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

BUSINESS UPDATE FOR THE SIX MONTHS PERIOD ENDING 30 SEPTEMBER 2024

This announcement provides shareholders and other interested parties with a brief update on the Group's operating performance for the six months ending 30 September 2024 and the state of the markets in which we operate.

Capital Appreciation is well-positioned in sectors with high demand for its products and services, particularly regarding its divisions' ability to support clients' competitiveness, efficiency and revenue growth aspirations. Digital transformation throughout the economy continues unabated, and the Group's clients needs continue to evolve.

Weak business confidence is showing signs of improvement

The first quarter of the 2025 financial year continued to be marred by low business confidence, reflecting the uncertainty ahead of the national elections. Businesses tended to match their spending to this environment and defer major capital expenditure to future periods. Business conditions and sentiment improved in Q2, with the newly elected Government of National Unity fully operational and green shoots emerging in the local economy.

Capital Appreciation's Payments and Software divisions demonstrated resilience by growing revenue while keeping expense growth below or in line with inflation. Both divisions remain cash-generative with healthy cash conversion from operations.

The Group will continue to invest in growth-related initiatives, including the leased terminal estate, as appropriate. Capital Appreciation retains a strong and ungeared balance sheet with significant cash on hand available to fund organic growth, acquisition opportunities, investments, and further share repurchases.

A strong performance from the Payments division, particularly in a low-growth economy

The Payments division, which is Capital Appreciation's largest division, secured two significant multi-year contracts after the end of the 2024 financial year. These contracts have a tenure of three to five years and could result in as many as 200 000 additional terminals being deployed for clients. This will add to the existing estate of 357 000 devices (as at 31 March 2024) already in the hands of clients. The Payments division benefits from estate management fees, maintenance income, transaction-related income, and a combination of either terminal sales or rental revenue, depending on a client's preference. Formalising these new contracts took time, and initial terminal orders were only received in Q2. These orders were partially delivered in the reporting period and delivery will be completed in Q3. Furthermore, the full benefit of the annuity revenue earned on terminals deployed late in Q2 will only be reflected in H2, generating further revenue momentum and solidifying the pipeline for the remainder of the financial year.

As reported at year-end, some clients are increasingly interested in leasing rather than purchasing terminals. This has a positive long-term impact on the Payments division by providing steady annuity income over the life of the lease and additional sources of revenue in the form of maintenance and support services and value-added transactional activity. The impact on the Group's financial results of the increase in the rental fleet is complementary to the rest of the Payments' business but is a substitution of terminal sales income and gross profit for annuity rental and other payments-related income. Payments annuity income again grew strongly during this period.

The prospects for the Payments division remain strong, with several trends contributing to the medium- to longer-term outlook — the recently awarded multi-year contracts, the technological advances in the industry that promote continuous hardware upgrades, and the increased opportunity to offer value-added services. In addition, the South African Government's announcement to deprecate the 2G and 3G networks in 2027 will require extensive bank terminal estate re-investment.

Payment-related software initiatives also continue to be a focus area, and together with new product innovation, present Payments with a differentiated offering — device-agnostic solutions across Africa and beyond.

Software division is well positioned for a return of capital spending

Consistent with other industry participants, the Software division faced a continued softer market with prolonged sales cycles. Despite these conditions, the division attracted new clients and concluded new contracts.

The overcapacity in bench resources persisted, worsened by the recent completion of some high-value contracts that have not yet been replaced. As a result, the Software division’s profitability for the six months was disappointing and lower than the prior year.

The Software division has made a strategic decision to retain its valuable people assets. The division's strong bench capability positions it well to take advantage of improved market conditions. During this period, the excess bench capacity has been deployed to develop and enhance intellectual property assets. Moreover, remedial plans have been implemented that are expected to partially improve financial performance in the second half of 2025 and, more particularly, in the 2026 financial year. This strategic decision reaffirms the Group's long-term vision and commitment to its people and assets.

Looking ahead, the division's medium-term outlook remains positive. No committed client projects have been cancelled, the Software division's skills and intellectual property are in high demand, and its projects are considered mission-critical and strategically important. At the end of the period, the Software division concluded new long-term contracts, the benefits of which will be visible in the years ahead.

GovChat has exited Business Rescue

Post the exit of GovChat from Business Rescue, operating expenses are minor and Expected Credit Loss provisions are anticipated to be limited.

Retirement of Group CFO

Alan Salomon, one of the Group’s founders, an executive director and Group CFO, advised the Group of his intention to retire at the end of this calendar year.

Alan has played an essential role in the leadership and the Group’s progress, and the Board wishes to thank Alan for his years of contribution, partnership, and professional application.

We wish Alan much joy, comfort, health, and relaxation in his retirement.

The Company is pleased to announce that Sjoerd Douwenga was employed from 1 August 2024 as CFO designate and will replace Alan after an orderly transition. Sjoerd was previously the CEO and CFO of Metair Investments, having spent his formative years at PwC. The Group looks forward to Sjoerd’s contribution in the years ahead.

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

Capital Appreciation’s closed period will commence on 1 October 2024. The Group intends to release its interim results for the six months ended 30 September 2024, on or about 3 December 2024.

Johannesburg
17 September 2024
Sponsor: Investec Bank Limited