

MEDIA RELEASE

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CAPITAL APPRECIATION REPORTS STRONG INCREASE IN REVENUE AND COMPELLING PROSPECTS FOR FUTURE GROWTH
Highlights

- Growth continues across all business units
- Contracted with new blue-chip clients
- Market share gains in 'bank terminal market'
- **103 000** payment terminals owned by clients (+33%)
- 56% increase in Revenue to **R315.4 million**
- 24% increase in EBITDA to **R81.4 million**
- 25% increase in Trading profit to **R82.8 million**
- 13 % increase in Headline earnings to **R63.3 million**
- 13% increase in Normalised HEPS to **4.55 cents**
- 12.5% increase in Interim dividend per share to **2.25 cents**
- Cash generated from operations **R92.4 million**
- Cash conversion rate **112%** of Trading profit
- **R551,5 million** cash available for reinvestment

Key financial measures

		6 months to 30 Sep '18	6 months to 30 Sep '17	% change
Revenue	(R million)	315.4	201.8	56%
EBITDA	(R million)	81.4	65.5	24%
Profit before tax	(R million)	88.4	78.2	13%
Headline earnings	(R million)	63.3	56.2	13%
Headline earnings per share	(cents)	4.23	3.75	13%
Interim dividend per share	(cents)	2.25	2.0	12.5%
Cash earnings per share	(cents)	4.60	1.22	277%

In assessing the financial results, it should be noted (i) that the comparative financial information for 2017 represents subsidiary trading for five months, as the acquisitions became effective on 5 May 2017, and (ii) the allocation of intangibles arising from the acquisition of the new subsidiaries was only concluded in March 2018 and the amortisation arising was not available at the time the September 2017 results were released. The 2017 results are "re-presented" to include the results of the purchase price allocation exercise.

South African FinTech Group Capital Appreciation Limited (CAPPREC) announced a 56% increase in revenue for the six months ending 30 September 2018 and grew the number of terminals owned by customers to 103 000, comfortably ahead of its target of 100 000 terminals by March 2019. The Group now also counts among its clients, all the major banking institutions in South Africa, as well as a range of other banks and financial services companies. CAPPREC reported HEPS of 4.23 cents, an increase of 13% and dividends per share of 2.25 cents, an increase of 12.5%. The Group said that substantial investments were made in operational infrastructure in the current period to support anticipated growth and that investments in the previous period have already translated into significant growth during the current six months.

CEO Bradley Sacks comments: *"The interim results once again demonstrate the strategic positioning and relevance of the Group's products and services, as well as our clients' recognition of Capital Appreciation as a respected partner. Technology's role as a disruptor and key differentiator in the financial services sector continues to accelerate, creating further opportunity for the Group. Notwithstanding the challenging economic environment in South Africa, CAPPREC subsidiaries successfully managed to expand the scope of their business with existing clients and, given their well-established reputations and track record of innovation and quality and efficient service delivery, have once again been able to attract important new blue-chip clients."*

A highlight during the period was the review of both subsidiaries' B-BBEE status. We are delighted to report that African Resonance received a Level 2 and Synthesis a Level 3 contributor accreditation, very much consistent with the Group's overall commitment to empowerment.

CAPPREC also again demonstrated its highly cash generative nature in the six months, with cash generation of 112% of trading profit. The Group had cash resources at 30 September 2018 of R551.5 million, which is available for investment in organic growth within its subsidiaries, as well as acquisitive opportunities. CAPPREC's net asset value per share at 30 September 2018 was 95 cents of which 37 cents is represented by cash.

Divisional overview

The Group is composed of two business segments – Payments & Payment Infrastructure and Software & Services. African Resonance and Dashpay comprise the Payments segment and Synthesis comprises the Software segment.

Payments & Payment Infrastructure

African Resonance primarily sells, distributes, maintains, rents and manages payment terminals to, for and on behalf of its banking and institutional clients. This division has continued to generate a sizeable number of terminal sales, with more than 27 000 additional terminals being sold during the period, up 33% to 103 000 terminals.

