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# Review of operations

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## SOTP VALUE AND RECURRING HEADLINE EARNINGS

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. Growth in PSG's SOTP value per share thus ultimately leads to share price appreciation. However, an increase in PSG's SOTP value per share and share price 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.

### SOTP VALUE

The calculation of the SOTP value is simple and requires limited subjectivity as approximately 90% of the value is calculated using JSE-listed share prices, while other investments are included at market-related valuations. At 28 February 2017, the SOTP value per PSG share was R240,87 (2016: R186,67), representing a 29% increase for the year under review. PSG's SOTP value per share has increased by 34% per annum on average over the last five years.

Asset/liability	29 Feb 2012 Rm	29 Feb 2016 Rm	28 Feb 2017 Rm	Share of total	5-yr CAGR
Capitec *	5 978	16 820	<b>25 727</b>	47%	34%
Curro *	1 118	9 773	<b>11 180</b>	20%	58%
PSG Konsult *	1 483	5 441	<b>6 084</b>	11%	33%
Zeder *	1 067	2 815	<b>5 398</b>	10%	38%
PSG Alpha (previously known as PSG Private Equity) *	728	1 367	<b>1 909</b>	3%	21%
Dipeo (previously Thembeka) *	570	557	<b>812</b>	2%	7%
PSG Corporate (including PSG Capital) **	338	1 510			n/a
Other investments ^					
(Overdraft)/cash	(139)	2 895	<b>1 513</b>	3%	n/a
Pref investments and loans receivable	335	1 335	<b>2 002</b>	4%	43%
Other	488	128	<b>71</b>		(32%)
<b>Total assets</b>	<b>11 966</b>	<b>42 641</b>	<b>54 696</b>	<b>100%</b>	<b>36%</b>
Perpetual pref funding *	(1 188)	(1 309)	<b>(1 350)</b>		3%
Other debt ^	(463)	(949)	<b>(949)</b>		15%
<b>Total SOTP value</b>	<b>10 315</b>	<b>40 383</b>	<b>52 397</b>		<b>38%</b>
<b>Shares in issue (net of treasury shares) (m)</b>	<b>184,5</b>	<b>216,3</b>	<b>217,5</b>		<b>3%</b>
<b>SOTP value per share (R)</b>	<b>55,92</b>	<b>186,67</b>	<b>240,87</b>		<b>34%</b>

\* Listed on the JSE Ltd   + SOTP value   \*\* Valuation   ^ Book value

Note: PSG's live SOTP is available at [www.psggroup.co.za](http://www.psggroup.co.za).

Capitec remains PSG's largest investment comprising 47% of the SOTP value's total assets as at 28 February 2017 (2016: 39%), and also the major contributor to PSG's *recurring headline earnings* comprising 59% of the total for the year ended 28 February 2017 (2016: 61%).



## RECURRING HEADLINE EARNINGS

Consolidated *recurring headline earnings* is the sum of PSG's effective interest in that of each of its underlying investments. The result is that investments in which PSG holds less than 20% and are generally not equity accountable in terms of accounting standards, are included in the calculation of consolidated *recurring headline earnings*, while once-off (i.e. *non-recurring*) income and expenses are excluded. This provides management and investors with a more realistic and transparent way of evaluating PSG's earnings performance.

