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 banking, financial services, education and food and related business, as well as early-stage investments in select growth sectors. PSG's market capitalisation (net of treasury shares) was approximately R41bn as at 29 February 2020.

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

- Capitec (banking);
- PSG Konsult (wealth management, asset management and insurance);
- PSG Alpha (early-stage investments in select growth sectors);
- Zeder (investments in food and related business);
- Curro (private basic education);
- Dipeo (BEE investment holding company); and
- PSG Corporate (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 a combination of share price appreciation, cash dividends and other distributions, as circumstances may dictate. 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 the *compound annual growth rate ("CAGR")* of an investment and 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 *TRI* as at 29 February 2020 was 41% p.a. over the approximately 24-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), your investment would be worth around R406m as at 29 February 2020. The same investment in the JSE All Share Index over this period would be worth only R1,9m. We are proud of the wealth we have created for our shareholders.

OUR PERFORMANCE OVER THE PAST FINANCIAL YEAR

The two key benchmarks used by PSG to measure performance are *sum-of-the-parts ("SOTP") value* and *recurring earnings* per share, as long-term growth in PSG's *SOTP value* and *share price* should depend on, inter alia, sustained growth in the *recurring earnings* per share of our underlying investments.

The calculation of PSG's *SOTP value* is simple and requires limited subjectivity as more than 95% of the value is calculated using JSE-listed share prices, while other investments are included at internal valuations. At 29 February 2020, the *SOTP value* per PSG share was R276,43 (2019: R311,45). The five-year *CAGR* of PSG's *SOTP value* per share and *share price* at 29 February 2020 was 11% and 6%, respectively, whereas the JSE All Share Index showed a decline of 1% p.a. over the same period.

Asset/(liability)	28 Feb 2018 Rm	28 Feb 2019 Rm	**29 Feb 2020 Rm**	*Share of total*	*Five-year CAGR[4]*
Capitec[1]	29 540	46 351	**46 130**	*73%*	*26%*
PSG Konsult[1]	7 048	8 700	**6 399**	*10%*	*2%*
PSG Alpha	5 201	4 712	**3 618**	*6%*	*12%*
Stadio[1]	2 379	1 253	**649**		
Other investments[2]	2 822	3 459	**2 969**		
Zeder[1]	4 823	3 166	**3 173**	*5%*	*(11%)*
Curro[1]	7 987	5 714	**2 604**	*4%*	*(19%)*
Dipeo[2]	535				*n/a*
Other assets	2 603	1 702	**879**	*2%*	
Cash[3]	1 000	323	**187**		
Pref investments and loans receivable[3]	1 558	1 297	**542**		
Other[3]	45	82	**150**		
Total assets	57 737	70 345	**62 803**	*100%*	
Perpetual pref funding[1]	(1 278)	(1 367)	**(1 463)**		
Other debt[3]	(949)	(1 020)	**(1 020)**		
Total SOTP value	55 510	67 958	**60 320**		
Shares in issue *(net of treasury shares)* (m)	217,5	218,2	**218,2**		
SOTP value per share (R)	255,17	311,45	**276,43**		*11%*
Share price (R)	217,50	259,78	**186,60**		*6%*

[1] *Listed on the JSE Ltd*

[2] *SOTP value*

[3] *Carrying value*

[4] *Based on share price/SOTP value per share as at 29 February 2020*

Note: PSG's live SOTP value calculation containing further information is available at www.psggroup.co.za

REVIEW OF OPERATIONS *(continued)*

PSG's *recurring earnings* per share for the year under review increased by 18% to R12,81 (2019: R10,86) following commendable performance from Capitec (up 19%), PSG Konsult (up 8%), PSG Alpha (up 20%) and Zeder (up 18%), offset by Curro (down 15%). Curro's financial performance was adversely impacted by increased finance costs associated with debt used for greenfield developments, increased bad debts with the consumer under pressure and higher than anticipated property rates and taxes.

