



Transaction Capital

# AUDITED 2015 RESULTS

FOR THE YEAR ENDED 30 SEPTEMBER

# HIGHLIGHTS 2015

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

- Robust financial performance
  - › 20%\* organic growth in headline earnings per share
  - › Continued improvement in credit metrics
- Reconstitution of operating divisions (asset-backed lending & risk services)
  - › Occupy leading market positions
  - › Experienced & skilled management teams
  - › Platforms to develop new products & expand into new markets
- Early adoption of IFRS 9
  - › Increased provisioning against asset portfolios, hence lower balance sheet risk
  - › Well-capitalised balance sheet
  - › SA Taxi now a Premium vehicle business, expecting improving return & profitability measures
- Deployment of capital
  - › Excess capital enabled early adoption of IFRS 9
  - › Reinvesting into organic capital deployment opportunities within existing divisions
  - › Acquisitions search continues, expected within existing divisions & skills set

\* Compared to previously published 2014 numbers prepared in terms of IAS 39

# ENVIRONMENT 2015

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

## MACRO-ECONOMIC ENVIRONMENT

- Macro- & socio-economic challenges continue to constrain growth in South Africa
  - › **Social:** persistent low employment levels with little or no real wage growth; growing protest action & social unrest
  - › **Energy:** electricity supply constraints, higher electricity & fuel costs
  - › **Economic:** inflationary pressures due to currency weakness; 50 basis point increase in interest rates over last 12 months
  - › Consumer and SME sector of our economy remains at risk

## CAPITAL MARKETS

- Local funding market characterised by:
  - › Constrained liquidity
  - › Issuers paying a premium to access reduced local funding pools

## REGULATORY ENVIRONMENT

- Transaction Capital is unaffected by:
  - › DTI proposals re caps on the pricing of credit life insurance
  - › NCR's new regulations re affordability assessments, prescription & caps on interest rates & fees

Defensive positioning enables Transaction Capital to prosper despite a challenging & low growth South African economic environment

## **ASSET-BACKED LENDING**

- Replacement of ageing national minibus taxi fleet stimulates demand for taxi finance
- Commuters' use of taxis remains consistently high
- Uninterrupted access to debt capital markets

## **RISK SERVICES**

- Adverse environment stimulates demand from credit providers for services, products & capital to manage consumer credit risk
- Processes aligned to the National Credit Act amendments



# STRATEGY & PROSPECTS 2015

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

# TRANSACTION CAPITAL GROUP

## 30 SEPTEMBER 2015

**TRANSACTION CAPITAL LIMITED** – CEO: David Hurwitz, group tenure: **10 years** | employees: **3 913** | headline earnings: **R393m**

### ASSET-BACKED LENDING

CEO: Terry Kier  
Group tenure: 8 years

HEADLINE EARNINGS **R212m** <sup>1</sup> (▲ 20%)<sup>2</sup>  
GROSS LOANS & ADVANCES **R6 238m** (▲ 12%)  
EMPLOYEES **627**



Provider of finance, insurance & other related products using credit assessment, collections & capital management competencies. Operational competencies include vehicle & spare parts procurement, direct vehicle sales, vehicle refurbishment, insurance & telematics.



Applies the competencies developed in SA Taxi to finance bakkies as income-producing assets for SMEs.



Provides customer management & capital solutions to South Africa's largest credit providers. Its core service is the collection of accounts receivable, using call centres & legal collections. Capital solutions include distressed debt purchasing & structural outsourcing.



Provider of working capital & commercial receivables management solutions to SMEs, including invoice discounting, trade financing & property financing.



Provider of payment processing services, via electronic funds transfer & related products to corporate clients, including processing of debit order transactions, wage & third-party payments & account holder verification services.



Provider of customer management solutions, leveraging its consulting, data analytics and technology capabilities to help its clients originate & manage their customers effectively.

### RISK SERVICES

CEO: David McAlpin  
Group tenure: 7 years

HEADLINE EARNINGS **R134m** (▲ 16%)<sup>2</sup>  
EBITDA (MBD AND PRINCIPA) **R188m** (▲ 18%)<sup>2</sup>  
EMPLOYEES **3 265**

1. Headline earnings attributable to the division  
2. Compared to previously published 2014 numbers prepared in terms of IAS 39



# SA TAXI PROVIDES BUSINESS SUPPORT TO SMEs

DEEPENING ACCESS TO DEVELOPMENTAL CREDIT, & FINANCING UNDER-SERVED & EMERGING SMEs WHO WOULD OTHERWISE REMAIN OUTSIDE THE FORMAL ECONOMY

## IN SOUTH AFRICA

>200 000 taxis account for<sup>1</sup>

**69%**

of all household trips<sup>1</sup>

**70%**

of trips to education institutions<sup>1</sup>

**68%**

of trips to the workplace<sup>1</sup>

**70<sup>'000</sup> - 80<sup>'000</sup>**

taxis financed<sup>2</sup>

**80<sup>'000</sup> - 90<sup>'000</sup>**

taxis insured<sup>2</sup>

## OUR PORTFOLIO

**R6.2 billion**

currently financed

**21 300**

unique clients owning 25 000 vehicles

**20 600**

currently insured

**1 in 3**

of financed national taxi fleet

**100%**

Black owned SMEs

**20%**

women

## RESULTING IN

**1.2 billion**

SA Taxi passenger trips per year<sup>1,2</sup>

**R1.9 billion**

empowerment finance invested into the industry in 2015

**6 000**

safer minibus taxis on our roads this year

**1 900**

SMEs created through the refurbishment & financing of pre-owned vehicles in 2015

1. National household travel survey 2013

2. SA Taxi's best estimate through our engagement with the industry & extrapolation of internal data

# TRANSACTION CAPITAL'S ASSET-BACKED LENDING DIVISION

*A unique blend of vehicle procurement, sales, repossession & refurbishment capabilities, with comprehensive insurance competencies, & debt & equity capital management skills*

*Generating in-depth client insight via granular telematics, credit, vehicle & other data to enable precise & informed credit origination & collections decisioning*

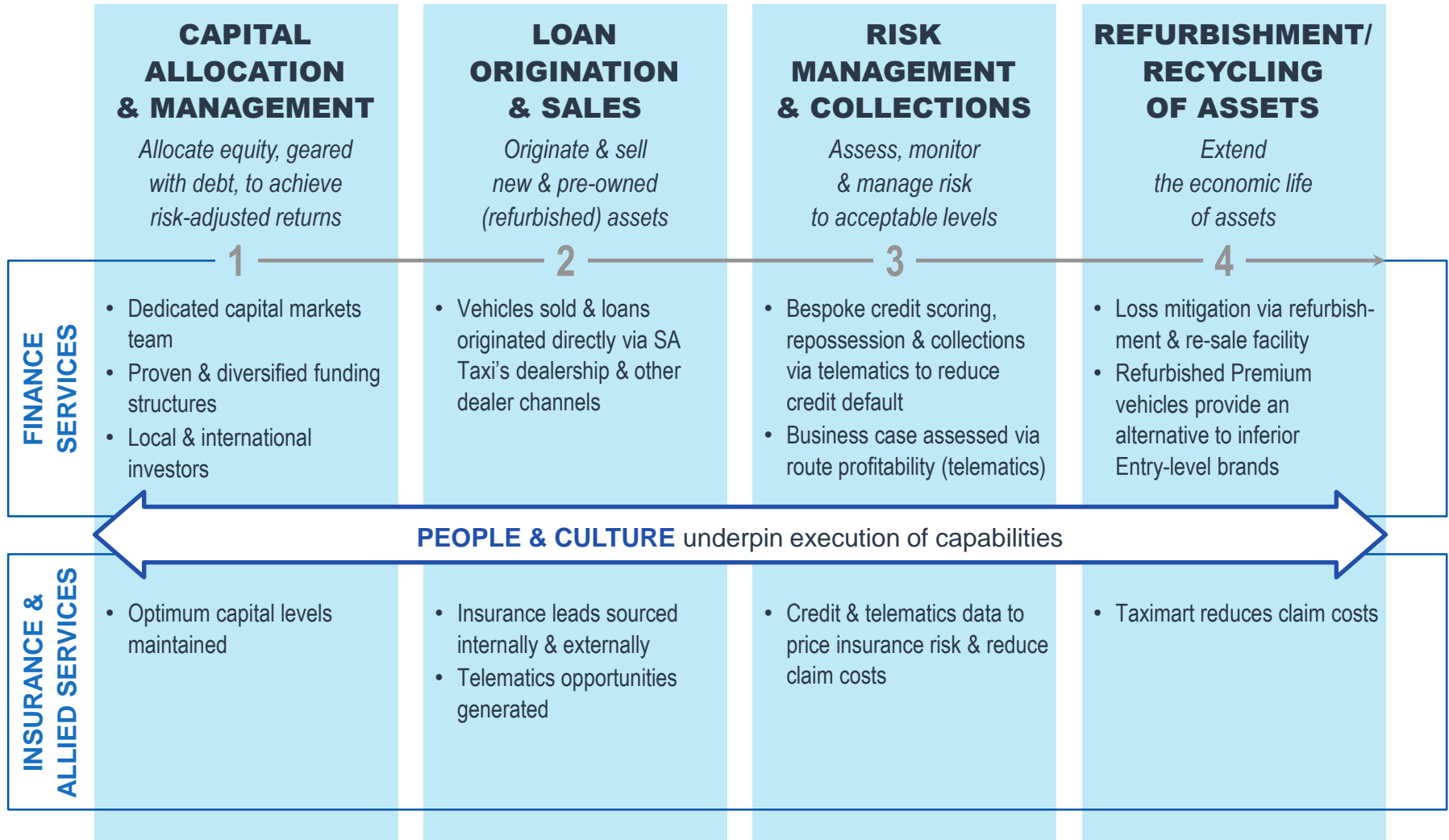
**...utilises its proprietary data  
& vertically integrated  
specialist capabilities to extend  
developmental credit,  
insurance & allied services  
to the under-served &  
emerging SME market**