	29 Feb 2012 Rm	29 Feb 2016 Rm	28 Feb 2017 Rm	5-yr CAGR
Capitec	362	989	<b>1 164</b>	26%
Curro	(5)	58	<b>96</b>	n/a
PSG Konsult	108	254	<b>300</b>	23%
Zeder	115	212	<b>275</b>	19%
PSG Alpha ( <i>previously known as PSG Private Equity</i> )	32	113	<b>133</b>	33%
Dipeo ( <i>previously Thembeka</i> )	19	(28)	<b>(20)</b>	n/a
PSG Corporate ( <i>including PSG Capital</i> )	20	69	<b>29</b>	8%
Other ( <i>mainly pref div income</i> )	19	101	<b>112</b>	43%
<b>Recurring headline earnings before funding</b>	670	1 768	<b>2 089</b>	26%
Funding ( <i>net of interest income</i> )	(134)	(148)	<b>(104)</b>	(5%)
<b>Recurring headline earnings</b>	536	1 620	<b>1 985</b>	30%
Non-recurring items	31	(250)	<b>160</b>	39%
<b>Headline earnings</b>	567	1 370	<b>2 145</b>	30%
Non-headline items	136	113	<b>17</b>	(34%)
<b>Attributable earnings</b>	703	1 483	<b>2 162</b>	25%
<b>Weighted average number of shares in issue (net of treasury shares) (m)</b>	173,9	205,7	<b>214,2</b>	4%
<b>Earnings per share (R)</b>				
– Recurring headline	3,09	7,88	<b>9,27</b>	25%
– Headline	3,26	6,66	<b>10,01</b>	25%
– Attributable	4,04	7,21	<b>10,09</b>	20%
<b>Dividend per share (R)</b>	0,82	3,00	<b>3,75</b>	36%

The year under review saw resilient performance from the majority of PSG's core investments:

- *Recurring headline earnings* per share increased by 18% to R9,27.
- *Headline earnings* per share increased by 50% to R10,01. This increase was higher than that of *recurring headline earnings* per share mainly due to marked-to-market profits achieved on Dipeo's investment portfolio, as opposed to marked-to-market losses incurred in the prior year.
- *Attributable earnings* per share increased by a smaller margin than *headline earnings* per share mainly due to the non-recurrence of *non-headline* dilution gains made on associates from an accounting perspective in the prior year.

Measuring PSG's performance longer term, it has performed strongly with a 25% CAGR in *recurring headline earnings* per share, and a 36% CAGR in dividend per share over the last five years.



## SIGNIFICANT TRANSACTIONS

PSG undertook the following significant transactions during the year under review:

- Invested R669m cash in the Curro rights offer to fund further expansion.
- Acquired 19,2m PSG Konsult shares, representing an additional 1,5% equity interest, at an average price of R7,14 for a total cash consideration of R137m.
- Concluded the Zeder management fee internalisation, whereby PSG exchanged its rights to the Zeder management agreement for the issue of 207,7m new Zeder shares, representing a 12% equity interest. All conditions precedent were satisfied during September 2016 and the implementation of the transaction finalised, with PSG's shareholding in Zeder consequently increasing from 34,5% to 42,4%, having subsequently diluted to 42,1%.
- Invested a further R134m in PSG Alpha's portfolio of early-stage investments.



# 30,7%

<b>Chief executive officer</b>	Gerrie Fourie
<b>Chief financial officer</b>	André du Plessis

Capitec is a South African retail bank focused on providing easy and affordable banking services to its clients via the use of innovative technology. Everything Capitec does is based on simplicity, affordability, accessibility and personal service.

<b>Financial results – year ended February</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Headline earnings (Rm)	2 547	3 222	<b>3 793</b>
HEPS (R)	22,09	27,87	<b>32,81</b>
Growth in HEPS (%)	26	26	<b>18</b>
Dividend per share (R)	8,36	10,55	<b>12,50</b>
Dividend cover ratio	2,6x	2,6x	<b>2,6x</b>
Return on equity (%)	25	27	<b>27</b>
Gross loans and advances (Rm)	36 341	40 891	<b>45 135</b>
Value of loans advanced (Rm)	19 417	24 228	<b>27 226</b>
Repayments (Rm)	23 787	28 689	<b>32 983</b>
Loans past due (arrears) (Rm)	1 964	2 297	<b>2 855</b>
Arrears to gross loans and advances (%)	5,4	5,6	<b>6,3</b>
Provisions for doubtful debts (Rm)	3 857	5 131	<b>5 930</b>
Arrears coverage ratio (%)	196	223	<b>208</b>
Arrears and all rescheduled < six months coverage ratio (%)	97	91	<b>107</b>
Net transaction fee income (Rm)	2 608	3 020	<b>3 923</b>
Net transaction fee income as percentage of operating expenses (%)	65	66	<b>72</b>
Number of active clients ('000)	6 244	7 269	<b>8 569</b>
Number of primary clients ('000)	2 761	3 343	<b>3 909</b>
Number of branches	668	720	<b>796</b>
Number of employees	10 261	11 440	<b>13 069</b>



