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

UNAUDITED INTERIM RESULTS FOR THE HALF YEAR ENDED 31 MARCH 2023

PERFORMANCE OVERVIEW

The decision to fundamentally restructure SA Taxi in the current financial year will impact our half year results and will weigh on the full year outlook. We are confident that this response in rebasing SA Taxi will give it the operational, financial and strategic flexibility to recover and grow. Following the rebasing of SA Taxi, group returns are expected to recover, supported further by a tilt in earnings composition towards capital-light revenue streams from WeBuyCars and Nutun.

Shareholders and noteholders are referred to the trading statements released on SENS on 13 and 20 March 2023, respectively. In line with the guidance provided, the group's results for the half year ending 31 March 2023 ("HY2023") are as follows:

- Basic earnings per share ("EPS") from continuing operations attributable to the group decreased 355% to a loss per share of 183.0 cents (HY2022 restated: 71.9 cents).
- Headline EPS from continuing operations attributable to the group decreased 355% to a loss per share of 183.3 cents (HY2022 restated: 71.9 cents).

It is management's view that the most appropriate metric to measure performance is core EPS from continuing operations.

	Half year ("HY") ended 31 March		
	2023	2022 restated	
Core earnings from continuing operations attributable to the group	R353 million	R648 million	Down 46%
Core earnings per share from continuing operations attributable to the group	46.5 cents	90.0 cents	Down 48%
Core continuing return on average equity	7.3%	15.0%	
Core continuing return on average assets	2.3%	4.8%	

We expect core EPS from continuing operations in the second half of the 2023 financial year ("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), within the range guided in the trading published by Transaction Capital on 20 March 2023. The full trading statement is available for reference on https://www.transactioncapital.co.za/investor-relations-overview/transaction-capital-limited/.

BALANCE SHEET FUNDING AND LIQUIDITY

After accounting for the restructure of SA Taxi, Transaction Capital is comfortable that its balance sheet remains sufficiently capitalised and debt covenant levels remain intact.

WeBuyCars and Nutun have robust balance sheets, supported further by high cash conversion rates. Their capital and funding structures are isolated from the effects of SA Taxi's restructuring, as there are no cross-default clauses between Nutun, WeBuyCars and SA Taxi ("the subsidiaries"). Furthermore, there are no holding company guarantees to the subsidiaries and no repricing triggers on any funding in the group.

In the context of the headline and basic losses for the period, and to preserve liquidity, no interim dividend has been declared.

PROSPECTS

In the past few years, Transaction Capital has transformed through the acquisition of WeBuyCars and Nutun's entry into the global business services sector. These strategic shifts have taken the group into new related segments and significantly expanded our addressable market, diversifying our earnings and generating capital-light revenues with high cash conversion rates.

In the context of continuing macroeconomic challenges and the headwinds affecting South Africa's taxi Industry, the imperative in the current year is to restructure the business model of SA Taxi and take all required once-off restructuring provisions immediately. Although highly disappointing, these adjustments are necessary to set a solid base for SA Taxi to resume future growth. We anticipate that the streamlined SA Taxi business, within Mobalyz, should settle into sustainable and predictable profitability during the 2024 financial year. The company is mindful of the negative impact that the restructuring of SA Taxi has had on shareholder confidence and is committed to working tirelessly to reposition SA Taxi for growth and ultimately rebuild shareholder value.

Transaction Capital's new mobility platform, branded Mobalyz, houses the expertise, proprietary datasets, technologies and intellectual property, together with our long-standing funding relationships with large financial institutions, making it the operating engine powering both SA Taxi (its proprietary minibus taxi division) and Gomo (Transaction Capital's used vehicle F&I platform). Gomo, which is a joint collaboration 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 challenging 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 and facilitate the restructuring of its operations and balance sheet. Further, SA Taxi's cost base will shift to a more variable model, providing the business with sustainable long-term growth resulting in improved resilience through economic cycles.

Nutun and WeBuyCars are in leading positions within their respective markets. The strategic initiatives underway in these divisions should enable them to continue generating strong earnings growth over the medium and long-term.

DIVISIONAL PERFORMANCE

Nutun

For the half year ended 31 March		2023	2022	Movement
Financial performance				
Core earnings from continuing operations	Rm	208	165	26%
Core earnings from continuing operations attributable to the group	Rm	189	164	15%
Revenue	Rm	1 943	1 295	50%
Capital-enabled services ("CE services")	Rm	862	875	(1%)
South Africa	Rm	862	778	11%
Australia	Rm	-	97	
Customer experience management services ("CX services")	Rm	1 081	420	>100%
Core cost-to-income ratio excluding amortisation	%	75.9%	66.2%	
Purchased book debts				
Cost of purchased book debts acquired	Rm	631	745	(15%)
Carrying value of purchased book debts	Rm	4 636	3 954	17%
Estimated remaining collections	Rm	7 429	6 876	8%

Financial and Operational Performance

- Nutun posted a strong performance in HY2023 driven by steady levels of investment in, and collection of, acquired NPL portfolios in South Africa, as well as the delivery of a new broader range of digitally driven customer experience management services to a global client base.
- In line with our strategy to drive capital-light CX services revenue from diversified geographies, sectors, and clients off a ZAR cost-base, CX services revenue now makes up 56% of Nutun's revenue, up from 32% a year ago.
- Revenue from CE services (principal collections) in South Africa grew by 11%, which was a moderately lower growth rate when compared to prior periods given higher consumer financial stress as well as the impact of loadshedding on client contactability and the quality of interactions.

