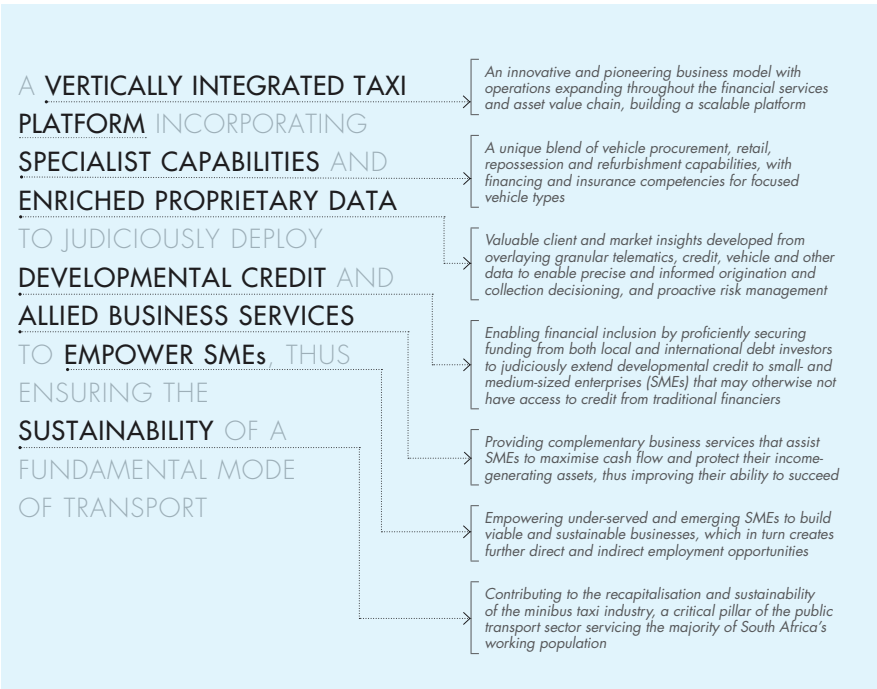


## SA TAXI



### SOCIETAL RELEVANCE

SA Taxi operates on the premise of developmental or empowerment financing, filling a critical funding gap by supporting entrepreneurs who would otherwise remain outside the formal economy, thus also contributing to job creation.

Its focus on financing SMEs delivers both a commercial and social benefit through a shared value approach in a critical pillar of South Africa's public transport sector.

#### SME empowerment and economic transformation

- 100% black-owned SMEs
- 21% women-owned SMEs
- 17% under the age of 35 years
- R2.9 billion loans originated, creating 7 480 SMEs in 2017
- R18.6 billion loans originated, creating 64 689 SMEs since 2008

#### Public transport infrastructure

- R18.6 billion of end-user finance since 2008, enabling the replacement of aged and unsafe minibus taxis with new, safer and more reliable minibus taxis

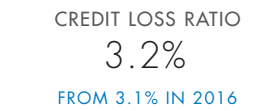
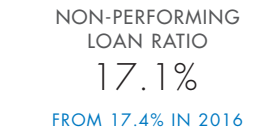
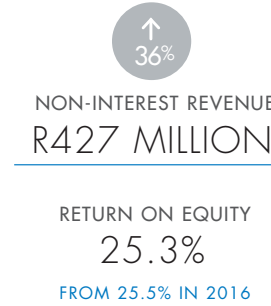
#### Sustainable job creation

- 1.8 direct jobs per taxi vehicle
- >116 000 direct jobs created by SA Taxi's fleet since 2008
- ~600 000 indirect jobs enabled by the minibus taxi industry<sup>1</sup>
- >13 400 direct jobs created by SA Taxi's fleet in 2017

#### Environmental sustainability

- SA Taxi enables replacement of aged and less efficient vehicles with new and reduced-emission vehicles

### PERFORMANCE OVERVIEW



1. Headline earnings attributable to the group.

### STRATEGIC AND OPERATIONAL HIGHLIGHTS

#### JUNE 2017 PROTEST ACTION

##### Immediate assistance to clients

- Reduced top interest rate to 26.5% on future loans to be originated

SA Taxi and industry leadership have formed accretive partnerships and are jointly engaging industry participants to achieve sustainable industry benefits

