Capital Appreciation Limited
Incorporated in the Republic of South Africa
Registration number 2014/253277/06
Share code: CTA
ISIN: ZAE000208245
("Capital Appreciation" or "the Group")

BUSINESS UPDATE FOR THE FIVE MONTHS TO 31 AUGUST 2022

Capital Appreciation's 2022 Annual General Meeting will take place virtually at 14:00 on Wednesday 7 September 2022. We, therefore, take the opportunity to provide shareholders and other interested parties with a brief update on the progress within our divisions in the five months since our March 2022 financial year-end, as well as the state of the markets in which we operate.

The long-term trend towards digitalisation continues and is evident in every aspect of daily life. The resulting demand for the adoption of electronic payments, cost-saving software solutions and cloud services have served to maintain the positive momentum in the technology sectors in which we operate, despite the acknowledged economic challenges being experienced both globally and in South Africa. While we are not immune to the consequences of the economic challenges, the positive trajectory of demand for our products and services continues to propel the Group forward and present opportunities for growth and expansion.

The demand from local and international customers for the products and services in the Software division has continued in the past five months, leading to notable growth in service and consulting fees and sales of state-of-the-art Hardware Security Modules (HSM). HSMs are used for enterprise encryption and to protect Payment Card PINs and contactless payments. Demand for Cloud and Digital services continues to grow, and the areas of Intelligent Data and Managed Services are showing strong progress. The Responsive acquisition in March 2022 has further enhanced the division's digital offering and provides complementary service offerings to Synthesis' growing customer base. Responsive's financial results will be included in the Software division results for the full period for the first time in the six months to 30 September 2022. In anticipation of strong growth, the Software division has increased its headcount by 50% year-on-year, which includes a substantial intake of recently qualified graduates. The division has also materially increased its marketing and business development spend, particularly on its tap-on-phone Halo Dot initiative, which continues to make good progress and is achieving notable interest both in South Africa and internationally.

Demand for point-of-sale (POS) terminals continues to be robust, particularly as the Group's addressable market increases. Economic challenges as well as the increasing preference for the additional functionality of the Android devices at lower price points are gradually shifting the terminal sales mix in favour of these terminals. Maintenance and support fees continued to grow modestly as customers elected to monitor the operating costs of the new range of Android devices before entering into long-term maintenance and support contracts.

While we continue to experience delays associated with global semiconductor shortages and supply chain issues, again an issue in recent months, a positive consequence is the greater awareness by customers of the benefits of balanced purchases on a more even basis across the year. We are hopeful that this trend will persist in years to come and help reduce the lumpiness in terminal sales previously experienced. The replacement lifecycle of terminals is also gradually becoming shorter as financial institutions and corporate customers replace their ageing terminal estates sooner to take advantage of improvements in technology, more functionally-rich solutions and to comply with international card specifications and certifications. These trends all point to consistent demand for POS terminals over the medium term. Transaction-related income from terminals continued to generate pleasing growth in this period. Shareholders are reminded that terminal sales in the first half of the 2022 financial year increased by 68% due to substantial and lumpy investment in terminals as companies emerged from the Covid pandemic. In view of the current revenue mix trends and continued supply chain challenges, it is unlikely that the Payments Division will achieve the same level of terminal sales in the 2023 interim period. We nevertheless expect satisfactory growth in the overall value of terminal sales for the full 2023 fiscal year.

The Group continues to invest significant funds in growth-related initiatives, the revenue benefit of which will only manifest in the medium term. This includes investment in new technology solutions and in the Group's International Division, which remains in an early formative stage. The expenditure of these funds has been expensed through the income statement in the current period. The Group strives to remain relevant to its clients by continuing to innovate and invest in new technologies, offerings and solutions and to be responsive to the needs of clients. The healthy and increasing demand will continue to support positive growth prospects for the Group.

Capital Appreciation's divisions remain highly cash generative with continuing healthy cash conversion from operations over the past five months. The Group's balance sheet remains very strong, providing ample support for further investment in our businesses, pursuing acquisitive investment opportunities and/or undertaking share repurchases.

The information contained in this business update has not been reviewed or reported on by the external auditors of the Group.

Capital Appreciation's closed period will commence on 1 October 2022. The Group intends to release its interim results for the six months ended 30 September 2022 on or about 29 November 2022.

Johannesburg
7 September 2022

Sponsor: Investec Bank Limited