Capitec delivered strong financial results with an 18% increase in *headline earnings* per share for the financial year ended 28 February 2017.

*Client numbers and net transaction fee income*

Active clients increased by 1,3m to 8,6m, while primary banking clients (those clients who make regular deposits, mainly salaries) increased by 0,6m to 3,9m. The combination of growth in Capitec's active client base and the expansion of its branch, ATM and digital footprint, resulted in net transaction fee income increasing by 30% to R3,9bn. Net transaction fee income now covers 72% of Capitec's operating expenses (2016: 66%).

*Credit*

Capitec increased its gross loan book by R4,2bn to R45,1bn. Challenging economic conditions resulted in continued tightening of credit granting criteria by issuing lower-risk, higher value loans to better quality clients. This was evident with 176 655 fewer loans granted in 2017 when compared to the previous year, and the average amount of a Capitec loan having increased to R7 761 (2016: R6 577). Capitec's provisioning policy remains prudent and continuously reflects current market conditions as is evident with the increase in the *Arrears and All Rescheduled < six months coverage ratio* to 107% (2016: 91%). The average term of the outstanding book decreased from 40 months as at 29 February 2016 to 38 months as at 28 February 2017.

*Capital/liquidity*

Capitec's return on equity for the year was 27% (2016: 27%). It remains well capitalised and is generating sufficient profit to fund growth in the loan book. As at 28 February 2017, Capitec had a conservative capital adequacy ratio of 34% (2016: 35%).

Capitec has a high level of liquidity with R31bn in cash and other liquid assets, representing 42% of total assets. Capitec's conservative liquidity management remains unchanged and is fully compliant with the Basel III liquidity requirements.

Capitec is listed on the JSE and its comprehensive results for the year ended 28 February 2017 are available at [www.capitecbank.co.za](http://www.capitecbank.co.za).



# 56,1%

**Chief executive officer**

Chris van der Merwe  
*(to be succeeded by Andries Greyling effective 1 July 2017)*

**Chief financial officer**

Bernardt van der Linde

Curro is the largest provider of private school education in Southern Africa.

Financial results – year ended December	2014	2015	2016	2017 *
Headline earnings (Rm)	56	100	169	
HEPS (cents)	17,2	28,3	43,9	
Growth in HEPS (%)	34	64	55	
Number of campuses	33	42	49	<b>54</b>
Number of schools	80	101	115	<b>127</b>
Number of learners	28 737	35 970	43 183	<b>47 589</b>
Number of educators	1 905	2 339	2 595	<b>2 734</b>
Learner/teacher ratio	15	15	17	<b>17</b>
Total building size (m <sup>2</sup> )	392 314	449 067	558 683	

\* As at 31 January 2017.

Curro has established itself as the first truly national brand in the private school sector, now operating 54 campuses with 127 schools and 47 589 learners across the country and in Namibia.

Curro reported strong results for its financial year ended 31 December 2016 with *headline earnings* per share having increased by 55% to 43,9 cents.

Curro has bolstered its balance sheet through previous capital raisings and is now also generating strong operational cash flows. This, together with significant debt capacity, will allow Curro to continue with its expansion drive in 2017 by building nine new schools and expanding 11 schools through the addition of 204 classrooms for a total investment of R1,8bn.

Curro is listed on the JSE and its comprehensive results for the year ended 31 December 2016 are available at [www.curro.co.za](http://www.curro.co.za).



