



## MEDIA RELEASE

Monday, 10 June 2019

### CAPITAL APPRECIATION DELIVERS STRONG MOMENTUM, INVESTMENT FOR THE FUTURE

#### OPERATIONAL HIGHLIGHTS

- Growth continues across all business units
- Contracted with several new blue-chip clients
- 140 000 payment terminals in the hands of clients, up 52%,
- African Resonance continued to grow its bank terminal base strongly and gained market share
- Dashpay roll out progressing well with Annualised Gross Transaction Value (GTV) exceeding R2.2 billion, up 57% since the interim period
- Excellent earnings performance from Synthesis
- Synthesis achieved AWS Advanced Consulting partner status with Financial Services and DevOps specialties
- Synthesis attracted clients in the retail and telecoms sectors
- African Resonance achieved Level 2 B-BBEE accreditation
- Synthesis achieved Level 3 B-BBEE accreditation

#### SALIENT FEATURES

- Revenue R607.7 million, up 19.6%
- Strategic investment and expenditure incurred to support growth
- EBITDA R159.5 million, down 9.8%
- Trading profit R173.2 million, down 7.5%
- Headline earnings R124.6 million, down 13.1%
- EPS and HEPS 8.33 cents per shares, down 12.2% and 12.6% respectively
- Normalised HEPS 9.01 cents, down 11.0%
- Significant cash generation, up 27.4% to R212.7 million
- Cash EPS 10.9 cents, up 49.8%
- Final dividend per share of 2.00 cents, bringing total dividend for the year to 4.25 cents, an increase of 6.25%
- R611.2 million cash available for reinvestment

- Post year-end agreement regarding intellectual property ownership and share buy-back

**Johannesburg, 10 June 2019:** South African FinTech group Capital Appreciation Limited (CAPPREC) has delivered revenue growth of 19.6% and strong operational performance for the year ended 31 March 2019. CAPPREC invested significantly to take advantage of the escalating demand for digital and cloud services, which saw it attract further blue-chip clients during the year and growing its payment terminals estate (sold and leased to clients) by 52% to 140 000. Headline earnings were impacted by the cost of this investment, as well as by a negative earnings adjustment arising from renegotiated

terms with a major client in African Resonance and reduced by 13.1% to R124.6 million. The company continued to generate significant cash, with cash from operations increasing by 27.4% to R212.7 million and cash earnings per share up 49.8% to 10.9 cents. The group declared a final dividend per share of 2.00 cents, bringing the total dividend for the year to 4.25 cents, up 6.25%.

Capital Appreciation owns, manages, invests in, and promotes established and developing FinTech enterprises - their platforms, solutions, products and applications. CAPPREC's client base includes all major banking institutions in South Africa, as well as many niche banks, large financial services institutions and other financial services companies.

*“Technology’s role as a key disruptor and differentiator in the Banking and Financial Services sector continues to accelerate, creating further opportunity for CAPPREC as evident from the momentum built up in the underlying businesses, the solid trading performances and in our strong pipeline”* notes Bradley Sacks, joint CEO of CAPPREC. *“The marginal decrease in earnings however, is attributable to two items – firstly, product development costs, as well as capacity related expenditures incurred in anticipation of growth in commercial activity and secondly, the renegotiation of certain service and maintenance fees with a major client in the interests of market consistency and in anticipation of future terminal growth.*

The group said that the operating performance of each of the business units within the Group has been gratifying despite the challenging economic environment in South Africa, which has prompted a cautious approach toward capital expenditure by clients and has acted to constrain growth in both divisions. CAPPREC's Payments business is directly impacted by its clients' exposures to the retail sector and by consumers' propensity to spend. In the Software & Services sector, there is a significant and growing movement towards digitisation and the systems required to accommodate this migration, as well as the channels required to distribute the digital banking products, have increased demand for the Group's services.

In assessing the financial results, it should be noted that the comparative financial information for the Payments and Services segments represents trading for the eleven months ended 31 March 2018, as the acquisitions became effective on 5 May 2017. CAPPREC generated gross revenues of R607.7 million, up 19.6% and EBITDA of R159.5 million, a decrease of 9.8%. Profit after taxation decreased by 12.8% to R124.6 million. Normalised headline earnings per share, comprising HEPS, adjusted for the after-tax amortisation of intangible assets on the acquisitions concluded in May 2017, reduced by 11.0% to 9.01 cents. Cash earnings per share was 10.93 cents, up 49.8%.

The group remains highly cash generative, with cash generation of 122.8% of trading profit for the full year. The group's cash resources at 31 March 2019 were R611.2 million, which represents 39 cents per share, relative to a closing price of a CAPPREC share on 31 March 2019 of 74 cents. The group's cash resources will be applied, in the first instance, to fund anticipated organic growth and thereafter to pursue or supplement the cost of new, but complementary acquisition opportunities. CAPPREC remains strongly focused on acquiring companies that can expand and generate scale within a reasonable timeframe, can provide satisfactory organic growth and returns to shareholders and where CAPPREC's capital and strategic capability can be successfully leveraged.

