



Capital Appreciation Limited

Incorporated in the Republic of South Africa

(Registration number 2014/253277/06)

Share code: CTA ISIN: ZAE000208245

(the “Group” or “CTA” or “Capital Appreciation”)

BUSINESS UPDATE FOR FINANCIAL YEAR ENDING 31 MARCH 2024

This announcement provides shareholders and other interested parties with a brief update on the Group’s operating performance for the 2024 financial year, as well as the state of the markets in which we operate.

The Group has performed well in a market and financial year characterised by continued weak business confidence and low economic growth. Even though these conditions caused some clients to delay their decisions for major projects and capital spend, there continued to be strong demand for the Group’s technology solutions, products and services.

Despite the challenging conditions, we are pleased to report that increased business activity in the Payments division, improved expense management and strong cash flows resulted in a robust improvement in the Group’s financial performance in the second half of the financial year. Both the Payments and Software divisions have continued to attract new clients, diversify their revenue sources, and grow their market shares. The financial results benefited from higher finance income, a considerably reduced expected credit loss raised, after tax, for GovChat and, the contribution of the Dariel Group (acquired July 2023).

Payments division

The Payments division made pleasing progress in the past financial year, gaining market share in the point-of-sale terminals market, introducing new payments software solutions to the market and acquiring new clients. Although terminal sales were slow in the first half of the year, they recovered meaningfully in the second half, ultimately reaching levels close to the prior year. In addition to growth in terminal sales, the size of the leased terminal estate doubled from the prior year. This will increase revenue and profits in the years ahead.

Payments-related annuity revenue streams continued to experience high double-digit growth, as the division rolled out proprietary Value Added and transaction-related software solutions. Annuity revenue now comprises 56% of Payments’ total revenue, up from 50% a year ago. The division’s new strategic software development partnership with ACI Worldwide, a leading global provider of real-time digital payments, is progressing well with final testing almost complete. This collaboration allows multi-lane retailers globally to transact seamlessly across PIN Entry Devices

(PEDs) from multiple equipment manufacturers and will open new market segments for the Payments division, in addition to generating licencing revenue.

The Payments division successfully reduced operating expenses year-on-year through excellent expense management. Together with the benefits of scale, this has supported a strong improvement in margins.

Software division

The Software division continued to be affected by the implementation of cost-cutting measures and the delay or deferral of contracts by its clients in the second half of the financial year. With strong bench capability built in the first half of the year, the division is well positioned and adequately resourced to service its clients, however, the impact of the delayed contracts has impacted profitability.

Despite this, the Software division managed to generate good revenue growth, attract several new clients, develop expertise in the FMCG sector and deliver several operational accomplishments. Synthesis was recently recognized by MyBroadband as the preferred software development company in South Africa for large business projects. The division also continued to build on its capabilities, investing further in its Generative AI capabilities and rounding out its Cloud division by augmenting its AWS leadership position with the addition of leading skills in Azure (Microsoft) and GCP (Google Cloud Platform). Synthesis was recognized with an “Excellence prize” from AWS for its cutting-edge Generative AI solution.

Concurrent with the successful integration of the Dariel Group into the division we have implemented remedial plans to address the over-capacity issues, with a strong focus on cost optimisation, scale and efficiency.

GovChat update

The Competition Tribunal has granted GovChat the right to intervene as a direct party in the Competition Commission’s prosecution of Meta. Going forward, the costs of the litigation against Meta will be shared by CTA and a group of certain other GovChat shareholders. As a result, the Group has limited its further funding of GovChat and its attributable losses will be materially lower for the 2024 financial year.

Strong balance sheet

Capital Appreciation's operating companies all generate significant cash flow, with healthy cash conversion from operations. The Group will continue to invest in growth-oriented initiatives as appropriate. After the payment of the initial cash consideration for the Dariel acquisition, dividends, share repurchases, and other investment initiatives this year, the Group still maintains a strong and unencumbered balance sheet with cash available consistent with prior reporting periods. This will be employed to fund organic growth, acquisition opportunities, investments, as well as further share repurchases.

Looking forward

The Payments division and Software division both continue to see strong demand for their products, services and solutions and have a positive outlook for the year ahead.

Capital Appreciation's closed period will commence on 1 April 2024. The Group intends to release its 2024 audited annual results on or about 4 June 2024.

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

Johannesburg

25 March 2024

Sponsor: Investec Bank Limited