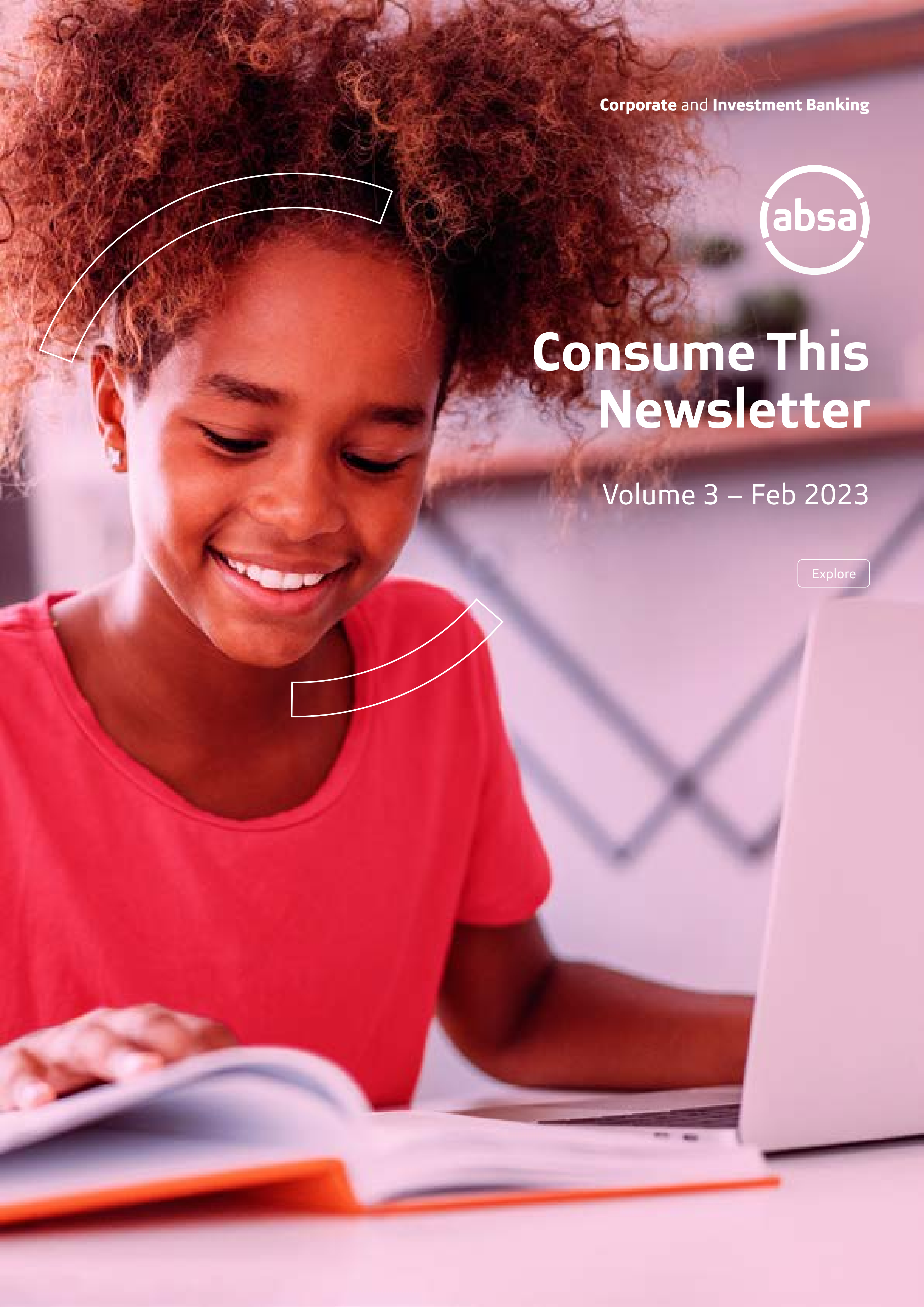

Corporate and Investment Banking

Consume This Newsletter

Volume 3 – Feb 2023

Explore

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Welcome to the Consume This Newsletter

This publication gives you the latest news in the consumer goods and services sector and shares some of our key insights and findings. We consistently highlight consumer priorities, constraints and new patterns that emerge and are likely here to stay long after we recover from this pandemic. With the Consume This content, we share our views on how retail and related sectors are being shaped by current and other events in this fast-changing world.

