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 number: 2016/130129/06
Bond company code: TCII
LEI: 378900AA31160C6B8195

PRE-CLOSE UPDATE AND TRADING STATEMENT IN RESPECT OF THE HALF YEAR ENDING 31 MARCH 2023 AND NOTICE OF CHANGES TO TRANSACTION CAPITAL LIMITED'S BOARD OF DIRECTORS

HIGHLIGHTS

Transaction Capital's divisions are well positioned to benefit from structural opportunities in the local and global environment and are advantageously placed to benefit from accelerated digital adoption. Our business models remain highly relevant and resilient, however some parts of the group are being significantly impacted by the prevailing macroeconomic headwinds, further details of which are discussed under each division's operational update below:

- Nutun
    - Remains on track to grow earnings in the 2023 financial year ("FY2023") at a rate exceeding Transaction Capital's historical levels driven by increased acquisition and collection of non-performing loan ("NPL") portfolios, and the delivery of a new broader range of digitally driven customer experience management services to a global client base.
- WeBuyCars
    - Some margin pressure experienced in the first quarter of FY2023 will be reflected in expected earnings decreasing by not more than 20% for the half year ended 31 March 2023 ("HY2023"). This should be considered against an extremely high comparator base in the first half of the 2022 financial year ("HY2022"). Despite this, we are confident that the business will grow earnings for the full FY2023.
    - The long-term structural elements supporting the business model remain robust. WeBuyCars' market position is unassailable and the business continues to increase market share.
    - Take-up of finance and insurance ("F&I") products continues to increase.
- SA Taxi and Gomo to be restructured to a new mobility platform, to be branded Mobalyz
    - Transaction Capital believes that the cyclical headwinds facing SA Taxi's business model have now become more structural in nature, and the business is unlikely to recover to pre-Covid levels in the short to medium-term. Management is proactively addressing this through an aggressive restructuring to right size this business and position it for future growth.
    - A final outcome of the above is the establishment of our new mobility platform, to be branded Mobalyz. Mobalyz houses our credit, insurance and funding intellectual property, datasets and technologies, making it the operating engine powering SA Taxi (its proprietary minibus taxi division) and Gomo (its used vehicle F&I platform).
    - Mobalyz is expected to report significantly lower core earnings from continuing operations than HY2022, primarily as a result of the structural shifts in the minibus taxi operating environment.

    - The market response to the Gomo offering has exceeded expectations, and to capture and maximise this growth opportunity, significant progress has been made in securing a symbiotic arrangement with a substantial funding partner that will allow Gomo to write loans directly on the funder's balance sheet. This positions Gomo as a manager of F&I products, earning fee income and participating in a portion of credit and insurance underwriting profits, but without funding or assuming credit underwriting risk as a principal lender, enabling scale through a capital-light business model.
- Trading update for HY2023 (see full trading statement at the end of this announcement)
    - Core earnings per share ("EPS") from continuing operations for HY2023 is expected to decrease by greater than 20%, but no more than 50%, when compared to the reported core EPS from continuing operations for HY2022.
    - We expect core EPS from continuing operations in the second half of FY2023 to be higher than the first half, and as such we expect core EPS from continuing operations for the full year to be down to a lesser extent (in percentage terms).
- Balance sheet remains in a healthy position
    - After accounting for restructuring costs and increased provisions related to SA Taxi, Transaction Capital is comfortable that the balance sheet remains strong and covenant levels have not been breached.

"*We are proud of our track record of delivering consistently high growth for stakeholders and believe that Transaction Capital will continue to deliver this into the medium term. In the short term, we believe it is prudent to acknowledge and decisively tackle the issues facing SA Taxi, and to reset this business for future growth. While we understand that this does come at a cost to our upcoming half year results, and will weigh on the full year outlook to September 2023, we are confident that the group's swift response in rebasing this business will give it the operational, financial and strategic flexibility to recover and grow*" – David Hurwitz, Chief Executive Officer.

Shareholders are advised that Transaction Capital will host a pre-close investor conference call and webinar today (Monday, 13 March 2023) at 18h00 (South Africa time). Please click on the link below to access the live webinar:
https://transactioncapital-co-za.zoom.us/j/91411343489?pwd=Rk1zanRRdU1PbVRoOUZySjhMejVGZz09
A replay will be available shortly after the end of the call.