Outlook

- Strategic focus in FY2023 is to continue acquiring NPL portfolios in South Africa leveraging off our well-established market position.
- Nutun's strategy to acquire larger NPL portfolios through fixed term arrangements with financial institutions, continues to provide a secured and predictable pipeline of NPL portfolio acquisitions.
- CX services revenue growth is expected to outpace CE services (principal collections) revenue growth over the medium-term.

WeBuyCars

For the half year ended 31 March		2023	2022	Movement
Financial performance				
Core earnings	Rm	316	406	(22%)
Core earnings attributable to the group	Rm	234	301	(22%)
Operational performance				
Vehicles purchased	Number	71 928	60 046	20%
Vehicles sold	Number	71 020	58 520	21%
F&I products penetration on units sold	%	21.2	16.6	
Total e-commerce sales	Number	14 515	17 281	(16%)
Total e-commerce sales	%	20.4	29.5	
Business-to-business (B2B)	%	14.5	24.3	
Business-to-consumer (B2C)	%	5.9	5.2	
Vehicle parking bays	Number	10 339	7 205	43%

Financial and Operational Performance

- Margin pressure experienced in the first half of FY2023 is reflected in WeBuyCars' earnings decreasing by 22% in HY2023. This should be considered against an extremely high comparator base in the half year ending 31 March 2022 ("HY2022").
- 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.
- As volumes traded currently lag capacity, a key focus area in the current financial year is driving operational efficiencies and greater sales volumes to grow into our existing infrastructure.
- B2B online sales via our e-commerce platform fell by 27% as a result of smaller dealers finding it difficult to move stock, particularly the more expensive vehicles. On the contrary, B2C online sales continue to increase and now account for approximately 29% (4 168 units) of total online sales, up from circa 18% (3 049 units) at the end of HY2022.
- Take-up of F&I products continues to increase, with 21.2% of all sales now including F&I products, up from 16.6% in HY2022, and on significantly higher volumes.

Outlook

- Given WeBuyCars' strategic positioning as a provider of mobility services in a market supported by favourable structural elements, we are confident this business will support Transaction Capital's earnings growth trajectory in the medium term.
- Gomo is expected to be value accretive to WeBuyCars as it increases volumes traded and drives higher penetration of F&I products, particularly on older vehicles which are not traditionally financed by banks.

SA Taxi

For the half year ended 31 March		2023	2022 restated	Movement
Financial performance				
Headline (loss)/earnings from continuing operations	Rm	(2 139)		
Adjustments relating to the re-basing of SA Taxi	Rm	2 202		
Core earnings from continuing operations	Rm	63	275	(77%)
Core earnings from continuing operations attributable to the group	Rm	52	226	(77%)
Core pre-provision profit	Rm	535	816	(34%)
Net interest margin	%	9.0	11.8	
Core cost-to-income ratio	%	51.2	34.2	
Credit performance				
Gross loans and advances	Rm	17 111	15 555	10%
Stage 1	%	40	53	
Stage 2	%	32	26	
Stage 3	%	28	21	
Core credit loss ratio	%	5.6	5.9	
Provision coverage	%	16.3	5.5	
Insurance performance				
Gross written premiums	Rm	564	567	(1%)
Net insurance income	Rm	158	209	(24%)
Claims ratio	%	66%	70%	

Restructure and rebase of SA Taxi business model

Management has taken the active decision to accelerate the restructure and rebase of SA Taxi's business model 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. The downward adjustment of loan origination levels to match new market conditions is the first step in the restructure of SA Taxi, and this initial decision has the following additional knock-on business impacts, which are discussed in detail in the paragraphs below:

- Reducing the volume of repossessed vehicles to be refurbished and refinanced,
- Requiring alternative disposal channels for repossessed vehicles that are not refurbished, which will result in lower loan recovery rates on repossessed vehicles,
- Adjustment to provision model input assumptions in response to the lower loan recovery rates,
- Curtailment and sale of SA Taxi's auto refurbishment and repair facilities,
- Resizing the cost base as future loan origination levels and refurbishment are materially less than the last three years, and
- Augmenting the management team.