The influence of technology on education and learning

The consumer goods and services sector remains one of the most important industries across the continent. It includes businesses operating in the retail sector, professional services, e-commerce, education (private and non-public) and FMCG (wholesale and manufacturers), fast food and tobacco.

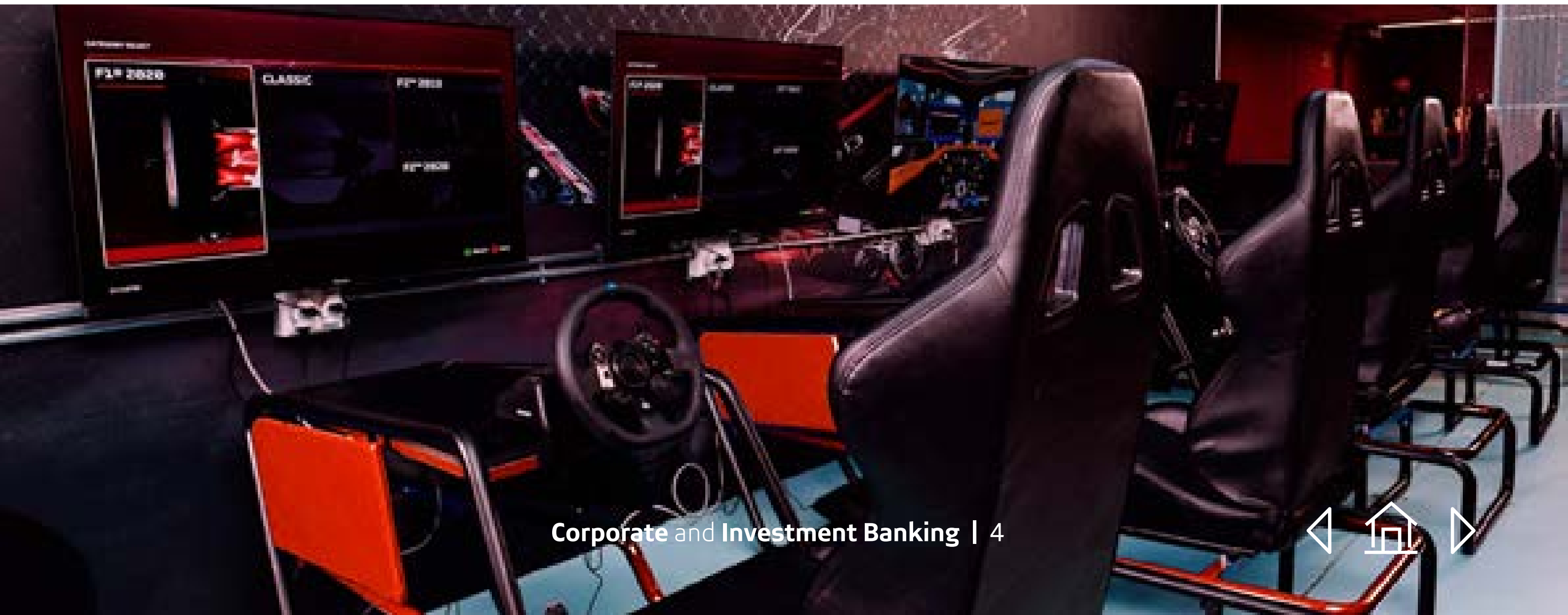
Education has proven to be resilient in tough economic environments. As with medical care, people are willing to reprioritise their spending to acquire a good education for themselves or their children. History has proven that consumers are prepared to sacrifice other discretionary expenses, pay higher prices and travel further distances for educational facilities.

The private education system in South Africa performs well, albeit at an exorbitant cost. The key competitive drivers in the industry include land availability for development, relationships with residential developers, tuition fees, hostel and new entrant enrolment fees and financing options due to the capital intensiveness of building a school campus.

Setting up a school requires significant upfront capital to buy land in densely populated areas and fit-out facilities. Once built, schools have a high fixed-cost base, with teachers' salaries accounting for approximately 70% of operating costs, educational expenses (books, materials and departmental expenses) 10%, administration 10%, ground and maintenance expenses 7%, with 3% remaining as a surplus (NorthStar, 2019).