*Deepening our clients' access to our services*

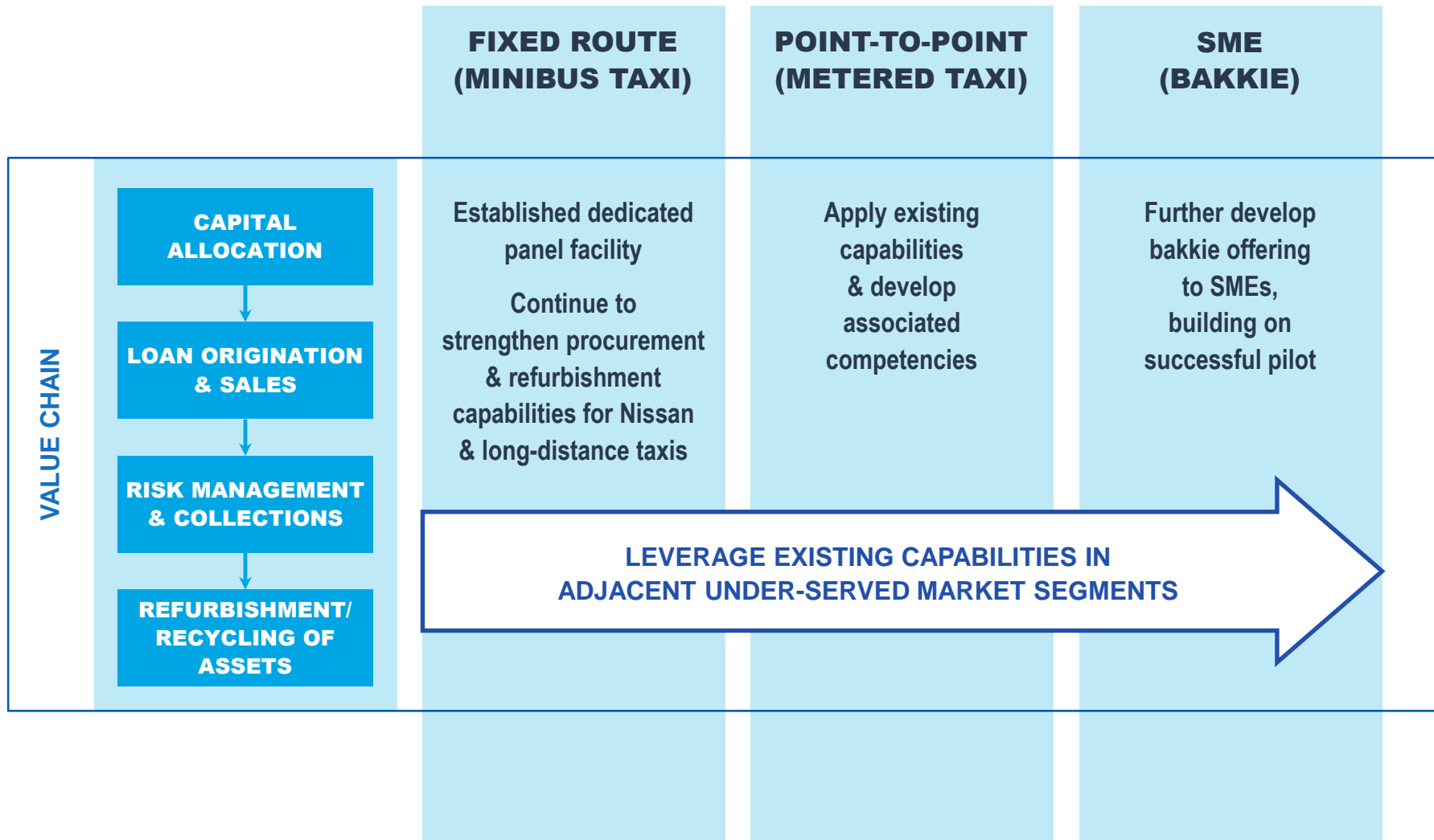
*Assisting our SME clients to maximise cash flow & protect their income producing vehicles thus improving their ability to succeed*

*Business support to SMEs that may not otherwise have access to credit from traditional banks, thereby facilitating SME growth*

# ASSET-BACKED LENDING DISTINCTIVE COMPETENCIES



# ASSET-BACKED LENDING LOOKING FORWARD



## ENSURES A HEALTHY SOUTH AFRICAN CONSUMER CREDIT ENVIRONMENT

### IN SOUTH AFRICA

there are:

**35** million

ADULTS [aged 15-65]

**23** million

ACTIVE CREDIT  
CONSUMERS

**11** million

NON-PERFORMING  
CREDIT CONSUMERS

### OUR PORTFOLIO

**5.7** million

UNIQUE MBD CUSTOMERS

**1** in **6**

SOUTH AFRICAN ADULTS

**1** in **4**

CREDIT-ACTIVE PEOPLE

**1** in **2**

NON-PERFORMING  
CREDIT CONSUMERS

### RESULTING IN

**2 800**

CALL CENTRE AGENTS

**4** million

VOICE INTERACTIONS  
each month

**700 000**

PAYMENTS  
received each month

# WE BENCHMARK OURSELVES AGAINST THE FOLLOWING GLOBAL LISTED PEERS



- LEGEND** using South Africa as the base region:
- Comparable to Capital Solutions
  - Comparable to Customer Management Solutions

An efficient platform driving superior performance & facilitating scale via cutting edge IT systems & processes

Generating in-depth insight to enable precise & informed internal & external decisioning

... is a technology-led, data analytics driven

Improving our clients' ability to originate, manage & collect from their customers

provider of customer management &

capital solutions,

Assisting clients to optimise their balance sheet by accelerating cash flow through structured capital solutions

enabling our clients

Working with large consumer credit providers across multiple industries as well as SMEs

