# PSG Konsult

# RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2018

## OVERVIEW

PSG Konsult delivered a solid 16% growth in recurring headline earnings per share and a return on equity of 24%. This was during a year of tough operating conditions, in which the country continued to be plagued by low economic growth, low consumer and business confidence and volatile market conditions. Against this backdrop, the upward trajectory of our key operating and financial metrics demonstrates the resilience of our business model. Total assets under management increased by 17% to R205.4 billion, comprising assets managed by PSG Wealth of R162.7 billion and PSG Asset Management of R42.7 billion, while PSG Insure's gross written premium increased by 15% to R3.3 billion. Performance fees earned constituted 8.6% of headline earnings in comparison to 8.8% in the previous financial year.

PSG Konsult's key financial performance indicators for the financial year ended 28 February 2018 are shown below:

| | 28 Feb 18 R000 | Change % | 28 Feb 17 R000 |
|---|---|---|---|
| Core income | 4 200 308 | 11 | 3 789 371 |
| Headline and recurring headline earnings | 566 396 | 16 | 486 439 |
| Non-headline items | 80 | (81) | 423 |
| Earnings attributable to ordinary shareholders | 566 476 | 16 | 486 862 |
| Divisional recurring headline earnings | | | |
| PSG Wealth | 339 129 | 18 | 287 345 |
| PSG Asset Management | 155 825 | 20 | 130 245 |
| PSG Insure | 71 442 | 4 | 68 849 |
| | 566 396 | 16 | 486 439 |
| Weighted average number of shares in issue (net of treasury shares) (millions) | 1 317.6 | 1 | 1 307.1 |
| Earnings per share (basic) (cents) | | | |
| – Headline and recurring headline | 43.0 | 16 | 37.2 |
| – Attributable | 43.0 | 16 | 37.3 |
| – Headline and recurring headline – excluding intangible amortisation cost | 46.4 | 15 | 40.4 |
| Dividend per share (cents) | 18.0 | 18 | 15.3 |
| Return on equity (ROE) (%) | 24.3 | | 25.3 |

## SALIENT FEATURES

**↑16%** to 43.0 cents
**RECURRING HEADLINE EARNINGS PER SHARE**
2017: 37.2 cents | 2016: 32.1 cents

**↑18%** to 18.0 cents
**DIVIDEND PER SHARE**
2017: 15.3 cents | 2016: 13.2 cents

**↑17%** to R205bn
**TOTAL ASSETS UNDER MANAGEMENT**
2017: R175bn | 2016: R154bn

**↑15%** to R3 296m
**GROSS WRITTEN PREMIUM**
2017: R2 854m | 2016: R2 490m

### PSG Wealth

PSG Wealth achieved recurring headline earnings growth of 18%. We are satisfied with this result in the context of the prevailing investment market conditions. Management and other fees increased by 11% as the business continues to focus on recurring income and reducing its reliance on cyclical transactional brokerage fees, which increased by a notable 7% during the year under review. We continue to focus our efforts on enhancing our IT system infrastructure and digital platforms, and all related costs continue to be fully expensed. Clients' assets managed by our Wealth advisers increased by 14% to R162.7 billion during the year under review, which included R11.8 billion of positive net inflows.

We remain confident about the fundamentals and prospects for this division and believe that our advisers and clients will gain, over the long term, from the client-centric digital projects we have embarked upon. We are particularly pleased with the division's formidable financial adviser network which grew by 5%, to 539 advisers, through both organic growth and selected acquisitions. The experience and stature of the advisers joining the firm continue to add credibility to our growing brand equity. We also continue to increase client engagement and gain market share.

**MANAGED ASSETS**
**14%** to R163 billion

**TOTAL ASSETS**
**6%** to R359 billion

**NET INFLOW OF MANAGED ASSETS**
**R11.8 billion**

### PSG Asset Management

PSG Asset Management's recurring headline earnings grew by 20%. The commendable results achieved by this division is testimony to the team's excellent long-term track record of delivering top-quartile risk-adjusted investment returns for our clients. The team's ability to consistently generate alpha for clients across all asset classes over the appropriate investment horizon remains compelling. Client assets under management increased by 29% to R42.7 billion during the year under review. This included R7.9 billion of positive net client inflows, predominately into our higher-margin funds, with the bulk coming from our retail-orientated target market. As such, we are pleased with the strong increase in high-quality annuity earnings from our ever increasing retail client base. PSG Asset Management continues to gain industry accolades, such as being voted as a top two South African fund house by both Plexcrown and Morningstar.

