



## Chairman's letter

Dear shareholder

It is now twenty years since South Africa became a democracy in 1994. The transition to a fully democratic state contributed positively to the lives of many of its citizens. Real GDP per capita has increased by approximately 40%, despite two global financial crises. Living standards have also improved, with the percentage of people in the LSM 5-10 range increasing from 48% in 2001 to in excess of 75% at present. And while our country continues to face challenges such as corruption and poor service delivery, we can still say that we live in a land of opportunity.

PSG Group Ltd ("PSG") is a "new" South Africa company, having been established in November 1995. We have over the years contributed positively to the lives of our shareholders and to society in general, and have always done so with honesty and integrity. It is my pleasure to report on another year of good performance across our investment portfolio, and to share with you some of our philosophies.

### **WHO WE ARE**

PSG is an investment holding company consisting of underlying investments that operate across a wide range of industries including financial services, banking, private equity, agriculture and education. Our market capitalisation (net of treasury shares) is approximately R20bn, while we have influence over companies with a combined market capitalisation of around R74bn.

There are seven main business units on which we report, namely:

- Capitec (banking);
- PSG Konsult (wealth management, asset management and insurance);
- Curro (private school education);
- Zeder (investment in the agribusiness sector);
- PSG Private Equity (investment in sectors other than agribusiness);
- Thembeke Capital (BEE investment holding company); and
- PSG Corporate (investment management and treasury services), including PSG Capital (corporate finance).

While we are a corporate enterprise, PSG is ultimately a "family" affair. By that I do not mean the prevalence of my family as largest shareholder, but rather the camaraderie and mutual respect between the management of PSG, its underlying investments and shareholders. We are fortunate that a significant portion of our shareholder base has been loyal PSG supporters for many years. We all have a common goal – to increase shareholder wealth over time.

### **OUR OBJECTIVE**

Our long-term economic goal remains to continuously create wealth for our shareholders through a combination of share price appreciation and the payment of dividends. In order to achieve this, we have invested in a diversified group of businesses with high growth potential that consistently yield above-average returns.





## Chairman's letter continued

### EVALUATING OUR PERFORMANCE

We believe that performance should be measured on 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 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 reliable means of benchmarking different companies. PSG's *TRI* as at 28 February 2014 was 50% per annum over the 18-year period since its establishment. This means that had you purchased R100 000 worth of PSG shares in November 1995, reinvested all your dividends and held onto the Capitec shares unbundled in 2003, your investment would be worth R169m today. The same investment in the JSE All Share Index over this period would be worth R1,5m today. We are proud of this achievement.

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 ultimately leads to an increase in the share price. However, an increase in PSG's *SOTP value* per share over time will ultimately depend on sustained growth in the profitability of the underlying investments. Consequently, we use 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.

TRI Table

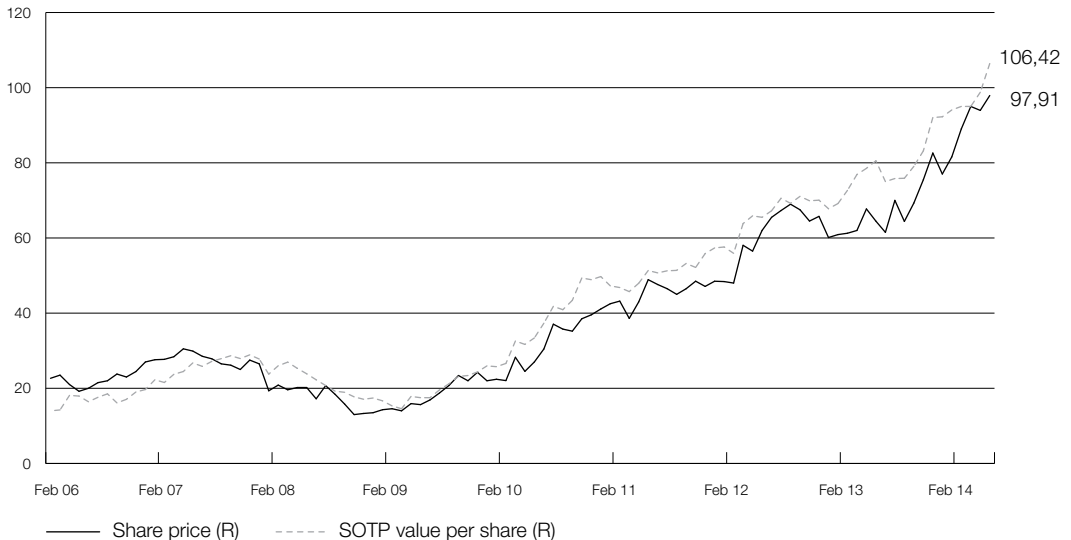
Year ended February	Annual change		
	PSG share price %	JSE All Share Index %	Difference %
1996	543	11	532
1997	113	9	104
1998	219		219
1999	(24)	(9)	(15)
2000	(11)	43	(54)
2001	(28)	19	(47)
2002	(26)	26	(52)
2003	17	(20)	37
2004	102	34	68
2005	155	28	127
2006	198	46	152
2007	26	39	(13)
2008	(16)	22	(38)
2009	(19)	(38)	19
2010	94	48	46
2011	99	24	75
2012	14	10	4
2013	20	19	1
2014	30	23	7
<b>CAGR since establishment</b>	<b>50</b>	<b>16</b>	<b>34</b>
<b>Overall gain</b>	<b>168 832</b>	<b>1 453</b>	





