



PSG GROUP LIMITED

# RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2013

▶ **SUM-OF-THE-PARTS VALUE** of R85,03 per share as at 4 October 2013

▶ **RECURRING HEADLINE EARNINGS** increased by 20% to 194,3 cents per share

▶ **HEADLINE EARNINGS** increased by 14% to 239 cents per share

▶ **INTERIM DIVIDEND** of 43 cents per share

## PSG RESULTS COMMENTARY

PSG Group Ltd (PSG) is an investment holding company consisting of underlying investments that operate across industries which include financial services, banking, private equity, agriculture and education. PSG's market capitalisation is approximately R15,4bn, with our largest investment being a 28,3% interest in Capitec.

### PERFORMANCE

We believe that performance should be measured on the return that an investor receives over time, with a specific focus on *per share* wealth creation. Our objective remains to continuously create wealth for all stakeholders.

When evaluating PSG's performance over the *long term*, one should focus on the *total return index (TRI)* as measurement tool. The TRI is the *compound annual growth rate (CAGR)* of an investment, and is calculated by taking cognisance of share price appreciation, dividend and other distributions. This is a sound measure of wealth creation and a means of benchmarking different companies. PSG's TRI is 50,4%, which is the highest of any JSE-listed company over the 18-year period since PSG's establishment in November 1995.

When evaluating PSG's performance over the *short to medium term*, we focus on the growth in PSG's *sum-of-the-parts (SOTP) value* per share and *recurring headline earnings* per share. History confirms that PSG's share price tracks its *SOTP value* per share. Positive growth in PSG's *SOTP value* per share thus inevitably leads to share price appreciation. However, an increase in PSG's *SOTP value* per share over time will ultimately depend on sustained growth in the profitability of our underlying investments. PSG consequently introduced the *recurring headline earnings* per share concept to provide management and investors with a more realistic and transparent way of evaluating PSG's performance from an earnings perspective.

### RESULTS

PSG had a satisfactory six months to 31 August 2013, with reasonable growth in both its *SOTP value* and *recurring headline earnings* per share.

### SOTP

The calculation of the *SOTP value* is simple and requires limited subjectivity as approximately 82% of the value is calculated using listed share prices, while the unlisted investments are valued using market-related multiples. At 31 August 2013, the *SOTP value* per PSG share was R79,20 (28 February 2013: R72,67), which equated to a 29% CAGR over the last three years. At 4 October 2013, the *SOTP value* was R85,03 per share.

	28 Feb 2011	29 Feb 2012	28 Feb 2013	31 Aug 2013	% of total
	Rm	Rm	Rm	Rm	
<b>Asset/Liability</b>					
Capitec*	5 138	5 978	6 128	6 030	34,8
Curro Holdings*	1 261	1 118	2 607	3 341	19,3
PSG Konsult**	1 006	1 483	2 237	2 747	15,9
Zeder*	1 209	1 067	1 412	1 694	9,8
PSG Private Equity <sup>†</sup>	1 242	728	681	701	4,0
Thembeke Capital <sup>††</sup>		570	899	964	5,6
PSG Corporate (incl. PSG Capital) <sup>††</sup>	350	338	383	383	2,2
Other investments (incl. cash) <sup>††</sup>	548	684	1 505	1 466	8,4
<b>Total assets</b>	9 553	11 966	15 852	17 326	100,0
Perpetual pref funding*	(1 028)	(1 188)	(1 163)	(1 419)	
Other debt <sup>††</sup>	(507)	(463)	(845)	(869)	
<b>Total SOTP value</b>	8 018	10 315	13 844	15 038	
<b>Shares in issue (net of treasury shares) (m)</b>	171,3	184,5	190,5	189,9	
<b>SOTP value per share (rand)</b>	46,81	55,92	72,67	79,20	
<b>Net asset value per share (rand)</b>	21,56	26,50	32,62	34,41	