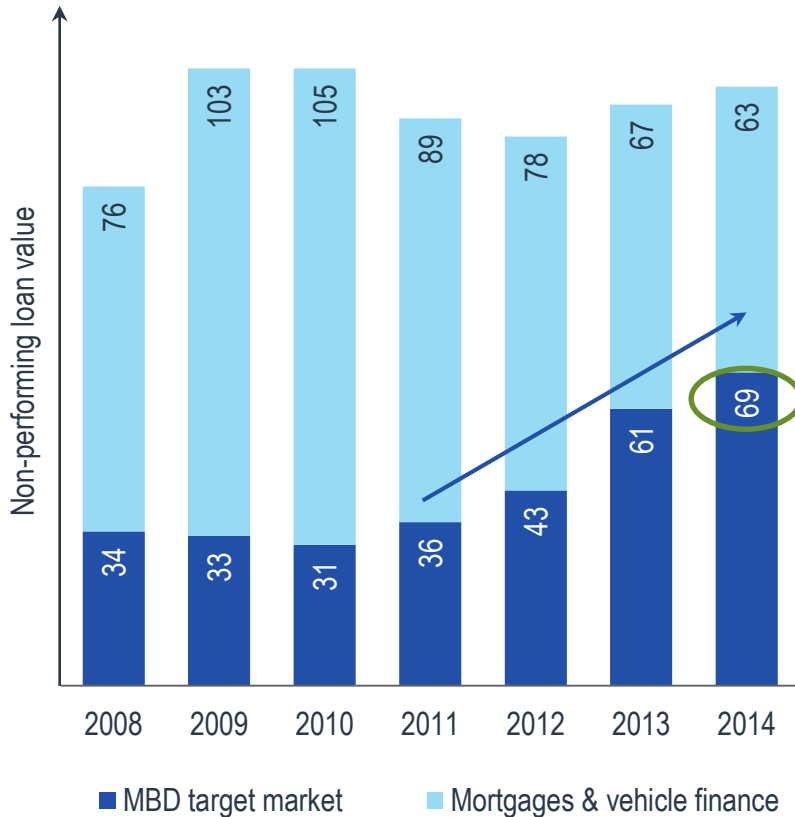
to effectively manage their customers

through their lifecycle

Assisting our clients to maximise their customer lifetime value

# A GROWING NON-PERFORMING LOANS MARKET IN SOUTH AFRICA

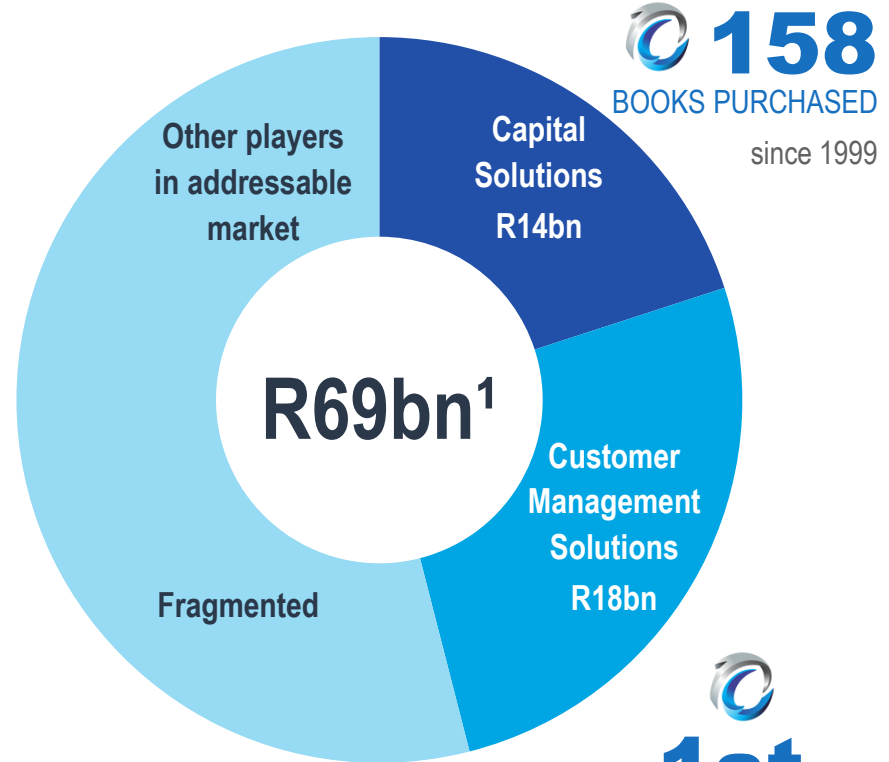
NON-PERFORMING LOAN MARKET SIZE & GROWTH (Rbn)<sup>2</sup>



2008-14 CAGR: 12%

2008-14 CAGR: -3%

FACE VALUE OF DEBT SERVICED



by our clients in 73% of 180 MANDATES on panels where we are represented

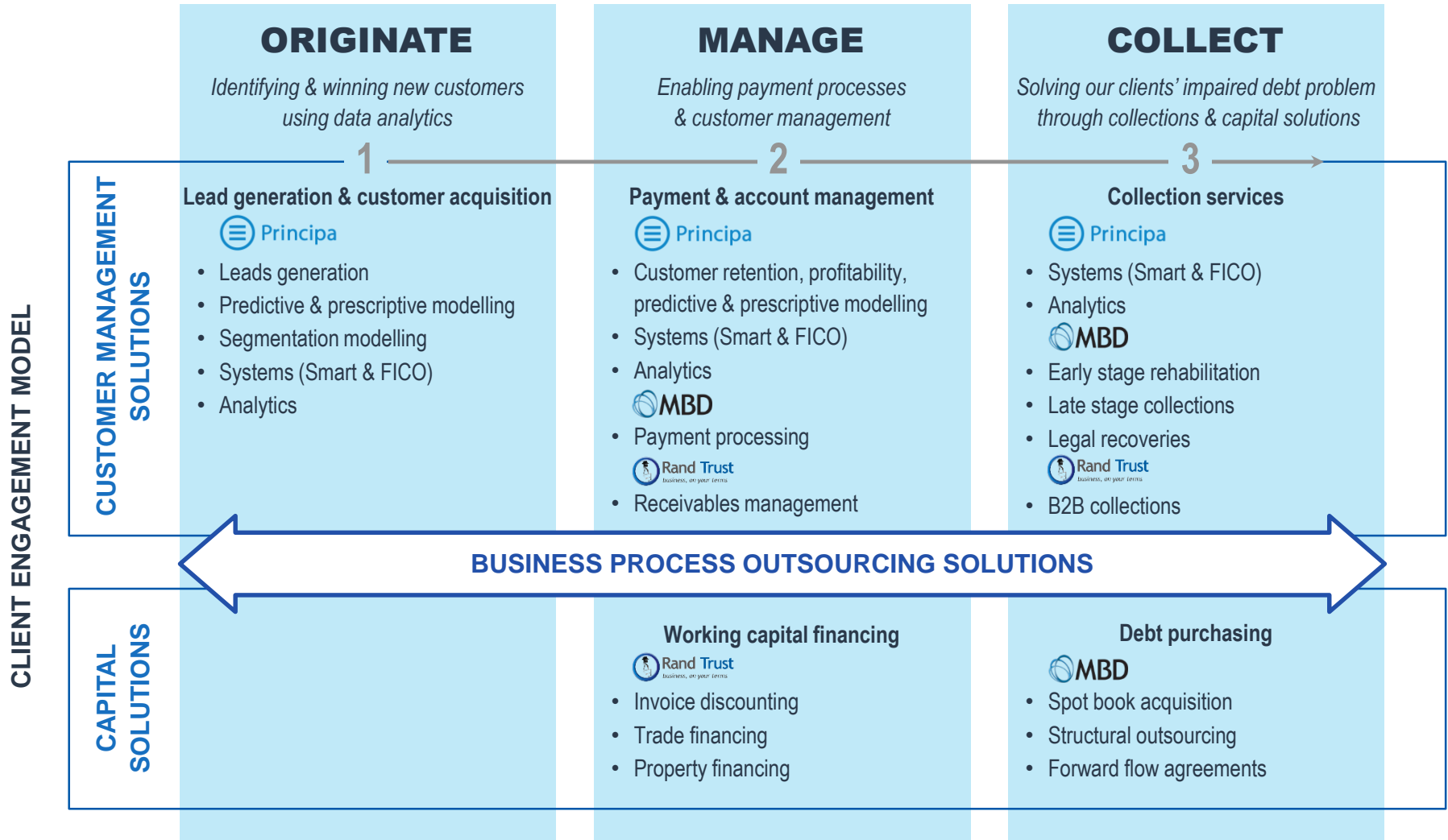


1. R69bn comprises credit monitored by the NCR. Transaction Capital Risk Services industry solutions also include SMEs, education, insurance, Public Sector, telecommunications & SOEs & Utilities.