Approximately 60% of school costs are fixed. This means that short- to medium-term risk is elevated by upfront costs, high fixed costs and the potential for slow student inflows as a school proves its value. Schools generally make substantial losses in their first few years of operation as the fixed costs are not met by the initial revenue generated from the first intake of students.

A new school will take at least seven years to reach a capacity utilisation of more than 80%, where it reaches full potential operating margins and creates large shareholder returns. This large upfront capital investment, combined with delayed profitability, causes strain on short-term cashflow and a potential deluge of cash for investors willing to take the risk of funding these investments (NorthStar 2019).



COVID-19's impact on education

The COVID-19 pandemic has fundamentally changed the way education is delivered and experienced. Online learning has become one of the most significant changes in education that we have seen during the pandemic with schools, universities and colleges adapting to the digital environment by providing remote learning opportunities to students.

Increased reliance on technology has accelerated the adoption of technology in education, with institutions and schools around the world investing in new technologies and tools to support remote learning. Virtual classrooms, webinars and video conferences have become essential tools for teaching and learning, allowing teachers to conduct virtual discussions and engage with students in real time.

Hybrid learning models, which allow flexibility and customised learning experiences, have also become more prevalent after COVID-19.

Research has shown that to prepare students for a fast-changing, technology-driven environment, educators will need to take a comprehensive approach that focuses on developing critical thinking, problem-solving and digital literacy skills.

There has also been an increased number of schools introducing artificial intelligence (AI) to analyse student performance data and identify areas in which students are struggling, thereby enabling teachers to provide targeted interventions and support.

With the increased adoption of technology in education, Curro Academy, Beaulieu College, Redhill School, St Stithians College and Crawford Schools are among some of the schools that offer robotics and coding in their curriculum as a subject or extracurricular activity.

Centennial schools in the spotlight

Centennial Schools, based in Sunninghill Johannesburg, was founded by Shaun Fuchs, entrepreneur and long-time educationalist and opened its doors in 2022. As CEO and founder, Shaun aims to address the needs of the most digitally literate generation of students in this new era of educational change.

In a stark break from educational norms, Centennial Schools addresses vital aspects hampering South Africa's current education landscape by reimagining its approach to teaching and – perhaps most important of all – affordability.

The right difference to high school education

Every single job in the real world requires some form of technology. The best way of learning this and other vital skills is to give students exposure to the real world and tackle challenges through experiential learning. Centennial Schools has placed technology at the centre of its education model, so that students leave school able to thrive in a new world of work.

Following the IEB curriculum of subjects, which is in line with most private schools, Centennial Schools has reworked the traditional school model and caters for middle school (grade 7 to grade 9) and a senior school (grade 10 to grade 12).

Classrooms have been replaced by larger learning hubs where students use technology, first and foremost, as an amplifier for learning, creating, making, connecting, communicating, collaborating and problem-solving. No school uniforms are required, yet a clear and detailed code of conduct supports a strong value-based system.

Every teacher has been hand-picked and equipped with the skills to be best prepared to work in a re-engineered learning landscape, from both an academic, emotional and physical perspective.
With a focus on the emotional intelligence (EQ) of young people, in addition to academic performance, the school uses the 'It'sOk' app to support the mental health of its pupils.

There are no entrance exams, however, each student is required to attend a personal interview with the school principal. Students have full advantage of unique facilities such as a student café, student lounges, collaborative hubs that act as student boardrooms and encourage students to brainstorm and pressure test ideas, as well as a chill hub. These spaces have all been created to prepare students to thrive in any environment after school.

A reimagined approach to education

The school also hosts Africa's largest eSports arena (over 300m²) where students participate in games-based education and the option for competitive gaming. Gaming is essential in teaching critical thinking, analytical skills, problem-solving and teamwork. Students even use the power of Minecraft for game-based learning.