\* Listed on the JSE Ltd \*\* Over-the-counter † SOTP value †† Valuation

### RECURRING HEADLINE EARNINGS

	Year ended 28 Feb 2013	Year ended 31 Aug 2013	Change %	31 Aug 2013
	Rm	Rm	%	Rm
<b>Recurring headline earnings</b>				
Capitec	499,9	226,3	21	274,8
Curro Holdings	8,1	(2,0)	n/a	7,8
PSG Konsult	118,8	51,8	36	70,4
Zeder	106,6	35,2	8	38,2
PSG Private Equity	75,0	35,2	(26)	25,9
Thembeke Capital	28,0	5,5	51	8,3
PSG Corporate (incl. PSG Capital)	15,9	3,1	(32)	2,1
Other	30,8	20,7	(24)	15,7
<b>Recurring headline earnings before funding</b>	883,1	375,9	18	443,2
Funding	(168,2)	(82,1)	7	(87,5)
<b>Recurring headline earnings</b>	714,9	293,8	21	355,7
Non-recurring items	160,1	86,1	(5)	81,9
<b>Headline earnings</b>	875,0	379,9	15	437,6
Non-headline items	264,8	(64,8)	n/a	13,1
<b>Attributable earnings</b>	1 139,8	315,1	43	450,7
<b>Weighted average number of shares in issue (net of treasury shares) (m)</b>	182,2	180,8		183,1
<b>Earnings per share (cents)</b>				
- Recurring headline	392,3	162,5	19,6	194,3
- Headline	480,2	210,2	13,7	239,0
- Attributable	625,5	174,3	41,3	246,2
<b>Dividend per share (cents)</b>	111,0	33,0	30,3	43,0

*Recurring headline earnings* for the six months ended 31 August 2013 increased by 19,6% to 194,3 cents per share. The growth was primarily due to strong performances from Capitec and PSG Konsult, while the majority of the remaining investments also reported improved earnings.

*Headline earnings* increased by 13,7% to 239,0 cents per share. *Headline earnings* per share increased by a smaller margin than *recurring headline earnings* per share as PSG achieved lower non-recurring headline profits during the period under review. This was mainly as a result of substantial market-to-market profits achieved in Thembeke's portfolio of listed shares during the previous corresponding financial period, which were not repeated to the same extent during the period under review.

*Attributable earnings* increased by 41,3% to 246,2 cents per share mainly as a result of non-headline gains during the period under review as opposed to non-headline impairment losses during the previous corresponding financial period.

*Operating profit before finance costs and taxation* increased by 53% to R873m, mainly as a result of the aforementioned improved performance from our underlying investments and the first-time consolidation of selected subsidiaries in which a controlling interest was acquired during the past 12 months.

### PROJECT INTERNAL FOCUS

In April this year, PSG introduced its latest strategy, *Project Internal Focus*, to the market. PSG's investment portfolio contains a healthy balance between established and start-up businesses, all of which offer attractive growth potential. The majority of PSG's most significant successes has been businesses that were either started by, or in conjunction with, PSG. Capitec, PSG Konsult and Zeder

are all examples of same. In order to extract maximum value, we formalised *Project Internal Focus*, a strategy whereby our focus is primarily directed at the optimisation, refinement and growth of PSG's existing investment portfolio.

Capitec is a good example of an established business that requires limited attention from PSG management. It has achieved much success to date, with exponential growth in *headline earnings* per share since establishment in 2001. Capitec continues to provide PSG with a solid earnings base to leverage. Investments in the development phase on the other hand, such as Curro and Chayton, require more active strategic input from PSG. These companies are likely to experience new business strain while expanding and will only start making a contribution to PSG's earnings in later years. As anticipated, it will initially have a negative impact on PSG's earnings and dividend growth, as the cost of funding associated with the investment is more than the investment yield achieved from an earnings and cash flow perspective. That said, Curro has already made a significant positive contribution to PSG's *SOTP value* with the substantial increase in its share price since listing on the JSE in 2011.

### Project Internal Focus in action

The drive to revisit and, if necessary, reformulate the business strategy of each investment throughout the group, is showing promise. Every underlying business has now compiled a revised strategic plan coupled with budgeted profits for the next few years, and the recently appointed successor CEOs at some of our larger investments have already made a positive contribution towards the future success of those businesses.

### CAPITEC (28,3%)

Capitec continued to deliver sustained growth and performance amid challenging conditions in the unsecured credit market, with a 20% increase in *headline earnings* per share during the six months ended 31 August 2013. It remains an exceptionally well-run business with, as far as we know, the most conservative approach to funding, credit criteria and provisioning in the industry. It is well capitalised with a capital adequacy ratio of 39%. Capitec is becoming less dependent on lending income as it continues to experience a sharp increase in net transaction fee income. This amount grew by 54% to R899m during the period under review and now covers 55% of operating expenses, up from 45% as at 28 February 2013.

Riaan Stassen recently announced his retirement as Capitec CEO later this year. We thank him for his devotion and the major role which he has played as leader and innovator to help grow Capitec into the business it is today. We look forward to Riaan's continued contribution as a non-executive director on the board of Capitec. PSG is pleased to welcome Gerrit Fourie as the new CEO and wishes him and the rest of the management team well with their task at hand.

We remain positive about Capitec, its business and its management and believe that this investment will continue to be a significant contributor to the future success of PSG for years to come.

Capitec's comprehensive results for the six months ended 31 August 2013 are available at [www.capitecbank.co.za](http://www.capitecbank.co.za).

