

Review of operations



Review of operations

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. Positive growth in PSG's *SOTP value* per share thus inevitably results in 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.

Consolidated *recurring headline earnings* is calculated on a see-through basis throughout the group and is the sum of PSG's effective interest in that

of each strategic investment. The result is that investments in which PSG or an underlying company holds less than 20% and is generally not equity accountable in terms of accounting standards, are included in the calculation of our consolidated *recurring headline earnings*. Marked-to-market fluctuations and one-off items are excluded.

SOTP VALUE

The calculation of the *SOTP value* is simple and requires limited subjectivity as 83% of the value is calculated using listed and over-the-counter traded share prices, while other investments are included at market-related valuations. At 28 February 2014, the *SOTP value* per PSG share was R95,01 (2013: R72,67) – a 44% CAGR over the last five years. At 11 April 2014, the *SOTP value* was R106,42 per share.

Asset/Liability	28 Feb 2011 Rm	29 Feb 2012 Rm	28 Feb 2013 Rm	28 Feb 2014 Rm	% of total
Capitec *	5 138	5 978	6 128	5 989	30
Curro *		1 118	2 607	4 660	23
PSG Konsult **	1 206	1 483	2 237	4 004	20
Zeder *	1 069	1 067	1 412	1 698	8
PSG Private Equity †	1 242	728	681	949	5
Thembeke Capital †		570	899	1 243	6
PSG Corporate (incl. PSG Capital) ††	350	338	383	383	2
Other investments (incl. cash) ††	548	684	1 505	1 122	6
Total assets	9 553	11 966	15 852	20 048	100
Perpetual pref funding *	(1 028)	(1 188)	(1 163)	(1 393)	
Other debt ††	(507)	(463)	(845)	(615)	
Total SOTP value	8 018	10 315	13 844	18 040	
Shares in issue (net of treasury shares) (m)	171,3	184,5	190,5	189,9	
SOTP value per share (rand)	46,81	55,92	72,67	95,01	
Net asset value per share (rand)	21,56	26,50	32,62	37,48	

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





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Capitec remains PSG's largest investment and represented 30% (2013: 39%) of the *SOTP value's* total assets as at 28 February 2014. Its share price has virtually remained unchanged over the past three years following continuous negative publicity regarding the unsecured lending market and despite strong earnings growth. Its price earnings ("PE") ratio has as a result decreased from 21x to 11x over

this period. As at 28 February 2014, Curro and PSG Konsult respectively represented 23% (2013: 16%) and 20% (2013: 14%) of PSG's total assets following an increase in share price and the aforementioned Capitec PE-rerating. However, Capitec continues to be the major contributor to PSG's *recurring headline earnings*.

RECURRING HEADLINE EARNINGS

Year ended February	2012	Change	2013	Change	2014
	Rm	%	Rm	%	Rm
Capitec	362,4	38	499,9	14	570,7
Curro	(5,2)	<i>n/a</i>	8,1	154	20,6
PSG Konsult	107,9	10	118,8	37	162,7
Zeder	115,4	(8)	106,6	17	124,5
PSG Private Equity	32,0	134	75,0	(31)	51,4
Thembeke Capital	18,7	50	28,0	(17)	23,2
PSG Corporate (<i>including PSG Capital</i>)	20,4	(22)	15,9	(56)	7,0
Other	19,3	60	30,8	26	38,9
Recurring headline earnings before funding	670,9	32	883,1	13	999,0
Funding	(134,4)	25	(168,2)	8	(181,2)
Recurring headline earnings	536,5	33	714,9	14	817,8
Non-recurring items	30,6	423	160,1	19	191,0
Headline earnings	567,1	54	875,0	15	1 008,8
Non-headline items	135,9	95	264,8	(84)	43,2
Attributable earnings	703,0	62	1 139,8	(8)	1 052,0
Weighted average number of shares in issue (net of treasury shares) (m)	173,9		182,2		183,0
Earnings per share (cents)					
– Recurring headline	308,6	27	392,3	14	446,9
– Headline	326,2	47	480,2	15	551,3
– Attributable	404,4	55	625,5	(8)	574,9
Dividend per share (cents)	82,0	35	111,0	20	133,0

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

Headline earnings increased by 15% to 551,3 cents per share. *Headline earnings* included *non-recurring* gains of R191m (2013: R160m), resulting in *headline earnings* per share being 23% higher than *recurring*





Review of operations continued

headline earnings per share. The *non-recurring headline* gains mainly consisted of marked-to-market profits achieved on PSG's interest rate hedge and Thembeke's portfolio of listed shares, as well as an after-tax performance fee of R42,5m (2013: Rnil) earned from PSG's management of Zeder.