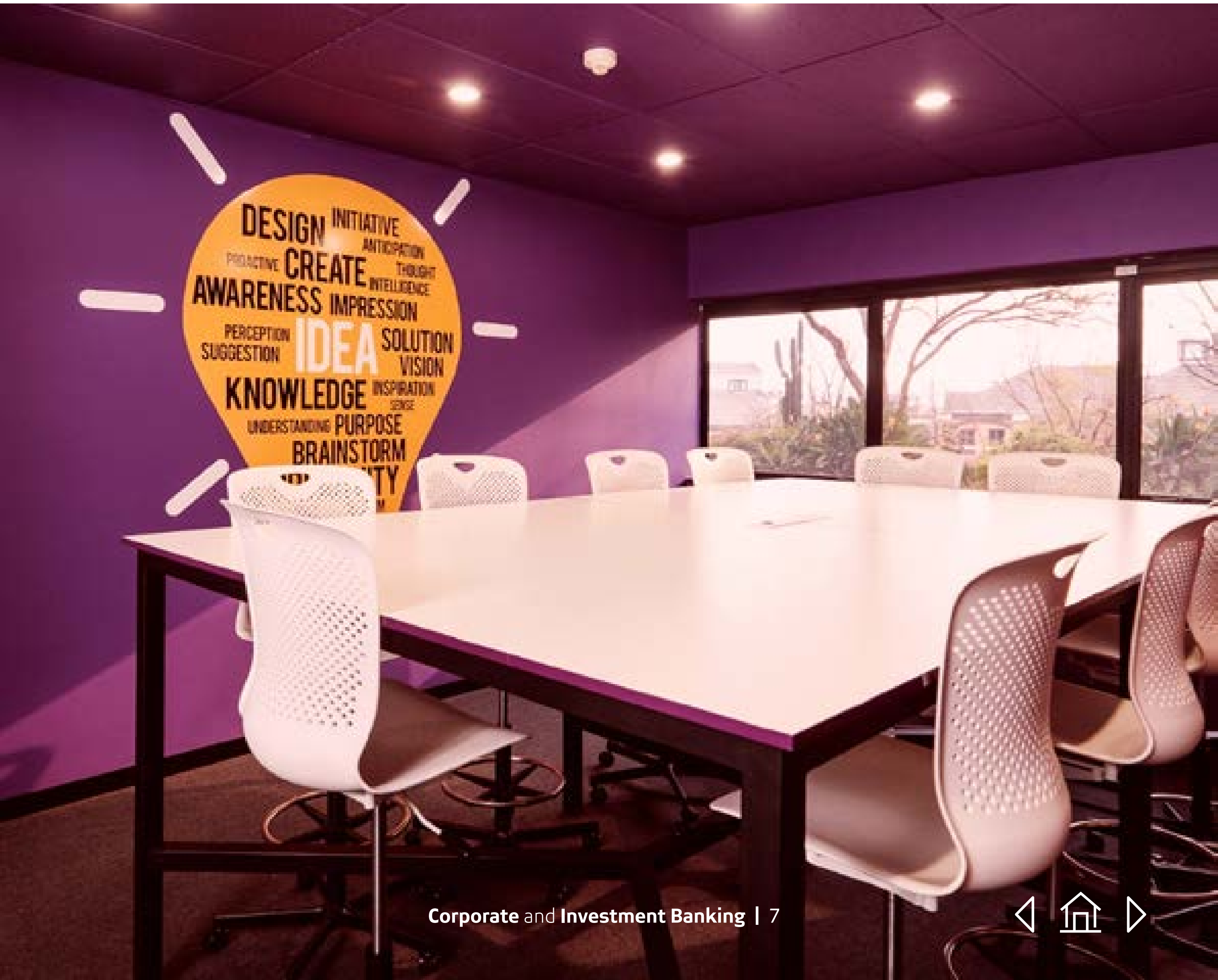
Technology subjects such as CoinED – which teaches cryptocurrencies and Blockchain – are part of the school curriculum and students study the Adobe Suite, which focuses on creative and digital innovation, and Studio One, which is all about music production and film scoring.

Grade 7 to 9 students do coding as a subject, which develops their natural ability to construct, hypothesise, explore, experiment, evaluate and draw conclusions.

Finally, the school uses the full suite of Microsoft applications, such as Outlook, Teams, OneNote, Word, PowerPoint and more. These are integrated into the daily functions of classrooms, pedagogy and school operations.

Investing in employable education

Centennial Schools has made every effort to be as affordable as possible, offering a premier education in a mid-fee price bracket. This fee allows parents and guardians to provide their children with high-quality education that teaches real-world skills at a more affordable rate.