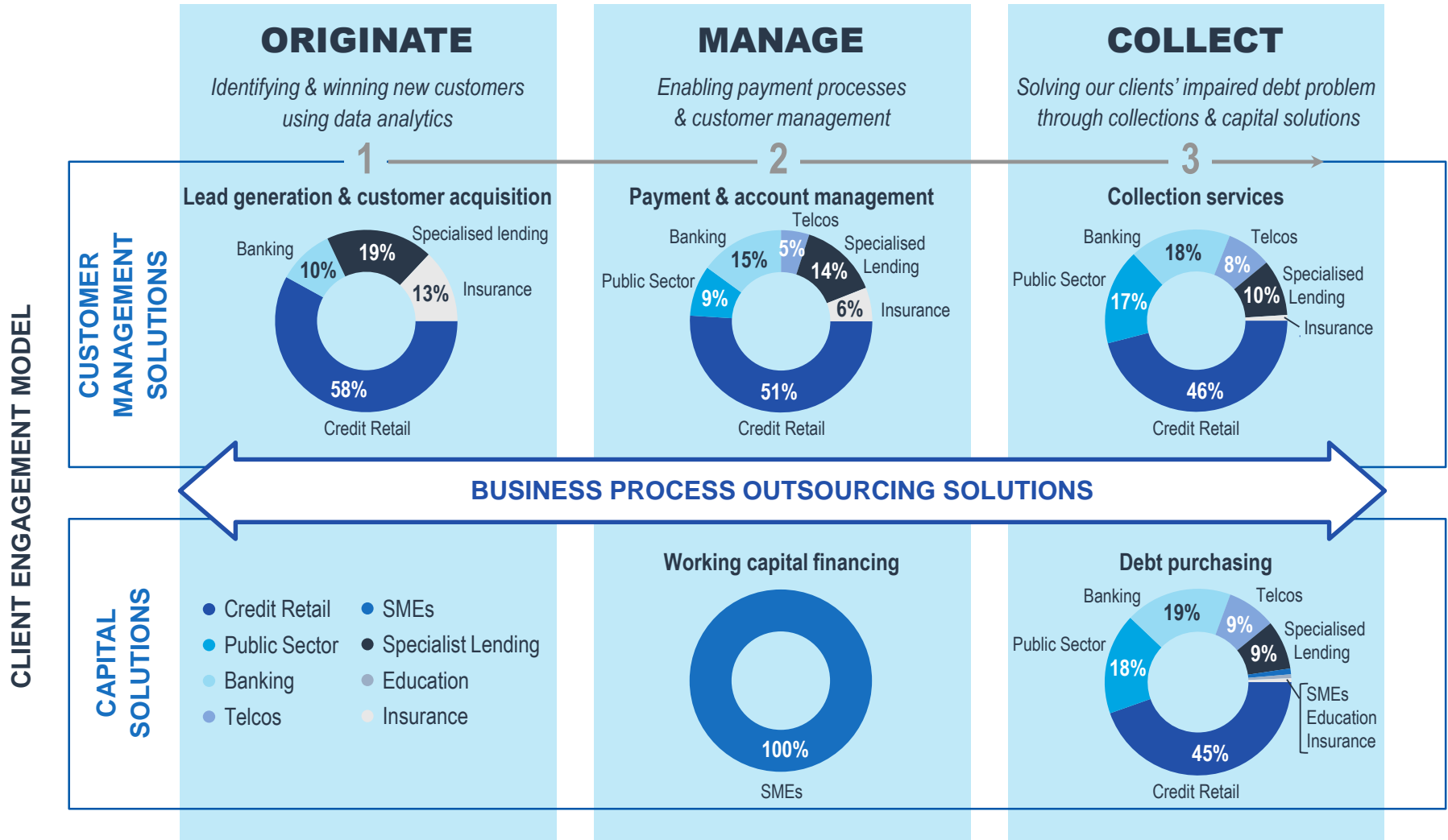
2. Source: NCR



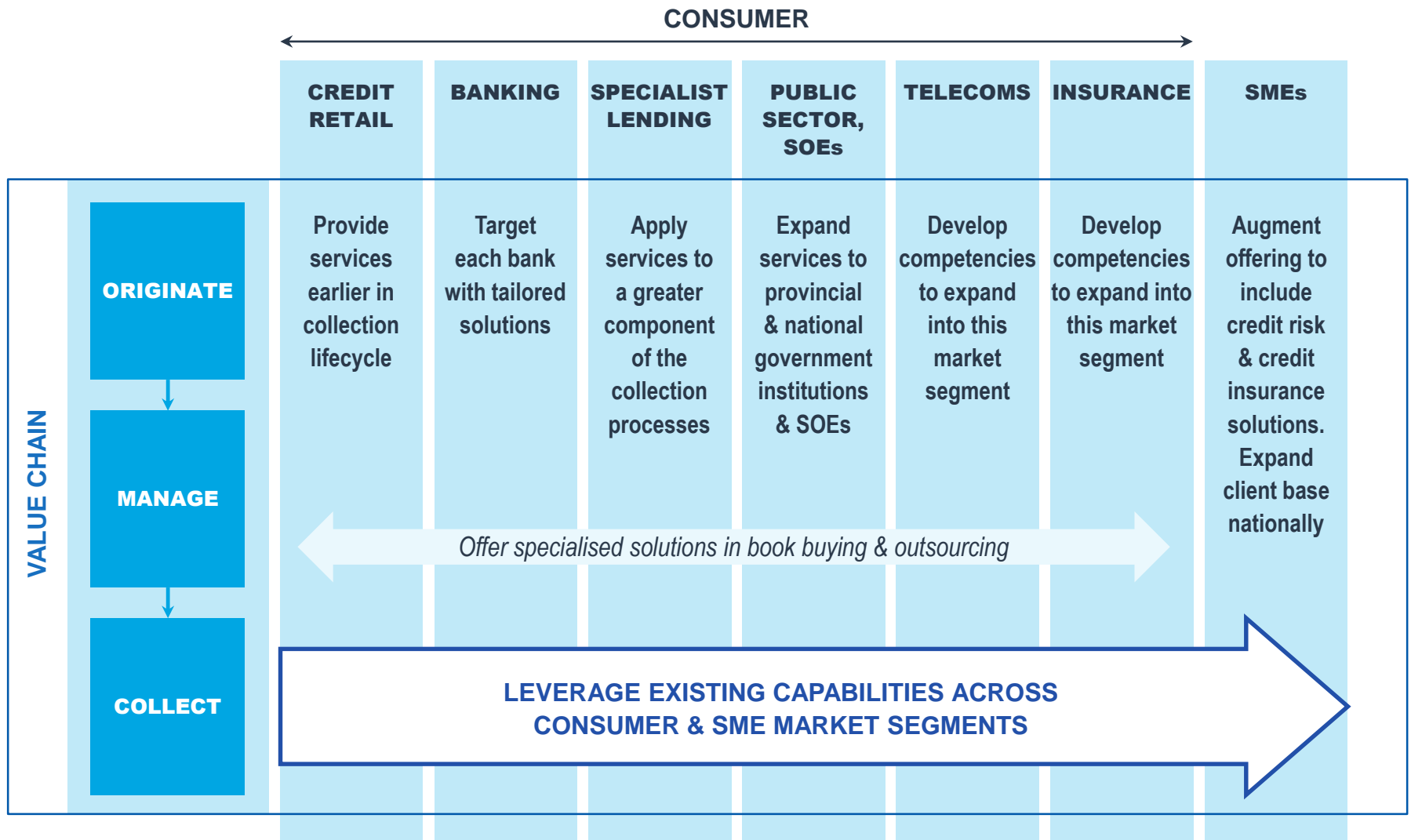
## CUSTOMER ENGAGEMENT LIFECYCLE



## CUSTOMER ENGAGEMENT LIFECYCLE



# RISK SERVICES – LOOKING FORWARD



- Low growth South African economy with many challenges
- Similar level of performance & growth expected in the medium term
  - › Established businesses with highly defensible market positions
  - › Attractive risk adjusted returns achieved organically
  - › Continue reinvesting into organic capital deployment opportunities in existing divisions
- The acquisition search continues
  - › Well positioned to identify, implement, fund & complete significant acquisitive activity
  - › Sound M&A experience & track record
  - › Narrow focus: Expected within existing divisions & skill set
- Asset values remain at elevated levels
- Management thus particularly circumspect in its acquisitive search

## TO FURTHER LEVERAGE & ENHANCE OUR CAPABILITIES & EXPAND INTERNATIONALLY

### MARKET POSITION

- Niche market participant in their chosen vertical
- Strong relationships with their clients
- Opportunities to consolidate market position

### CAPABILITIES

- Deep industry knowledge
- Intellectual property & expertise that can:
  - › bolster or grow our platform
  - › augment our competencies
  - › access new verticals
- Strong management team
- Seamless integration opportunity

## ACQUISITION TARGET CRITERIA

- Scalable business model with a proven track record
- Focused business with potential for high return on equity
- Growth opportunities

### BUSINESS MODEL

- Systems, data & analytics driven
- Aligned values
- Client & solution orientated
- Entrepreneurial management that are co-invested

### ETHOS & CULTURE

FINANCIAL  
REVIEW

2015

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AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

# FINANCIAL HIGHLIGHTS

HEADLINE EARNINGS  
PER SHARE\*

▲ **20%** TO  
**69.0 cents**

HEADLINE EARNINGS\*

▲ **19%** TO  
**R393 million**

CREDIT LOSS RATIO

IMPROVED TO

**3.6%**

FROM

**4.2%**

NON-PERFORMING

IMPROVED TO

**17.0%**

FROM

**18.8%**

RETURN ON  
AVERAGE ASSETS

▲ TO

**4.4%**

FROM

**3.5%**

RETURN ON  
AVERAGE EQUITY

▲ TO

**16.7%**

FROM

**12.8%**

TOTAL DIVIDEND  
FOR THE YEAR OF

**22 cents**

PER SHARE

▲ **38%**

DIVIDEND COVER

OF

**3.1 times**

FOR THE YEAR

Throughout this section all 2014 comparatives are pro-forma numbers calculated as if IFRS 9 was adopted on 1 October 2013, unless otherwise indicated with a \*. This is to enable comparison on a 'like-for-like' basis. Numbers marked with a \* are based on previously published 2014 numbers prepared in terms of IAS 39. The pro forma financial information has been reported on by Deloitte & Touché in terms of International Standard on Assurance Engagements 3420 – Assurance Engagements to report on the compilation of pro forma financial information, and their Reporting Accountants Report.

