

CEO report



Terence Gregory

It is my pleasure to report a very successful period for the Ecsponent group.

The results for the extended 15-month financial reporting period ended 31 March 2017 continued to reflect the group's sustained growth due to consistent performance in the underlying operations.

This period of significant growth has offered us the ideal opportunity to further refine the group's focus, which for the past six years was driven by three business units:

- Investment Services (including capital raising);
- Business Credit; and
- Equity Holdings.



“That’s been one of my mantras - focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it’s worth it in the end because once you get there, you can move mountains.”

Steve Jobs



Highlights

The group produced substantially improved operating results when compared to the previous period, continuing its growth trajectory. Total revenue from continuing operations increased by 122% to R321.8 million for the 15-month financial period, compared to R144.7 million for the December 2015 financial period (re-presented).

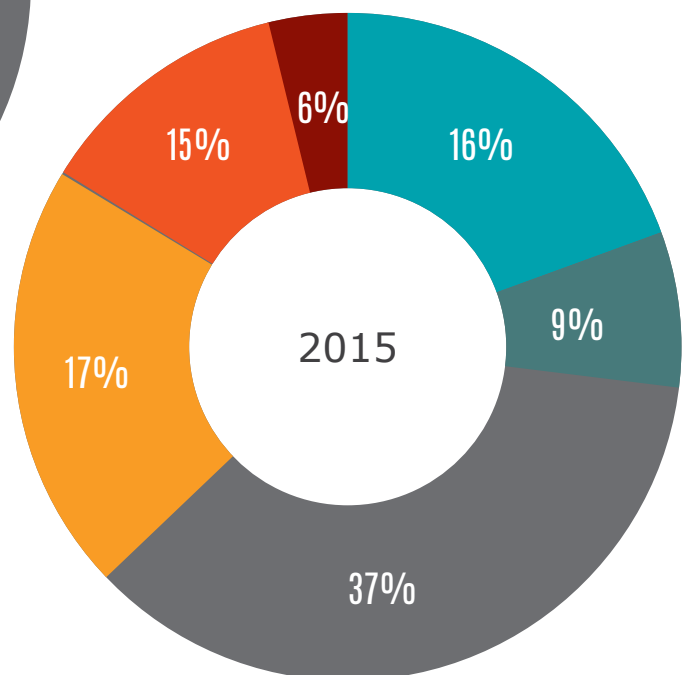
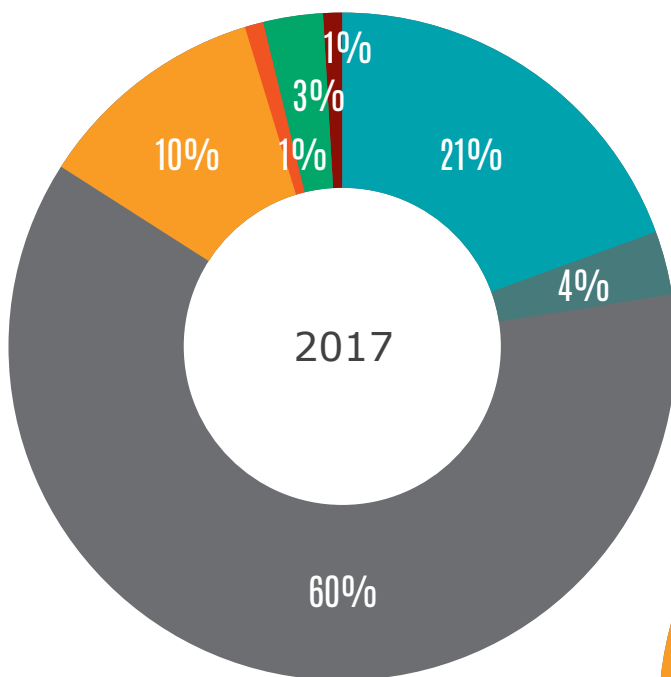
The 2017 financial period saw record performances in each of our business units.

- Investment Services raised investments of over R610 million from our premium preference share and linked loan products which was an 127% improvement over the previous period.
- The Secured SME Credit receivables grew to R748.7 million, a 104% increase over the previous period.
- The investment in Equity Holdings has grown to R246.6 million, an increase of 1939%.
- In his report, the chairman indicated that the gross assets of the group have exceeded R1.2 billion, an increase of over 160%.