**ASSETS UNDER MANAGEMENT**
**29%** to R43 billion

**ASSETS UNDER ADMINISTRATION**
**22%** to R101 billion

**NET INFLOW OF MANAGED ASSETS**
**R7.9 billion**

### PSG Insure

PSG Insure achieved recurring headline earnings growth of 4%. The group is satisfied with this achievement, against the backdrop of a difficult industry environment. This division, which is in an early growth phase, continues to make inroads into the highly competitive short-term insurance market and is starting to reap economies of scale benefits. It achieved gross written premium growth of 15% as we continue to focus our efforts on growing the commercial lines, which requires specialist adviser expertise. The comprehensive reinsurance programme we have in place reduced the adverse impact of catastrophe events, such as the Knysna fires that occurred during the year under review. This, when combined with our quality underwriting practices, allowed us to achieve a net underwriting margin of 8.3%, which is commendable despite being lower than the exceptional 9.7% we achieved in the prior year. The insurance advisers, who increased by 7% to 245, continue to gain market share on the commercial lines side. PSG Insure was voted overall national winner at the Old Mutual Insure 2017 Broker Awards ceremony, and also won the Santam National Broker of the Year for commercial lines award.

**GROSS WRITTEN PREMIUM***
**15%** to R3.3 billion

**UNDERWRITING MARGIN**
**8.3%** from 9.7%

* Excludes short-term administration platform gross written premium.

## CORPORATE ACTIVITY

In order to augment our organic growth strategy, we concluded a number of smaller earnings-accretive acquisition transactions. These transactions were funded from existing cash resources and are aligned with our aim of identifying opportunities that will either expand our adviser footprint or enhance our overall client service offering. These transactions will be seamlessly integrated into PSG Konsult's existing business operations and will contribute positively to the long-term organic growth of the firm.

**PSG Wealth** acquired the clients of 28E Capital, effective 1 April 2018. 28E Capital is a leading boutique brokerage that offers retail clients a specialist online platform. We continued to expand our financial adviser network both organically and through selective adviser business acquisitions, such as SP Wealth in Rosebank, to enable us to service and grow our client base. To simplify and standardise our adviser network, we also concluded a few remaining revenue-sharing standardisation arrangement transactions post-year-end.

**PSG Insure** concluded two acquisition agreements with Absa Insurance and Financial Advisers (AIFA), as announced on SENS on 26 September 2017 and 12 February 2018. Good progress is being made with the fulfilment of the conditions precedent in respect of the commercial and industrial short-term insurance brokerage business, with only some regulatory approvals remaining outstanding. We expect this to be completed in the immediate future, with an effective date circa mid-current year. The implementation of the acquisition of the remainder of the personal lines short-term insurance face-to-face advisory insurance brokerage business from AIFA is still in the early stages, and will follow a similar process to the first transaction. We expect this to be completed during the latter part of the 2019 financial year. PSG Insure also concluded an association agreement with firstEquity, a leading insurance adviser and service group, effective 1 November 2017. This business was merged with the PSG Insure Randburg short-term branch, creating a business with significant scale. These three transactions will add a further 152 advisers and over 77 000 new clients to our business. Subsequent to year-end, PSG Insure concluded an agreement to acquire the remaining 40% shareholding in the Western Group's Namibian entities, currently held by Santam.

## CAPITAL MANAGEMENT

PSG Konsult is strongly capitalised and already complies with the more stringent capital requirements of Solvency Assessment and Management (SAM). Our strong financial position was also affirmed by the long and short-term investment grade national scale ratings assigned to PSG Konsult by rating agency Global Credit Rating Co. (GCR) of A-(ZA) and A1-(ZA), respectively, with a stable outlook.

PSG Konsult established a Domestic Medium Term Note (DMTN) programme to provide the business with a flexible, cost-effective funding structure that will internally fund our Scriptfin loan book. We concluded our maiden listing on the JSE's Interest Rate Market of a three-year R100 million senior unsecured floating rate note on 12 July 2017, at competitive rates. Other than the DMTN programme, the group has no material interest-bearing debt. In the longer term, however, building a credible track record with the debt market will naturally give the group overall funding flexibility.