OPERATIONAL UPDATE

Nutun

Nutun remains on track to grow FY2023 earnings at a rate exceeding Transaction Capital's historical levels and is expected to continue growing at a similar rate over the medium-term. Growth is driven by increased acquisition and collection of NPL portfolios, and the delivery of a new broader range of digitally driven customer experience management services to a global client base, leveraging off our low cost and efficient South African infrastructure. This strategic shift increased Nutun's total addressable market dramatically, offering distinct avenues for local and international organic revenue growth, particularly as South Africa is positioned as a top destination for outsourced customer experience management services. Structural elements supporting the South African outsourced services industry remain compelling, including a global shift in operating models towards variable cost digital outsourcing, a global skills shortage, and South Africa's low-cost but robust Rand based technology, telecommunications and other infrastructure.

South African consumers are facing financial stress as higher interest rates and inflationary pressure erode disposable income, causing high levels of indebtedness. Nutun's collection and recoveries business remains relevant in this environment. In the first four months of FY2023, NPL portfolio acquisitions and collection mandates in South Africa remained robust. This performance is driven by Nutun's strategy to acquire larger NPL portfolios through bilateral forward flow agreements with financial institutions, which provide a secured contractual pipeline of NPL portfolio acquisitions. Given the impact of loadshedding on client contactability and the quality of interactions, Nutun is placing greater impetus on its data, analytics and technology capabilities, to increase operating capacity and improve efficiencies, to ensure we continue to achieve collections targets.

In Australia, Nutun's sale of the NPL portfolio in November 2022 and the subsequent acquisition of a substantial contingency collections business has positioned our platform as a strong provider of capital-light services in this region. We expect continued medium-term growth from this business, driven by the expansion of customer experience management services.

WeBuyCars

Despite the market shift detailed below, and WeBuyCars' abnormally high 2022 financial year ("FY2022") earnings base, the business remains on track to grow FY2023 earnings, with strong medium-term prospects. WeBuyCars has experienced some margin pressure in the first quarter of this financial year, which will be reflected in its HY2023 earnings being lower than the extraordinarily high HY2022 earnings base.

The structural elements supporting the medium and long-term outlook for the used vehicle market in South Africa remains positive. Demand for more affordable used vehicles is high as elevated inflation and rising interest rates erode disposable income. This trend is given further impetus by the rising prices of new vehicles as car manufacturers face inflationary pressures compounded by a depreciating Rand.

Although the number of used vehicles traded continues to exceed that of new, the South African market has shifted significantly when compared to the first four months of FY2022. A year ago, the used vehicle market was supported by constrained new vehicle supply due to chip shortages, and higher consumer confidence supported by lower fuel prices and interest rates. These factors contributed to robust used car demand and price inflation which favoured Rand margin expansion and quicker stock turn, driving unusually high HY2022 earnings. These supportive conditions have reversed over the past year, with higher interest rates, higher fuel prices and increased loadshedding dampening consumer confidence, used car price inflation (although still positive) declining from the peak in December 2021 and supply of new vehicles recovering to pre-pandemic levels.

WeBuyCars' agile business model and quick stock turn enabled it to respond immediately to these market changes, reducing trade in high-end vehicles to focus more on lower-priced used cars. Although margin percentages were temporarily impacted by this response, they have since normalised, and the adjustment in our stock and trading mix towards lower-priced vehicles is now aligned with current consumer demand. This positions the business to deliver strong results over the remainder of the year.

WeBuyCars continues to gain market share and increase vehicles bought and sold, with the average volume of vehicles sold per month increasing by more than 20% over the past 12-month period, currently at approximately 12 000 vehicles. This increase in volume is driven mainly by ongoing enhancements to our technology and AI systems, which drives greater lead conversion and improves customer experience, as well as by the expansion of WeBuyCars' physical footprint.

Since the beginning of FY2022, WeBuyCars has invested heavily into its infrastructure, increasing total national capacity to slightly below 10 000 parking bays. New dealerships, although profitable within the first few months of trading, take between 12 and 18 months to achieve stock turn levels in line with established dealerships. As volumes traded currently lag capacity, a key focus area in the current financial year is driving operational efficiencies and greater sales volumes through our existing infrastructure.

