



Q
&
A
WITH
DAVID
HURWITZ
CHIEF EXECUTIVE OFFICER

TRANSACTION CAPITAL'S DIVERSIFIED PORTFOLIO OF FINANCIAL SERVICES ASSETS COMPRISE WELL ESTABLISHED, AUTONOMOUS AND UNIQUE BUSINESSES GROUPED INTO TWO DISTINCT DIVISIONS – SA TAXI AND TCRS.

Despite the challenging operating environment (detailed in the Chairman's report on page 6), the focussed application of the group's strategy over the year has ensured that our portfolio continues to leverage its deep vertical integration and specialism to achieve organic growth.

Our evolving competencies in data and analytics continue to drive profitable growth by improving our risk management capabilities, supporting management decisioning and control, and providing the insights needed to develop and refine our product offerings to defined customer segments.

Underpinned by a maturing understanding of their social relevance, vertical integration enables the divisions to continue to innovate in their respective markets, and identify and develop opportunities that expand our total addressable markets to create greater value for all stakeholders.

Q: HOW DOES THE OWNERSHIP TRANSACTION BETWEEN SANTACO AND SA TAXI DEMONSTRATE THE GROUP'S COMMITMENT TO SHARED VALUE?

For many decades, South Africa's minibus taxi industry has been a core pillar of the South African economy and is responsible for getting millions of South Africans to their destinations every day. However, due to the historical and political realities that shaped the formation of the sector, the industry has often lacked meaningful partnership opportunities with other industry participants or financial institutions.

It is an entirely black-owned industry, comprised solely of SMEs, and it has developed without financial support into the most critical component of the South African integrated public transport system.

At the core of our business model is a commitment to engage deeply in the industries in which we operate by driving broader participation in industry value chains and investing in initiatives that drive sustainability. As a national body that represents the interests of its members, who are individual minibus taxi operators, SANTACO's acquisition of a 25% stake in SA Taxi for R1.7 billion on 19 November 2018 is truly historic and transformational.

The equity transaction is built on a foundation of years of mutual respect and cooperation between SANTACO and SA Taxi. With a shared vision to enhance the sustainability of the minibus taxi industry, the transaction represents an understanding that by working together, we can achieve more.

It is important to note that this is not a black economic empowerment deal, which would only enrich certain individuals or limited groups; rather, it is an equity partnership that will enable the equitable distribution of the value generated in the minibus taxi industry verticals to all minibus taxi industry participants by:

- Providing a better and more affordable offering to minibus taxi operators.
- Providing commuters with safer, more efficient and more reliable means of public transport.
- And ultimately, building a more sustainable minibus taxi industry.

This transaction is the first of its kind, where business and industry have collaborated voluntarily, independently from, but with the support of government, to deliver shared value through meaningful social impact aligned with commercial benefit.

The proportional ownership structure, allocated to SANTACO and a trust representing broad-based provincial structures, will ensure that ownership and associated economic benefits of this investment accrue to all levels of the industry and allow for SANTACO to participate in revenue flows across the verticals in SA Taxi.

Of the future dividend flows accruing to SANTACO, 90% will be applied towards reducing debt, with a 10% trickle flowing directly to the trust from the outset and allocated and administered according to a predetermined charter. This dividend income will support relevant infrastructure and other developmental projects designed to create sustainable value for the industry and commuters. Partnerships with local government will be sought to leverage this investment in infrastructure for greater socio-economic impact.

