

Tuesday, 30 November 2021

**CAPITAL APPRECIATION'S ROBUST PERFORMANCE REFLECTS STRONG DEMAND FOR ITS SERVICES**
**OPERATIONAL FEATURES**

- Accelerating digitalisation intensified the demand for Capital Appreciation's products and services
- Terminal sales for the current six months exceeded 2021 full-year sales
- Android terminals enjoy significant demand
- Strong acceleration for the Software division in the second quarter
- Growing international income, supported by a new office in Amsterdam
- Solid business pipeline across all businesses
- Improved operating margins due to scale benefits and operating efficiencies
- Strong cash conversion continues, consistent with prior periods
- Robust growth in sales resulted in large receivables at period-end, which have since converted into cash
- Cash available for reinvestment R589 million (29 November 2021)

**FINANCIAL FEATURES**

	September 2021	September 2020	% change
Revenue (R'million)	439.4	323.7	35.7
Trading profit (R'million)	147.5	88.1	67.4
EBITDA (R'million)	138.7	81.6	70.0
Operating profit (R'million)	119.2	64.5	84.9
EPS (cents)	7.44	4.45	67.2
HEPS (cents)	7.43	4.45	67.0
Trade and other receivables (R'million)	181.2	92.6	95.7
Interim dividend (cents)	3.75	2.50	50.0
Net asset value (cents)	117.0	108.0	8.3

**Johannesburg, 30 November 2021:** South African FinTech group Capital Appreciation Limited said today that the Company's interim results reflect an acceleration in commercial activity and strong demand for its innovative technology products and turnkey solutions.

Joint CEO, Bradley Sacks, noted that Capital Appreciation continued to attract a considerable number of new customers to its client base of blue-chip institutions in the banking, financial services, retail, telecommunications, and healthcare sectors. The Group's underlying businesses performed well. The Payments division benefited from a strong pipeline of terminal orders, as well as pleasing growth in terminal transaction income. The Software division experienced a significant increase in cloud migration projects and demand for digital transformation support. Non-SA revenue grew by 21%, as the Group continued to expand its presence outside of South Africa.

Capital Appreciation increased gross revenues for the period by 36% to R439.4 million. Profit margins improved, supported by the achievement of greater scale and efficiencies. EBITDA grew by 70% to R138.7 million. Finance income earned on the Group's significant cash balances declined by 10% to R10.0 million, commensurate with the lower interest rate environment and the Group paid full tax in the period. Headline earnings increased by 68% to R91.2 million and basic EPS and HEPS both grew by 67% to 7.44 cents per share and 7.43 cents per share, respectively. An interim dividend of 3.75 cents has been declared, up 50% relative to the comparative period. Operating returns from the underlying businesses have met expectations and continue to grow. Capital Appreciation remains highly cash generative.

The Payments division showed excellent growth in revenue and profit, benefitting from significant terminal sales and the commencement of new business relationships. The division grew revenue by 46% to R314.0 million and EBITDA by 90% to R126.3 million. The division experienced strong demand in the adoption of Android terminals, given their attractive functionality, price, and quality. Terminal sales increased by 68% to R210.4 million and terminals in the hands of customers increased by 28% or 57 000 terminals to a total of 259 000 terminals.

Key new in-house developed payment software technology went live in the period, resulting in a pleasing 56% growth in value-added services revenue. These new developments will allow Dashpay to roll out a Halo Dot-based "payment as a service" solution to the South African market, with the first merchants due to go live by February 2022. The Group launched a closed-loop, proprietary gift card solution with a loyalty programme for a leading listed property company. The solution is currently live in the largest retail mall in Africa and merchant activations have been growing steadily. The rollout of the project into the next mall is planned for H2 2022. Gross transaction value (GTV) increased by 20% against the comparable period from R5.6 billion to R6.7 billion. The Payments division continues to have an encouraging pipeline for the coming financial period.

Synthesis delivered a solid set of financial results for the period, bolstered by excellent results in the second quarter after a slow start due to the Covid impact. Revenue increased by 16% to R125.3 million and EBITDA by 4% to R29.0 million. Services and consultancy fees grew by 17% due to the increased demand for cloud and digital projects, while license and subscription fees remained stable. Profit margins decreased slightly due to the investment costs made into Synthesis' Payment products (Halo Dot and Keystone) as well as increased sales of third-party partnership software products which attracts a lower gross margin.

New business efforts have opened relationships with 19 new customers since the beginning of the financial year with a significant increase in cloud migration projects. The AWS partnership continued to grow. Synthesis recently achieved the impressive milestone of 200 Amazon Web Services (AWS) certifications, reflecting the company's deep technical expertise. The business also expanded into the shipping and logistics industry, after winning an RFP to build digital and AI systems for a large container shipping group operating out of Singapore. There is a massive demand for Intelligent Data solutions and Synthesis has attracted several new customers in financial services, telecoms, retail, healthcare services and contact centres.