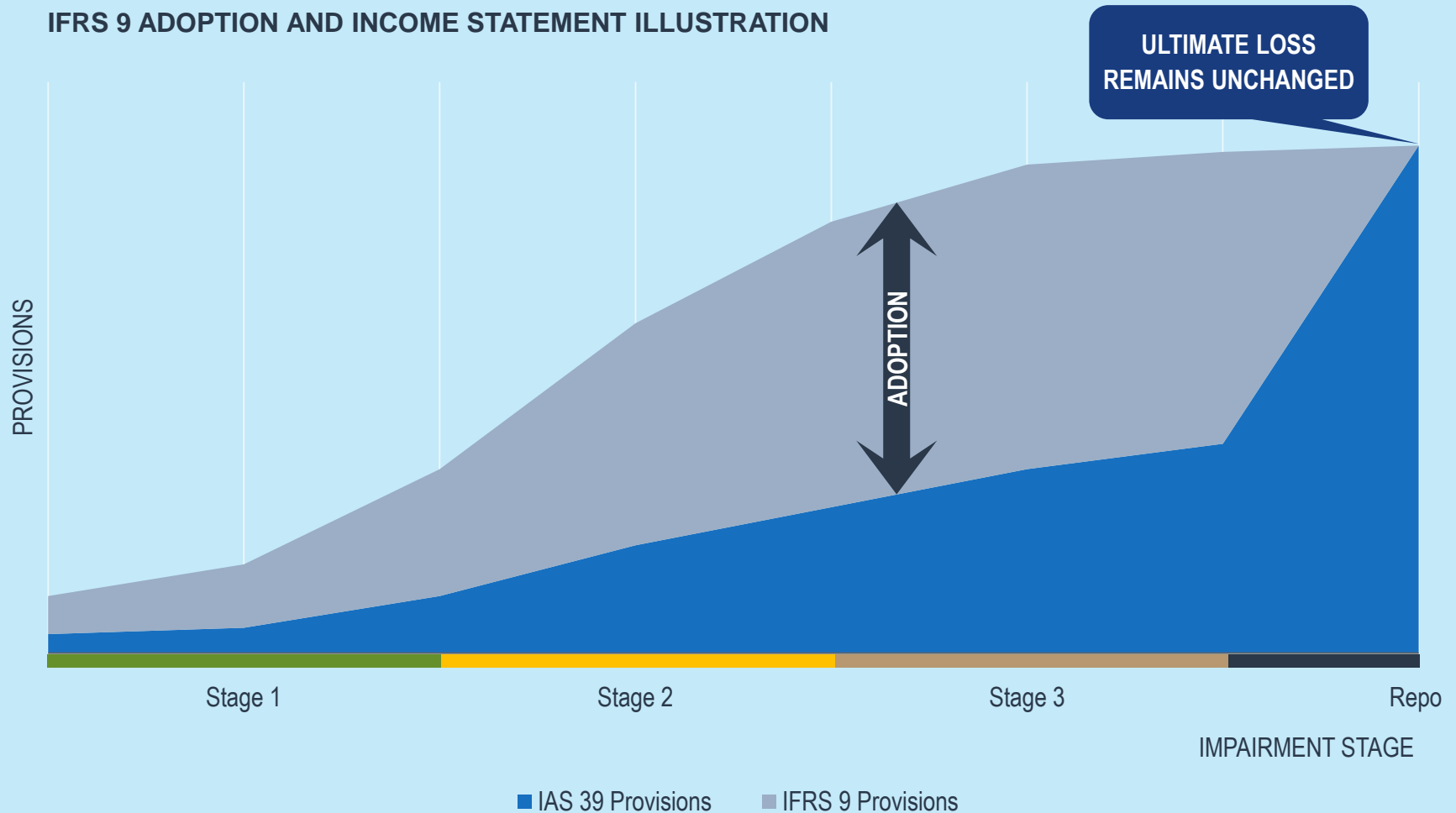
## RATIONALE

- Accounting policies more closely aligned to the group's operational policies and strategic intentions
- Increased provisions result in lower balance sheet risk
- Removes uncertainty around the future impact on financial results, ratios and the availability of capital
- SA Taxi: Allows the business to accelerate its strategy of operating an exclusive Premium vehicle operation
- MBD: Better alignment of the amortisation profile of purchased book debts with the expected collections profile
- **Key changes from IAS 39:**
  - › Classification – Entry-level vehicles now classified at fair value through profit and loss
  - › Measurement – provisions are now calculated on the expected loss model instead of the incurred loss model