	28 Feb 2018 Rm	28 Feb 2019 Rm	*Change %*	**29 Feb 2020 Rm**
Capitec	1 369	1 625		**1 927**
PSG Konsult	348	361		**389**
PSG Alpha	172	216		**270**
Zeder	205	207		**246**
Curro	110	137		**117**
Dipeo	(56)	(29)		**(36)**
PSG Corporate	(7)	(45)		**(29)**
Other *(mainly pref div income)*	136	84		**126**
Recurring earnings before funding	2 277	2 556	*18*	**3 010**
Funding *(net of interest income)*	(135)	(199)		**(216)**
Recurring earnings	2 142	2 357	*19*	**2 794**
Non-recurring items	(186)	(163)		**(211)**
Headline earnings	1 956	2 194	*18*	**2 583**
Non-headline items	(42)	(268)		**(121)**
Attributable earnings	1 914	1 926	*28*	**2 462**
Non-recurring items comprise:				
– Fair value losses on Dipeo's investment portfolio	(131)	(246)		**(1)**
– Fair value gains on Evergreen investment property added back (being *non-headline* for accounting purposes)	(12)	(50)		**(100)**
– Fair value gain on Zeder's investment in Joy Wing Mau prior to its disposal		171		
– Other (incl. stock and loan impairments i.r.o. businesses discontinued)	(43)	(38)		**(110)**
	(186)	(163)		**(211)**
Weighted average number of shares in issue *(net of treasury shares)* (m)	215,5	217,0	*1*	**218,1**
Earnings per share (R)				
– Recurring	9,94	10,86	*18*	**12,81**
– Headline	9,08	10,11	*17*	**11,84**
– Attributable	8,88	8,88	*27*	**11,29**
Dividend per share (R)	4,15	4,56	*(48)*	**2,39**

Attributable earnings per share increased by a higher margin than *recurring earnings* and *headline earnings* per share mainly due to Zeder's *non-headline* reversal of an impairment loss recognised in respect of its investment in Pioneer Foods as at 28 February 2019.

The South African Reserve Bank ("SARB") published Guidance Note 4/2020 on 6 April 2020 directing banks to act prudently in preserving capital in the absence of appropriate factual information to determine the full impact of the COVID-19 pandemic on the South African economy. The Guidance Note communicated a clear expectation that banks should not declare ordinary dividends for the time being. Although Capitec's capital base and liquidity ratios remain strong, the Capitec board in support of the SARB's guidance decided against the declaration of a final ordinary dividend for the financial year ended 29 February 2020. In the absence of the Capitec dividend, PSG's available free cash flow to pay as an ordinary dividend was much lower, resulting in a 48% decrease in PSG's *dividend* per share for the financial year under review.

MAJOR CORPORATE ACTION SUBSEQUENT TO YEAR-END

Capitec unbundling

Subsequent to year-end, the PSG board resolved to unbundle 28,1% out of PSG's 30,7% interest in Capitec to PSG shareholders, representing 14 Capitec shares for every 100 PSG shares held (refer to the *Letter to Shareholders* on page 6 for the rationale for the unbundling) – thereby effectively retaining a 4,3% interest in Capitec (i.e. 2,6% interest not unbundled plus 1,7% interest received in terms of the unbundling pursuant to the 13,9m PSG treasury shares held by PSG Financial Services Ltd ("PSG Financial Services"), a wholly-owned subsidiary of PSG). The objective for the retention of such 4,3% interest comprising 4,9m Capitec shares is to help bolster PSG's balance sheet.

As noted in the *Letter to Shareholders* on page 6, part of PSG's immediate strategy post the unbundling of Capitec is to reduce PSG's debt and ensure a healthy liquidity position, assuming that investment holding companies may continue to trade at a discount and that equity markets may accordingly be less accessible for capital raisings in the foreseeable future. In this regard –

- PSG early-settled its only remaining term debt comprising redeemable preference shares amounting to R1bn on 29 May 2020. Following the redemption, PSG's only ongoing funding obligation comprises the bi-annual preference dividend payable in respect of the perpetual (i.e. non-redeemable) preference shares issued by PSG Financial Services;
- Subsequent to announcing the final terms of the Capitec unbundling to the market, PSG disposed of 1,7m of the aforementioned Capitec shares not forming part of the unbundling, thereby reducing PSG's 30,7% interest in Capitec to 29,2% and adding a further R1,2bn in cash net of tax to PSG's balance sheet, with PSG's retained interest in Capitec following the proposed unbundling being 2,8%.

The unbundling of Capitec is anticipated to be implemented towards the end of August 2020.

