we have launched WeBuyCars' personal vehicle finance offering, leveraging SA Taxi's expertise and credit capabilities.

SA TAXI

SA Taxi has steadily come through the worst impacts of COVID-19, demonstrating the resilience of the business and the industry at large. The minibus taxi industry remains indispensable to South Africa's economic productivity, with most South Africans relying on public transport. It is the largest and most vital service in the country's integrated public transport network and more commuters choose minibus taxis over bus and rail services due to convenience and accessibility. Spending on minibus taxi transport is largely non-discretionary, making the industry defensive in tough economic conditions.

Loan and insurance policy affordability continues to be constrained. Retail prices for minibus taxis have risen 3.5% between October 2021 and January 2022. At the end of 2021, the 12-month average for petrol and diesel prices were 19% and 17% higher than a year ago, with the petrol price breaking the R20/litre level. Petrol prices are expected to increase further in the coming months, driven by international oil price increases. Russia's military action in Ukraine could push international oil prices up even higher, compounding the increases in local fuel prices. We are tracking this situation and the potential impact it may have on the affordability of our operators. Minibus taxi fares have increased on average by approximately 9.3% per year since 2013, to absorb these financial effects. With number of trips and passenger loads down due to the impact of COVID-19, the industry's profitability is under strain and further fare increases may be needed.

Foundational to SA Taxi's business model are propriety data sets that allow us to manage credit and insurance risk in real time. Over the COVID-19 period, we have seen vehicles financed by SA Taxi travel between 82% and 98% of pre-COVID distances due to the various lockdown restrictions and spates of civil and taxi unrest experienced in 2021. The fourth wave of COVID-19 infections in December 2021 was less severe than previous waves, however the ripple effects of the pandemic continue to drive sluggish growth across most sectors resulting in lower commuter volumes. Although commuter activity is increasing as economic activity in South Africa increases, in the short-term it is not expected to reach levels experienced prior to the pandemic.

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

Demand for new minibus taxis and Quality Renewed Taxis (QRTs) is exceeding COVID-19 levels and remains far higher than supply. SA Taxi continues to grow loans and advances whilst preserving credit quality in the current environment. To this end, we are targeting better quality and experienced minibus taxi operators, resulting in lower loan approvals.

The focus on QRTs continues to provide SA Taxi's clients with an affordable yet reliable alternative to buying a new minibus taxi. QRTs now constitute approximately 40% of total loans originated and growth in QRT loan originations is expected to exceed growth in new minibus taxi loan originations in FY2022. SA Taxi has built out its capacity to refurbish QRTs from 280 per month in 2020 to approximately 400 per month currently, whilst increasing access to spare parts by enhancing its import processes. The increased refurbishment capacity in SA Taxi Auto Repairs will support higher QRT vehicle supply, and in turn, grow loan originations.

Despite the environmental factors mentioned above, collections on SA Taxi's gross loans and advances portfolio have recovered since the initial economic shock of the pandemic but have not yet reached pre-COVID levels. The recovery is taking longer than originally expected, given the additional disruptions in 2021 caused by a prolonged and severe third wave which coincided with civil and taxi industry unrest in parts of South Africa. Provision coverage remains conservative to protect the balance sheet.

SA Taxi Protect

With most of SA Taxi Finance's clients choosing to insure their vehicles through SA Taxi Protect, gross written premium revenue continues to show growth above pre COVID-19 levels. Comprehensive vehicle insurance claims are in line with past performance. As expected, COVID-19 has resulted in higher credit life claims and higher lapse rates in FY2022, although lower than that experienced in FY2021.

TRANSACTION CAPITAL RISK SERVICES (TCRS)

TCRS has made significant progress in shifting its business model to focus on three core service offerings; collection services, transactional services and business process outsource (BPO) services. These are centred on our vision to create a global technology services business that leverages our South African technology platform and call centre IP. This competitive advantage positions TCRS for high-potential opportunities in each service offering.

While we expect South Africa to enter a post-lockdown period in the near future, the South African consumer is still facing many challenges at the start of 2022, including high unemployment, rising interest rates and rising cost of living as fuel prices and inflation trend higher. TCRS's business model continues to gain relevance in this environment, as we support our clients' ability to extend credit by freeing up their operational and balance sheet capacity and rehabilitating indebted consumers.

In its most significant business activity, TCRS acts either as a principal in acquiring and then collecting on non-performing loan (NPL) portfolios, or as a service provider on an outsourced contingency or fee-for-service (FFS) basis. In the first quarter of FY2022 more NPL portfolios came to market in South Africa with TCRS's investment activity on track to exceed FY2021 levels. We see this trend continuing as the impact of COVID-19 plays out over the medium term. As household income erodes and the number of consumers in debt increases, the pressure on consumer-facing businesses will increase as their credit portfolios deteriorate. This provides more scope for TCRS, as our clients deal with bigger NPL portfolios and the consumers' impaired ability to service debt.

Despite this, collections in South Africa on NPL portfolios owned as a principal, as well as contingency and FFS collections, have recovered fully. In addition, cost containment measures implemented during the COVID-19 period continue to achieve operational efficiencies.

TCRS is proving its ability to deliver comprehensive data-enabled business process outsourcing services in South Africa and abroad. For international clients, South Africa's low-cost skills and our stable digital infrastructure make TCRS an attractive alternative to in-house administrative and customer management services. This is an exciting opportunity for TCRS to leverage our rand cost base, local technology platform and IP, and deep experience in managing large call centre operations to earn international revenue and create jobs locally.

INTERIM RESULTS ANNOUNCEMENT

Transaction Capital's results for the half year ending 31 March 2022 will be released on SENS on Wednesday, 18 May 2022.

Hyde Park
9 March 2022

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