## Chairman's letter continued

### PSG share price vs SOTP value per share



At 28 February 2014, the *SOTP value* per PSG share was R95,01, which equated to a 44% CAGR over the last five years. At 11 April 2014, the *SOTP value* per share was R106,42.

It is pleasing to note that the value contribution within PSG's *SOTP value* has improved, with Capitec constituting 30% of total assets as at 11 April 2014 as opposed to 54% three years ago, while PSG Konsult and Curro now respectively represent approximately 25% and 20%. We currently have a number of high growth potential investments that are not profitable or cash generative as yet. We look forward to a significant contribution from these investments in future.

*Recurring headline earnings* per share for the year ended 28 February 2014 increased by 14% to 446,9 cents per share. This resulted from solid earnings growth from PSG Konsult, Capitec and Zeder.

### OUR INVESTMENT PHILOSOPHY

PSG's trusted investment philosophy consists of, inter alia, the following:

- We invest in:
  - Enterprises with uncomplicated business models operating in industries that we understand;
  - Industries and businesses with attractive growth prospects and high barriers to entry;
  - Focused, talented, hard-working and passionate management.





## Chairman's letter continued

- We are long-term investors with no predetermined exit strategy.
- Sound corporate governance is not negotiable – we believe in transparent and succinct information.
- A key tenet of success is trust. Without trust, companies lose customers. Without trust, leaders lose their teams. We advocate trust through our philosophy of ultimate empowerment. We employ smart, competent individuals and empower them through trust.
- We believe in co-investing with management. Management as owners are generally more focused and dedicated to growing their businesses. This also applies to PSG – the board of directors owns 37% of the company.

### OUR STRATEGY

#### Project Internal Focus

In April last 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 are anticipated to only start making a meaningful contribution to PSG's earnings in later

years. This has a negative impact on PSG's earnings and dividend growth in the short to medium term as the cost of funding associated with the investment exceeds the investment yield achieved from an earnings and cash flow perspective.

#### 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 for the next few years, and the appointed successor CEOs at some of our larger investments have already made a positive contribution towards the future success of those businesses.

### OUR INVESTMENTS

When evaluating our key investments, each one has definite characteristics which are representative of our aforementioned investment philosophy.

#### Capitec (28,3%)

- *Simple and focused business model*
  - lending and transaction banking
- *High growth potential*
  - increase in transaction banking clients
- *High barrier to entry*
  - regulatory requirements and funding

Capitec differentiates itself as leader in the banking sector and remains a significant contributor to the profitability of our investment portfolio.

Its *headline earnings* per share for the year ended 28 February 2014 increased by 15%, despite:

- A general decrease in credit granted in the unsecured lending market; and
- The deterioration in customers' financial means following, inter alia, the increase in fuel and electricity prices and higher interest rates.

It is comforting that the company continues to become less dependent on lending income. Net transaction fee income increased by 43% to almost R2bn, and now covers 59% (2013: 45%) of operating expenses.





## Chairman's letter continued

In our opinion, Capitec is an exceptional business with the following main competitive advantages:

- Talented management team, the majority of whom have been together since its establishment;
- Conservative provisioning and write-off policy;
- Conservative capital adequacy ratio of 39%;
- Diversified funding base, with fixed-term funding comprising 59%, the remainder being sticky retail savings deposits; and
- Substantial growth potential of its transaction banking product offering.

Nowhere is the success of Capitec more evident than in the findings of the *All Media and Products Survey ("AMPS")*. This shows that Capitec's market share in the primary banking sector has increased from 5,4% in 2010 to 12,7% in 2013. With Capitec having overtaken Nedbank in this regard, one can now probably refer to the "big five banks". The numerous awards ranking Capitec top in customer service, commercial banking and online banking bear further testimony to how great a company this is.

We are, needless to say, extremely proud of what Capitec has achieved over the past 13 years under the leadership of Riaan Stassen. Their relentless focus remains an example to all of us at PSG. It is encouraging to witness the energy and ambition with which Gerrie Fourie has taken over the helm as new CEO, and we are confident that he will contribute greatly in the years to come.