Disposal of Pioneer Foods

PepsiCo's offer to acquire all of the ordinary share capital in Pioneer Foods in terms of a scheme of arrangement at R110 per Pioneer Foods share became unconditional, and was therefore concluded, on 23 March 2020. On this date, Zeder accordingly disposed of its largest investment comprising a 28,6% interest in Pioneer Foods to PepsiCo for R6,4bn in cash. Pursuant to such disposal, Zeder declared and paid a R2,30 per share special dividend to shareholders on 28 April 2020 – PSG consequently received R1,7bn in cash.

Furthermore, this transaction allowed Zeder to settle its only remaining term debt of R1,5bn subsequent to year-end, and to retain R1bn in cash for liquidity purposes.

OUR INVESTMENTS AS AT 29 FEBRUARY 2020

CAPITEC (30,7%)

- *Simple and focused business model*
  - lending and transactional banking
- *High barriers to entry*
  - regulatory requirements and funding
- *High growth potential*
  - increase in transactional banking clients and growth in credit book (including credit card)
  - new products (funeral insurance) and markets (business banking)
  - significant growth potential given its current market share:
    - approximately 4% of credit card market
    - approximately 4% of the total South African consumer credit book
    - approximately 8% of the retail deposit market

Capitec is a South African bank and is arguably the most successful business established in South Africa in the past 20 years.

Its *TRI* since listing on the JSE was 49% as at 29 February 2020, versus that of the JSE All Share Index of 12% over the same period. Capitec is currently the third largest bank in South Africa based on market capitalisation.

From the outset, Capitec has put the client's needs first through a relentless focus on the simplicity and affordability of its banking products. Management has consistently stayed ahead of the banking curve through innovation and the use of technology. Today, Capitec has approximately 13,9m active clients with a product offering that includes the extension of credit, retail and business banking solutions and funeral insurance cover across its widespread branch and digital distribution platforms.

Capitec continues to offer attractive long-term growth prospects while being conservatively managed. Its credit granting criteria and bad debt provisioning policy remain prudent, while management continues to increasingly target middle to higher income clients. With a 31% capital adequacy ratio, it has sufficient capital to meet its growth requirements.

Capitec's comprehensive results are available at *www.capitecbank.co.za*.

PSG KONSULT (60,5%)

- *Simple and focused business model*
  - the provision of wealth management, asset management and insurance solutions
- *High barriers to entry*
  - regulatory requirements
- *Key competitive advantage*
  - extensive distribution platform
  - trusted brand
- *High growth potential*
  - relatively low market share:
    - less than 5% of wealth management
    - less than 2% of asset management
    - less than 3% of short-term insurance

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 935 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 servicing their clients.

PSG Konsult's results for the year ended 29 February 2020 need to be considered against its equity market dependence, with the JSE All Share Index having suffered a 9% decline during the year under review. Despite this, PSG Konsult managed to increase its assets under management by 3% to R230bn, while its assets under administration decreased by 6% to R397bn. PSG Insure's gross written premium increased by 22% to R5,5bn.

PSG Konsult has proven its resilience in a tough market and is suitably positioned to capitalise on any economic recovery. PSG remains optimistic about its growth prospects.

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

PSG ALPHA (98,1%)

PSG Alpha serves as an incubator to identify and help build the businesses of tomorrow. PSG has always excelled at early-stage investing by building businesses alongside entrepreneurs from the development stage. PSG Alpha's focus is therefore predominantly on early-stage investing.

The PSG Alpha portfolio currently comprises 11 investments, the majority of which being in their 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 Alpha Exco as a rule serve as directors on its 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 ex-Capitec.

Overview of select PSG Alpha investees

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 expert, 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 – 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 947 completed units across seven villages;
- It had 148 units under construction across two existing villages; and
- It had secured land (which has mostly been paid for) representing an additional 4 487 retirement unit opportunities for a total of 5 582 secured opportunities.

Before COVID-19, the expectation was to reach 2 492 completed units by February 2025. Evergreen's stated ambition is to be the pre-eminent retirement provider in South Africa reaching 10 000 units over time. COVID-19 and the 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 (44%)

- *Simple and focused business model*
  - private higher education
- *High barriers to entry*
  - capital intensive
  - accredited qualifications
- *High growth potential*
  - growing number of students
  - limited capacity in traditional higher education institutions
  - distance learning offering

Stadio is a private higher education provider in its development phase and is listed on the JSE. It currently comprises six private higher education institutions offering more than 90 accredited programmes to ±32 000 students, ranging from higher certificates to doctorates through contact and distance learning. Key to future growth will be Stadio's pipeline of 45 new programmes currently being accredited. This should increase as, among other, new faculties are established.