# 61,7%

<b>Chief executive officer</b>	Francois Gouws
<b>Chief financial officer</b>	Mike Smith

PSG Konsult is a financial services company, focused on providing wealth management, asset management and insurance solutions to clients.

<b>Financial results – year ended February</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Recurring headline earnings (Rm)	341	409	<b>486</b>
Recurring HEPS (cents)	27,0	32,1	<b>37,2</b>
Growth in recurring HEPS (%)	31	19	<b>16</b>
Assets under management (Rbn)	133	154	<b>175</b>
Gross written premium (Rbn)	2,1	2,5	<b>2,9</b>
Number of advisors – PSG Wealth	434	480	<b>515</b>
Number of advisors – PSG Insure	225	231	<b>229</b>

PSG Konsult has achieved much success with its unique 70/30 revenue-sharing model in terms of which the advisor is entitled to 70% of revenue generated, and PSG Konsult to 30%. In return, PSG Konsult is responsible for marketing and maintaining the brand, and manages all the necessary compliance, financial and administrative functions on the advisor's behalf. This model ensures that the PSG Konsult offices remain owner-driven, allowing the advisors to focus on the client's needs. With the legal and regulatory environment within the industry becoming increasingly onerous, PSG Konsult saw a 5% increase in the number of financial advisors during the year under review. This trend is likely to continue in the foreseeable future.

PSG Konsult reported strong results with a 16% increase in *recurring headline earnings* per share for the financial year ended 28 February 2017. This was achieved amid challenging trading conditions and considering PSG Konsult's equity market dependence. The *Asset Management* and *Insure* divisions in particular reported good results with a 57% and 70% increase in *recurring headline earnings*, respectively. *PSG Wealth* achieved *recurring headline earnings* growth of 1% following, inter alia, a 26% increase in its cost base having strengthened both their information technology and investment research teams.

PSG Konsult continues to attract assets in tough market conditions with total assets under management having increased by 14% to R175bn, underpinned by top-quartile performance from all its core managed funds. *PSG Wealth* and *PSG Asset management* realised net inflows of R13bn and R3bn, respectively.

PSG Konsult is listed on the JSE and Namibian Stock Exchange and its comprehensive results for the year ended 28 February 2017 are available at [www.psg.co.za](http://www.psg.co.za).



# 42,1%

**Chief executive officer** Norman Celliers

**Financial director** Johann le Roux

Zeder is a JSE-listed investment holding company focused on food and related business.

<b>Financial results – year ended February</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Recurring headline earnings (Rm)	414	632	<b>691</b>
Recurring HEPS (cents)	35,3	42,4	<b>42,6</b>
Growth in recurring HEPS (%)	15	20	<b>0,5</b>
SOTP value per share (R)	7,93	6,93	<b>8,53</b>
Growth in SOTP value per share (%)	75	(13)	<b>23</b>
Dividend per share (cents)	5,5	9,0	<b>11,0</b>

During the past financial year, Zeder acquired PSG's rights to the management agreement in exchange for the issue of 207,7m Zeder shares, representing a 12% equity interest. PSG's shareholding consequently increased from 34,5% to 42,4% (diluted to 42,1% subsequently), with no further management fees receivable in accordance with this agreement in future.

A tough trading environment caused primarily by the severe drought and heat conditions, resulted in weaker earnings performance from the majority of Zeder's investments. Zeder's consolidated *recurring headline earnings* per share consequently increased by only 0,5% for the year under review. Zeder's share price, however, performed strongly having increased by 39% to R7,44 during the year under review. This was due to a 23% increase in its *SOTP value* per share, coupled with the discount to its *SOTP value* per share having reduced from 33% to 13% following the aforementioned internalisation of the PSG management fee.

Zeder is listed on the JSE and its comprehensive results for the year ended 28 February 2017 are available at [www.zeder.co.za](http://www.zeder.co.za).