Take-up of F&I products continues to increase, enhancing unit economics (earnings per vehicle sold). Gomo continues to facilitate increased vehicle sales and drives incremental F&I income for WeBuyCars.

As previously announced, Transaction Capital still expects to increase its shareholding in WeBuyCars by a further 15% through the accelerated implementation of the current put and call arrangement as agreed in September 2021. This investment would be accretive, funded out of existing resources and represents a low-risk deployment of capital, as WeBuyCars is well known to Transaction Capital as a high quality growth business.

New Mobility Platform (Mobalyz)

Mobalyz, our new mobility platform comprising SA Taxi and Gomo, will report core earnings in HY2023 significantly lower than HY2022. We expect performance in the second half of the financial year to improve as we implement the revised business strategy detailed below. The drop off in SA Taxi's earnings is due to the increasingly challenging macroeconomic environment from the second half of FY2022, which continued and worsened into the first half of FY2023 as discussed comprehensively below.

SA Taxi

The structural elements supporting the minibus taxi industry's long-term resilience remain unchanged. The minibus taxi industry is indispensable to South Africa's economic productivity. It is the largest and most vital service in the country's integrated public transport network, despite not being subsidised by government, with most commuters choosing minibus taxis over bus and rail services due to convenience and accessibility.

SA Taxi's initial view on the COVID-19 impact was that both the taxi industry and commuter density would recover in the short to medium-term. At the time of our FY2022 results, we guided SA Taxi's FY2023 earnings to be at similar levels to FY2022, as we focused on optimising our core minibus taxi business. This assumption was based upon an expected industry recovery during FY2023, from the unexpected lingering impact of the pandemic, the civil and minibus taxi industry unrest during FY2022, and the negative impact of the 6-month disruption to Toyota production post the unprecedented flooding of the Toyota manufacturing plant in April 2022. Throughout this period, the industry operated as an essential service under stressed conditions, but without any government support.

This assumed recovery was based upon our two-decade long experience of the industry's resilience. At the start of 2023 it became apparent that the minibus taxi environment was unlikely to rebound at a rate in line with our original expectations. The industry's profitability remains stressed due to stubbornly elevated fuel prices, vehicle price increases, sharp interest rate hikes, persistently low commuter volumes and the lack of corresponding fare increases. Record levels of loadshedding are adversely impacting economic activity, with a further negative knock-on effect on commuter activity. Loadshedding has also increased traffic density causing longer commute times, resulting in a reduction in the number of trips completed by taxi operators. This has resulted in a systemic change, reducing our ability to serve this lower-end segment of the industry.

As a result of these impacts we have accelerated the process to restructure and rebase SA Taxi, providing greater resilience through business cycles. Management has taken this active decision as it became aware that the minibus taxi environment was unlikely to rebound at a rate in line with our original expectations, but also in light of the progress made in scaling the Gomo opportunity. Following the year of rebasing in FY2023, we believe SA Taxi will be set for recovery over the medium term as a business that is more resilient and profitable.

Management has been augmented, the business model is in the process of being simplified, and the cost base will be reduced and restructured to a more variable model. This rebasing will entail an acute focus on higher quality credit risk loan origination resulting in a lower absolute quantum of loans originated against repossessed and refurbished Quality Renewed Taxis ("QRTs"). Provision coverage will reflect our current view of future uncertainty and risk, as we aim to refurbish and refinance less QRTs, and utilise alternative repossessed vehicle disposal channels resulting in lower recovery rates. Our investment into GoBid, an e-commerce auction platform that specialises in the online sale of salvage vehicles, concluded in October 2022, will serve as one of these disposal channels. We remain committed to supporting this sector, but will deploy capital conservatively into lower-risk segments of the industry, where we can earn appropriate risk adjusted returns.

A longstanding key strategic initiative has been to introduce an alternative minibus taxi vehicle to reduce reliance on a single vehicle model, as well as to address affordability constraints of the taxi operator due to vehicle price inflation. Leveraging off the existing Toyota infrastructure, SA Taxi's own QRTs were considered as an affordable but reliable alternative to a new Toyota vehicle. As a result, over the past 5-year period, SA Taxi invested significantly in repair and refurbishment facilities, as well as into parts procurement infrastructure.