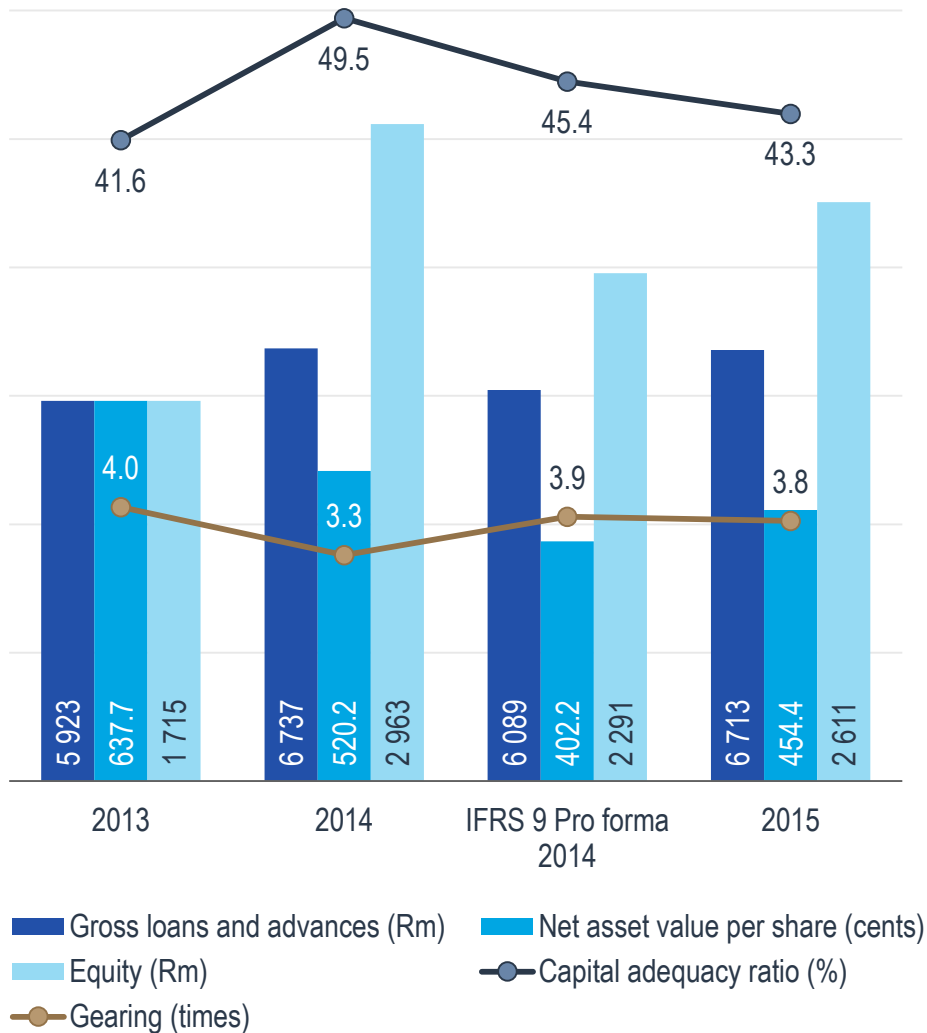


# EARLY ADOPTION OF IFRS 9 EXPECTED VS. INCURRED LOSS

IFRS 9 ADOPTION AND INCOME STATEMENT ILLUSTRATION

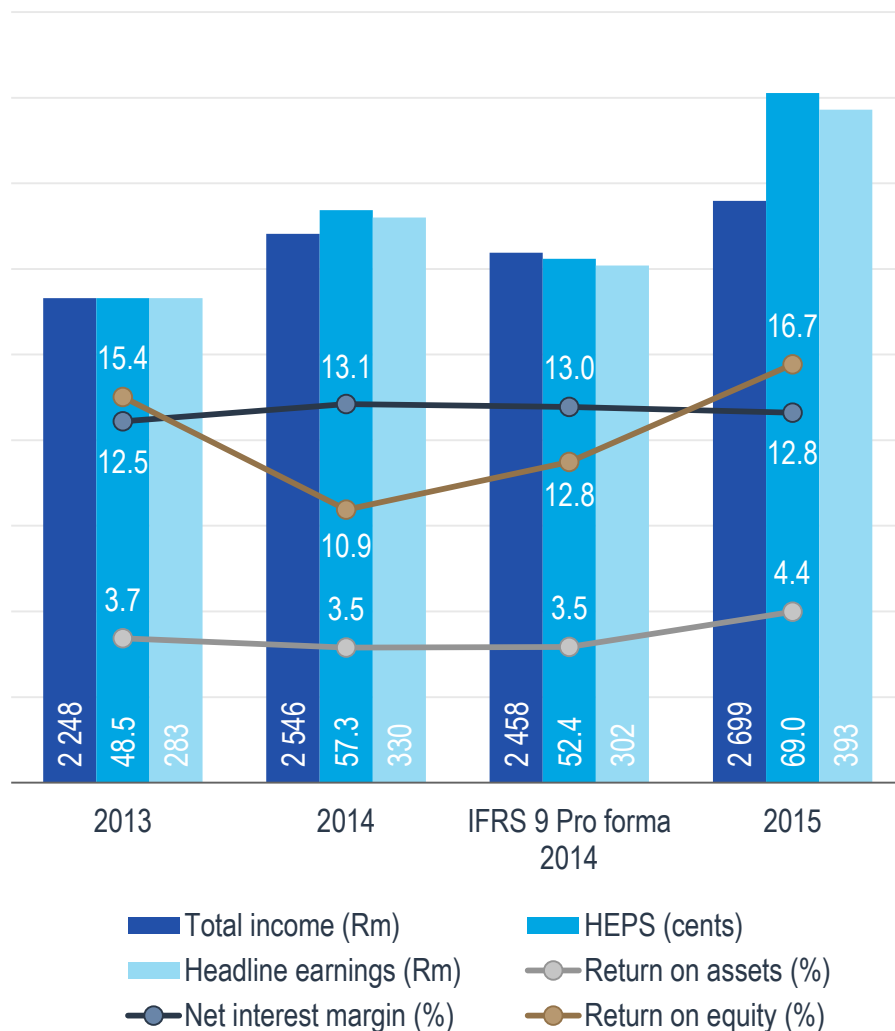


# FINANCIAL POSITION GROUP



- Conservative growth in gross loans & advances from R6.1bn to R6.7bn ▲ 10%
  - › Origination strategies remained conservative targeting improved credit quality, new product lines including bakkies & Nissan minibus
- Equity R2.6bn ▲ 14%
  - › Group well positioned to absorb one-off equity adjustment of R672m emanating from the adoption of IFRS 9
- NAV per share 454.4 cps ▲ 13%
- Capital adequacy ▼ 43.3% from 45.4%
  - › 29.0% Equity
  - › 14.3% Subordinated debt
  - › Will normalise with deployment of excess capital
- Gearing level unchanged

# FINANCIAL PERFORMANCE GROUP

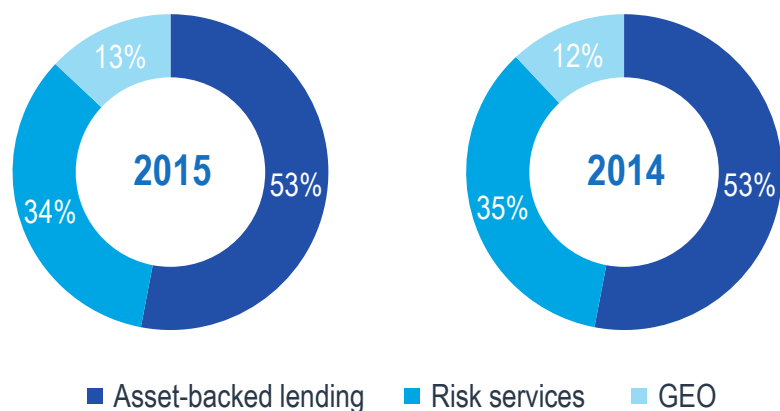


- HEPS\* ▲ 20% from 57.3cps to 69.0cps
- Headline earnings\* ▲ 19% from R330m to R393m
  - › Net interest income ▲ 13%
  - › Improved credit metrics
  - › 18% ▲ in EBITDA\* from services
- Compared to 2014 IFRS 9 pro forma result
  - › Headline earnings ▲ 30%
  - › HEPS ▲ 32% from 52.4cps to 69.0cps
- Return on assets ▲ to 4.4% from 3.5%
- Return on equity ▲ to 16.7% from 12.8%
  - › Increase in earnings
  - › Effective capital deployment
  - › Lower equity base resulting from IFRS 9 adoption
  - › Includes the effect of low returns earned on excess capital
  - › Most appropriate benchmark for group ROE is by looking at the underlying divisional metrics
- Quality of earnings is high

# PORTFOLIO MIX

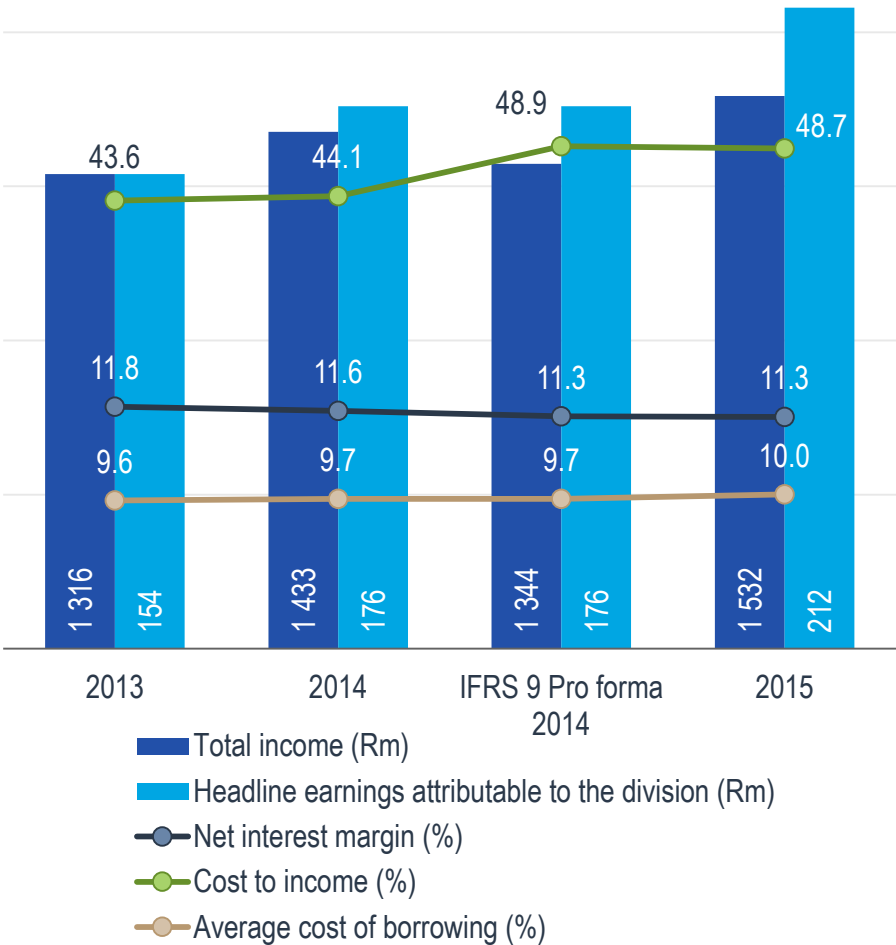
Headline earnings	Rm			Growth		Contribution		
	2015	2014	2013	2015	2014	2015	2014	2013
Asset-backed lending <sup>1</sup>	208	176	154	18%*	14%	53%	53%	54%
Risk services	134	116	104	16%*	12%	34%	35%	37%
GEO	51	38	25	34%	52%	13%	12%	9%
<b>Continuing</b>	<b>393</b>	<b>330</b>	<b>283</b>	<b>19%*</b>	<b>17%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Cents per share</b>	<b>69.0</b>	<b>57.3</b>	<b>48.5</b>	<b>20%*</b>	<b>18%</b>			

