PSG Konsult

REVIEWED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2017

SALIENT FEATURES

Recurring headline earnings per share	Dividend per share	Total assets under management	Core revenue
16% to 37.2 cents	16% to 15.3 cents	14% to R175bn	13% to R3 789m
2016: 32.1 cents | **2015:** 27.0 cents	**2016:** 13.2 cents | **2015:** 12.0 cents	**2016:** R154bn | **2015:** R133bn	**2016:** R3 346m | **2015:** R2 858m

Overview

PSG Konsult delivered a solid 16% rate of growth in recurring headline earnings per share and return on equity of 25%. Total assets under management increased to R175.3 billion, comprising managed assets of PSG Wealth and PSG Asset Management of R142.2 billion and R33.1 billion respectively. This was against the backdrop of poor investment market returns and challenging business conditions. Shareholder, insurance float and client assets benefited from being favourably positioned. This resulted in increased investment income on shareholder and insurance float assets. PSG Asset Management experienced increases in performance fees due to delivering top-quartile performance for clients during the year under review. Our positioning always takes account of the fact that markets can be unpredictable.

The board of directors is pleased with this set of results and approved and declared a final gross dividend of 10.2 cents per share (2016: 8.8 cents per share) from income reserves. This follows the gross interim dividend of 5.1 cents per share (2016: 4.4 cents per share) declared in October 2016. This brings the total gross dividend declared for the 2017 financial year to 15.3 cents per share (2016: 13.2 cents per share). This is in line with the group's dividend payout policy as approved by the board of directors at the time of listing.

PSG Konsult's key financial performance indicators for the financial year ended 28 February 2017 are shown below:

	28 Feb 17 R000	Change %	29 Feb 16 R000
Recurring headline earnings	486 439	19	408 748
Non-recurring headline earnings	–		(116 446)*
Headline earnings	486 439	66	292 302
Non-headline items	423	(32)	622
Earnings attributable to ordinary shareholders	486 862	66	292 924
Divisional recurring headline earnings			
PSG Wealth	287 345	1	285 505
PSG Asset Management	130 245	57	82 707
PSG Insure	68 849	70	40 536
	486 439	19	408 748
Weighted average number of shares in issue (net of treasury shares) (millions)	1 307.1	3	1 274.2
Earnings per share (cents)			
– Recurring headline	37.2	16	32.1
– Headline	37.2	62	22.9
– Attributable	37.3	62	23.0
– Recurring headline (excluding intangible amortisation cost)	40.4	17	34.6
Dividend per share (cents)	15.3	16	13.2
Return on equity (ROE) (%)	25.3		24.8**

* *PSG Life tax matter settlement and related costs.*
** *ROE of 18.4% if tax settlement impact is included.*

PSG Wealth achieved recurring headline earnings growth of 1%. We are satisfied with this result in the context of the muted market value increase in local assets linked to the FTSE/JSE ALSI index being up by a modest 4%. The strengthening of the rand resulted in international assets being down in rand terms. Management and other fees increased by 11% as the business continues to focus on recurring income and reduce its reliance on cyclical transactional brokerage fees. These brokerage fees declined by 8% during the current year under review. The cost base of the division increased by 26% as we strengthened both our information technology (IT) and investment research teams, accelerated our investment in developing technology and at the same time, fully expensed the remaining carrying value of all legacy technology development costs that had been capitalised up until 2014. This means we no longer have any deferred technology development costs. A combination of the above factors offset the additional revenue which stemmed from the net inflows of R13.4 billion.

We remain confident of the fundamentals and future prospects of this division, and believe that our advisers and clients can only gain, over the long term, from the current client-centric digital projects we have embarked upon. We are particularly pleased with the division's formidable financial adviser network that grew by 7%, through both organic and selective adviser acquisitions, to 515 advisers. The experience and stature of the advisers joining the firm continues to add credibility to the growing brand equity. We continue to gain market share with Wealth's platform assets increasing by 15% to R38.0 billion and our managed assets increasing by 13% to R142.2 billion.

PSG Asset Management's recurring headline earnings grew by 57%. The excellent results generated by this division is testimony to the team's ability to generate alpha across all asset classes. Our fund range top-quartile risk-adjusted investment returns for clients during the year under review has further augmented our excellent long-term investment track record. Client assets under management increased by 19% to R33.1 billion. This included R2.6 billion of positive net client inflows predominately into our higher margin multi-asset funds and mainly from our selected retail target market. The excellent investment returns enabled us to earn higher performance fees this year. These fees align our interests with those of our clients. This more than compensated for the small loss of income which arose from the previously communicated decision to exit white labels to reduce operational risk. We remain confident and optimistic over the long-term growth prospects for this business.

PSG Insure achieved recurring headline earnings growth of 70%. The group is especially pleased with this achievement. This is against the backdrop of a particularly 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 gains further benefits from economies of scale. It achieved revenue growth of 19% compared to the prior year. It continued with its shift away from commoditised personal lines to commercial lines. The latter requires specialised adviser expertise. The comprehensive reinsurance programme reduced the impact of catastrophic and other related events that occurred during this year. This, when combined with our quality underwriting practices, enabled us to achieve an excellent net underwriting margin of 9.7%. The insurance advisers, which now total 229, continue to gain market share on the commercial lines side which is their area of focus.

Business line closure

During the year under review we decided to close our direct short-term business within PSG Insure and fixed income agency trading business within PSG Wealth. We continue to judge each business according to the sustainability of earnings and the return per unit of risk. In both cases these hurdles were not met. All relevant costs have been fully expensed in the normal course of business.

Credit rating

Rating agency Global Credit Rating Co. (GCR) upgraded PSG Konsult's long-term and short-term ratings during 2016, to the investment grade ratings of A-(ZA) and A1-(ZA) respectively. GCR stated the following rationale for the rating: "PSG Konsult's upgrade reflects its conservative balance sheet fundamentals, risk profile and sound earnings capacity. The company has been successful in executing its business plan, which has seen its business profile continue to strengthen, supported by robust growth in revenue and earnings over recent years. This has followed the well-defined strategy to refocus on core operations, which has allowed for the capturing of additional margin in the asset management and insurance businesses, albeit still anchored by its traditional, uniquely positioned advisory network."

DMTN programme

We are considering the establishment of a Domestic Medium Term Note (DMTN) programme that would provide us with a flexible cost-effective structure to internally fund our ScripFin loan book. Such a programme would enable us to issue listed debt instruments with various maturity profiles and to build a credible track record with debt instrument holders and the debt market.

Looking forward

The group's aim remains to service existing clients well and gain new clients. Current economic circumstances are uncertain, and volatility in investment markets remains. However, the group is confident that it will continue to build its client franchise despite this market outlook. A number of 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 is proving to be a resilient strategy.

The cash-generative nature of the business enabled PSG Konsult to make a substantial investment in IT infrastructure and systems. The primary objective of this investment is to enhance the overall client experience and to improve the scalability and efficiency of the group's core IT-dependent business processes. The group will continue to prioritise organic growth in the domestic market, where it has a relatively low, but rapidly expanding market share. Cash flow generation remains strong, and the group will use this to fund current growth initiatives and to pay dividends consistent with its dividend policy.

Financial results

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 the Stock Exchange News Service (SENS) on Thursday, 13 April 2017 and does not contain full or complete details. Please refer to the full announcement for additional information. The full announcement is 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 decisions 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 all of the group's 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
13 April 2017

Non-executive directors: W Theron (Chairman), PJ Mouton, J de V du Toit^, PE Burton*, ZL Combi*, R Stassen* (^ 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

www.psg.co.za

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