

CHAIRMAN'S REPORT



Christopher
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OVERVIEW

Transaction Capital (the group) remains among the best performers on the JSE Limited. Over the past five years, the group has delivered compound annual growth in core headline earnings per share and dividends per share of 20% and 31%, respectively. The group's market capitalisation has risen to R13.6 billion from R3.9 billion at 30 September 2014, and an investment of R10 000 in Transaction Capital then would have grown to R38 757 today, assuming the reinvestment of dividends paid. This achievement in returning value to our shareholders earned the group second place in this year's Sunday Times Top 100 Company Awards.

In the 2019 financial year, the group continued its excellent performance, with strong organic growth lifting both core headline earnings and core headline earnings per share by 18%. The resilience of the group's businesses and divisional management's relentless focus on deepening and delivering their growth strategies underpinned this performance in the context of deteriorating economic conditions in South Africa and volatility in international markets. In line with our dividend policy of 2 to 2.5 times earnings, the board of directors (the board) declared total dividends of 61 cents per share, up 22% on last year, supported by high-quality earnings and healthy cash conversion rates.

With active support from the group executive office, SA Taxi and Transaction Capital Risk Services (TCRS) have demonstrated their ability to grow earnings sustainably. The divisions

continue to deepen the competitiveness of their value propositions, introducing new products to drive growth in their existing market segments and to expand their total addressable markets. The group also continues to apply its specialist expertise to assess and enter adjacent markets and new geographies that present attractive opportunities for risk-adjusted returns in the credit-orientated alternative asset classes in which we invest and operate.

→ Details on the group's strategic growth opportunities can be found in the Q&A with David Hurwitz, CEO. See page 46.

→ Details on the group's financial performance can be found in the CFO's report. See page 52.

The competitive positions of the group's businesses, and their ability to sustain quality earnings growth, are underpinned by well-considered governance structures and processes. An important focus for the board this year has been to enhance oversight and compliance processes, and initiate the process of mandatory audit firm rotation at group level. We also made changes to our remuneration policy after extensive engagement with stakeholders. To further entrench the principles of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV), key changes have been made to board roles, and we continue to look for and appoint independent non-executive directors with skills that are relevant to the group's strategy and markets.

→ Details on these changes are provided in the letters from the chairpersons of the board committees that follow, and in the Governance and Remuneration reports on pages 20 and 114 respectively.

OPERATING ENVIRONMENT

There has been no respite in the challenging economic conditions, particularly in South Africa. Gross domestic product (GDP) growth has averaged less than 1% a year for the last four years, constrained by low consumer and business confidence, and high unemployment and household debt. Despite a benign inflation outlook, wage growth below inflation and a volatile Rand are exacerbating these constraints, and the economy is likely to remain weak.

This does not bode well for unemployment, which reached a record high of 29.1% in the third quarter of 2019. With consumers already over-indebted, recently reported increases in unsecured credit extension are unlikely to benefit South Africa's economic growth momentum. Instead, consumers are expected to struggle to reduce their debt burdens over the medium term.

In Australia, GDP growth slowed to 1.8% in the second half of 2019, reflecting lower household consumption and declining home prices. However, unemployment levels remained steady, reported at 5.3% in October 2019. The Reserve Bank of Australia forecast GDP growth of 2.3% for 2019. Despite high levels of household debt-to-income at approximately 190%, lower interest rates and greater leniency in debt affordability assessments is easing credit extension, albeit slightly.

Economic growth in the Eurozone continues to decelerate. The European Union reported 1.1% year-on-year growth in GDP in the third quarter of 2019.

With European regulators pressuring banks to dispose of their non-performing loans earlier, the European distressed debt market reached its peak in 2018 with non-performing loan disposals totalling €205.1 billion in gross book value.

→ Details on the operating environment for SA Taxi and TCRS are included in their respective market context sections. See pages 72 and 88.

RESILIENCE AND GROWTH

SA Taxi and TCRS have been deliberately positioned to deliver good commercial returns in different market conditions. With high levels of operational efficiency, both divisions continue to demonstrate their defensive character in the current operating context.

SA Taxi has evolved into a vertically integrated minibus taxi platform, able to apply its specialist capabilities, enriched proprietary data and technology to provide developmental finance, insurance and other services to empower minibus taxi operators. From its beginnings in finance, SA Taxi's services are now integrated along the full minibus taxi value chain from vehicle retail, autobody and mechanical repairs, insurance, the procurement, distribution and retail of parts, to specialised rewards programmes. SA Taxi's growth prospects are underpinned by its efforts to create sustainable value for the minibus taxi industry, which is entirely made up of small- and medium-sized enterprises (SMEs).

