

# Chairman's statement



**Richard Connellan**  
Independent non-executive chairman

**"It will further support the Company's objective to promote financial inclusion, allowing it to target small and medium-sized enterprises and develop commercial relationships with large corporates."**

## Introduction

This has been an exceptional 15-month period for the Ecsponent Group. We have managed to meet and exceed our objectives for the period under review, both from a financial and an operational perspective.

Our focus on geographic diversification and quality investments into niche industries with innovative value propositions and high barriers to entry gained significant traction.

The Company announced transactions with a cumulative value of more than R1 billion. These transactions not only provide further momentum to our growth strategy, but significantly bolster the scalability and de-risking of our business. We look

forward to continued shareholder support in the future.

Although these early stage investments did not contribute significantly to our performance during the 15-month period reported on in the financial statements, their impact on portfolio growth, revenue and cash flow is expected to incrementally increase over the medium to longer term.

Ecsponent's strategy of balancing our medium-term, high-yielding investments with early stage private and listed equity holdings underpins the ability to deliver consistent, sustainable growth through economic cycles.

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## Macro-economic overview

From an economic and political perspective, the 15-month period under review was bruising. Policy uncertainty increased during the lead-up to the ruling party's national elective conference in December 2017. Combined with persistent low economic growth forecasts, these events culminated in a series of national credit rating downgrades to sub-investment grade during this period.

The election of President Ramaphosa has been widely welcomed, given positive perceptions around his business-friendly and pragmatic approach. Towards the end of the reporting period, however, the earlier encouraging signs of improving business and economic prospects on the back of "Ramaphoria" have dissipated.

The economic landscape remains challenging with rising fuel and transport costs, electricity and medical insurance as well as other increases continuing to place upward pressure on domestic consumer price inflation. Inflation rates were further impacted by a 1% increase in value added tax during the latter part of the period under review. South Africa escaped a third junk rating as Moody's Investors Service kept its assessment of the nation's debt unchanged in March 2018, citing more transparent and predictable policies under President Ramaphosa.

Fractious relationships within the ruling party, political manoeuvring in the lead-up to the 2019 national elections and severely indebted state-

owned enterprises were further compounded by a controversial land expropriation bill, all of which have resulted in a 15% drop in South Africa's currency against the US dollar. Global factors further weighed-in on the issue of an uneasy exchange rate, especially the trade war row between the US and China, with significant implications across emerging market growth and currencies.

At the time of writing, the South African economy shrank to a seasonally adjusted annualised 0.7% in the three months to June of 2018, following a 2.6% contraction in the prior period, surprising on the downside against the market's expected 0.6% growth. It was the second consecutive period of contraction, mainly as a result of lower production figures in agriculture, transport and trade. In contrast, the main positive contributions came from mining and quarrying, finance, real estate and business services (1.9% from 1.1%); construction and utilities (2.1% from 0.2%).

The GDP growth rate in South Africa averaged 2.78% from 1993 until 2018, reaching an all-time high of 7.60% in the fourth quarter of 1994 and a record low of -6.10% in the first quarter of 2009.

Ecsponent's 12.1% holding in the Frankfurt-listed Fintech company MyBucks SA Limited provides us with a Euro-income hedge. 36.3% of the Company's total assets are held outside of the Rand Common Monetary Area, mitigating against a weakening rand but also exposing the Company to short-term volatility. We have mechanisms in place to manage this volatility.

### Sound performance despite challenging operating environments:



During the financial year, **macro uncertainty and volatility** affected the operating environments in each of the Group's business territories.



Net new capital inflows – from **retail and institutional** sources - and profitable credit activities supported sound performance.



The Group has successfully leveraged its ability to provide **clients a broader investment offering**, increasing its client base and deepening its core value proposition.



Continued **investment in defensive industries**, in accordance with our investment philosophy, continues to support growth initiatives in the overall business.



**Geographical and operational diversity** continues to support a stable recurring revenue base and earnings notwithstanding varying market conditions.

# Chairman's statement (continued)

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## Strategy and value-drivers

Ecsponent operates across multiple subsidiaries in South Africa, Botswana, Namibia, Swaziland and Zambia. The Group's activities are centered around providing investment services, business credit and equity investments.

Expansion of business credit services continues as demand for consumer credit remains strong, with Ecsponent uniquely positioned to cater for the needs of unbanked and underbanked Small to Medium Enterprises (SMEs) through unique, fully secured models.

During the review period, Ecsponent secured an international funding facility for US\$ 10 million from a UK-based corporate financier. The funding is being deployed in US dollar across our growing African operations outside of South Africa through the secured Credit operations. The deployment of dollar-based funding is expected to result in an increase of hard currency assets on the Group's balance sheet.

## Investment services bolstered by regulatory approval in Kingdom of Swaziland

Ecsponent, through its local subsidiary, received approval to act as a Collective Investment Scheme (CIS) Manager in Swaziland by the country's Financial Services Regulatory Authority (FSRA). The Group's focused business strategy has seen it achieve triple-digit growth for six consecutive years in its key performance areas, and this development further stimulates the growth trajectory in this region.

## Dynamic, opportunistic dealmaking

As part of the Company's drive to unlock and grow value, our objective to expand and develop operations on the rest of the continent is an important and vital step.

As alluded to earlier in my report, the Company received approval from shareholders on a series of transactions that will significantly expand its investment portfolio outside of South Africa, providing capital growth in the medium to longer term.

These opportunities will reduce foreign currency risk, whilst providing exposure to investments in stable, high-growth economies on the continent

outside of the Rand Monetary Area. It will further support the Company's objective to promote financial inclusion, allowing it to target small and medium-sized enterprises and develop commercial relationships with large corporates.

These transactions in particular provide Ecsponent access to asset management licences in Botswana, expediting the roll-out of its investment services offering in that jurisdiction.

## Stable core business model

Ecsponent's portfolio construct and experienced management team have built a strong track record through organic growth and corporate action through the cycle. The beachhead to this success is a focused approach on niche industries underpinned by financial services, implemented by a consistent management team with proven deal-making ability.

Our increased exposure to value-enhancing investments supports continued balance sheet growth and risk diversification.

## Outlook and strategic objectives

Looking through the cycle, the Board remains confident of Ecsponent's ongoing performance as the full impact of investments during the reporting period are expected to benefit the business over time.

This continued growth momentum will enable the Group to further expand its funding sources, ultimately reducing its cost of capital and improving profitability.

In the current financial year, Ecsponent will remain focused on growing its credit assets as well as opportunistic investments in equity assets, in addition to its endeavours to lower the weighted average cost of capital.

## Conclusion

I wish to thank our shareholders and my fellow Board members for their ongoing support and guidance during this time. Also, thanks to our management team and employees whose enthusiasm and work ethic have added greatly to the growth of our Company. We remain excited about Ecsponent's future and opportunities in the sectors it specialises in.

**Richard Connellan**  
Chairman  
18 September 2018