Attributable earnings decreased by 8% to 574,9 cents per share mainly as a result of the *non-headline* profits achieved on the disposal of PSG's Capitec rights offer shares and Zeder's disposal of a 15,1% interest in Capevin Holdings in the prior year.

PSG CORPORATE ACTION AND INVESTING

- Repurchased 492 471 PSG ordinary shares for R33,1m cash at R67,19 per share;
- Issued 3 996 291 PSG Financial Services perpetual preference shares for cash proceeds of R300m at an effective dividend yield of 9,44%, and partial utilisation thereof to redeem promissory notes upon maturity of R269,8m; and
- Curro conducted a rights offer during May 2013, underwritten by PSG. Our additional investment from same amounted to R350,6m.

CHIEF EXECUTIVE OFFICER	GERRIE FOURIE
FINANCIAL DIRECTOR	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.



28,3%

Financial results – year ended February	2012	2013	2014
Headline earnings (Rm)	1 078	1 584	2 017
HEPS (cents)	1 125	1 519	1 752
Growth in HEPS (%)	49	35	15
Dividend per share (cents)	425	574	663
Dividend cover ratio	2,6x	2,6x	2,6x
Return on equity (%)	29	27	23
Gross loans and advances (Rm)	18 408	30 658	33 690
Value of loans advanced (Rm)	19 393	25 401	18 214
Net loan impairment expense (Rm)	1 604	2 659	3 976
Impairment as percentage of loans and advances (%)	8,7	8,7	11,8
Net transaction fee income (Rm)	836	1 349	1 927
Net transaction fee income as percentage of operating expenses (%)	34	45	59
Number of active clients ('000)	3 706	4 677	5 388
Number of branches	507	560	629
Number of employees	7 194	8 308	9 070





Review of operations continued

Capitec continued to deliver attractive results amid challenging conditions in the unsecured credit market, with a 15% increase in headline earnings per share for the year ended 28 February 2014. It continues to become less dependent on lending income, with a 43% increase in net transaction fee income, which now covers 59% (2013: 45%) of operating expenses.

In our opinion, Capitec is an exceptional business managed by talented people. This is also evident from the numerous accolades they have received:

- Winner of the *Ask Africa Orange Index* for best service company in the banking industry for 2013/14 and 4th across all industries. This accolade has been awarded to Capitec twice, the first time being in 2011.
- Highest rated bank brand for customer satisfaction in the 2014 *South African Consumer Satisfaction Index*.
- Overall bank of the year in 2014 according to a survey by *Intellidex* and published by the *Business Times*.
- Named a *Sunday Times Royal Company* in 2013.

Royal Companies are those which have for three consecutive years been ranked among the top 20 in the *Sunday Times Top 100 Companies*.

- Best commercial bank in South Africa in 2013 as awarded by the *World Finance Banking Awards*.
- *Sunday Times* top performing company of the top 100 companies on the JSE in 2012. This accolade is based on five-year share price growth performance. Capitec has won this accolade twice, the first time being in 2010.
- Named a *Great Brand of Tomorrow* by *Credit Suisse* in 2010 – one of only 27 brands worldwide to receive this award at the time and the only South African brand to do so.

The company is well capitalised with a 39% capital adequacy ratio, has further tightened its credit criteria and maintains a conservative provisioning policy. PSG remains excited about this investment.

Capitec's comprehensive results for the year ended 28 February 2014 are available at www.capitecbank.co.za.

CHIEF EXECUTIVE OFFICER	FRANCOIS GOUWS
FINANCIAL DIRECTOR	MIKE SMITH

PSG Konsult is a leading financial services company, delivering a broad range of financial services and products. It focuses on providing wealth management, asset management and insurance solutions to clients.



64,7%

Financial results – year ended February	2012	2013	2014
Recurring headline earnings (Rm)	151,3	174,4	251,1
Recurring HEPS (cents)	14,1	15,4	20,6
Growth in recurring HEPS (%)	16	9	34
Funds under management (Rbn)	51,2	81,4	112,1
Funds under administration (Rbn)	87,8	179,5	234,5





Review of operations continued

PSG Konsult recently reported its first set of full-year financial results under its refocused business model and Francois Gouws's leadership as new CEO. PSG Konsult's *recurring headline earnings* per share increased by 34% for the year ended 28 February 2014. Each of the three divisions, namely *Wealth*, *Asset Management* and *Insure*, produced commendable results.

