# REVIEW OF OPERATIONS

## WHO WE ARE

PSG Group Ltd ("PSG" or "the company" or "the group") is an investment holding company consisting of underlying investments that operate across a diverse range of industries, which include financial services, education, banking and food and related business, as well as early-stage investments in select growth sectors. PSG's market capitalisation (net of treasury shares and following the Capitec unbundling) was approximately R14bn as at 28 February 2021.

There were seven main business units on which we reported at year-end, namely:

- PSG Konsult (wealth management, asset management and insurance);
- Curro (private basic education);
- Capitec (banking);
- Zeder (investments in food and related business);
- PSG Alpha (early-stage investments in select growth sectors);
- Dipeo (BEE investment holding company); and
- PSG Corporate (head office investment management and treasury services), including PSG Capital (corporate finance).

## OUR OBJECTIVE

Our economic objective remains to create long-term wealth for our shareholders through capital appreciation, investment income or both, and accordingly the key benchmark used by PSG to measure performance is its *sum-of-the-parts ("SOTP") value* per share. To achieve this, we have invested in a diversified portfolio of businesses with attractive growth potential that should yield above-market returns over time, while contributing positively to society.

## BENCHMARKING OUR PERFORMANCE

We believe that performance should be measured in terms of the return that an investor receives over time, with a focus on *per share* wealth creation. When evaluating PSG's performance over the long term, one should focus on the *total return index ("TRI")* as a measurement tool. The *TRI* is calculated by taking cognisance of share price appreciation, dividends and other distributions. This is a sound measure of wealth creation and a reliable means of benchmarking different companies.

PSG's *compound annual growth rate ("CAGR")* of its *TRI* as at 28 February 2021 was 39% p.a. over the approximately 25-year period since establishment. Had you purchased R100 000 worth of PSG shares in November 1995 and reinvested all your distributions (including cash and *in specie* dividends such as the unbundled Capitec shares) into PSG, your investment would be worth around R397m as at 28 February 2021. The same investment in the JSE All Share Index over this period would be worth only R2,6m. We are proud of the wealth we have created for our shareholders.

## OUR PERFORMANCE OVER THE PAST FINANCIAL YEAR

The calculation of PSG's *SOTP value* requires limited subjectivity as more than 83% of the value is calculated using exchange-listed share prices, while other investments are included at internal valuations, of which more detail is available at *www.psggroup.co.za/sotp*. At 28 February 2021, the *SOTP value* per PSG share was R94,24, representing a decrease of 0,2% when compared to the R94,44 per share as at 29 February 2020 if the unbundled Capitec shares are excluded from PSG's *SOTP value* at such date for comparative purposes.

| **Asset/(liability)** | 28 Feb 2019 Rm | 29 Feb 2020 Rm | **28 Feb 2021 Rm** | *Share of total* |
|---|---|---|---|---|
| PSG Konsult* | 8 700 | 6 399 | **7 282** | *35%* |
| Curro* | 5 714 | 2 604 | **3 588** | *17%* |
| Capitec* | 46 351 | 46 130 | **2 190** | *10%* |
| Zeder* | 3 166 | 3 173 | **1 983** | *9%* |
| PSG Alpha | 4 712 | 3 618 | **3 842** | *18%* |
| CA&S** | 1 075 | 1 130 | **1 126** | |
| Evergreen^ | 832 | 975 | **869** | |
| Stadio* | 1 277 | 662 | **865** | |
| Energy Partners^ | 572 | 118 | **305** | |
| Optimi^ | 447 | 305 | **296** | |
| Other investments^ | 599 | 499 | **446** | |
| *Less*: Minority shareholding held by PSG Alpha management | (90) | (71) | **(65)** | |
| Dipeo^ | | | | |
| Other net assets | 1 702 | 879 | **2 020** | *11%* |
| Cash^^ | 323 | 187 | **1 646** | |
| Pref investments and loans receivable^^ | 1 297 | 542 | **733** | |
| Other^^+ | 82 | 150 | **(359)** | |
| **Total assets** | 70 345 | 62 803 | **20 905** | *100%* |
| Perpetual pref funding* | (1 367) | (1 463) | **(1 132)** | |
| Other debt^^ | (1 020) | (1 020) | | |
| **Total SOTP value** | 67 958 | 60 320 | **19 773** | |
| **Shares in issue *(net of treasury shares)* (m)** | 218,2 | 218,2 | **209,8** | |
| **SOTP value per share (R)** | 311,45 | 276,43 | **94,24** | |
| **SOTP value per share excluding unbundled Capitec shares (R)** | 128,57 | 94,44 | **94,24** | |
| **Share price (R)** | 259,78 | 186,60 | **66,51** | |