### Curro (57,1%)

- *Simple and focused business model*
  - private schooling
- *High growth potential*
  - size and potential of the private schooling market
- *High barriers to entry*
  - capital intensive

Curro represents a high growth potential investment. It continues to assert its leading position in the South African private school market, albeit a small percentage of same. Under the leadership of

Chris van der Merwe, Curro has exceeded all expectations over the years and is positioned to make a significant positive contribution to the future development of our country.

When comparing Curro's 31 December 2013 actual results to the forecast numbers per its 2011 pre-listing statement, it is evident that exceptional progress has been made. At the time of its listing in 2011, Curro expected to operate 17 schools with 9 594 learners by 2013. However, at 31 December 2013, Curro operated 26 schools with 21 027 learners.

We support Curro's growth plans and continue to provide them with funding and management input when needed. Curro is well on its way to achieve its stated objective of having 80 schools by 2020.

### PSG Konsult (64,7%)

- *Simple and focused business model*
  - the provision of financial advisory and insurance services
- *Key competitive advantage*
  - an extensive distribution network across the country

PSG Konsult, under the leadership of Francois Gouws, has delivered on its strategy for the year ended 28 February 2014. All three divisions, namely Wealth Management, Asset Management and Insure, made positive contributions to its commendable 34% increase in *recurring headline earnings* per share. The 38% increase in funds under management to R112,1bn and 31% increase in funds under administration to R234,5bn are proof of the continued trust and confidence which the investor community places in PSG Konsult.

PSG Konsult to a large extent represents the PSG brand in the minds of the South African public. It is the largest independent financial intermediary in the country, offering a one-stop solution for holistic financial planning to more than 150 000 clients. Its 618 financial planners, stockbrokers and short-term insurance brokers operate out of 193 offices across South Africa.





## Chairman's letter continued

During the past year, PSG Konsult management has streamlined the business into three distinct divisions, and incorporated best practice governance and risk management structures to position the company for future growth. PSG supports management's intention of listing the company on the JSE during June 2014. We believe being in the public domain as a listed company brings out the best in people, which should ultimately increase performance and wealth creation.

We have been asked whether PSG Konsult's listing will potentially discourage investment in PSG as holding company. Although we cannot definitively say whether this will be the case or not, we believe that should investors buy PSG Konsult shares directly, it will have a positive effect on PSG Konsult's share price, which in turn will have a positive effect on our *SOTP value* and ultimately our share price, thereby creating further wealth for all shareholders. In addition thereto, we believe investors do not buy into PSG merely to gain exposure to its current portfolio, but also to management's ability to create further wealth through new investments and value-adding corporate action.

We are proud of what Francois and his team have achieved and will continue to support them with their future growth plans for the company.

### **Zeder (42,4%)**

- *Simple and focused business model*
  - investment in agribusiness sector
- *Strong and focused management throughout the underlying investments*

In line with *Project Internal Focus*, Zeder has under the leadership of Norman Celliers streamlined its investment portfolio to now comprise five core investments, namely Agri Voedsel (Pioneer Foods), Capespan, Chayton, Kaap Agri and Zaad. As part of this rebalancing, Zeder disposed of investments valued at R529m and invested R879m to primarily acquire additional stakes in its existing core portfolio. This has resulted in a focused portfolio wherein the company now exercises increased influence and in some instances control.

As mentioned before, talented and dedicated management forms an integral part of the PSG investment philosophy. Zeder was instrumental in management changes within its investment portfolio, of which the appointment of Phil Roux at Pioneer Foods is a good example. He has already made a significant contribution to Pioneer Foods' improved performance.

During the financial year under review, Zeder increased its *SOTP value* per share by 26% and reported a 16% increase in *recurring headline earnings* per share.

We believe Zeder's core investment portfolio to be strategically positioned to take advantage of the opportunities which the agribusiness sector presents, in particular throughout sub-Saharan Africa.

### **PSG Private Equity (100%)**

- *High growth potential*
  - early-stage investments

PSG Private Equity's investment portfolio contains businesses across various industries and in different stages of maturity. While the investment team is small, they have distinct knowledge of the industries in which we are invested. There are currently three priority industries, namely education, services and technology. PSG Private Equity does not use debt to enhance returns, but rather invests in companies with high growth potential. The management team, led by Nico de Waal, has over the last two years spent a considerable amount of time to restructure the portfolio and assist underlying investments to resolve various challenges.

We look forward to the possibility of PSG Private Equity producing another Capitec, Curro or PSG Konsult.

### **Thembeke Capital (49%)**

Thembeke Capital, under the leadership of KK Combi, is a BBBEE investment holding company in which we own 49%. The company has created significant wealth for its shareholders over the years, having started with R1 000 in 2006 and increasing its intrinsic value to more than R2,5bn today.





## Chairman's letter continued

Thembeke Capital remains an extraordinary BEE success story. True transformation is about equitable wealth distribution, and the wide and far-reaching shareholder base of this company has helped to achieve this.