The sale of SA Taxi's auto refurbishment and repair business is classified as a discontinued operation with comparative amounts restated in terms of IFRS 5. Assets and liabilities comprising the business unit are reclassified as non-current assets and non-current liabilities held for sale. This group of assets will be re-measured at fair value less costs to sell until the final sales transaction is concluded, at which point a final profit or loss on sale of the business will be recognised. The key commercial terms of the agreements have not yet been agreed and therefore an estimated selling price is not accurately determinable at this stage. This is expected to be refined as negotiations continue with preferred bidders.

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. Consideration has also been given to the current economic climate and the business' lower risk appetite on originations, which results in lower expected recoveries and requirement for increased usage of other disposal channels of repossessed vehicle stock. Expected credit losses under IFRS 9, particularly on the portfolio that is aged past 90 days, are also higher due to the deterioration in customer behaviour given the macro-economic pressures within the industry. This has necessitated an increase in forward looking provisions of approximately R1.9 billion across both IFRS 9 and IFRS 17. This has taken provision coverage (being total provisions as a percentage of gross loans and advances) from 4.2% at FY2022 to 16.3% at HY2023. In addition, the net realisable value of repossessed vehicle stock has been reduced by R177 million. These adjustments have been accounted for outside of core earnings given that it is a once-off non-recurring step change in provisioning, related to a fundamental restructure of SA Taxi's business model.

To support this strategic change in business model and its financial impacts, the intercompany loan from Transaction Capital which at 31 March 2023 was at R2.2 billion has been subordinated and made interest-free, with Transaction Capital committing to capitalise R2 billion of the loan. This strengthens SA Taxi's balance sheet and enhances debt covenant compliance without the need to raise additional capital.

Continued support from debt funders is required to sustain SA Taxi's lending operations. All existing facilities remain available, and new facilities are under negotiation. In addition, SA Taxi aims to convert a greater component of its liability repayment profile to a pass-through model, which better matches cash flows from assets.

Transaction Capital may on a limited basis fund any shortfall in working capital in the short term during the process of the restructuring and downsizing of SA Taxi's operations. This funding is subject to the requisite specific board approvals on each occasion, which is dependent, amongst other things, upon securing sufficient ongoing debt funder support. This funding will not include funding for debt service or new originations which it is anticipated will occur within the funding structures in SA Taxi in consultation with and in accordance with approvals and support from the funders in each structure.

The successful conclusion of the above funding initiatives should ensure the long-term self-sustainability and return to profitability of the restructured and refocused operations of SA Taxi.

Financial and Operational Performance
- SA Taxi grew gross loans and advances 10% to R17.1 billion, however loans originated declined by 26% year-on-year as the business starts to implement the revised loan origination strategy.
- The core credit loss ratio of 5.6% in HY2023 is slightly better than the 5.9% in HY2022 due to lower repair costs incurred on lower QRT production.
- Net interest margin is at 9.0%, down from 11.8% in HY2022 driven by lower yields on new business aimed at driving growth as we target higher credit quality customers, as well as an increase in non-performing accounts. In addition, a portion of the higher cost of funding driven primarily by the interest rate increases, has not been passed onto clients.
- Following the approval of the new strategy, credit appetite was tightened in the second quarter of this financial year and product construct has been changed to solve for more affordable instalments on both new minibus taxis and QRTs. The intention of these changes has been to write better risk and assist operators to afford their instalments.
- From January 2023, we have seen a worsening in stage distribution and particularly strained performance in collections in late stage 2 and stage 3, which can be attributed to loadshedding intensifying over the period and further increases in interest rates and fuel costs which continue to place marginal operators under pressure.

Outlook
- 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.
- Transaction Capital remains committed to supporting the minibus taxi sector, but we will deploy capital conservatively into lower-risk segments of the industry, where we can earn appropriate risk adjusted returns.
- 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 profitable and resilient through business cycles.

Change in Composition of the Nominations Committee
In accordance with paragraph 3.59 of the JSE Limited Listings Requirements, shareholders are advised that Mr Rob Rossi will step down as a member of the Nominations Committee of Transaction Capital Limited with effect from 1 June 2023.

For Further Information
This short-form announcement is the responsibility of the directors and is only a summary of the information in the full announcement and does not contain full or complete details. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement, published on SENS and available for viewing at

https://senspdf.jse.co.za/documents/2023/JSE/ISSE/TCP/HY23SENS.pdf
and our website https://www.transactioncapital.co.za/investor-relations-overview/transaction-capital-limited/.

Any forecast financial information, including the prospects statement, has not been reviewed or reported on by the Transaction Capital's external auditors and is the responsibility of the directors.

The full announcement is also available at our registered office and the offices of our sponsor for inspection, at no charge, during office hours. Copies of the full announcement may be requested by contacting Lisa Lill on telephone +27 (0) 11 049 6700
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Rosebank
10 May 2023

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Lisa Lill

Auditors:
Deloitte & Touche

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JSE debt sponsor:
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