** Listed on the Johannesburg Stock Exchange ("JSE") ** Listed on the Botswana Stock Exchange ("BSE") and 4 Africa Exchange ("4AX")*
*^ Internal valuation ^^ Carrying value*
*+ The 28 Feb 2021 balance includes a capital gains tax provision in respect of the retained Capitec interest disposed of subsequent to year-end.*
*Note: PSG's live SOTP containing further information is available at www.psggroup.co.za*

## CHANGE IN INVESTMENT ENTITY STATUS AND EARNINGS

International Financial Reporting Standards ("IFRS") require that an entity reassess whether it is an *investment entity* if facts or circumstances indicate changes to one or more of the elements making up the definition of an *investment entity* or the typical characteristics of an *investment entity*.

Whilst PSG's focus on value creation for its shareholders has not changed, the major corporate action comprising the Capitec unbundling referred to below has necessitated PSG to reassess its *investment entity* status in terms of IFRS, whereby it was determined that it became an *investment entity* with effect from 1 March 2020. As from this date, the performance of PSG's remaining investment portfolio is accordingly measured with reference to the fair value of each investment (i.e. *SOTP value*) rather than the consolidated profitability of PSG (i.e. *recurring earnings*) in PSG's strive to meet its objective of value creation through capital appreciation, investment income or both.

Where an entity's status changes to that of an *investment entity*, it does not consolidate its subsidiaries, but rather measures them at fair value through profit or loss. Such change in accounting policy is applied prospectively, with no adjustment to prior year comparatives. However, an *investment entity* continues to consolidate subsidiaries that provide services related to the *investment entity*'s investment activities (i.e. those wholly-owned subsidiaries comprising PSG's head office operations).

Pursuant to the aforementioned change in *investment entity* status, PSG's financial statements prepared in accordance with IFRS are not comparable to prior years. For the year under review, PSG reported earnings per share of R139,08 (2020: R11,29) and *headline earnings* per share of R4,81 (2020: R11,84). Earnings per share for example included a significant non-headline gain to the extent that the fair value of the unbundled Capitec interest exceeded its accounting carrying value as a non-current asset held for sale on the date of unbundling, being 30 July 2020 when PSG shareholder approval was obtained.

## MAJOR CORPORATE ACTION

During the year under review, the following major corporate action was undertaken:

- On 30 July 2020, PSG shareholders approved the unbundling of an effective 30,5m shares (or 26,4% of the 30,7% interest held) in Capitec, whereby significant value of more than R12bn was unlocked for PSG shareholders based on the share prices as at end of February 2020.
- Of the 4,3% Capitec interest retained by PSG for liquidity purposes and to further bolster PSG's balance sheet, 2,9% was sold for R2,9bn cash net of costs and capital gains tax paid.
- PSG repurchased 8,4m shares (or 3,8% of PSG's total number of shares in issue, net of treasury shares) at an average price of R54,73 per share for a total consideration of R459m.
- PSG invested a further R1,05bn in Curro's non-renounceable rights issue at R8,07 per share, thereby increasing its interest in Curro to 60%.
- PSG received a special dividend of R1,7bn cash pursuant to Zeder's disposal of its investment in Pioneer Foods.
- PSG settled all its outstanding redeemable debt amounting to R1bn.

## MAJOR CORPORATE ACTION SUBSEQUENT TO YEAR-END

Major corporate action subsequent to year-end, included the following:

- The board of PSG Financial Services Ltd ("PSGFS") resolved to make an offer to repurchase and delist all the JSE-listed cumulative, non-redeemable (i.e. perpetual), non-participating preference shares in issue by way of a scheme of arrangement for an aggregate cash consideration of R81 per share plus an amount equal to the preference dividend that would have been calculated on the preference share up to the scheme record date that has not been declared and paid, equating to a total cash consideration of approximately R1,5bn. Subject to the required approvals being obtained, it is envisaged that the repurchase will be implemented during August 2021.
- The remaining 1,4% Capitec interest as at 28 February 2021 was sold for R1,9bn cash net of costs and capital gains tax payable.