### OUR CONTRIBUTION TO SOCIETY

A great company should never be a drag on society. PSG subscribes to this notion. We contribute to the development and upliftment of the South African community through the creation of employment opportunities and our contributions in taxes, donations and sponsorships. We believe in the leverage effect of investing in and supporting education. We are involved in the following education-related initiatives:

- *The PSG Group Bursary Loan Scheme at the University of Stellenbosch*
    - We started this initiative with a donation of 100 000 PSG shares seven years ago, and have since offered financial support to a number of gifted but disadvantaged students. Their fields of study include medicine, actuarial science, accounting and investment management. We donate a further R100 000 in cash per year to support additional students.
  - *Akkerdoppies*
    - PSG continues to financially support this pre-primary school, which is part of the Sibusisiwe charity. Akkerdoppies is committed to early childhood development, and provides essential education and skills to children from the disadvantaged communities of Stellenbosch. The school is attended by 162 children and now employs 17 people. We are committed to a long-term relationship with this initiative and anticipate a significant positive contribution to the community.
  - *Curro*
    - We continue to invest in Curro, which plays an important part in educating the South African youth. With the existence of Curro, government can increase its focus on those areas where the availability and quality of education are particularly poor, and in so doing provide proper educational facilities to the disadvantaged. Curro granted bursaries to learners in the amount of R33,6m during its past financial year compared to R18,4m in the prior year.
  - *Impak*
    - This company provides grade 0 to 12 educational products and services to home scholars and learners enrolled at their 120 support centres across the country. Through our investment in this company, we believe we will further contribute to education in South Africa while also creating a business opportunity for entrepreneurs/educators who wish to open a support centre – embracing their passion for education while building a profitable business. We are excited about the growth prospects for this alternative form of education.
  - *Stellenbosch BEE Education Trust*
    - We established and funded the Stellenbosch BEE Education Trust with R102m to buy shares in Thembeke Capital. We are hopeful that this trust will in future assist many previously disadvantaged students to obtain high-quality education.
- It is evident from the aforementioned that PSG makes a significant direct contribution to society. However, being an investment holding company, with each of our underlying investments also having various social development initiatives, we also make a substantial indirect contribution to society.





## Chairman's letter continued

### BOARD OF DIRECTORS AND PSG EXCO

The PSG board comprises three executive and 10 non-executive directors. I serve as the non-executive chairman. Our directors always act with caution and with the best interest of shareholders and other stakeholders at heart.

I have complete faith in our senior executives, namely Piet Mouton (CEO), Wynand Greeff (FD) and Johan Holtzhausen (CEO: PSG Capital). Rest assured, the future of PSG is in good hands.

The PSG Executive Committee ("PSG Exco") is a subcommittee of the board and the chief operating decision-maker, and comprises the aforementioned three senior executives, Chris Otto as independent non-executive director and myself. Chemus Taljaard is a permanent invitee and the best tax advisor I know. The PSG Exco:

- Is responsible for determining and implementing the PSG strategy, as approved by the board of directors;
- Acts as the PSG investment committee;
- Acts as the social and ethics committee;
- Is the appointed manager to Zeder;
- Manages PSG Private Equity;
- Acts as the PSG group treasurer, monitors and manages the capital requirements, gearing and liquidity of the group and allocates and invests the group's resources;
- Monitors the group's performance and provides strategic input and direction to the underlying companies;
- Is the custodian of good corporate governance throughout the group; and
- Assumes overall responsibility for the growth and performance of PSG.

### OUR FUTURE

The JSE is currently trading at record levels, with valuations indicating relatively high equity prices. Coupled with the macroeconomic dynamics in both

South Africa and globally, it is likely to result in equity market volatility going forward. In times like these, it is advisable that a fundamentals-based investment approach be followed. That said, given the strong fundamentals of our underlying companies, PSG is well positioned to achieve attractive growth in years to come.

I am happy to say that we recently celebrated another PSG milestone when the share price broke through R100 for the first time. I am confident that this is not the last time that we will celebrate new highs.

### A WORD OF THANKS

I love coming in to the office every day, even though I no longer work full-time. PSG is my life and family. I am proud of what we have achieved and of every PSG family member, and look forward to our continued success. I remain a happy PSG shareholder and can confirm that I will not sell a single share in my lifetime. Instead, I will be looking to increase my investment in PSG whenever possible.

I would like to thank each and every colleague throughout our group for their hard work and for creating a wonderful environment to work in. To my fellow directors and members of the PSG Exco – thank you for your wisdom, innovation and drive to grow our business.

Finally, to our clients, our shareholders and all other stakeholders in PSG – our success will not be possible without your continued support. Thank you!

**Jannie Mouton**

12 May 2014  
Stellenbosch