A further highlight of the period was that the group was afforded the opportunity to further refine the core business underpinning its profitability over the past years. The result was disposing of the asset management business in South Africa, the CIS business in Botswana and a section of the enterprise development book in South Africa to the previous majority shareholder. It is anticipated that these disposals will improve the profitability of the group as funding is deployed in the growth of core assets.

The group also agreed to dispose of its 50% interest in Sure Choice in Botswana to the GetBucks group, resulting in the group not having further exposure in the retail credit market in that country. The group also agreed to dispose of 75% of its holding in Ecsponent Financial Services Limited Zambia to the GetBucks group. Both of these transactions are awaiting regulatory approval.

Revenue contribution by service line



- Business-to-business lending
- Stem cell processing and storage
- Collection commission
- Other
- Media monitoring services
- Enterprise finance
- Retail lending

Key comparative results



Investment Services

Ecsponent's Investment Services' operations provided further impetus to the group's operations in the period under review, based entirely on capital raised through the JSE-approved R5 billion preference share programme and the similar linked-loan units programme in Swaziland. R610 million capital was raised from retail investors and a total of R127.3 million was paid or accrued in returns to investors during the review period.

The Investment Services business unit generated R49.7 million in turnover for the 2017 financial period. South Africa and Swaziland both reflected solid growth during the period and the board is confident that the business area will continue to reflect sustainable growth on this foundation.



Business Credit

The group provides credit to a niche market, focussing on two distinct channels to market:

- Secured SME credit
- Enterprise finance

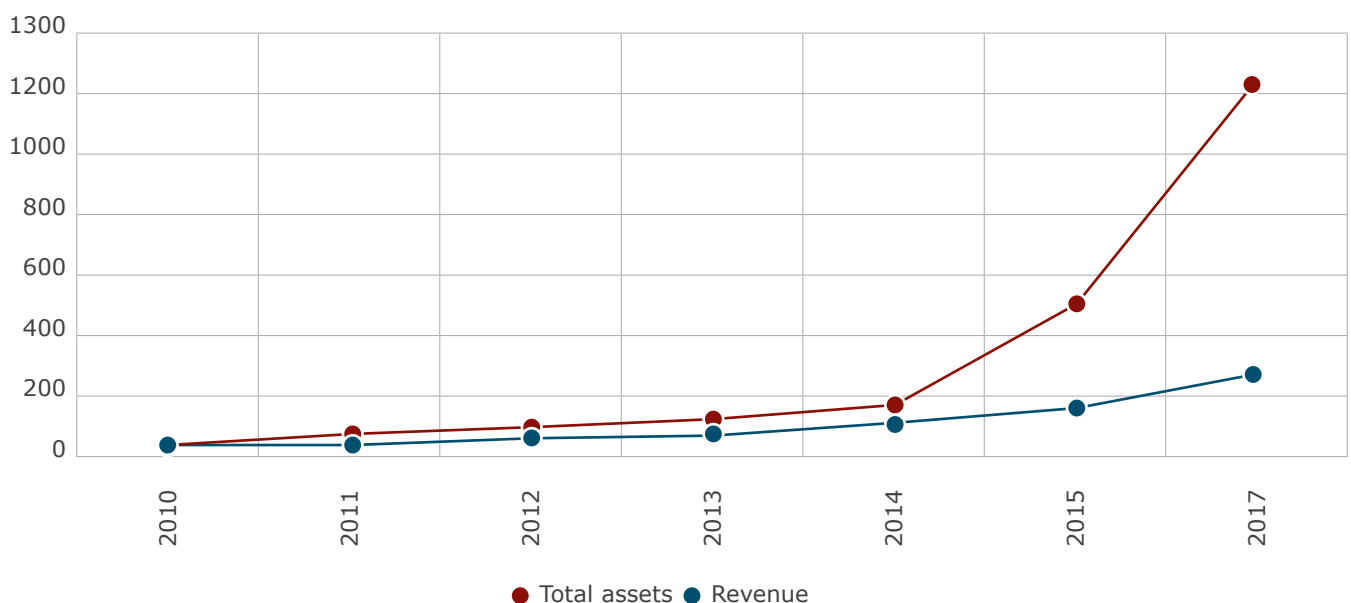
This business unit performed well during the period as, particularly, there was substantial demand for secured SME credit. Interest revenue increased by 271% to R232 million for the period. The secured SME loan book as at period-end was R748.7 million - an increase of 104%.