### CURRO HOLDINGS (57,1%)

Curro recently turned 15 years old. With the support of PSG since 2009, it has become the largest private school company in South Africa. It boasts 21 908 (2012: 12 473) learners across 26 (2012: 22) campuses.

For the six months ended 30 June 2013, Curro reported a 91% increase in revenue to R309m and a R14m headline profit compared to a R3m headline loss in the previous period. Aggressive expansion will continue to have a negative impact on profits over the short term, but is bound to deliver pleasing results over the medium to long term when the created capacity is utilised through an increase in new learners.

With the underwritten support of PSG, Curro raised R605m in cash during May this year by means of a rights issue. This capital will be invested in the expansion of existing campuses, as well as in the addition of five new schools for the 2014 year. In the six months under review, Curro also successfully completed two significant strategic acquisitions:

- A teachers training college, which will improve the company's sources of human capital.
- The 4 300-learner Northern Academy school, which provides the backbone for the Meridian community school division.

Curro's pipeline of opportunities continues to grow and PSG remains fully supportive of the company's vision to achieve 80 schools by 2020.

Curro's comprehensive results for the six months ended 30 June 2013 are available at [www.curro.co.za](http://www.curro.co.za).

### PSG KONSULT (64,8%)

PSG Konsult has, under the leadership of Francois Gouws as new CEO, refocused itself into three distinct business segments: Wealth, Asset Management and Insure. It delivered excellent results for the six months ended 31 August 2013, with a 31% increase in *recurring headline earnings* per share.

*PSG Asset Management's* assets under management and administration increased substantially due to strong fund inflows and increased market values as a result of favourable investment market conditions. Despite prevailing difficult underwriting market conditions, the *Insurance* business benefited from management's efforts to enhance vertical integration and exploit synergies that the short-term insurance licence and expertise provide PSG Konsult with, resulting in improved service delivery and products to its client base. The *Wealth* business also benefited from positive client inflows, increased client trading activity and generally favourable market conditions.

A key strength of PSG Konsult is the depth and quality of its financial advisers. In a complex financial environment the high-quality advice PSG Konsult is able to provide to clients is a distinct competitive advantage which helps protect, preserve and grow the financial wealth of its client base. PSG Konsult wants to continue growing its advisory practices.

The *PSG Asset Management* team has consistently produced top quartile investment returns by investing in both local and international securities. The strategy is to raise its brand awareness and actively pursue both retail and institutional clients. *PSG Asset Management* has made substantial progress during the last six months to position itself as a credible alternative to some of the larger incumbents.

Going forward, PSG Konsult's strategy will be to sustainably grow the business and profits through, inter alia, the following:

- Position PSG Konsult as a fully fledged financial services business through its comprehensive range of services and products.
- Optimise the synergies that exist between business segments in order to create further business development opportunities.
- Extend PSG Konsult's sharing in the value chain and in particular grow the asset management and short-term insurance activities.

PSG Konsult's comprehensive results for the six months ended 31 August 2013 are available at [www.psg.co.za](http://www.psg.co.za).

### ZEDER (42,6%)

Zeder is an investor in the broad agribusiness industry with a specific focus on the food and beverage sectors. The value of its underlying portfolio of investments amounted to R4,36bn (R4,74bn on a see-through basis) as at 31 August 2013. Agri Voedsel (with its interest of 30,5% in Pioneer Foods) remains a large and strategic investment representing 39,2% of the portfolio. During the six months under review, Zeder invested a further R469,4m, of which R353,3m was for an additional stake in Capespan.

Zeder's *SOTP value* per share increased by 8,8% to R4,34 since 28 February 2013. Zeder's *see-through SOTP value* per share, calculated on the exact same basis, apart from using the see-through JSE-listed market price for Agri Voedsel's investment in Pioneer Foods instead of Agri Voedsel's own OTC share price, increased by 8,7% to R4,73 since February 2013. At the close of business on Friday, 4 October 2013, Zeder's *SOTP* and *see-through SOTP value* per share were R4,53 and R4,99 respectively.

*Recurring headline earnings* per share increased by 8,2% to 9,2 cents, mainly due to improved contributions from Capespan, Zaad and Kaap Agri during the period under review. However, the positive effect of the aforementioned was to some extent offset by:

- The cash proceeds from the disposal of the bulk of Zeder's Capevin Holdings shares yielded a lower return than what the Capevin Holdings investment did during the comparative period.
- As anticipated, the investment in Chayton, a start-up business in its development phase, incurred a loss, while drought conditions negatively affected the performance of NWK and Suidwes. Subsequent to 31 August 2013, NWK and Suidwes were sold for an aggregate cash consideration of R325m.