During FY2022, in response to acute stock shortages of new minibus taxis post the flooding of the Toyota manufacturing plant in April 2022, and due to increased pressure on loan instalment and insurance premium affordability, SA Taxi increased its capacity to repossess, refurbish and refinance QRTs from 220 per month in 2019 to approximately 600 per month. This strategy supported higher QRT vehicle loan originations, a strategy that had worked well prior to the pandemic on marginally profitable routes at lower volumes.

The current climate has, however, eroded profitability on these marginal routes, making it difficult for operators who acquired QRTs to afford loan repayments. SA Taxi has accordingly revised its future loan origination strategy to target credit risk sets which we believe to be commercially viable in the current economic climate. This has also necessitated a reassessment of SA Taxi's business model, with specific attention on our auto refurbishment and repair facilities, which should be downscaled to support lower refurbishment volumes of approximately 220 QRTs per month. SA Taxi intends to dispose of its auto refurbishment and repairs business and related assets to a strategic partner simplifying operating processes, converting fixed to variable overhead and resizing our remaining assets, whilst retaining the strategic ability to refurbish vehicles to protect collateral value.

Given these factors, which result in lower expected credit recovery rates, management has re-assessed the assumptions underpinning the IFRS 9 and IFRS 17 forward looking provision models across the entire portfolio. This has necessitated an increase in provisioning of approximately R700 million on our existing book which has aged past 90 days (Gross value: R6.9 billion); approximately R1.15 billion related to the increase in forward looking provisions including IFRS 9 and IFRS 17 to reflect the recalibrated business model across the entire portfolio (Total gross value: R16.2 billion). This will take provision coverage (being total provisions as a percentage of gross loans and advances) from just over 4% at FY2022 to around 15% at HY2023. In addition, the net realisable value of repossessed vehicle stock will be reduced by approximately R150 million. These adjustments are to be accounted for outside of core earnings given their once-off non-recurring nature.

The creation of Mobalyz, the shift in SA Taxi's strategy and the development of Gomo into a profitable business of scale, is an inflection point that provides compelling medium-term growth opportunities. To support this strategy and its financial impacts, the existing intercompany loan of approximately R2 billion from the group holding company will be capitalized as equity. This strengthens SA Taxi's balance sheet and enhances debt covenant compliance without the need to raise additional capital. In addition, our strategy to convert our liability repayment profile to a flow-through model, which better matches cash flows from assets, also continues.

Gomo

Gomo was launched to build a scalable mobility platform that aims to disrupt and capture market share in an under-penetrated used vehicle F&I sector. Since its launch, Gomo has received an overwhelmingly positive market response, with the scale of WeBuyCars' distribution and the volume of acceptable loan applications representing a bigger opportunity than initially anticipated. It was quickly identified that the business would be constrained by capital and funding. To capture and maximise this growth opportunity, significant progress has been made in securing a symbiotic arrangement with a substantial funding partner that will allow Gomo to write loans directly on the funder's balance sheet. This positions Gomo as a manager of F&I products, earning fee income and participating in a portion of credit and insurance underwriting profits, but without funding or assuming credit underwriting risk as a principal lender, enabling scale through a capital-light business model.

Whilst this is a substantial medium-term organic growth opportunity, we expect Gomo to start generating profits in FY2025.

PROSPECTS

Transaction Capital has a long-term track record of allocating capital to deliver robust risk adjusted returns. In the past few years, we have transformed the group through the acquisition of WeBuyCars and Nutun's entry into the global business services sector. These strategic shifts have taken Transaction Capital into new related segments and significantly expanded our addressable market, diversifying our earnings and generating capital-light revenues with high cash conversion rates. WeBuyCars is now Transaction Capital's largest business, making up approximately 43% of FY2022 core earnings, with Nutun comprising 33%. SA Taxi, currently our smallest business, comprised 70% of group earnings four years ago.

Our focus in this financial year is to establish Mobalyz, housing the expertise, proprietary datasets, technologies and IP, together with our long-standing funding relationships with large financial institutions, making it the operating engine powering both SA Taxi and Gomo. Gomo, now a 50% partnership between Mobalyz and WeBuyCars, is structured as an F&I mobility service provider to the broader privately owned, used vehicle commuter sector. SA Taxi is restructured as a focused, more efficient principal credit and insurance risk underwriter serving a more defined segment of the minibus taxi industry. This strategy leverages SA Taxi's competencies, built on a niche and difficult single asset class, to produce a more diversified earnings stream (with a focus on growing capital-light revenue), achieve capital and credit risk allocation optionality, facilitate the restructuring of its operations and balance sheet, and shift its cost base to a more variable model, providing the business with long-term growth resulting in improved resilience through economic cycles.