- Original equipment manufacturers (OEMs): Procure more vehicles through SA Taxi's dealerships and keep prices as low as possible
- Government: Lobbying to channel funding into the minibus taxi industry

#### STRATEGIC GROWTH INITIATIVES

##### Vertical integration

- New vertically integrated businesses under consideration

##### Expanding SA Taxi's insurance business

- Broadened client base (financed, non-financed, commuter)
- Broadened product offering (comprehensive vehicle cover, instalment protection, passenger liability, credit life)
- Reduced cost of claim (efficiencies in SA Taxi's auto body and mechanical repair facility)

##### Vehicle retail operations

- Offering funding from banks to capture additional vehicle sales, attract high quality clients, and offer stand-alone insurance and tracking services

1. Department of Transport Minister Dipuo Peters' address at National Council of Provinces Budget vote NCOP 2014/15.

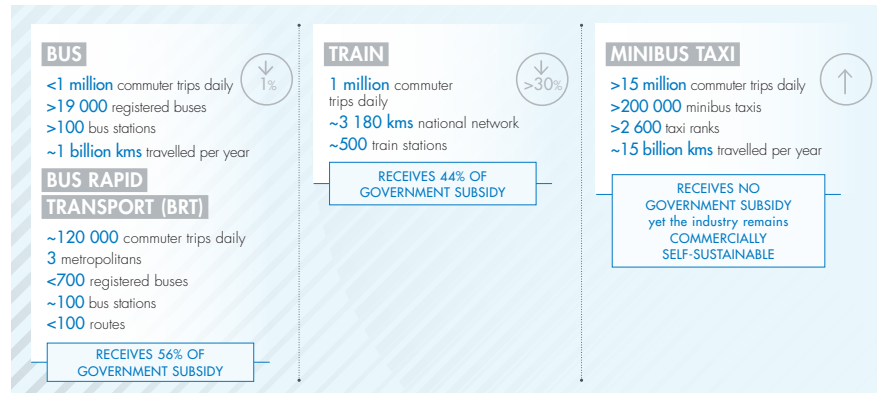
## MARKET CONTEXT

DESPITE SOUTH AFRICA'S ECONOMIC CLIMATE, THE MINIBUS TAXI INDUSTRY IS RESILIENT, DEFENSIVE AND GROWING

See pages 46 and 47 for more details on factors affecting South African consumers.

**STRUCTURAL ELEMENTS WITHIN THE PUBLIC TRANSPORT SECTOR SUPPORT SA TAXI'S DEFENSIVE BUSINESS MODEL**

### 40% OF SOUTH AFRICANS USE PUBLIC TRANSPORT



### MINIBUS TAXI USAGE HAS GROWN AT A HIGHER RATE THAN OTHER PUBLIC TRANSPORT MODES

- 69% of all households (being >9.9 million households) use minibus taxis (from 59% in 2003)
- Minibus taxi usage increased >15% since 2013
- DRIVEN BY:**
  - Population growth of 7% since 2013
  - Increasing commuter density due to urbanisation
  - New passenger vehicles sales reduced 20% since 2013

### ENVIRONMENT FOR MINIBUS TAXI OPERATORS

#### INCREASES IN VEHICLE AND OPERATING COSTS

For the period 1 October 2015 to 30 September 2017		
↑75bps SOUTH AFRICAN REPO RATE	↑8% TOYOTA MINIBUS TAXI PRICE CAGR*	
For the 12 months ended 30 September 2017		
↑6% PETROL FUEL PRICE (per litre)	↑7% DIESEL FUEL PRICE (per litre)	Marginal increase VEHICLE MAINTENANCE COSTS
↑6% DRIVER WAGES	↑9% FINANCE INSTALMENTS AND INSURANCE PREMIUMS	

#### FARES RAISED IN RESPONSE

↑5% SHORT DISTANCE TAXI FARES	↑7% LONG DISTANCE TAXI FARES
For the 12 months ended 30 September 2017	