The ground-breaking ownership transaction between SA Taxi and the South African National Taxi Council (SANTACO) was finalised on 6 February 2019. Besides the immediate financial benefit of the transaction, the operational benefits of a stronger relationship with SANTACO have been accretive to SA Taxi's earnings, and we expect these benefits to support earnings growth over the medium term.

→ Details on the progress of the partnership with SANTACO can be found in the Q&A with Terry Kier, SA Taxi CEO. See page 80.

TCRS has developed into a technology-led, data-driven provider of service and capital solutions relating to credit-orientated alternative assets originated and managed through scalable and bespoke platforms. The division offers collection services on a contingency and fee-for-service basis and acquires consumer non-performing loan portfolios to be collected as principal, as well as transactional services, specialised credit and value-added services. This diversification by revenue model and sector provides TCRS with ample organic growth opportunities in both its South African and Australian operations.

The group's recent selective entry into the fragmented European specialised credit market will provide further diversification of TCRS's earnings base.

→ Details on the expansion into the European market can be found in the Q&A with David Hurwitz, CEO. See page 49.

SHAREHOLDER MATTERS

As announced to the market on 12 July 2019, the families of Michael Mendelowitz and Roberto Rossi, two founders of Transaction Capital, undertook a process to rearrange the ownership of their interests in the group, with no change in their absolute beneficial holdings. Each of the Mendelowitz and Rossi families' shareholdings in Transaction Capital, held by Everglan Capital Proprietary Limited, were disposed of to the Rutland Trust and Sugar Tube Trust by way of a distribution in kind. Each trust now owns 9.69% of the issued ordinary share capital of Transaction Capital. Michael Mendelowitz is a trustee and contingent discretionary beneficiary of the Rutland Trust, and Roberto Rossi is a trustee and contingent discretionary beneficiary of the Sugar Tube Trust.

Subsequently, as announced on 27 September 2019, the family of Jonathan Jawno, also a founder of Transaction Capital, undertook a similar process to rearrange the ownership of their interests in the group, also with no change in their absolute beneficial holdings. The Jawno family's shareholding, held by Kimberley Investment Trust, was disposed of to Piatucom Holdings Limited, such that it now owns 9.69% of the issued ordinary share capital of Transaction Capital. All the shares of Piatucom Holdings Limited are held by trusts of which Jonathan Jawno is a contingent discretionary beneficiary.

In two tranches over the course of the year, the Public Investment Corporation SOC Limited (PIC) increased its shareholding in the group. At 30 September 2019, the PIC held 9% of the ordinary shares of Transaction Capital, and they have since increased this to more than 10%. Over and above generating financial returns for its clients, the PIC seeks to invest in companies that drive inclusive growth. We believe the PIC's increased shareholding in Transaction Capital is an endorsement of the group's ability to create commercial and social value.

CHANGES IN DIRECTORATE

Buhle Hanise was appointed to the Transaction Capital board as an independent non-executive director from 1 January 2019, and serves as a member of the audit, risk and compliance (ARC) committee and the asset and liability committee (ALCO). Kuben Pillay was appointed as lead independent non-executive director from 15 July 2019. Kuben has been a director of Transaction Capital since August 2016 and serves as the chairman of the remuneration committee and as a member of the nominations committee and social and ethics committee.

Ronen Goldstein resigned as financial director of the company on 31 May 2019 and remained until 31 August 2019 to facilitate an effective handover to his successor. The board thanks Ronen for his valuable contribution to the group and wishes him well in his future endeavours. Sean Doherty was consequently appointed as an executive director and chief financial officer, on 1 June 2019. Sean has more than 20 years' experience in the financial services industry, most recently as head of new business innovation and ventures of Standard Bank's Corporate and Investment Banking division, and chief operating officer and chief financial officer of Standard Bank's Investment Banking division. The board welcomes Sean and looks forward to his contribution.

PROSPECTS AND APPRECIATION

The group's businesses are well positioned and highly efficient, with good opportunity to sustain their delivery of quality earnings growth by deepening their penetration in existing markets and cautiously entering new markets. Transaction Capital's entrepreneurial management teams will continue to implement their growth strategies with discipline, and innovate in developing new products and services and in applying technology. On this basis, we expect the group to deliver organic earnings and dividend growth over the medium term, at least in line with the group's past performance.

Given the challenges facing businesses locally and internationally, I commend the group and divisional management, and indeed all Transaction Capital's people, for achieving excellent results and staying focused on delivering both good commercial returns and positive social impact.

My thanks to the board for their invaluable counsel and contribution to Transaction Capital's success, and also to the group's bankers, funders and advisers for their continued support.