## OUR INVESTMENTS AS AT 28 FEBRUARY 2021


### PSG KONSULT (61,2%)

- *Simple and focused business model*
  - the provision of wealth management, asset management and insurance solutions
- *High barriers to entry*
  - onerous regulatory requirements
- *Key competitive advantage*
  - extensive distribution platform
  - trusted brand
- *High growth potential*
  - each of the three operating divisions, namely *PSG Wealth*, *PSG Asset Management* and *PSG Insure*, has a relatively low market share

PSG Konsult is a financial services company, focused on providing wealth management, asset management and insurance solutions to clients. It has the largest independent financial advisor distribution network in southern Africa with 932 advisors.

With the legal and regulatory environment within the industry having become increasingly onerous, PSG Konsult continues to attract quality advisors. It provides them with support through its well-established systems and its risk and regulatory compliance platform, allowing the advisors to focus on serving their clients.

PSG Konsult reported a 10% increase in *recurring headline earnings* per share for the year under review following strong performance from the *Wealth* and *Insure* divisions.

During the year under review, PSG accounted for a fair value gain of R883m following an increase in PSG Konsult's listed share price since 29 February 2020 and earned dividend income of R186m from this investment.

PSG Konsult has its primary listing on the JSE, with secondary listings on the Namibian Stock Exchange and Mauritian Stock Exchange. Its comprehensive results are available at *www.psg.co.za*.


### CURRO (60%)

- *Simple and focused business model*
  - private school education
- *High barriers to entry*
  - capital intensive
- *High growth potential*
  - Curro's capacity utilisation of completed schools is only at 69%, and at 51% of eventual capacity once all schools under construction are operational
  - greater usage of digital offerings to reduce Curro's cost base over time

Curro is the largest provider of private school education in southern Africa with more than 66 000 learners across 76 campuses as at 28 February 2021.

Curro reported a 24% decrease in *recurring headline earnings* per share for its financial year ended 31 December 2020 following an outflow of learners in particularly the pre-school business, coupled with an increase in bad debts and fee discounts granted pursuant to the Covid-19 pandemic.

During the year under review, PSG accounted for a fair value loss of R69m following a decline in Curro's listed share price since 29 February 2020 and earned dividend income of R23m from this investment.

PSG remains optimistic about Curro's growth prospects.

Curro is listed on the JSE and its comprehensive results are available at *www.curro.co.za*.


## CAPITEC (1,4%)

- *Simple and focused business model*
  - lending and transactional banking
- *High barriers to entry*
  - regulatory requirements and funding
- *High growth potential*
  - digital capability
  - increase in transactional banking clients and growth in credit book (including credit card)
  - other products (funeral insurance) and markets (business banking)

Capitec is currently the third largest bank in South Africa based on market capitalisation and is arguably the most successful business established in this country in the past 20 years.

Capitec reported a 27% decrease in *headline earnings* per share for the year under review following an increase in expected credit losses and decreased trading activity with consumer liquidity constrained pursuant to the Covid-19 pandemic and current state of the economy.

During the year under review, PSG accounted for a fair value loss of R724m in respect of its retained interest in Capitec, which mainly emanated from PSG's aforesaid disposal of a 2,9% interest in Capitec at an average price below its listed share price as at 29 February 2020.

Capitec is listed on the JSE and its comprehensive results are available at *www.capitecbank.co.za.*


## ZEDER (48,6%)

- *Simple and focused business model*
  - investment in food and related business
- *Focused management throughout the underlying investments*

Zeder is an investor in the broad agribusiness and related industries, with a historical focus on the food and beverage sectors.

During the year under review, PSG accounted for a fair value loss of R1,2bn following a decline in Zeder's listed share price since 29 February 2020 after it paid a special dividend pursuant to its disposal of Pioneer Foods, with PSG having received R1,7bn cash.

