



Capital Appreciation Limited
Incorporated in the Republic of South Africa
(Registration number 2014/253277/06)
Share code: CTA ISIN: ZAE000208245
(the “Group”)

BUSINESS UPDATE FOR THE SIX MONTHS ENDING 30 SEPTEMBER 2023

This announcement provides shareholders and other interested parties with a brief update on the Group’s operating performance for the six months ending 30 September 2023, as well as the state of the markets in which we operate.

While digital transformation and the demand for technology continues unabated, the realities of South Africa’s weak economy coupled with an uncertain domestic outlook have caused some of the Group’s customers and prospective customers to delay or reconsider their willingness to invest in large-scale projects in the current environment. There has also been a tendency to prolong the productive life of customers’ payment terminal fleets and defer capital expenditure into future periods. Despite these headwinds, the Group is strategically well-positioned in a growing market and has made good progress in gaining new customers, diversifying its revenue streams and increasing its market share.

Software division

The Software division is expected to achieve high single-digit revenue growth (excluding Dariel which was acquired on 3 July 2023) and revenue is expected to be up by more than a third (including Dariel) for the first six months of the financial year, having added several new customers, including a major South African retailer and a large automotive company. This is lower than management’s expectations and mainly due to customers’ renewed caution in committing to large projects given the micro- and macro-economic conditions and budgetary pressures they are facing. Management expects this pause to be temporary as most projects are mission-critical and strategically important undertakings.

The Software cost base was geared to higher levels of utilisation and therefore profitability has been temporarily impacted too. Software’s marketing and pipeline development activities are progressing well and the division is well-positioned to satisfy the expected demand.

Payments division

The Payments division continues to gain market share in the point-of-sale terminals market although the encouraging pipeline at the end of financial year 2023 moderated in recent months. The poor economic conditions prompted certain customers to delay new terminal orders and the weakening of the Rand provided an additional reason to defer orders. Management expects this cautious posture to be temporary and that the demand will once again evidence itself in future periods. Certain customers are increasingly interested in leasing terminals versus an outright purchase of terminals. This will have a positive long-term impact on the Payments division, providing steady annuity income over the life of the lease and additional sources of revenue in the form of maintenance and support services and value-added transactional activity. The initial impact of the shift in the rental fleet during this period resulted in a decline in the outright sales of terminals and the terminal revenue generated in the Payments division. While all other Payments-related revenue streams have experienced anticipated strong growth, the division's overall performance is below management's expectations.

In its strategy to focus on high-margin Value Added Software solutions, the Payments division recently entered into a global development and marketing partnership with ACI Worldwide, a global leader in mission-critical, real-time payments software, that will allow multi-lane retailers to transact seamlessly across different Original Equipment Manufacturers ('OEM') hardware terminal types. This relationship will allow the Payments division to generate incremental software license revenue from retailers globally and is an important milestone for the Payments division.

GovChat update

The Competition Tribunal recently decided in GovChat's favour and has granted GovChat the right to intervene as a direct party in the Competition Commission's prosecution of Meta. The Group has decided to limit further funding of GovChat and attributable losses will be materially lower in the 2024 financial year.

Strong balance sheet

Capital Appreciation's divisions remain cash-generative with healthy cash conversion from operations, partially offset by the temporary capacity cost mismatch against revenue-generating projects and the capital invested in the leased terminal estate. Capital Appreciation will continue to invest in growth-related initiatives, including the costs of additional people, new technology solutions such as Halo Dot and Dashpay Glass and the International division as appropriate. Notwithstanding the payment of the initial cash consideration for the Dariel acquisition (R46.9 million), share repurchases and other investment initiatives, the Group retains a strong and

ungeared balance sheet with R500 million in cash available to fund organic growth, acquisition opportunities, investments as well as further share repurchases.

The information contained in this business update has not been reviewed or reported on by the external auditors of the Group.

Capital Appreciation's closed period will commence on 1 October 2023. The Group intends to release its interim results for the six months ended 30 September 2023, on or about 4 December 2023.

Johannesburg

19 September 2023

Sponsor: Investec Bank Limited