During the period the group disposed of the last of its retail lending operations and the asset management operations, for a profit of R30.8 million. The transactions relating to Sure Choice in Botswana and Ecsponent Financial Services Zambia are subject to the approval of the respective regulators in each country.

R610 million was raised from retail investors during the period and R 127.3m paid or accrued in dividends.

Interest revenue increased by 271% to R232.3 million.

Growth in total assets and revenue





The MyBucks investment is the most significant equity investment for the Ecsponent group to date, with a value at period-end of R233 million.



Equity Holdings



Fintech

The group's Equity Holdings business unit was significantly bolstered with the acquisition of 10% of the issued share capital in MyBucks SA, a Fintech company listed on the Frankfurt Stock Exchange. MyBucks is a fast growing, innovative Fintech business with credit, banking and insurance products delivered through its proprietary technology and digital channels. The MyBucks group has expanded rapidly in both Africa and Europe and not only provides the group with the obvious grass roots investment opportunity, but also offers a significant Rand hedge.

The MyBucks investment is the most significant equity investment for the Ecsponent group to date. In addition to the anticipated share value appreciation, the investment also provides the group with a hard currency asset.



Biotechnology

The additional channel to market alliances disclosed in the previous integrated report bore fruit during the period under review. In a declining market, the biotechnology unit increased its turnover marginally by 29%, gaining further market share in the process. The group's biotechnology business has now established alliances with three medical aids and a major pharmacy chain, offering access to more pregnant parents.

Local economic pressure directly affected margins in the biotechnology business as the demands on individuals' disposable income continued to increase. The market could not absorb price increases due to higher cost of sales and this strengthened management's resolve to take a longer term view on the profitability of the biotech business.



Media intelligence

The group's investment in the media intelligence business, Return on Innovation, showed sustained growth as the business continued to make inroads into the niche market media space. The company contributed R10.3 million in revenue for the 11 months included in the group results.

Major shareholder

The shareholding of the group also experienced a watershed during the period under review as Ecsponent Capital, the majority shareholder at the start of the period, decided to invest in other opportunities, primarily in Botswana. The opportunity was realised and George Manyere made a significant equity investment through his local asset holding company, Mason Alexander. As a result, Mason Alexander has become Ecsponent Limited's major shareholder.

George has agreed to take up the position of vice-chairman on the board and we are privileged to have a man with his international experience and business acumen on the board. I look forward to working with George and to his valuable contribution.



Overview of the group's positioning

This is the sixth consecutive period of substantial earnings growth. Earnings per share rose by 223.5% to 8.38 cents. The success is not only measured in profitability, but also in the growth of the assets which underpin the profitability.

As a learning organisation, management consciously focuses on the activities and businesses that deliver significant returns in terms of profitability and balanced with growth in key focus areas. In addition, the group focuses on acquiring targeted assets and disposing of assets that do not contribute to its growth or profit aspirations.

The group's continued triple digit growth achievement is important, but equally significant are our future prospects. Each of the business units have very clear objectives which are being pursued as I compile this report.



Investment Services – to expand the product offering to our clients ensuring that the group provides a more holistic destination for a client's investments. In addition, Investment Services is tasked with acquiring institutional funding facilities to reduce the cost of capital to the group;



Business Credit – to entrench the empowerment offering of the Ecsponent Development Fund in South Africa and to expand this offering in each of the territories, which may include strategic alliances in the various geographies;



Equity Holdings – to develop a significant and empowered equity holding business, with robust underlying investments that contribute to both the profitability and capital growth of the group.

As we have indicated in our communication to shareholders on SENS, the headline earnings per share (HEPS) is not currently an effective measure of the group's performance. The board recommends that, for the foreseeable future, shareholders consider other measures when rating the business's performance.

A special word of thanks

Our group's sustained growth can be ascribed to the ongoing support and sage advice of the non-executive directors and the diligence of our management team. My sincere thanks to each and every one - without your contribution we could not be successful.

As a board, we look forward to continued growth in stakeholder wealth.



Key achievements are:

Investment Services secured new investments in **excess of R600 million**

Total assets **exceed R1 billion** for the first time in the group's history

Loan receivables **exceed R748 million**, another new record for the group

Equity holdings have grown 1939% to **over R246.6 million**

Operating profit **increased by 416%** to R229.2 million