*Headline earnings* per share increased by 25,4% to 7,4 cents. The aforementioned, coupled with a decrease in non-recurring costs incurred by investee companies during the period under review, resulted in the increase in *headline earnings* per share.

Over the past 12 months, Zeder has communicated a refined strategy to the market. It seeks larger, strategic stakes in entities that allow it to play a more active role in its underlying portfolio companies and assist with the determination of appropriate long-term strategies to help expand the respective businesses. Significant progress has been made in this regard and the investments in Zaad, Chayton and Capespan are examples thereof. Zeder is actively engaged with its existing portfolio of companies, while continuously seeking new opportunities, and it remains optimistic about the sector.

Zeder's comprehensive results for the six months ended 31 August 2013 are available at [www.zeder.co.za](http://www.zeder.co.za).

### PSG PRIVATE EQUITY (100%)

Management remains optimistic about the earnings growth potential of PSG Private Equity's portfolio which contains a range of businesses across various industries and in different stages of maturity.

Start-up businesses with exciting prospects, such as Impak (distance education) and Energy Partners (energy-efficiency solutions), are currently investing for future growth and require input from PSG management. The larger and more mature investments have solid growth strategies in place to deliver increased earnings going forward.

### THEMBEKA CAPITAL (49%)

Thembeke is a black-owned and controlled investment company. Its portfolio of R2,49bn includes investments in Pioneer Foods, Capitec, PSG, Curro, MTN Zakhele, Kaap Agri and Overberg Agri.

During the six months ended 31 August 2013:

- Thembeke's net intrinsic value (after CGT) increased by 21% to R1,62bn.
- Its *recurring headline earnings* increased by 38% to R40m.
- It invested a further R54m in Curro in terms of the aforementioned rights issue in May 2013.

Thembeke remains an extraordinary BEE success story and, under the leadership of KK Combi, has grown its intrinsic value (after CGT) by 46% year on year over the last 7,5 years. Thembeke has a portfolio of quality investments and is confident that continued growth by investee companies will ultimately translate into good portfolio returns going forward.

Thembeke's comprehensive results for the six months ended 31 August 2013 are available at [www.thembekacapital.co.za](http://www.thembekacapital.co.za).

### PROSPECTS

PSG operates in a number of diverse industries, the performance of which is not always correlated. Although it is difficult to predict the future, we remain optimistic and believe our strategy will continue to deliver superior returns for shareholders.

### DIVIDENDS

#### Ordinary shares

PSG's policy remains to pay up to 100% of free cash flow as an ordinary dividend, of which one third is payable as an interim and the balance as a final dividend at year-end. The directors have resolved to declare a gross interim dividend of 43 cents (2012: 33 cents) per share.

The company will be utilising secondary tax on companies credits amounting to 16,9 cents per ordinary share and, as a result, the taxable dividend per share will amount to 26,1 cents per share. The dividend amount net of South African dividends tax of 15% is therefore 39,085 cents per share for those shareholders that are not exempt from dividends tax. The number of ordinary shares in issue at the declaration date is 207 589 426, and the income tax number of the company is 9950080714.

The salient dates of this dividend distribution are:

Last day to trade cum dividend	Friday, 1 November 2013
Trading ex dividend commences	Monday, 4 November 2013
Record date	Friday, 8 November 2013
Date of payment	Monday, 11 November 2013

Share certificates may not be dematerialised or re-materialised between Monday, 4 November 2013, and Friday, 8 November 2013, both days inclusive.

#### Preference shares

The directors of PSG Financial Services Ltd have declared a dividend of 357,06 cents per share in respect of the cumulative, non-redeemable, non-participating preference shares for the six months ended 31 August 2013, which was paid on 30 September 2013. The detailed announcement in respect hereof was disseminated on Securities Exchange News Service (SENS).

### UNAUDITED FINANCIAL RESULTS

This announcement contains only a summary of the information of the full announcement made on SENS on Monday, 14 October 2013, and is the responsibility of the directors. Please refer to the full announcement for additional information. The full announcement is available for viewing on PSG's website at [www.psggroup.co.za](http://www.psggroup.co.za) or may be requested and obtained in person, at no charge, at the registered office of the company during office hours. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement made on SENS.

On behalf of the board

Jannie Mouton  
Chairman

14 October 2013  
Stellenbosch

Wynand Greeff  
Financial Director



PSG GROUP LIMITED  
Registration number 1970/008484/06 JSE share code: PSG ISIN code: ZAE000013017  
PSG FINANCIAL SERVICES LIMITED  
Registration number 1919/000478/06 JSE share code: PGFP ISIN code: ZAE00009670

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