1. Excluding non-controlling interest



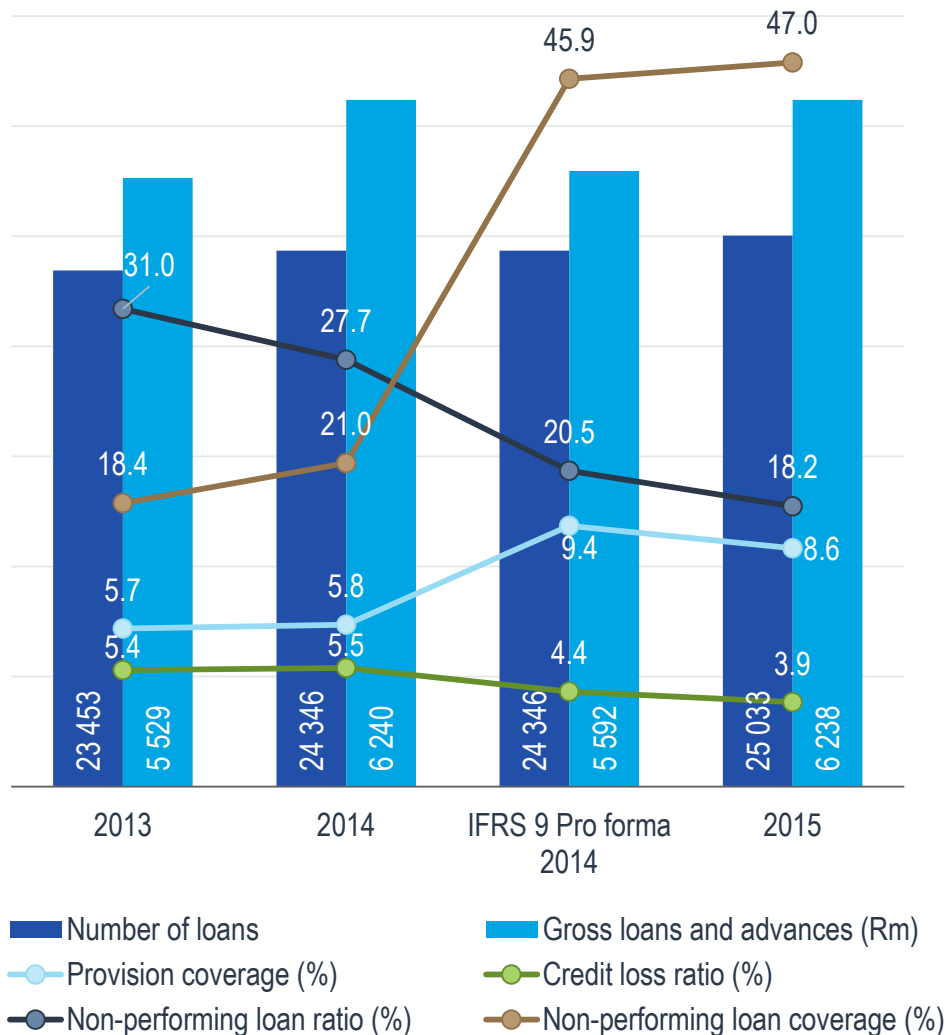
- Contribution
  - › Asset-backed lending contribution flat at 53%
  - › Credit services contribution decreased marginally from 35% to 34%
  - › Corporate support contribution on management of un-deployed capital and reduction of costs
- The future portfolio mix will shift as a result of the constitution of the new risk services division & will also be dependent on the nature of any future acquisitions

# ASSET-BACKED LENDING PERFORMANCE



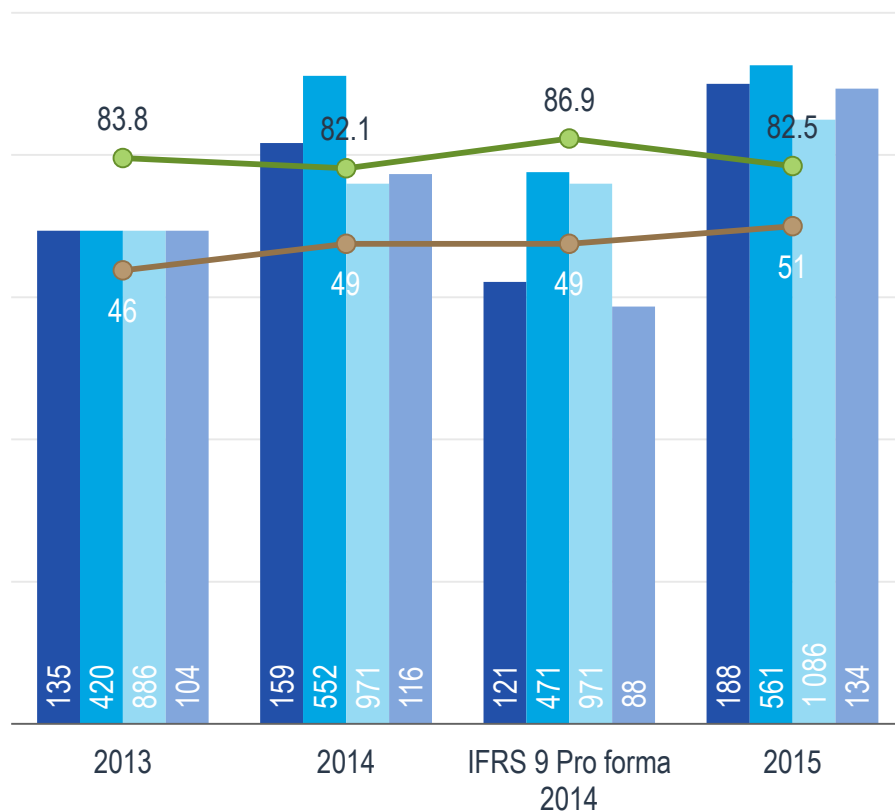
- Headline earnings attributable to the division\*
  - ▲ 20% to R212m
- Net interest margin stable at 11.3%
  - › Incorporates the suspension of interest in accordance with IFRS 9
- Credit loss ratio improved from 4.4% to 3.9%
- Cost-to-income ratio stable

# ASSET-BACKED LENDING CREDIT



- Gross loans & advances ▲ 12% to R6.2bn
  - › Number of loans ▲ 3%
  - › Origination strategies remained conservative
  - › Access to new premium vehicles interrupted from March onwards - provided SA Taxi with opportunity to sell more repossessed vehicles
  - › Exclusive focus on Premium vehicles
- Non-performing loan ratio improved to 18.2% from 20.5%
  - › Improved quality of Taximart vehicles
  - › Focused collections performance
  - › Entry-level vehicles now only 2% of portfolio
- NPL coverage ▲ to 47.0% from 45.9%. More than double the coverage under IAS 39
- Credit loss ratio improved from 4.4% to 3.9%
  - › Improved quality of loans & advances
  - › Efficiency of procurement, repair and resale operations of Taximart