Stadio is busy amalgamating its six institutions into one comprehensive private higher education institution by August 2020 including various faculties across the 14 existing campuses. Stadio will continue to develop and expand its product offering as part of its journey to reach 56 000 students by 2026. PSG Alpha is actively assisting Stadio management in achieving their stated objectives.

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

Optimi (84,4%)

- *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

Effective 1 April 2019, Optimi (previously FutureLearn) and ITSI, both being existing investees of PSG Alpha, merged their businesses to enable cross-selling to their respective clients and to unlock further synergies.

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 education and after-school tutoring)	More than 22 000 learners More than 1 500 tutors
Classroom (schools and tertiary institutions)	More than 1 500 schools 2 tertiary institutions
Workplace (corporate and public sector training)	More than 200 businesses More than 100 000 learners
College (accredited and short courses)	More than 5 300 learners

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

Energy Partners (54,1%)

- *Simple and focused business model*
    - private energy utility provider
- *High barriers to entry*
    - capital intensive
    - skilled expertise
- *High growth potential*
    - size of the energy market
    - attractive economies of on-site generation
    - trend towards outsourcing utilities
    - reliability concerns over South Africa's largest electricity provider

PSG Alpha originally invested in Energy Partners when it was an engineering consulting business focused on providing energy-efficient solutions to its clients in return for a consultancy fee. Energy Partners has since become 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 on significantly expanding its current investment book of ±R300m.

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 (%) 2019	Interest (%) 2020
Alaris	Global radio frequency technology group specialising in defence and other antennas	25,4	**Sold**
Carter	Redefine new car sales experience	71,1	**76,0**
CA Sales	Route-to-market services for fast-moving consumer goods in Sub-Saharan Africa	47,7	**47,7**
CSG	Diversified outsourced services (personnel, security, mining, cleaning and catering services)	12,4	**12,4**
Educartis	Education listing website with Africa focus	20,0	**20,0**
Energy Partners	Private energy utility	54,1	**54,1**
Evergreen	Retirement lifestyle villages	50,0	**50,0**
Optimi	Innovative and accessible education solutions to schools, tutors, parents and learners	88,4*	**84,4**
ProVest	Diversified mining services	42,3	**42,3**
SNC	Scalable, high-throughput nanofiber production	55,8	**61,1**
Spirit Capital	Investment holding company focused on leveraged transactions	49,3	**49,3**
Stadio	Private higher education	44,0	**44,0**

* *Following the merger with ITSI effective 1 April 2019.*

ZEDER (43,8%)

- *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.

As mentioned earlier, Zeder concluded the disposal of its largest investment comprising a 28,6% interest in Pioneer Foods to PepsiCo for R6,4bn in cash during March 2020. Pursuant thereto, it subsequently declared and paid a R2,30 per share special dividend to Zeder shareholders, settled its remaining R1,5bn term debt in full, and retained R1bn in cash for liquidity purposes.

Zeder actively drives and assists with portfolio and investee strategies, while monitoring and overseeing optimal capital allocations to ensure sustainable investment returns. Its portfolio consists of strategic interests in leading companies that provide it with a diversified exposure across the agribusiness spectrum, ranging from strategic agri-inputs to fast-moving consumer goods while incorporating related logistical and enabling services.

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

CURRO (55,4%)

- *Simple and focused business model*
  - private school education
- *High barriers to entry*
  - capital intensive
- *High growth potential*
  - Curro has 13% of the private school market and 0,5% of the total school market in South Africa
  - global trends for developing countries indicate private schools represent approximately 13% of total schools – considering that private school learners represent only 4% of the total school-going population in South Africa at present, the local private school market should grow substantially in the next 10 years

Curro is the largest provider of private school education in southern Africa with more than 62 000 learners across 76 campuses as at 31 January 2020.

PSG remains excited about Curro's growth prospects.

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

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 (5,2%), Stadio (3,4%), Kaap Agri (20%) and Energy Partners (15,7%). The investment in Energy Partners remains subject to a BEE lock-in period.

Following a decline in the value of its listed investments, Dipeo's *SOTP value* decreased to the extent that, for purposes of PSG's *SOTP value*, its equity investment in Dipeo was valued at zero and its pref investment in Dipeo impaired to the extent required.