#### ONGOING RESILIENCE AND PROFITABILITY OF MINIBUS TAXI OPERATORS

**TREND CONTINUING** FOR HIGHER UTILISATION OF MINIBUS TAXIS

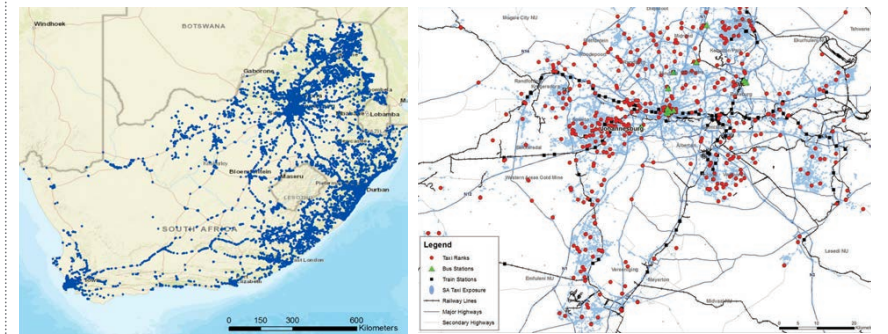
**IMPROVING CREDIT METRICS** IN SA TAXI PORTFOLIO

~R50 BILLION ANNUAL ESTIMATED INDUSTRY REVENUE

**INCREASING REGULATION AND CAPITALISATION** TRANSFORMING THE INDUSTRY AND ATTRACTING A MORE SOPHISTICATED OPERATOR

### MINIBUS TAXIS ARE THE DOMINANT MODE OF PUBLIC TRANSPORT

IN AN INTEGRATED PUBLIC TRANSPORT NETWORK



- 40% of South Africans use public transport
- Minibus taxi transport is a non-discretionary expense
- Public transport commuters rely on minibus taxis given their accessibility, affordability, reliability and flexibility

MINIBUS TAXIS SERVE AS A TRUNK SERVICE IN PARALLEL WITH TRAIN AND BUS, AND ALSO SERVE AS THE FEEDER INTO THESE MODES

Source: SA Taxi fleet movement on 28 October 2017.

>200 000  
MINIBUS TAXIS  
OPERATING  
NATIONALLY

### STRUCTURALLY, DEMAND FOR MINIBUS TAXIS EXCEEDS SUPPLY

#### DEMAND DRIVEN BY AN AGEING NATIONAL FLEET REQUIRING REPLACEMENT AND RECAPITALISATION

- 70 000 – 80 000 FINANCED AND INSURED
- 120 000 – 130 000 UNENCUMBERED, HENCE AGED
- >9 YEARS OLD ON AVERAGE

Driving higher demand for vehicles, finance and allied services supplied by SA Taxi

#### MINIBUS TAXI SUPPLY

- TOYOTA SESFIKILE** - Most prevalent vehicle in the industry
- TOYOTA PRE-OWNED** - Predominantly SA Taxi refurbished vehicles
- NISSAN NV350** - Steadily gaining acceptance
- MERCEDES SPRINTER** - Mainly used for long distance routes

~1 000  
RETAIL SALES PER MONTH

>40%  
SA TAXI'S SHARE OF MONTHLY RETAIL SALES (36% in 2015)