Nutun and WeBuyCars are defensively positioned within their respective markets, providing strong growth prospects for FY2023 and beyond. The strategic initiatives underway in these divisions should enable them to continue generating strong earnings growth over the medium and long-term.

Against a backdrop of macroeconomic fragility, systemic headwinds caused more recently by the COVID-19 pandemic and record high levels of loadshedding, Transaction Capital has over the past 10 years demonstrated a strong ability to allocate capital towards driving growth in volatile markets. We are confident in our ability to navigate this unprecedented macroeconomic environment. FY2023 will be a challenging restructure year for SA Taxi, but we believe that the group's swift response in rebasing this business will give it the operational, financial and strategic flexibility to recover and grow.

Any forward-looking statements contained in this update has not been reviewed or reported on by the group's external auditors and is the responsibility of the directors.

TRADING STATEMENT

In accordance with section 3.4(b) of the Listings Requirements of the JSE Limited, Transaction Capital advises shareholders that basic earnings per share ("basic EPS") and headline earnings per share ("HEPS") for HY2023 are expected to decrease by more than 20% when compared to the reported basic EPS and HEPS HY2022.

Core EPS from continuing operations for HY2023 is expected to decrease by no more than 50% when compared to the reported core EPS from continuing operations for HY2022. We expect core EPS from continuing operations in the second half of FY2023 to be higher than the first half, as such we expect core EPS from continuing operations for the full year to be down to a lesser extent (in percentage terms).

It is management's view that the most appropriate metric to measure performance is core EPS from continuing operations. Core earnings exclude once-off non-recurring adjustments, adjustments on put and call options over non-controlling interests, acquisition costs as well as specified items if the gain/loss is considered part of Transaction Capital's normal operations.

Shareholders are advised that the group will issue further guidance once we are reasonably certain regarding the ranges of the expected decreases in the group's earnings for HY2023.

With regard to the expected drop in EPS and HEPS of over 20%, the extent of the decrease and likely resultant loss per share in this particular reporting period will depend upon the quantum of the one-off charges to be finalised at the end of the reporting period and as referenced and estimated in the commentary on SA Taxi above.

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

CHANGES TO BOARD OF DIRECTORS

In accordance with paragraph 3.59 of the JSE Limited Listings Requirements and paragraph 6.39 of the JSE Debt Listings Requirements, shareholders and noteholders are advised that Mr Sean Doherty will step down as chief financial officer ("CFO") of Transaction Capital Limited and TransCapital Investments Limited with effect from 1 June 2023, and will take on the role of deputy chief executive officer ("CEO") of Mobalyz. Sean Doherty joined Transaction Capital four years ago and has during this time worked closely with the SA Taxi team. In his new role he will work alongside Mobalyz's CEO, Terry Kier, to drive the operationalisation of initiatives that support the strategic repositioning and transformation of SA Taxi into a broader mobility platform. Terry Kier will step away from managing the day-to-day operations to focus on the delivery of new strategic initiatives.

Following Sean Doherty's appointment as deputy CEO of Mobalyz, the board is pleased to inform shareholders and noteholders of the appointment of Mr Sahil Samjowan as an executive director and CFO of Transaction Capital Limited and TransCapital Investments Limited with effect from 1 June 2023.

Sahil Samjowan currently serves as the financial director of Nutun and has been with the business for two years. He is a CA (SA) and completed his articles at PwC. Additionally, in 2018, he completed the Senior Executive Programme for Africa at Harvard Business School. Sahil has strong accounting, taxation and business acumen with a proven track record at Nutun. Prior to joining Nutun, Sahil held an executive role within CIB Finance at Standard Bank, performing several roles across the CIB Finance function over his 11 years with the bank. Before joining Standard Bank, he worked at ABSA Capital for 4 years.

INTERIM RESULTS ANNOUNCEMENT

Transaction Capital's results for the half year ending 31 March 2022 will be released on SENS on Wednesday, 10 May 2022.

Rosebank
13 March 2023

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