**PSG**  
alpha

**100%**

**Chief executive officer**

Nico de Waal

**Managed by the PSG Exco**

PSG Alpha focuses on early-stage investing in high-growth sectors.

PSG Alpha (*previously known as PSG Private Equity*) serves as incubator to find the businesses of tomorrow through early-stage investing in high-growth sectors. It is not a private equity investor as defined, as it has no exit strategy. Energy, education and technology are considered priority sectors.

At 28 February 2017, PSG Alpha's portfolio (valued at R1,9bn) comprised the following investments:

Investment	Description	Interest (%)	
		2016	2017
African Unity Group	Life and related insurance	47,5	<b>47,5</b>
Alaris Holdings	Antenna-related products	27,3	<b>19,3</b>
CA Sales	FMCG distributor	51,2	<b>51,8</b>
CSG Holdings	Construction support services	14,5	<b>12,2</b>
Energy Partners	Energy management solutions	57,0	<b>58,4</b>
FutureLearn ( <i>previously known as Impak</i> )	Correspondence learning	83,3	<b>83,3</b>
ITSI Holdings ( <i>previously known as IT School Innovation</i> )	Education solutions	47,0	<b>61,8</b>
Provest Group ( <i>previously known as Precrete</i> )	Mine safety and support services	55,8	<b>55,8</b>
Spirit Capital	Leveraged buy-outs	46,8	<b>47,9</b>
Venture capital investments	Technology		

During the year under review, PSG Alpha made further investments in, inter alia, Energy Partners (R71m), ITSI Holdings (R26m) and FutureLearn (R22m). It also started a venture capital portfolio containing various smaller technology investments.

PSG Alpha reported promising results for the year under review with a 25% increase in *recurring headline earnings* per share. Given its nature, this portfolio is likely to yield volatile earnings, while providing significant optionality.



## DIPEO CAPITAL

# 49%

The Dipeo BEE Education Trust (of which all beneficiaries are black individuals) owns 51% of Dipeo, with PSG owning the remaining 49%. Dipeo's portfolio consists of investments in various listed and unlisted companies, the most significant being interests of 5,3% in Curro, 4,3% in Pioneer Foods, 4% in Quantum Foods and 20% in Kaap Agri. These investments, except for Kaap Agri, are subject to Black Economic Empowerment ("BEE") lock-in periods. The Dipeo BEE Education Trust will use its share of the value created from these investments to fund black students' education. As at 28 February 2017, Dipeo's *SOTP value* amounted to R1,6bn.

The year under review saw PSG's share of marked-to-market profits achieved on Dipeo's investment portfolio amount to R187m, as opposed to marked-to-market losses of R170m incurred in the prior year. This contributed significantly to PSG's *headline earnings* per share increasing by a higher margin than that of *recurring headline earnings* per share.



## PSG CAPITAL

# 100%

### Chief executive officer

Johan Holtzhausen

Corporate finance and advisory services

PSG Capital provides a complete suite of corporate finance and advisory services to a broad spectrum of clients. Its fields of expertise include, inter alia, mergers and acquisitions, valuations and fairness opinions, capital raisings and listings, JSE and regulatory advice, private equity, BEE, corporate restructurings and debt origination.

PSG Capital is the sponsor, designated advisor and debt sponsor to 39 JSE-listed companies and has numerous unlisted clients. It has advised on publicly announced transactions in excess of R230bn over the last number of years.

PSG Capital consistently ranks among the top performers from a *DealMakers* perspective across most categories. More detail is available at [www.psgcapital.com](http://www.psgcapital.com).



## PSG CORPORATE SERVICES

# 100%

### Chief executive officer

Piet Mouton

### Chief financial officer

Wynand Greeff

Investment management and treasury services

PSG Corporate acts as PSG's treasurer by monitoring and managing PSG's capital requirements, gearing and liquidity. It also allocates and invests PSG's resources.