Zeder is listed on the JSE and its comprehensive results are available at *www.zeder.co.za.*

After year-end, Zeder published a cautionary announcement stating that it had been approached by numerous parties interested to potentially acquire some of its assets. Zeder management advised that they are reviewing and engaging with such parties and will revert to the market if there is meaningful progress in this regard. In the meanwhile, Zeder will continue to focus on growing the respective underlying businesses.

## PSG ALPHA (98,3%)

PSG Alpha serves as an incubator to identify and help build the businesses of tomorrow. In line with PSG's investment philosophy, PSG Alpha's focus is therefore predominantly on early-stage investing.

The PSG Alpha portfolio currently comprises nine investments, the majority of which are in a development phase. We continue to support these investments not only through providing capital when necessary and deemed appropriate, but also working alongside management in building these businesses – be it to help determine strategy, acting as a soundboard, assisting with problem solving, complementary deal-making, stakeholder relationships, promoting good corporate governance, establishing appropriate remuneration structures, and the like. Members of the PSG Group Exco and/or PSG Alpha Exco as a rule serve as directors on such investees' boards and on numerous sub-committees, including the finance/audit and risk committees.

PSG Alpha's early-stage investments provide meaningful optionality, particularly so in the context of a "smaller" PSG following the Capitec unbundling.

During the year under review, PSG accounted for a fair value gain of R138m in respect of its investment in PSG Alpha following an increase in its *SOTP value*.

More detail on the valuations of PSG Alpha's investments is available at *www.psggroup.co.za/sotp*.

**Overview of select PSG Alpha investees**

## CA&S (48,8%)

- *Simple and focused business model*
  - provider of outsourced sales, merchandising and related services to fast-moving consumer goods principals
- *High barriers to entry*
  - specialist expertise and long-standing relationships with clients
  - strong footprint across southern Africa with fundamental knowledge of the eight countries in which it operates
- *High growth potential*
  - aligned to population growth and consumer spending in southern Africa

CA&S is a leading provider of sales, merchandising and other related services to blue-chip fast-moving consumer goods principals. It has a footprint in eight southern Africa countries with a presence in all major centres. CA&S has broad trade coverage from bottom end and convenience through to formal and corporate stores, and each of its businesses has in-depth local market and country knowledge. Long-standing customer relationships combined with regional connectivity and shared collective expertise give CA&S a powerful competitive advantage across the region in which it operates.

CA&S is listed on the BSE and 4AX. More information about CA&S is available at *www.casholdings.co.za*.


### Evergreen (50%)

- *Simple and focused business model*
  - retirement lifestyle villages
- *High barriers to entry*
  - capital intensive and need for specialist services
- *High growth potential*
  - ageing population and large, fragmented market

PSG, through PSG Alpha, is co-invested in Evergreen with property specialist, Amdec. Evergreen develops, owns and operates retirement lifestyle villages on a life-right model. Although this model is well established in other parts of the world, especially in the United States, Australia and New Zealand, it is still a fairly new concept in South Africa.

Evergreen offers significant benefits to its residents, the most important being peace of mind from both a financial security as well as a healthcare perspective. In addition, it offers i) state-of-the-art lifestyle centres, typically including a bistro, lounge, salon, bar, library, gym, games room and entertainment area; ii) health and frail care; iii) excellent security; and iv) a sense of community among fellow retirees.

At the reporting date:

- Evergreen owned 975 completed units across seven villages;
- It had 156 units under construction across two existing villages; and
- It had secured land to develop an additional 4 451 retirement units, for a total of 5 582 secured opportunities.

In addition to Covid-19 generally impacting economic activity, Evergreen's marketing activities were especially hampered due to prospective clients being only allowed on-site for viewing appointments with strict controls in place. However, Evergreen has seen strong demand for its service offering following the relaxation of the Covid-19-induced lockdown restrictions.

Evergreen's stated ambition remains to be the pre-eminent retirement provider in South Africa reaching 10 000 units over time. The ongoing Covid-19 pandemic and a slow recovery in the South African economy and residential property market will, however, impact the rate of expansion.

More information about Evergreen's service offering is available at *www.evergreenlifestyle.co.za*.