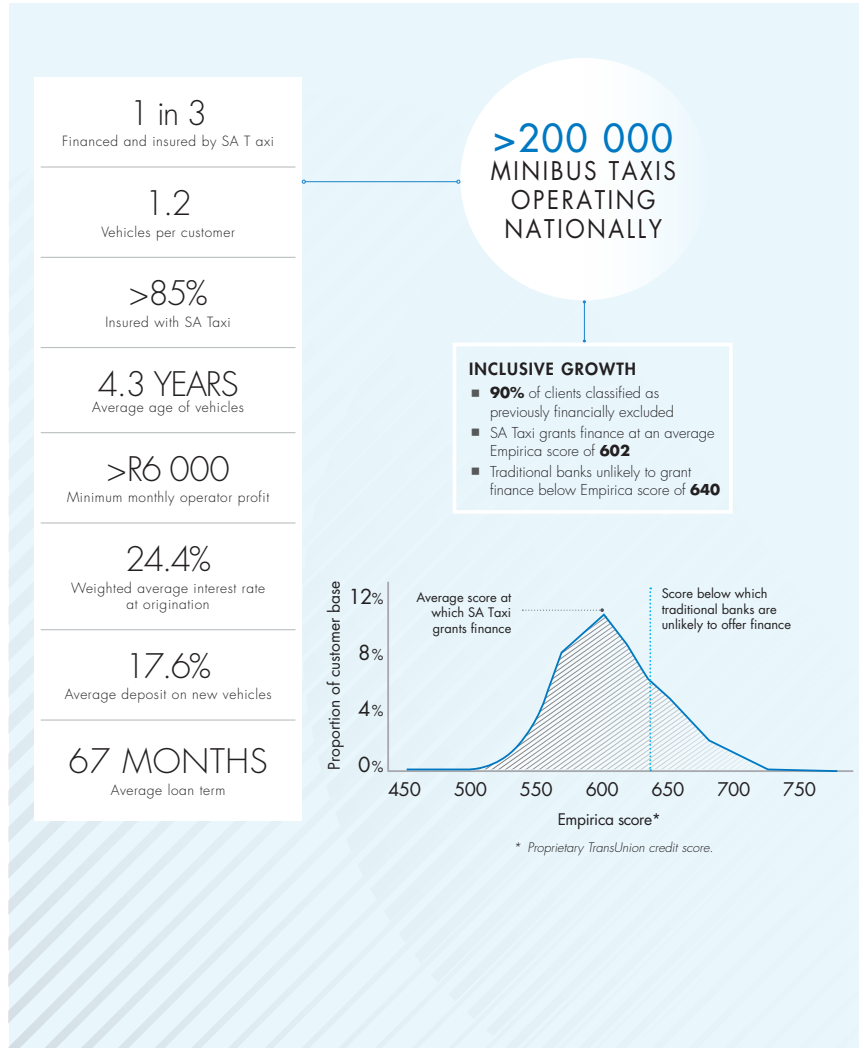
#### Resulting in:

- Improved credit performance as SA Taxi is selective on credit risk, due to limited supply
- Improved recoveries as asset retains value due to demand exceeding supply

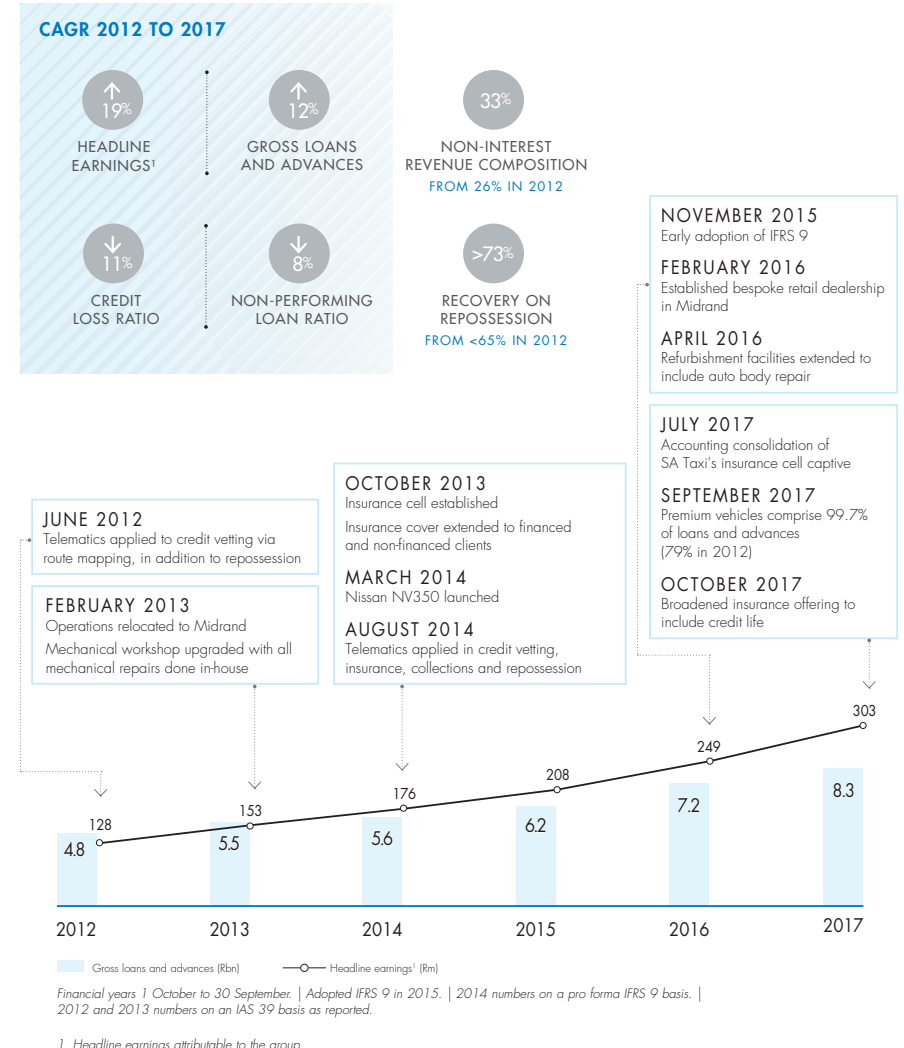
Source: Statistics SA Land Transport Survey July 2017. | NAAMSA Sales Results. | National Treasury Public Transport & Infrastructure system report. | Department of Transport – Transport Infrastructure report. | Passenger Rail Agency of SA. | SA Bus Operators Association. | FIN 24 – “New public transport system” 14/10/2017. | Websites: Rea Vaya, MyCiti, Rustenberg Rapid Transport.