We will maintain solid capital buffers at all times. At the same time, our strong cash flow and low debt position allow us several levers to optimise risk-adjusted returns for our shareholders. In pursuit of this objective, and in order to avoid share issuance dilution, we repurchased 15 712 951 PSG Konsult shares at an average effective price of R8.22, during the year under review. The PSG Konsult share incentive trust acquired 8 427 846 shares to meet obligations to participants, while the remaining 7 285 105 shares were acquired as treasury shares.

Given our increased confidence in business prospects and an improved economic outlook, the board decided to approve and declare a 21% increase in the final gross dividend of 12.3 cents per share (2017: 10.2 cents per share) from income reserves. This brings the full year increase in the total dividend to 18%, which for the first time in several years is more than our per share earnings growth for the full year. The group's dividend payout ratio nevertheless remains at the low end of the dividend payout policy range announced at the time of listing.

## CHANGES TO THE BOARD

The board is pleased with the appointment of Zodwa Matsau as an independent non-executive director and a member of PSG Konsult's audit and risk committees, effective 20 July 2017. Zodwa brings a wealth of knowledge to the board after 18 years of experience at the South African Reserve Bank.

## LOOKING FORWARD

The recent political party leadership changes that led to a strengthening of the rand have improved the mood of South Africans, resulting in clients being more optimistic and confident about their future financial well-being.

The group's aim remains to service existing clients in an integrated manner that is seamless and market-leading, as well as to gain new clients. Several initiatives are in place to ensure this happens. The group's focus on products, platforms and client service excellence, through the quality of its advice process, works. As such, the prospects for continued growth are compelling.

The cash-generative nature of the business gives PSG Konsult several options of funding business growth initiatives which are, ultimately, aimed at enhancing our overall client experience.

The group will continue to prioritise organic growth in the domestic market, where we have relatively low but rapidly expanding market shares. The group's capital position adequately takes into account our current growth plans.

## REVIEWED FINANCIAL STATEMENTS

This voluntary short-form announcement is the responsibility of the board of directors of the company. It contains only a summary of the information contained in the full announcement made on SENS on Thursday, 19 April 2018 and does not contain full or complete details. Please refer to the full announcement for additional information, available for viewing on PSG Konsult's website at www.psg.co.za. It may also be requested and obtained in person, at no charge, at the registered office of the group and the offices of the sponsor during office hours. Any investment decision by investors and/or shareholders should be based on consideration of the full announcement made on SENS and on the group's website as set out above.

The board would like to extend its gratitude to stakeholders, including shareholders, advisers, clients, business partners, management and employees, for their efforts and contributions during the past year.

On behalf of the board

**Willem Theron**
*Chairman*

**Francois Gouws**
*Chief executive officer*

Tyger Valley
19 April 2018

**Non-executive directors:** W Theron (Chairman), PJ Mouton, J de V du Toit^, PE Burton*, ZL Combi*, R Stassen*, ZRP Matsau* (^ Lead independent; * Independent)
**Executive directors:** FJ Gouws (Chief executive officer), MIF Smith (Chief financial officer)
**Company secretary:** PSG Management Services Proprietary Limited
**PSG Konsult head office and registered office:** 4th Floor, The Edge, 3 Howick Close, Tyger Waterfront, Tyger Valley, Bellville, 7530; PO Box 3335, Tyger Valley, Bellville, 7536

**Transfer secretary:** Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196; PO Box 61051, Marshalltown, 2107
**Listings:** Johannesburg Stock Exchange (JSE), Namibian Stock Exchange (NSX)
**JSE sponsor:** PSG Capital Proprietary Limited **NSX sponsor:** PSG Wealth Management (Namibia) Proprietary Limited **JSE share code:** KST **NSX share code:** KFS
**ISIN code:** ZAE000191417 **Auditor:** PricewaterhouseCoopers Inc., Cape Town

**PSG Konsult Limited** (Incorporated in the Republic of South Africa)
('PSG Konsult' or 'the company' or 'the group')
**Registration number:** 1993/003941/06

**Website:** www.psg.co.za

GREYMATTER & FINCH # 12263