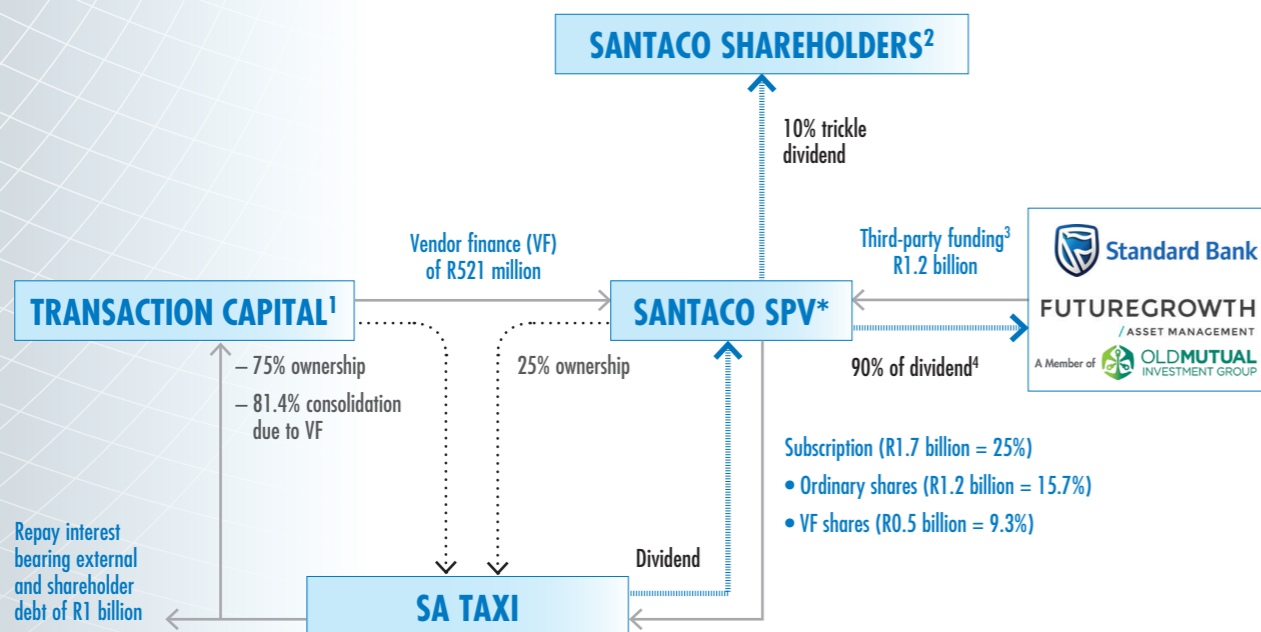
Thus, the transaction will deliver benefits to commuters, government and the nation in improving the infrastructure and services in the industry, and enhance the industry's sustainability for the benefit of individual taxi operators and associations. From a commercial standpoint, the transaction will provide tangible value to SANTACO, its members and provincial structures, and greater alignment between SANTACO and SA Taxi will support further growth for the group.

More broadly, SA Taxi continues to work closely with SANTACO leadership on other initiatives designed to deliver sustainable benefits to SA Taxi's clients and the industry as a whole. These initiatives include credit life insurance, the Black Elite fuel loyalty programme, skills training and collective engagement with other industry stakeholders.

Q: HOW HAS THE GROUP AND SA TAXI FACILITATED THE TRANSACTION?

The deal is the culmination of several years of engagement between SANTACO and SA Taxi. Group executives and SA Taxi's leadership team have been intensely involved in the process, from the negotiations with SANTACO to approaching funders, structuring the deal and engaging with government and regulators.

Of the R1.7 billion purchase price, approximately R1.2 billion will be funded jointly by Standard Bank of South Africa and Futuregrowth Asset Management, who are SA Taxi's long-standing and largest debt funders. The remaining R521 million will be facilitated by SA Taxi in the form of vendor finance.



1. Transaction Capital and The Empire Family Trust (representing SA Taxi's CEO, Terry Kier).
 2. Project committee to assess projects put forward by industry participants.
 3. Third-party funding flows into the industry SPV via industry holding company.
 4. Dividends from 25% shareholding.
 * Special purpose vehicle.

Q: WHAT IS THE IMPACT OF THE TRANSACTION ON SA TAXI AND TRANSACTION CAPITAL?

From SA Taxi's perspective, it will achieve greater alignment with SANTACO and the minibus taxi industry, which stands to unlock additional opportunities and broaden its total addressable market from our current client base of about 30 000 to almost all of the approximately 250 000 minibus taxi operators in South Africa.

SA Taxi will use approximately R1 billion of the net proceeds of R1.2 billion to settle interest-bearing external and shareholder debt, which will yield significant earnings benefits. The remaining amount will be retained by SA Taxi to fund growth. SA Taxi's net asset value will increase to about R3 billion (from R1.6 billion at 30 September 2018). Return on equity will remain at approximately 20% due to these accretive earnings benefits.

Going forward, SA Taxi will continue to grow earnings organically at rates similar to prior years. However, the financial benefit of the transaction (improved net interest margins from the lower leverage and interest expenses savings) and the operational benefits of a stronger enhanced relationship with SANTACO are significantly accretive to SA Taxi's earnings over the medium term and are expected to support higher growth rates.

The vendor finance made available by SA Taxi will result in Transaction Capital consolidating 81.4% of SA Taxi's earnings. Although Transaction Capital's proportionate share of SA Taxi's earnings will be smaller, earnings are expected to increase due to the settlement of debt. Seen together with the expected growth in the finance, insurance and retail businesses from greater alignment with the minibus taxi industry, this ground-breaking deal is expected to be earnings accretive to the group over the medium term. Furthermore, Transaction Capital's net asset value per share will increase by approximately 105 cents per share immediately after the implementation of the transaction.

Finally, the group executive office's balance sheet will be debt free and well capitalised after the implementation of the transaction, with approximately R1 billion of excess cash.

The group is cognisant that businesses in South Africa have a broader responsibility to society, beyond statutory or legislative requirements. Transaction Capital's willingness to take on and financially facilitate the SANTACO ownership transaction on a voluntary rather than an obligatory basis, stands as testament to our strategic emphasis on creating shared value, which enhances commercial returns and delivers positive social impact.