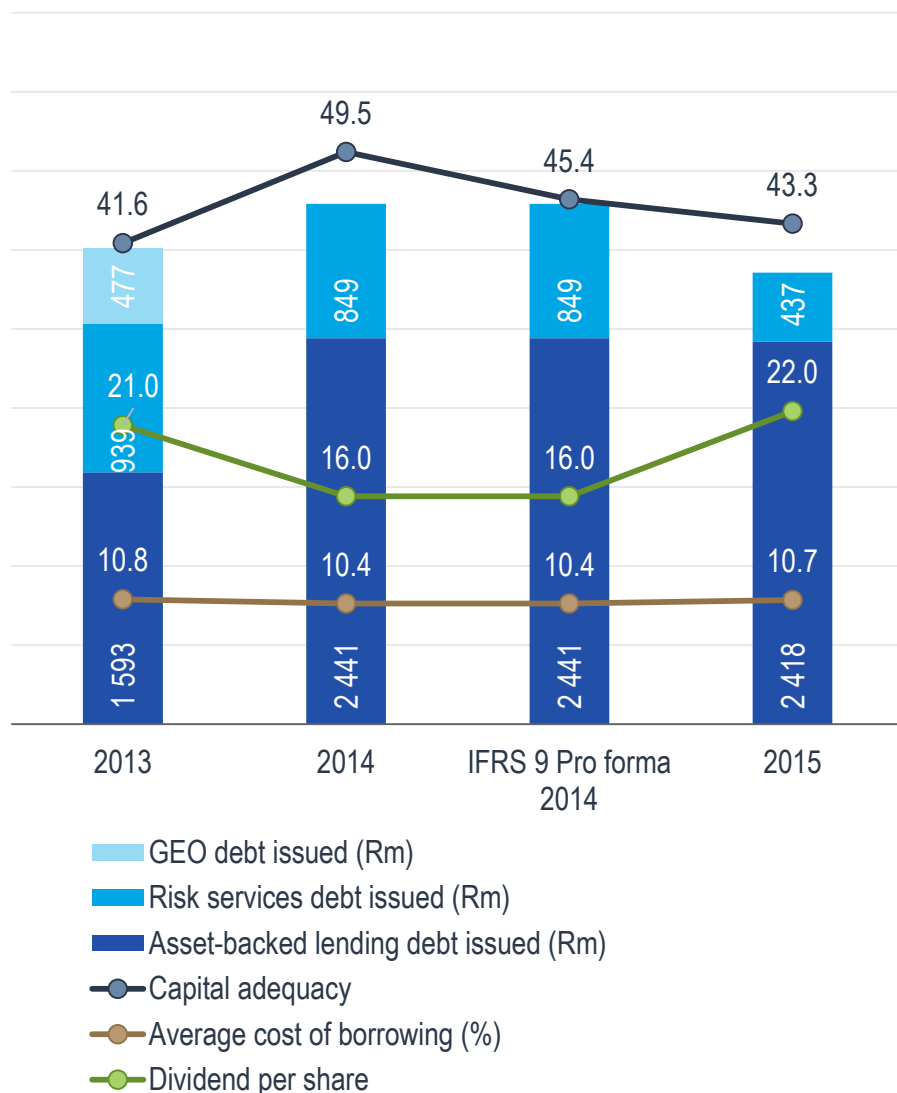
# RISK SERVICES



- Services EBITDA (MBD and Principa) (Rm)
- Purchased book debts (Rm)
- Total income (Rm)
- Headline earnings (Rm)
- Cost to income (%)
- Principal % collections revenue

- Headline earnings\* ▲ 16% to R134m
  - › Earnings growth in MBD & Rand Trust exceeded 30%
  - › Agency revenue ▲ 16%
  - › Principal revenue ▲ 25%
  - › Losses in Principa's Qarar joint venture tempered performance and was sold in September 2015
  - › Cost-to-income ratio improved to 82.5% from 86.9%
- Purchased book debts ▲ 19% to R561m
  - › R166m acquired
  - › 154 purchased books, 7 new books acquired during the year

# CAPITAL MANAGEMENT

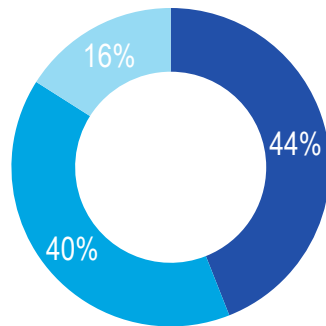


- SA Taxi returned to local debt capital markets during April and November via Transsec (RF) Ltd
  - › Cumulatively raised almost R1bn
  - › Remainder successfully raised via offshore and local unlisted funding sources
  - › Strategy remains innovative and continue to pursue multiple tactics to diversify funding base
- 11 institutions invested R2.9bn of debt capital
  - › Asset-backed lending: R2.4bn
  - › Risk services: R0.4bn
- Cost of borrowing increased from 10.4% to 10.7%
- Capital adequacy ▼ to 43.3% from 45.4%
  - › Will normalise with deployment of excess capital
- Total dividend for the year ▲ 38% to 22cps



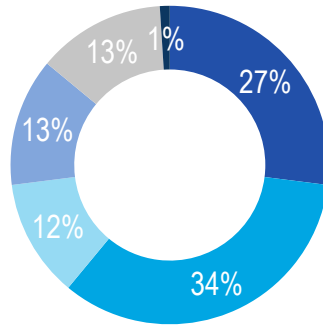
# FUNDING PHILOSOPHY

## Diversification by funding structure



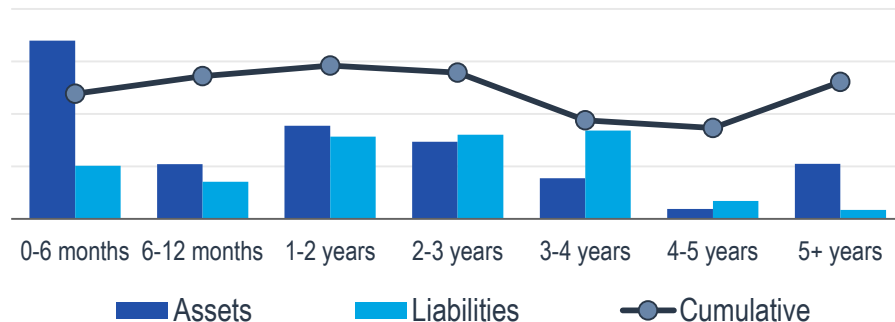
- Structured finance
- On-balance sheet
- Rated listed securitisation

## Diversification by funder category



- Life companies
- Specialised asset managers and debt funds
- Banks
- Traditional asset managers
- DFIs
- Hedge funds

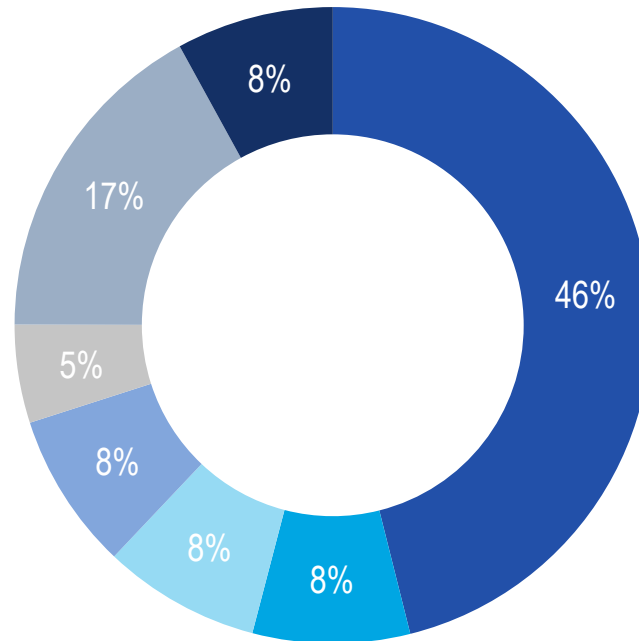
## Positive liquidity mismatch



- Wholesale funding model proves to be robust
  - › “Positive liquidity mismatch” between asset & liability cash flows
  - › No exposure to overnight debt instruments & limited exposure to 12-month instruments
  - › Direct relationships with debt capital markets
  - › Diversification by debt investor, funding structure & credit rating
  - › Ring-fenced funding structures per individual asset class
  - › Targeted capital adequacy levels per asset class

# SHAREHOLDING

## 20 NOVEMBER 2015



- Directors of Transaction Capital and its subsidiaries & their associates
- Old Mutual Investment Group South Africa Proprietary Limited
- Ethos Private Equity
- Allan Gray
- Public Investment Corporation
- Remaining institutional shareholders
- Retail investors

# CONCLUSION 2015

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

## TRANSACTION CAPITAL IS

**...invested in market-leading companies**

- Divisions are of scale holding leading positions in the markets they serve.
- Scalable business platforms which can be leveraged for profitable growth.

**...in attractive market segments**

- Taxi finance market is under-served, with the ongoing replacement of national taxi fleet stimulating demand for finance.
- Risk services division is the largest participant in a growing & fragmented market, with current economic environment stimulating demand for its services.

**...that are well positioned for growth**

- Highly defensive businesses positioned to withstand difficult economic conditions.
- Organic growth through innovating solutions deeper into existing market segments & leveraging capabilities to enter adjacent markets.
- Focused acquisition strategy & strong balance sheet.

**...led by experienced & skilled management teams**

- Proven entrepreneurial, merger & acquisition, technical, financial & risk management skills.
- Successful devolution of responsibility to divisional executives & management.
- Continued group-wide investment in executive education, expertise & experience.

**...with specialised competencies in finance & technology**

- Superior data, leading-edge technology & analytics capabilities differentiate offerings & mitigate risk.
- Robust processes & skilled people enable effective capital & credit-risk management.

**...& a track record of delivering superior earnings growth & returns**

- Highly cash generative businesses that have delivered predictable returns over a period of time.
- Well capitalised balance sheet appropriately geared to generate acceptable risk adjusted returns.

**...underpinned by sound governance practices**

- Experienced, diverse, independent directors at group & subsidiary level.
- Institutionalised governance, regulatory & risk management practices.



# QUESTIONS 15

20

AUDITED RESULTS FOR THE YEAR ENDED 30 SEPTEMBER

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