\* Compound annual growth rate (CAGR).

## SA TAXI'S OPERATOR PROFILE



## SA TAXI'S EVOLUTION SINCE LISTING



## BUSINESS ACTIVITIES

A VERTICALLY INTEGRATED BUSINESS MODEL

### FINANCING OPERATIONS

**R8.3 BILLION**  
GROSS LOANS AND ADVANCES

~29 000  
FINANCED VEHICLES ON BOOK

#### EQUITY ALLOCATION AND DEBT RAISING

**24.8%**  
CAPITAL ADEQUACY RATIO

>40  
DIVERSIFIED FUNDERS

#### COLLECTIONS

**~R270 MILLION**  
AVERAGE MONTHLY COLLECTIONS IN 2017

#### CREDIT UNDERWRITING AND LOAN ORIGINATION

##### SA TAXI'S CREDIT-GRANTING PHILOSOPHY

SA Taxi has developed its own innovative developmental credit philosophy and strategy. This approach is built on the proprietary data and industry knowledge amassed over many years. This niche capability evaluates each taxi owner as a small business and not solely on their individual credit score, enabling it to extend credit in this niche, under-served market segment.

When deciding to grant credit, SA Taxi considers:



### INSURANCE OPERATIONS

All financed vehicles are required to have comprehensive insurance. SA Taxi has designed its highly competitive comprehensive insurance products that are sold through its insurance cell captive entity established in partnership with Guardrisk Insurance Company.

#### EXPANDING CLIENT BASE

>R550 MILLION GROSS PREMIUMS PER YEAR

>85% OF SA TAXI'S MINIBUS TAXI OWNERS INSURE WITH SA TAXI<sup>1</sup>

R231 MILLION SA TAXI FINANCED: ANNUALISED NEW WRITTEN PREMIUM

R52 MILLION NON SA TAXI FINANCED: ANNUALISED NEW WRITTEN PREMIUM

#### BROADENING PRODUCT OFFERING

- Comprehensive motor vehicle cover
- Passenger liability
- Instalment protection cover
- Credit life insurance

**1.8**  
NUMBER OF PRODUCTS PER INSURED CLIENT

### VEHICLE RETAIL AND REFURBISHMENT OPERATIONS

#### VEHICLE SUPPLY AND RETAIL

SA Taxi originates its loans and allied services through three key distribution channels: affiliated dealers, non-affiliated dealers and SA Taxi's own retail channel. SA Taxi's retail dealership achieves higher returns and provides a profitable and reliable marketplace for the sale of new and refurbished pre-owned vehicles.

**~R650 MILLION**  
ANNUAL VEHICLE TURNOVER IN SA TAXI RETAIL DEALERSHIP

~8%  
AVERAGE RETAIL MARGIN PER VEHICLE

#### REFURBISHMENT, REPAIRS AND MAINTENANCE SERVICES

SA Taxi has reduced its loss ratios through reducing refurbishment costs and improving both turnaround times and product quality. The efficiencies created through SA Taxi's own facility arise from economies of scale and its focus on specific vehicle types, allowing for specialisation, bulk procurement power and time saved by controlling the entire process in-house.