Q
&
A

WITH
TERRY
KIER
SA TAXI CEO

Q: AS DETAILED IN THE Q&A WITH DAVID HURWITZ, CEO, SA TAXI'S TRANSFORMATIONAL OWNERSHIP TRANSACTION WITH SANTACO DEMONSTRATES A COMMITMENT TO SHARED VALUE. HOW IMPORTANT IS THIS TRANSACTION FOR SA TAXI AND THE INDUSTRY?

This transaction and the resulting partnership is truly ground-breaking. It provides broad-based participation in the value chain in an entirely black-owned industry, comprised entirely of SMEs. The industry has developed without government subsidy into the most critical component of the South African integrated public transport system.

The transaction augments SA Taxi's social impact, which extends to financial inclusion, job creation, skills development and economic transformation, all of which underpin the sustainability of the industry. More broadly, by enabling taxi operators to replace old vehicles with new, safer and lower emission minibus taxis, SA Taxi assists in improving this critically important component of South Africa's integrated public transport network.

The alignment of interests required to conclude the transaction has formalised the industry ecosystem to an extent not achieved before, providing a framework for wide-reaching initiatives to grow and support the sustainability of the minibus taxi industry at all levels.

For example, SA Taxi continues to work closely with SANTACO leadership on other initiatives designed to deliver sustainable benefits to SA Taxi's clients and the industry as a whole. These include:

- A highly competitive credit life product, launched in October 2017 and developed by SA Taxi in response to a request from SANTACO.
- The Black Elite fuel loyalty programme in partnership with Shell, launched in April 2018. By providing a platform for operators to benefit from their fuel spend, which is a major operating cost in their business, it makes their business more sustainable, which enhances positive payment behaviour. In the future, similar programmes will be considered, including related rewards and benefits.
- Providing over 70 patrol vehicles, worth more than R20 million, to various regional, provincial and national taxi associations to support industry self-regulation and road safety.
- Funding and facilitating Project Refentse, launched in March 2018, to provide certificated skills training for unqualified technicians currently repairing vehicles at taxi ranks.
- Approaching various industry stakeholders, specifically government, regarding subsidies, funding, or increasing scrapping allowances to facilitate the recapitalisation of the national minibus taxi fleet.

For SA Taxi specifically, the capitalisation of its balance sheet increases its net asset value of R1.6 billion at year end to approximately R3 billion. This will reduce gearing significantly and position SA Taxi strongly for its next wave of organic growth, which will be funded predominantly by more efficiently priced senior debt. Despite the capitalisation, accretive earnings growth in the coming financial year will enable SA Taxi to generate a return on equity of about 20%.

Q: THERE IS A REAL SENSE OF EXCITEMENT ABOUT THE TRANSACTION. WHAT BROADER IMPACT DO YOU SEE IT HAVING OVER TIME?

SA Taxi seeks to deliver commercial benefit and social value. I believe that this transaction will truly support economic emancipation, and in doing so, underpin social transformation.

We must remember the historical context of the industry, which was started in response to the dislocation of people who were removed from urban areas and places of economic activity. The minibus taxi industry rose out of an urgent need to transport this disenfranchised population, giving them access to work and opportunity. Without any formal support, this industry managed to grow and succeed.

Over the past decade, we have seen greater formalisation of the industry. The transaction with SANTACO stands as a statement of support for the crucial role of the minibus taxi industry in South Africa's economy, and ensures that there is greater participation both in the revenue streams of the industry and in the broader economy.

In terms of the pressure on the industry, I believe that the transformational nature of the deal will help drive social change. Firstly, with greater economic participation, there will be a longer-term view of creating wealth, which stands to benefit all areas of the industry. For example, we are already seeing instances of associations banning older, unsafe vehicles and training drivers, so formalising and improving the service and experience offered to commuters. The transaction represents substantial support for the members of SANTACO to grow and improve their businesses.

Secondly, as mentioned by David, part of the dividend income will support relevant infrastructure and other developmental projects that will upgrade and improve the operating environment for the industry and the 1.5 million commuters who use this network. This is vital in an industry that needs to be acknowledged for the role it plays in our economy. Greater investment in infrastructure will also further integrate the industry into the national transport network.

And lastly, the transaction provides a catalyst for formal engagement between the industry and its stakeholders, be it vehicle manufacturers or tyre companies, government or commercial hubs. In enhancing the legitimacy and negotiating power of the industry, it can, for example, extract value from its substantial buying power, lobby for greater support from government, work with local government to improve supporting infrastructure, and sit with property developers and businesses to negotiate for dedicated services to enhance the experience of commuters around their places of work and even malls.

This presents an opportunity to develop an iconic transport network in South Africa. The industry already provides a high level of convenience for commuters, but greater formalisation of and participation in the industry value chain will drive improvements that can transform this essential component of public transport into a public service all South Africans are proud of.