

MEDIA RELEASE**CAPITAL APPRECIATION DELIVERS CREDITABLE RESULTS IN CHALLENGING YEAR****22 June 2021: Johannesburg**

Salient features of the financial year ended 31 March 2021:

- Covid impact delayed clients' decisions on projects and new terminal orders
- Terminals in the hands of customers grew to 217 000, representing 17% growth year on year
- Good traction with the introduction of Android terminals
- Strong acceleration in Synthesis' annuity income
- Increased collaboration among divisions delivers enhanced opportunities
- Accelerating digitalisation intensified demand for Capital Appreciation's services
- Positive growth in business pipeline
- Significant reduction in interest income due to 300 BPS interest rate cuts

Brad Sacks, joint CEO of Capital Appreciation says, "under the circumstances of generally declining economic conditions, compounded by COVID-19, the company's operations performed extremely well. We attracted new customers locally and abroad, gained strong traction in the roll-out of our Android platforms, launched new products and accelerated our annuity income. This and stringent cost control resulted in healthy cash generation."

Sacks notes "the financial impact of the pandemic resulted in a reduced number of retail merchants serviced through our banking clients. Given the economic uncertainty, many of our institutional clients adopted a cautious 'wait and see' attitude towards infrastructure expansion and capital expenditure. Each of our divisions retained existing clients and attracted several new high-profile clients, notwithstanding the challenging environment. We have been pleased by the recovery in activity since the beginning of the 2021 calendar year."

"As our underlying businesses are all in a growth and developmental phase of their respective lifecycles, we continue to invest in additional capacity and the development of new innovative product offerings in anticipation of a recovery in commercial activity across our operations", he says. A key highlight during the year has been the success of Halo, Synthesis' innovative "tap-to-phone", contactless payment solution certified by Mastercard, Visa and American Express. It has also been certified for "pin-on-glass" for higher value transactions. A major SA bank has used Halo for the past year and negotiations are underway with others. We are working with partners to market and distribute Halo in the rest of Africa, Asia Pacific and Central and Western Europe.

Financial results

Capital Appreciation's gross revenue of R619.5m declined 11.7%, while EBITDA of R172.9m decreased 15.5%. Headline earnings of R126.4m were down 11.1%, translating into basic EPS of 10.28 cents, 8.5% lower and HEPS of 10.34 cents, a 3.1% decline. The decreases were largely due to the delayed delivery of a substantial order of terminals after the year-end cut-off period. Non-operational items also impacted the comparison year on year, including a mark to market unrealised foreign exchange loss of R1.2m on forward cover contracts compared to a mark to market unrealised foreign exchange gain of R14.6m in the prior year, 45.8% lower interest received due to the lower interest rate environment, a capital gain of R8.7 million recognised in the prior year's

results related to the sale of the company's investment in Australia, countered by the recognition of a deferred tax asset of R11.3m in Dashpay.

At year end the Group held cash resources of R538.3m compared to R505.1m last year. Cash represented 41 cents of the Group's closing share price of 100 cents on 31 March 2021. A final dividend of 300cps has been declared, bringing the total dividend for the year to 550cps.

The **Payments division** generated revenue of R397.4m down 21.5% and 13.2% lower EBITDA of R140.4m, with profit after tax of R112.3m declining 2.6%, mainly due to COVID-related impacts. Dashpay, which has been in a start-up and development phase since acquisition has found its footing and is generating positive results. Despite a lower number of terminals being sold, Payments grew market share with customers increasing terminals held by 17% to over 217 000 units. Deployment of terminals improved in the second half of the year with the total deployed estate growing by 30% to 175 000 units. Annuity service and maintenance income on deployed terminals grew 19.6%. Annualised gross transaction value within Dashpay grew by 14% to R6.4bn with the number of active users increasing by over 80%.

The **Software division** delivered a pleasing performance, with revenue increasing by 13.9% to R222.1m as services and consultancy fees grew 7.1% and annuity income from licence and subscription fees rose 47.2% due to Halo and RegTech products. Operating expenses were contained at R83.3m, EBITDA increased 6.8% to R57.5m and profit after tax by 2.8% to R37.9m. The business had a cash conversion rate of more than 100%.

Operational performance

The Payments division is the first supplier in South Africa to deploy certified Android terminals as part of a broader integrated service. Dashpay retrofitted its transaction processing switch which dynamically routes payment transactions between multiple acquirers and service providers. This laid the groundwork for further innovation, such as e-commerce platforms and multi-lane retail.

The pandemic created challenging operating conditions that inhibited key personal interaction between Synthesis and its customers and employees. Nevertheless, the business expanded its service offering within its existing customer base and signed agreements with new customers, domestically and internationally. The strategy to target new customer verticals of retail, telecoms and healthcare continued to gain traction. The company continued to invest in infrastructure, particularly its intellectual property. In addition to operating in 10 markets outside SA, it has grown its Mauritian market, is exploring opportunities in Asia Pacific and will be opening an office in Amsterdam later this year.

The past year has seen increased collaboration across the Group, including Synthesis' development of the GovChat platform, enabling the government to manage the social and economic impact of COVID on citizens, as well as a digital application process for SASSA COVID relief grants. Synthesis won the AWS sub-Saharan Africa Social Impact Partner of the Year Award for this work. Synthesis and Dashpay collaborated to provide a closed loop, proprietary gift card solution with a loyalty programme to a listed client with retail shopping malls.

As part of its growth pipeline, Capital Appreciation acquired a 26.5% stake in start-up LayUp Technologies, which is Africa's first fully digital Lay-By and recurring payments business with digitised payment plan solutions for retailers.

Outlook

Turning to the outlook, Sacks notes, “We will continue to maximise the Group’s potential across business units, to diversify revenue streams and use common synergies for the benefit of customers and stakeholders. Our focus on Halo will intensify and we will continue expanding our terminal base and the Android platform, while we enhance our suite of services.”

He says that Capital Appreciation’s strong cash resources will fund organic growth and appropriate acquisition opportunities.

Sacks adds, “As digital transformation, electronic payments and related advances continue to accelerate, our Group has the appropriate skills, experience and track record of innovation and delivery to assist clients to benefit.”

He concludes, “We are cautiously optimistic about the year ahead, but understand that the realisation of opportunities will remain subject to conducive macro and micro economic environments.”

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Background

Capital Appreciation has two divisions: Payments and Software.

The Payments division comprises African Resonance and Dashpay, which are leading direct and indirect providers of payment infrastructure, technical support and payment technology solutions to established financial institutions, emerging payment service providers and customers in retail, fuel, restaurant, hospitality and healthcare sectors. Its terminal repair centre accommodates Linux and Android based terminals.

Synthesis is a specialised software development and consulting company led by business and technology experts. Synthesis creates solutions based on its in-depth understanding of software, business, and leading technology. With over 24 years’ business and emerging technology experience, as well as its unique position in Africa as an AWS Advanced Consulting Partnership with a broad range of additional specialist competencies, it is the partner of choice to pioneer innovation and competitiveness, and the company of choice that top technologists call home. Synthesis is recognised for creating strategic solutions and driving digital journeys for banking, financial services, retail, and healthcare institutions in South Africa, Africa, Mauritius, and the Asia Pacific regions.

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