Capital Appreciation have concluded an agreement with Dr Hanoch Neishlos, the principal vendor of African Resonance, to acquire the intellectual property, technology and development platforms that were previously licensed by African Resonance from Uplink (an entity controlled by Dr Neishlos). Upon completion, Capital Appreciation will employ members of the Uplink team focused on Group and customer technology and development needs. Dashpay will continue to enjoy its exclusive licensing rights to the Stratagem platform for South Africa, with the reconstituted Uplink continuing to provide the necessary transition support both for African Resonance and Dashpay. This is an important milestone for Capital Appreciation as the Group will have absolute ownership over the vast majority of the intellectual property used in the business.

The overall agreement also contemplates that Capital Appreciation will acquire 245 million Capital Appreciation shares owned by Dr Neishlos and related associates for an aggregate amount of R196 million and that Dr Neishlos will settle various other amounts owed to African Resonance from the proceeds of the share sale. Capital Appreciation will dispose of its 17.45% interest in Resonance Australia and its claim on loan account for an aggregate amount of R40 million. The agreement further provides for the dissolution of other related party contracts and services which formed part of the initial terms of acquisition. As a result of the transaction Dr Neishlos will resign as an executive of the Group and both Dr Neishlos and Eitan Neishlos will resign from the Board of Capital Appreciation.

The transaction remains subject to certain conditions precedent, one of which is the approval by Capital Appreciation shareholders and the JSE Limited. Capital Appreciation will be issuing a Circular to shareholders in the due course.

### **Segmental performance**

The Payments segment demonstrated a resilient trading performance notwithstanding continued macro-economic headwinds, low consumer confidence and reduced earnings arising from the revised commercial terms with a major client. The division generated revenue of R469.9 million, up 13.2%, and a profit after tax of R98.2 million, down 11.6%.

African Resonance has sold more than c.49 000 additional terminals during this year, bringing the total terminals in the hands of customers to more than c.140 000 (c.128 000 sold and c.12 000 rented). This should be viewed against the Group's initial objective to have 100 000 terminals sold by the end of March 2019.

Dashpay's innovative transaction processing services, solutions and products focused on B2B and B2B2C commercial and payment activity is being activated in a deliberately measured and 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 April 2019 is more than two and a half times the level of activity achieved during any month in the previous financial year and, when annualised, approximates R2.2 billion, a 57% increase compared to the annualised GTV of R1.4 billion disclosed in the interim period. This demonstrates the positive operating momentum within the business. As of the end of April Dashpay had more than 2 100 actively trading devices in its network and has a large pipeline of deployments in conjunction with its institutional customers and partner banks.

Synthesis generated revenue of R137.8 million, up 48.0% and a profit after tax of R32.7 million, up 37.6%. Synthesis' initiatives span three main areas (i) Cloud, (ii) RegTech, and (iii) Digital and Emerging Tech. RegTech provides regulatory reporting solutions to financial institutions and has produced steady growth in the period with healthy margins. Digital and Emerging Tech continues to respond to increasing client demands and provides secure mobile and web digital channels for financial services institutions to enhance their customers' experience, as well as access to emerging technologies which include machine learning, artificial intelligence, big data analytics and blockchain technology.

Cloud is the fastest growing segment and Synthesis has a close strategic relationship with Amazon Web Services (AWS), the cloud computing division of Amazon. AWS is the world's leading cloud platform provider and recently announced the opening of an infrastructure region in Cape Town in the first half of 2020. The new region will be its first on the African continent. As the first AWS Consulting Partner to reach Advanced Partner status in Africa and the Middle East, and with more than 120 AWS certifications, Synthesis has gained in-depth experience in setting up advanced cloud architecture and managing cloud computing migrations for financial services companies and other enterprises in various sectors.

During the period under review both African Resonance and Synthesis had their B-BBEE status reviewed. African Resonance received a Level 2 and Synthesis a Level 3 accreditation.

### **Prospects**

The group said that while the continuing pressures of the economic climate cannot be ignored, CAPPREC 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. Technology continues to have an accelerating impact on the financial services sector and CAPPREC's standing as a trusted partner positions the group well in the rapidly evolving FinTech sector.

**Ends.**

### **About CAPPREC**

Capital Appreciation owns, manages, invests in, and promotes established and developing financial technology enterprises, their platforms, solutions, products and applications. The Group has two business segments – Payments & Payment Infrastructure ("Payments") and Software & Services ("Services"). African Resonance and Dashpay comprise the Payments segment and Synthesis comprises the Services segment. African Resonance is a leading provider of payment infrastructure and related technology solutions to established financial institutions, emerging payment service providers, the hospitality industry and the entire retail sector, both directly and indirectly. Dashpay is in the process of implementing an exclusively licensed, multi-product, multi-party universal transacting platform, and is positioned to provide innovative transaction processing services, solutions and products focused on Business to Business commercial and payment activity. Synthesis is a highly specialised software and systems developer, offering consulting, integration services and technology-based product solutions, to banking, financial services and other institutions in South

Africa and other emerging markets. Resonance Australia is an associate company investment in which CAPPREC owns 17.45%. Resonance Australia is still in its early stages of development.

*For media queries or interviews contact:*

Aprio Strategic Communications

Michelle Copans

Michelle@aprio.co.za

+2782 743 9962