### Stadio (43,2%)

- *Simple and focused business model*
  - private higher education
- *High barriers to entry*
  - capital intensive
  - accredited qualifications
- *High growth potential*
  - limited capacity in traditional higher education institutions
  - improved affordability pursuant to distance and digital offering

Stadio is a private higher education provider in its development phase and is listed on the JSE. It currently offers more than 95 accredited programmes, ranging from higher certificates to doctorates, to approximately 35 000 students through mainly distance learning (±82% of students), but also contact learning (±18% of students) at 14 campuses.

Stadio will continue to develop and expand its product offering as part of its journey to ultimately reach in excess of 100 000 students. PSG Alpha is actively assisting Stadio management in achieving their stated objectives.

More information about Stadio is available at *www.stadio.co.za*.

## Optimi (92,3%)

- *Simple and focused business model*
  - accessible learning solutions
- *High barriers to entry*
  - proprietary technology platforms and learning content
- *High growth potential*
  - demand for quality learning at affordable prices

Optimi provides accessible learning and support to learners and tutors using technology and centralised assistance to reduce the cost of and to improve the quality of education. Services are rendered to the following distinct segments:

| Channel | Customers |
|---|---|
| Home (home and supplementary education) | More than 26 000 learners<br>More than 2 700 facilitators |
| Classroom (classroom and extra-class teaching and learning solutions) | More than 1 600 schools<br>More than 50 other learning institutions |
| Workplace (workplace and community education and training) | More than 200 businesses<br>More than 100 000 learners |
| College (accredited qualifications and short courses) | More than 6 000 students |

More information about Optimi is available at *www.optimi.co.za.*

## Energy Partners (57,2%)

- *Simple and focused business model*
  - private energy utility
- *High barriers to entry*
  - capital intensive
  - skilled expertise
- *High growth potential*
  - size of the energy market
  - increasing attractiveness of renewable energy
  - pending deregulation given reliability concerns over South Africa's electricity supply

Energy Partners is a turnkey developer, owner and operator of energy-producing assets (which include solar, steam and refrigeration) with integrated construction and maintenance capabilities.

Although owning and operating the energy-producing assets are less profitable than selling the assets for cash in the short term, it is significantly more profitable over the long term and provides the business with valuable annuity income. Accordingly, Energy Partners' focus remains to significantly expand its current investment book.

More information about Energy Partners is available at *www.energypartners.co.za.*

### Other investees

A complete list of PSG Alpha's investees is set out below:

| Investment | Description | Interest (%) 2020 | Interest (%) 2021 |
|---|---|---|---|
| Carter | Redefine new car sales experience | 76,0 | **76,0** |
| CA&S | Route-to-market services for fast-moving consumer goods in southern Africa | 47,7 | **48,8** |
| Energy Partners | Private energy utility | 54,1 | **57,2** |
| Evergreen | Retirement lifestyle villages | 50,0 | **50,0** |
| Optimi | Innovative and accessible education solutions to schools, tutors, parents and learners | 84,4 | **92,3** |
| ProVest | Diversified mining services | 42,3 | **44,2** |
| SNC | Scalable, high-throughput nanofiber production | 61,1 | **61,1** |
| Spirit Capital | Investment holding company focused on leveraged transactions | 49,3 | **49,3** |
| Stadio | Private higher education | 44,0 | **43,2** |
| CSG | Diversified outsourced services (personnel, security, mining, cleaning and catering services) | 12,4 | **Sold** |
| Educartis | Education listing website with Africa focus | 20,0 | **Impaired** |

### DIPEO (49%)

Dipeo, a BEE investment holding company, is 51%-owned by the Dipeo BEE Education Trust, of which all beneficiaries are black individuals. The trust will use its share of any value created in Dipeo to fund black students' education.

Dipeo's most significant investments include shareholdings in Curro (3,6%), Stadio (3,3%), Kaap Agri (20%) and Energy Partners (16,6%). A portion of Dipeo's investment in Energy Partners remains subject to a BEE lock-in period.

During the financial year ended 28 February 2019, Dipeo's *SOTP value* turned negative (i.e. liabilities exceeded assets) following a decline in the value of its listed investments, with a resultant negative impact on PSG's *SOTP value* through reducing its investment in Dipeo to zero and impairing PSG's pref investment in Dipeo to the extent required. During the year under review, PSG recognised an impairment reversal of R126m following mainly an increase in Kaap Agri's JSE-listed share price, with the accumulated impairment amounting to R781m as at 28 February 2021.