PSG Wealth has maintained its upward revenue trend, benefiting from positive client inflows, increased trading activity and favourable market conditions. *PSG Asset Management* is a high growth area and increased brand awareness has facilitated strong client inflows from both retail and institutional investors. *PSG Insure* has shown subdued revenue growth amid a fiercely competitive market, particularly in the personal lines business. However, inward reinsurance income has shown significant growth.

Funds under management increased by 38% to R112bn, while funds under administration increased by 31% to R235bn during the year under review.

We are proud of the following PSG Konsult achievements and industry awards:

- PSG Online was voted the *Business Day Investors Monthly* Stockbroker of the Year award for the third consecutive year.
- PSG Asset Management recorded top quartile investment returns across its entire domestic flagship range of funds in the respective *Morningstar* categories measured over six months, one year, three years and five years. These include the *PSG Equity*, *PSG Flexible* and *PSG Balanced* funds.
- PSG Konsult received the Portfolio Administration Award for Performance Excellence at the 2013 *National Santam Broker Awards* and the National Broker Award for Performance Excellence in Personal Lines.

PSG Konsult's strategic focus for the year ahead is top line revenue growth, which will enable it to unlock operational leverage scale benefits now that it has successfully bedded down its repositioning.

PSG Konsult intends listing on the JSE during June 2014.

PSG Konsult's comprehensive results for the year ended 28 February 2014 are available at www.psg.co.za.





Review of operations continued

CHIEF EXECUTIVE OFFICER **NICO DE WAAL**

MANAGED BY THE PSG EXCO

PSG Private Equity invests in sectors other than agribusiness.



100%

At 28 February 2014, PSG Private Equity's portfolio comprised the following investments:

Investment	Interest %	Description	2012 Rm	2013 Rm	2014 Rm	IRR %
CA Sales	50,9	FMCG distributor		199	239	(6,5)
Precrete *	52,8	Mine safety and support services	161	123	150	22,8
African Unity Insurance	47,5	Life and related insurance	71	74	74	28,7
GRW	37,7	Tanker manufacturer	63	62	60	(4,9)
CSG Holdings	15,7	Construction support services	32	54	148	39,1
Spirit Capital	28,0	Leveraged buy-outs	46	51	62	30,8
Impak	76,9	Correspondence learning	21	51	59	4,6
Protea Foundry	49,9	Non-ferrous foundry	38	38	39	34,8
Propell	30,0	Levy finance	18	18	20	7,6
Energy Partners	39,2	Energy saving solutions	14	11	13	2,9
Erbacon	12,3	Construction	14			
SNC	24,4	Nanofibre technology	8			
Poynting	27,0	Antenna-related products			83	n/a
IT School Innovation	47,0	E-learning solutions			2	
Investments disposed of			242			
SOTP value			728	681	949	

* Valuation in prior years included a preference share investment.

PSG Private Equity's portfolio contains a range of businesses across various industries and in different stages of maturity. The portfolio delivered weaker than expected results for the year ended 28 February 2014, with a 31% decrease in *recurring headline earnings* to R51,4m. However, management remains optimistic about the earnings growth potential of this investment portfolio.

Corporate action at PSG Private Equity (and its underlying investments) during the year under review included:

- Acquired a 27% stake in AltX-listed *Poynting*, a provider of antenna-related products;
- Acquired a 47% stake in *IT School Innovation*, a provider of e-learning solutions to schools;
- *M&S Holdings* concluded its merger with *BDM Holdings* to form AltX-listed *CSG Holdings*, a diversified outsourced services group; and
- *CA Sales Holdings* acquired a 49% stake in *SMC Brands*, a distributor of liquor products.





Review of operations continued

CHIEF EXECUTIVE OFFICER	CHRIS VAN DER MERWE
FINANCIAL DIRECTOR	BERNARDT VAN DER LINDE

Curro is a provider of private school education.



57,1%

Financial results – year ended December	2011	2012	2013	2014 *
Headline earnings (Rm)	(7,5)	15,0	36,8	
HEPS (cents)	(5,4)	7,0	13,1	
Growth in HEPS (%)	n/a	n/a	87	
Number of campuses	12	22	26	31
Number of learners	5 777	12 473	21 027	27 263
Number of educators	446	1 151	1 593	1 868
Learner/teacher ratio	12	11	13	15
Total building size (m ²)	75 000	169 024	261 004	264 441

* As at 31 January 2014.