Dashpay has developed and owns an exclusively licensed multi-product, multi-party, universal transacting platform, recently branded "Stratagem", which focuses on Business-to-Business and Business-to-Business-to-Consumer commercial and payment activity. Stratagem is in the process of being activated in a deliberately phased manner and the response at this early stage is encouraging. The value of transactions processed through the Dashpay network, gross transaction value ("GTV") for the month of October 2018 is more than double the level of activity achieved during any month in the previous financial year, and when annualised approximates R1.4 billion.

The Payments & Payment Infrastructure segment demonstrated a resilient trading performance notwithstanding continued macro-economic headwinds and low consumer confidence. The division generated revenue of R253.6 million, up 54%, EBITDA of R70.0 million, up 28%, and a profit after tax of R50.7 million, up 32%.

Software & Services

Synthesis is a highly specialised software and systems developer, offering consulting, integration services and technology-based product solutions to banking and other financial institutions in South Africa and other emerging markets. Synthesis' initiatives span three main areas (i) Cloud, (ii) Regulatory Reporting Solutions, and (iii) Digital Channels. Amazon recently announced its intention to establish a regional infrastructure data hub in South Africa, which is expected to open in early 2020. This should prove positive for Synthesis, as it is the first company in Africa to attain Amazon Web Services' ("AWS") Advanced Consulting Partner Accreditation, with specialist competencies in both Financial Services and Development Operations ("DevOps").

In addition to its current offerings, Synthesis is making considerable effort through its research and development division (Synthesis Labs) to deliver on the next phase of technological advancement, which includes, *inter alia*, machine learning, artificial intelligence, big data and blockchain technology.

Synthesis generated revenue of R61.8 million, up 64%, EBITDA of R18.4 million, up 70%, and a profit after tax of R13.4 million, up 72%. These strong results are the result of organic growth – higher services and consulting fees earned from a wider base of customers, as well as more diversified sales – partially attributable to the prior year's investment in capacity.

International

CAPPREC also owns 17.45% of Resonance Australia, a company in its early stages of development with a business model similar to that of Dashpay in South Africa.

Prospects

The economic environment in South Africa continues to be challenging, with all sectors affected by low levels of consumer confidence and muted commercial activity. Against this backdrop, and while the pressures of the economic climate cannot be ignored, CAPPREC, with a level of cautious confidence, believes that (i) the growth potential of the Group's subsidiary enterprises continues to be substantial and compelling, and (ii) a reasonable rate of continued organic growth is expected in each of the business units.

A unifying characteristic of all the underlying businesses within the Group is that they are in a growth phase of their respective lifecycles. Investment and expenditure to support this anticipated growth are required to yield further income producing benefits in future periods.

Sacks concludes: "*Capital Appreciation's subsidiary enterprises each have a long history of innovating in their respective fields and being responsive to clients' needs. Our standing as a trusted partner positions us well in the rapidly evolving FinTech sector. The sector in which we operate and invest also presents several interesting acquisition opportunities and, given the Group's strong operating cash flows, cash resources and borrowing capacity, these prospective opportunities will receive management's careful consideration. Opportunities also exist for the expansion and technology transfer of our business models into new markets and certain of these are presently being researched.*"

Ends.

About Capital Appreciation

CAPPREC is an investment holding company focused on investing in and developing financial technology (“FinTech”) enterprises, their platforms, solutions, products and applications. CAPPREC presently has two divisions - “Payments & Payment Infrastructure” and “Software & Solutions”. The Payments businesses presently innovate, develop, manage and promote payment product and payment infrastructure solutions for established and emerging institutional clients and other organisations that need to receive or make payments. The Software & Solutions business addresses the complex technology needs of Financial Institutions.

For more information visit www.capitalappreciation.co.za.

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