**>20 000m<sup>2</sup>**  
COMBINED AUTO BODY REPAIR AND MECHANICAL REFURBISHMENT CENTRE

#### REPOSSESSION AND RESALE

SA Taxi's ability to refurbish and refinance recovered vehicles enables it to participate in the liquid pre-owned market, ensuring retention of asset value.

**>73%**  
RECOVERY RATES ON REPOSSESSION, REFURBISHMENT AND RESALE

### DATA AND TELEMATICS OPERATIONS

underpin the ability of the business to operate in a higher-risk market, and are applied in credit vetting, insurance, collections and repossession.

SA TAXI HAS BEEN TRACKING MINIBUS TAXIS FOR ~10 YEARS

ON AVERAGE, EACH OF SA TAXI'S VEHICLES TRAVELS 6 500 KMS PER MONTH

SA TAXI'S VEHICLES OPERATE ON ~6 500 ROUTES COVERING ~800 000 KMS

1. 100% of taxis financed by SA Taxi are fully insured.



WITH  
**TERRY KIER**  
SA TAXI CEO

**Q:** In June 2017, factions in the minibus taxi industry embarked on mass protest action. What was SA Taxi's response to the concerns raised?

The protests were directed at a number of industry stakeholders, including government for the lack of subsidies and funding, OEMs for vehicle price increases, financial institutions for insufficient or costly finance and insurance products, fuel companies, and retail malls for inadequate infrastructure to accommodate minibus taxi ranks. The protests were also fuelled by frustrations at the industry's lack of participation in the full value chain, along with economic pressures being felt in the industry and country more broadly.

Although SA Taxi did not anticipate the protest, given no evidence of undue stress in the loan book, we immediately intensified engagement with industry leadership to understand their concerns.

Despite being well below the regulated maximum interest rate of 33.75% for developmental credit providers, SA Taxi, in consultation with the industry, agreed to reduce its highest interest rate from 28.5% to 26.5% on future loans originated to assist its clients.

An unfortunate outcome of reducing the top interest rate is that clients in the highest risk segment have become unviable for finance, thereby impeding SA Taxi's ability to facilitate financial inclusion in this segment.

We also quickly introduced other relief measures, such as assisting clients who had their vehicles repossessed to clear their credit records at bureaus, and instituting a 60-day moratorium on repossessions, which ended on 9 August 2017.

SA Taxi's response was positively received by the market and we continued to originate at forecasted market share.

Encouragingly, a direct outcome of the protest action has been deeper collaboration between industry leadership and SA Taxi, who are working together to achieve sustainable benefits for the industry. Initiatives include discussions with OEMs to procure larger quantities of vehicles to be sold directly through SA Taxi's dealership, which will enable it to hold retail prices as low as possible by limiting unnecessary charges and add-ons to vehicles that add no income producing value.

Finally, one of the specific requirements of the industry was for a full credit life insurance product that would extinguish the capital outstanding on a loan in the event of the death of an operator. Working with the industry, we managed to rapidly build and launch a credit life product in October 2017, in response to this demand. Credit life is a client-centred and saleable product.

**Q:** Is there a need for further financial support in the industry?

As a long-standing participant in the industry, we understand its importance as the primary network and mode of transport for the majority of South Africans. In effect, the minibus taxi industry is completely embedded into the economic framework of the country, and is by far the most flexible and cost effective from an infrastructural point of view.

The industry has achieved this even with no subsidy from government, unlike bus and rail. While this makes it a highly defensive industry that has remained self-sustaining through numerous economic cycles, we believe that more direct support is certainly required to enhance its sustainability. Whether it is an economic model to support the scrapping of old taxis, a direct or fuel subsidy, or access to cheaper funding for funders, or indeed a hybrid of all of these, support is required. SA Taxi is playing its part by working alongside the industry to lobby for this support.

As David has mentioned earlier in his Q&A on page 24, Transaction Capital raises its debt capital from local banks, asset managers and institutional investors, as well as international development finance institutions, which determines our cost structures. SA Taxi and industry leadership are also lobbying government to channel funding into the minibus taxi industry. SA Taxi could play a central role in passing on the benefits of this funding to the operators if this support is provided. As the backbone of South Africa's public transport network, our objective is to support operators with relevant products and services that ensure the sustainability of their businesses.