The Halo Dot product's recent certifications by Visa, Mastercard, and AMEX for PIN entry enable acceptance of high-value transactions. This makes Halo Dot a complete software alternative to physical POS devices and an exciting prospect for clients. In partnership with DashPay, Synthesis also developed a SoftPOS App for Android devices that supports re-branding for customers who want to rapidly deploy their own SoftPOS application. Two new customers, Ukheshhe and Rapid Pay, joined Nedbank in the use of Halo Dot and further announcements are imminent.

During the period, the Group launched its new subsidiary company Synthesis Labs B.V., driven by Synthesis South Africa and based in the FinTech hub of Amsterdam. The new venture will allow the Group to capitalise on international opportunities and to further diversify its customer base.

Capital Appreciation continues to invest for the future in critical resources to grow and deliver its products, solutions, and project pipelines. The Group increased its headcount by 13% to 365 staff members. This includes the onboarding of additional applicants in its learnership and graduate recruitment programmes, as well as several key appointments at senior levels. The learnership programmes now comprise 10% of the total staff complement and provide real and measurable opportunities to young and marginalised South Africans.

The Group's main Enterprise Development recipient, GovChat, has continued to strengthen its critical role as a partner to Government in engaging with its citizens. GovChat has recently signed a memorandum of understanding with the United Nations to capitalise on its 8.2 million active users and digital footprint across South Africa, to offer insights on the socio-economic issues faced by local citizens. Capital Appreciation granted GovChat a further R11.5 million of loan funding to continue developing its technology platforms and services offered. The Synthesis team also developed the platform for GovChat to allow the second round of social relief grant applications as announced by the President in July 2021. More than 12.2 million applications for social grants have been received through the platform to date.

Capital Appreciation has invested R8.7 million for a stake in start-up LayUp Technologies with the right to increase its ownership over time. LayUp is Africa's first fully digital Lay-By and recurring payments business and offers a PASA certified omnichannel digitised payment plan solution for retailers, opening new revenue streams for merchants whilst simultaneously providing improved access for consumers. The solution is available for e-commerce and in-store purchases.

Capital Appreciation repurchased 13 377 540 shares during the period, at an average price of 123 cents per share. As of 30 September 2021, the Group had a total of 93 368 675 treasury shares at an average cost price of 77 cents per share. The Group's net asset value (net of treasury shares) increased by 5% since year-end to 117 cents.

Robust growth in sales resulted in large receivables at period-end, which have since converted into cash available for investment at 29 November 2021 of R589 million, equivalent to 48.4 cents per share. 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 complementary acquisition opportunities. Given the appropriate circumstances, the Group will continue to consider the repurchase of shares in the market.

With the ongoing lifting of Covid alert levels, and further adoption of alternative payments such as contactless payments and QR codes, the demand for Android-based payment terminals is expected to increase further. This is borne out by the encouraging pipeline for the coming period. Over the short term, given the lumpy nature of terminal sales, we remain susceptible to the global supply chain challenges and delivery delays.

Trading conditions for Synthesis are expected to continue to improve in the second half of the financial year given the strong demand. The themes of cloud migration, emerging digital technology, and evolving forms of payments are accelerating, and Synthesis is well-positioned to deliver products and value propositions to support its clients' journeys to becoming more digitally enabled. Synthesis is currently working on almost double the pipeline of FY 2021.

Sacks said: *“Digital transformation, as well as an acceleration in demand for electronic payments, cloud services, and related advances, continue to support robust growth prospects for the Group over the medium term. With a well-capitalised balance sheet, robust operating cash flows, and significant cash resources, the Group has the ability and appetite to take advantage of organic growth opportunities available to each of its business units as well as to consider FinTech-related acquisitive opportunities.”*

Ends.

#### **ABOUT CAPITAL APPRECIATION**

Capital Appreciation is a FinTech enterprise with two business segments – Payments and Software. The Group also has a newly formed international division in the Netherlands.

**Payments:** The payments segment comprises two businesses. African Resonance and Dashpay are leading direct and indirect providers of payment infrastructure, technical support, maintenance, and payment technology solutions to established banking and financial institutions, emerging payment service providers, and corporate customers in the retail, restaurant, fuel, hospitality, and healthcare sectors. Dashpay’s multi-product, multi-party universal transacting platform, and value-added services solutions are intended to complement existing payment services provided by the Group’s established banking and institutional client base.

**Software:** Synthesis is a highly specialised software and systems developer, offering consulting, integration services, and technology-based product solutions to banking, financial services, retail, telecommunications, healthcare, and other institutions in South Africa and other emerging markets. The Company creates and manages complex, high-value technology, partnering with customers to give them a true competitive edge whether through its cloud, digital engagement channels, intelligent data, training, or managed services offerings. Synthesis is uniquely positioned in Africa, given its Amazon Web Services (AWS) Advanced Consulting Partner Accreditation for a broad range of specialist competencies.

**International:** The International division is situated in the Netherlands. The business aims to broaden the Group’s geographic reach and increase its exposure to strong international currencies.

**Enterprise Development Funding:** Capital Appreciation supports and advances several commercial transformation initiatives, including through its enterprise development funding and provision of technology development expertise to GovChat, a black-controlled technology start-up that offers a platform to measure and enhance government interaction with citizens. GovChat is noted as one of AWS’s premier Public Sector initiatives globally and Capital Appreciation owns 35% of the entity.

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