Curro continues to assert its leading position in the South African private school market, albeit a small percentage of same.

It currently operates 31 (2013: 26) campuses accommodating 27 263 (2013: 21 027) learners from three months to grade 12, and continues to make private schooling more accessible to South Africans, offering fees that range between R1 000 and R6 500 per month.

Curro reported an 80% increase in revenue and an 87% increase in headline earnings per share for its

financial year ended 31 December 2013. It is well under way to achieve its target of 80 campuses by 2020 and plans to develop 10 new campuses in the year ahead.

Curro will undertake a R589m rights issue, underwritten by PSG, to help fund its capital expansion during the year ahead.

Curro's comprehensive results for the year ended 31 December 2013 are available at www.curro.co.za.





Review of operations continued

EXECUTIVE CHAIRMAN

KK COMBI

Thembeka is a black-owned and controlled investment company in which PSG holds a 49% interest.

THEMBEKA
CAPITAL

49%

Thembeka's total assets of R3,1bn includes investments in Capitec, Curro, Kaap Agri, MTN Zakhele, Pioneer Foods and PSG.

Financial results – year ended February

	2012	2013	2014
Intrinsic value (net of CGT) (Rbn)	1,0	1,5	2,1
Growth in intrinsic value (net of CGT) (%)	8	52	37

Thembeka has, under the leadership of KK Combi, grown its intrinsic value (net of CGT) by 52% per year over the past eight years and as such remains an extraordinary BEE success story. During the year ended 28 February 2014, Thembeka's net intrinsic value (after CGT) increased by 37% to R2,1bn.

Thembeka continues to support growth initiatives in its underlying investments with a view to enhancing portfolio returns.

Thembeka's comprehensive results for the year ended 28 February 2014 are available at www.thembekacapital.co.za.

CHIEF EXECUTIVE OFFICER

NORMAN CELLIERS

MANAGED BY THE PSG EXCO

Zeder is a JSE-listed investment holding company focused on the broad agribusiness industry.

 **ZEDER**
INVESTMENTS LIMITED

42,4%

Financial results – year ended February

	2012	2013	2014
Recurring headline earnings (Rm)	273,0	251,1	292,1
Recurring HEPS (cents)	27,9	25,7	29,8
Growth in recurring HEPS (%)	3	(8)	16
SOTP value per share (rand)	3,15	3,99	5,02
Growth in SOTP value per share (%)	15	27	26
Dividend per share (cents)	4,0	4,0	4,5





Review of operations continued

Zeder is an investor in the broad agribusiness industry. The value of its underlying portfolio amounted to R4,9bn as at 28 February 2014. Agri Voedsel, with its 30,4% interest in Pioneer Foods, remains a large strategic investment representing 39,8% of the portfolio. During the year under review, Zeder continued rebalancing its portfolio in line with its amended strategy. It disposed of investments valued at R529m and invested R879m primarily to acquire additional stakes in its existing core port-

folio (including Agri Voedsel, Capespan, Chayton, Kaap Agri and Zaad).

Zeder reported a 26% increase in its *SOTP value* per share and a 16% increase in *recurring headline earnings* per share for the year ended 28 February 2014, with all its core portfolio investments contributing positively.

Zeder's comprehensive results for the year ended 28 February 2014 are available at www.zeder.co.za.

CHIEF EXECUTIVE OFFICER	JOHAN HOLTZHAUSEN
Corporate finance	



100%

PSG Capital is the corporate finance arm of PSG and provides a complete range of corporate finance and advisory services to a broad spectrum of clients. It is a JSE-registered sponsor and designated advisor. 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 33 JSE-listed companies and has numerous unlisted clients. Since establishment in 1998, PSG Capital has advised on publicly announced transactions in excess of R90bn.

PSG Capital's services and contact details are available at www.psgcapital.com.

CHIEF EXECUTIVE OFFICER	PIET MOUTON
FINANCIAL DIRECTOR	WYNAND GREEFF
Investment management and treasury services	



PSG CORPORATE SERVICES

100%

PSG Corporate is a profit centre. It acts as PSG's treasurer, allocates capital and determines and monitors the group's gearing, and is the appointed manager to Zeder.