**Q:** What have the broader impacts of the protest action been for SA Taxi?

The one undoubtable positive outcome of the protests has been a closer working relationship between SA Taxi and the industry. While we were close to the industry before, we are now seeing benefits through initiatives and coordinated approaches across the value chain. These will continue to strengthen the industry and deepened our ability to provide relevant and targeted products to support growth.

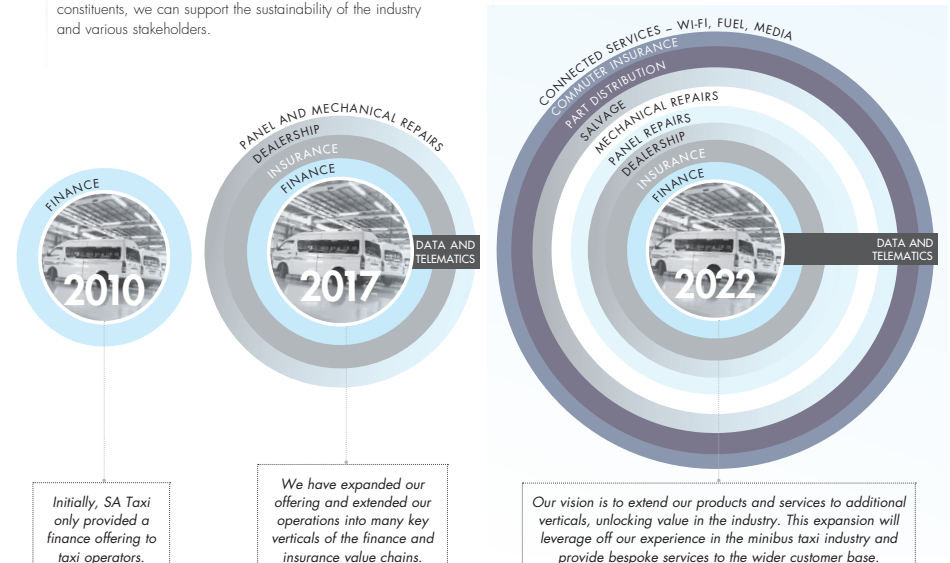
Understanding the social relevance of our business has always been pronounced and embedded in the DNA of SA Taxi, but the protest action served as a reminder for SA Taxi and indeed the whole value chain that the sustainability of the industry depends on all participants being able to generate value. This year, we have become more involved in building up the industry alongside our business.

The essence is that we have a responsibility in creating shared value by enabling real benefits for participants across the industry. This is not done for charity, but in a proper understanding that shared value is only possible if the commercial health of your own business is maintained. If we continue to grow a good socially relevant business that provides competitive and appropriate products to our constituents, we can support the sustainability of the industry and various stakeholders.

Over the next two years, the main transition for SA Taxi will be shifting the business beyond our focus on the operator as our only market. Effectively, we also see the minibus taxi as a catalyst in accessing the driver and commuter market. This would include utilising the operator and the driver as commissioned agents in expanding our product offering to the much wider commuter market. This also builds on our shared value approach by opening new revenue streams for operators and drivers, and further reduces risk for SA Taxi. It is another step in deepening the vertical with the taxi at the centre. Ultimately, our ability to access and engage with the commuter base will allow us to transform the business from having a client base of more than 200 000 taxi operators to 1.5 million commuters.

**Q:** What is on the horizon for SA Taxi?

This approach is set out in our vision statement for SA Taxi: The minibus taxi is the catalyst for extending our customer base, creating value at new frontiers, and digitising the industry to unlock value from data and insights.



We are also extending our capabilities in technology by making significant investments in data science to unlock greater insight into our clients and the industry. While we have done well on traditional credit metrics, we see a great opportunity in non-traditional metrics that will help us better understand behaviour in the nuances of the routes, seasonality, timing and the like. This is a shift to predictive analytics for our business, which will help us look forward and manage risk much more effectively. Again, this is set to have a multiplier effect across our integrated business model, especially in areas like insurance.

This coming year is an inflection point for SA Taxi, where we will have the data and capabilities to look further ahead in building a focused business. We see the beauty of the model in its specialism, driven by knowledge and data.