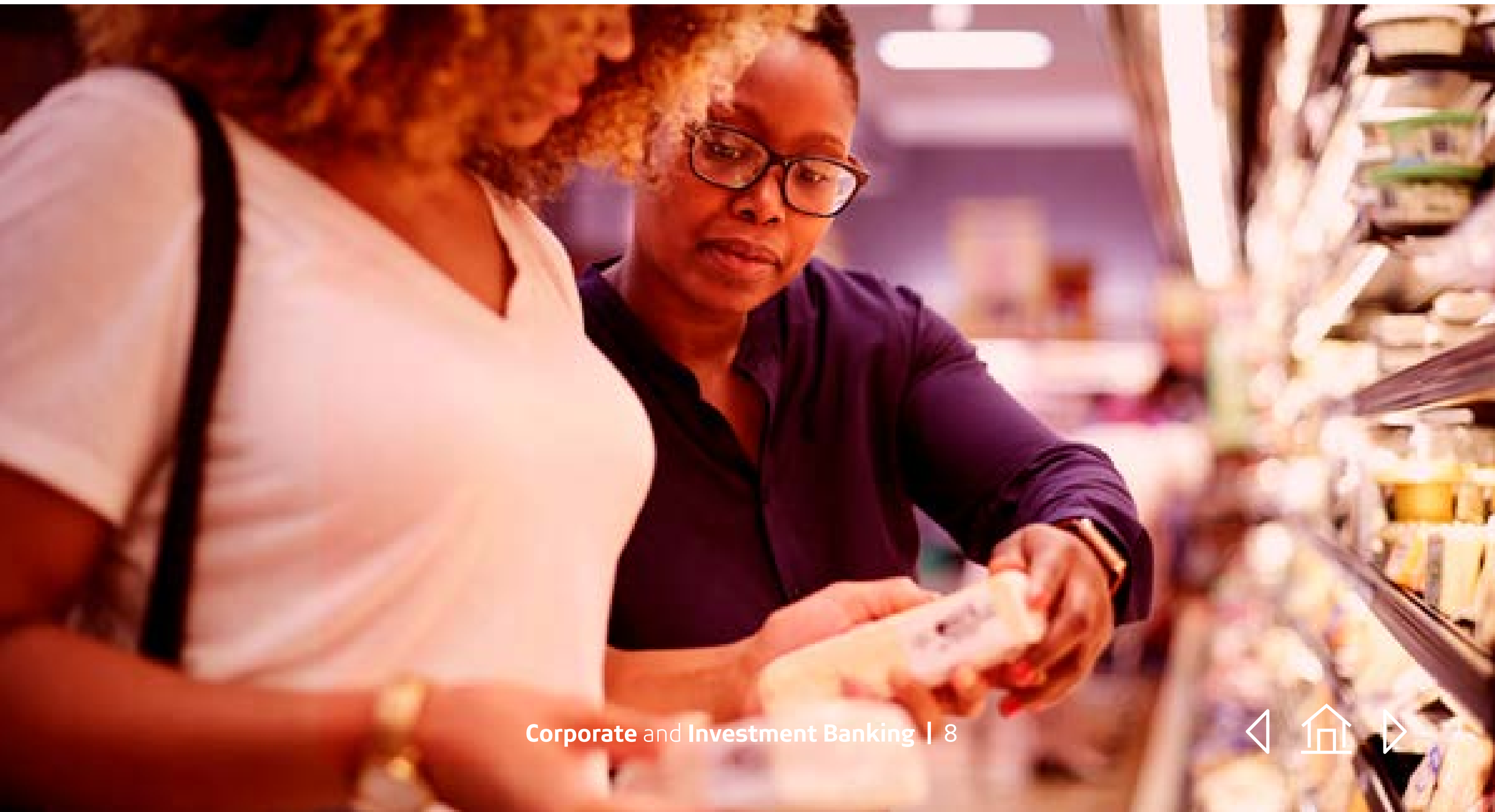


February merchant spend analysis

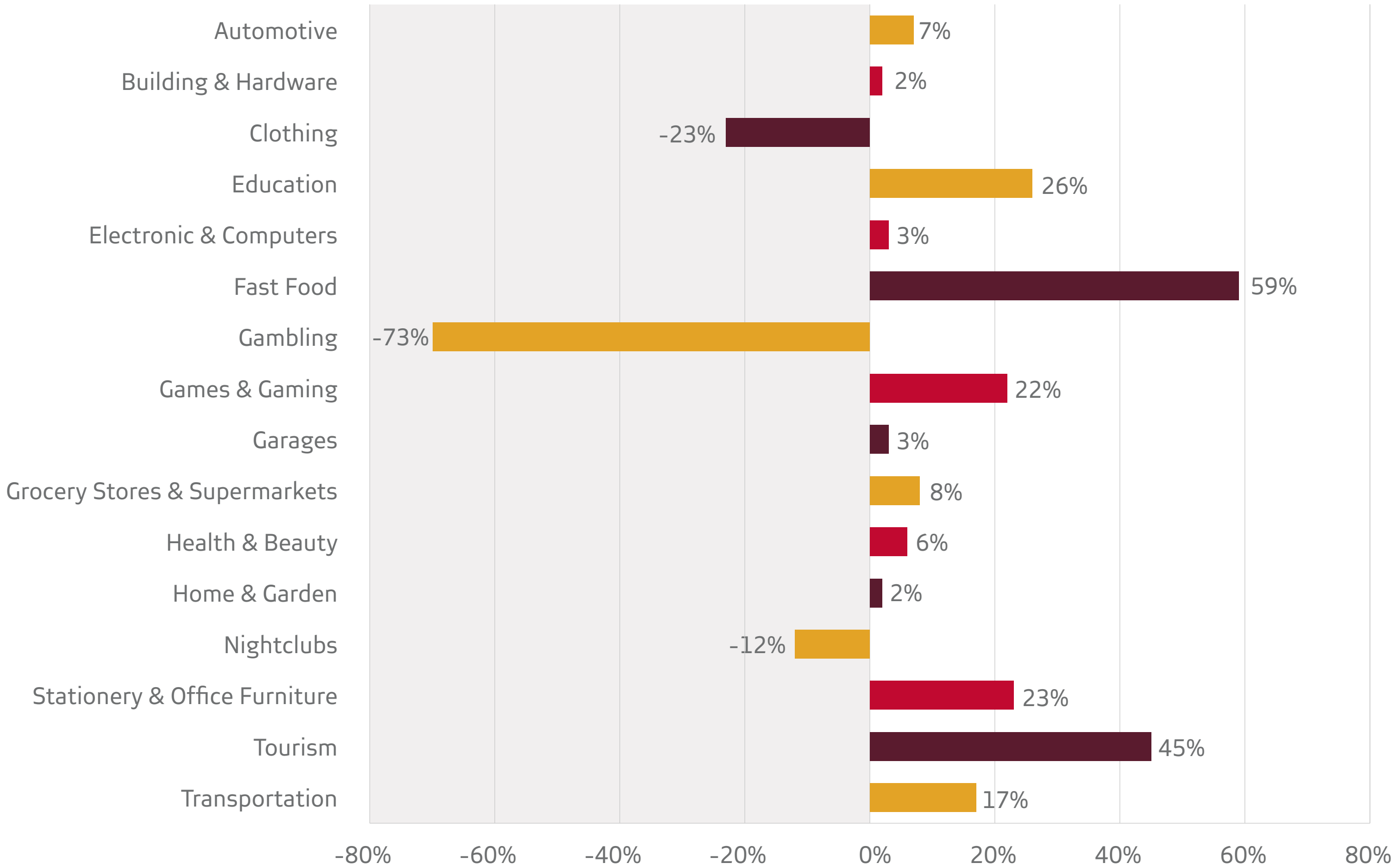
Consumers are acting with extreme caution

The spending analysis below show how consumers are shifting their spending behaviour to deal with the rising cost of living. Some of the items being cut from monthly budgets are things such as clothing and out-of-home entertainment, e.g., gambling and nightclubs.

YTD February	2021-2022	2023	CAGR	Full year 2022
Automotive	24%	7%	15%	13%
Building and Hardware	9%	2%	5%	6%
Clothing	27%	-23%	-1%	1%
Education	155%	26%	79%	30%
Electronic and Computers	12%	3%	7%	10%
Fast Food	41%	59%	50%	57%
Gambling	94%	-73%	-28%	-9%
Games and Gaming	125%	22%	66%	72%
Garages	32%	3%	17%	19%
Grocery Stores and Supermarkets	9%	8%	8%	8%
Health and Beauty	-5%	6%	0%	17%
Home and Garden	8%	2%	5%	0%
Nightclubs	511%	-12%	132%	22%
Stationery and Office Furniture	55%	23%	38%	23%
Tourism	126%	45%	81%	80%
Transportation	32%	17%	24%	105%



Merchant spend % change per category

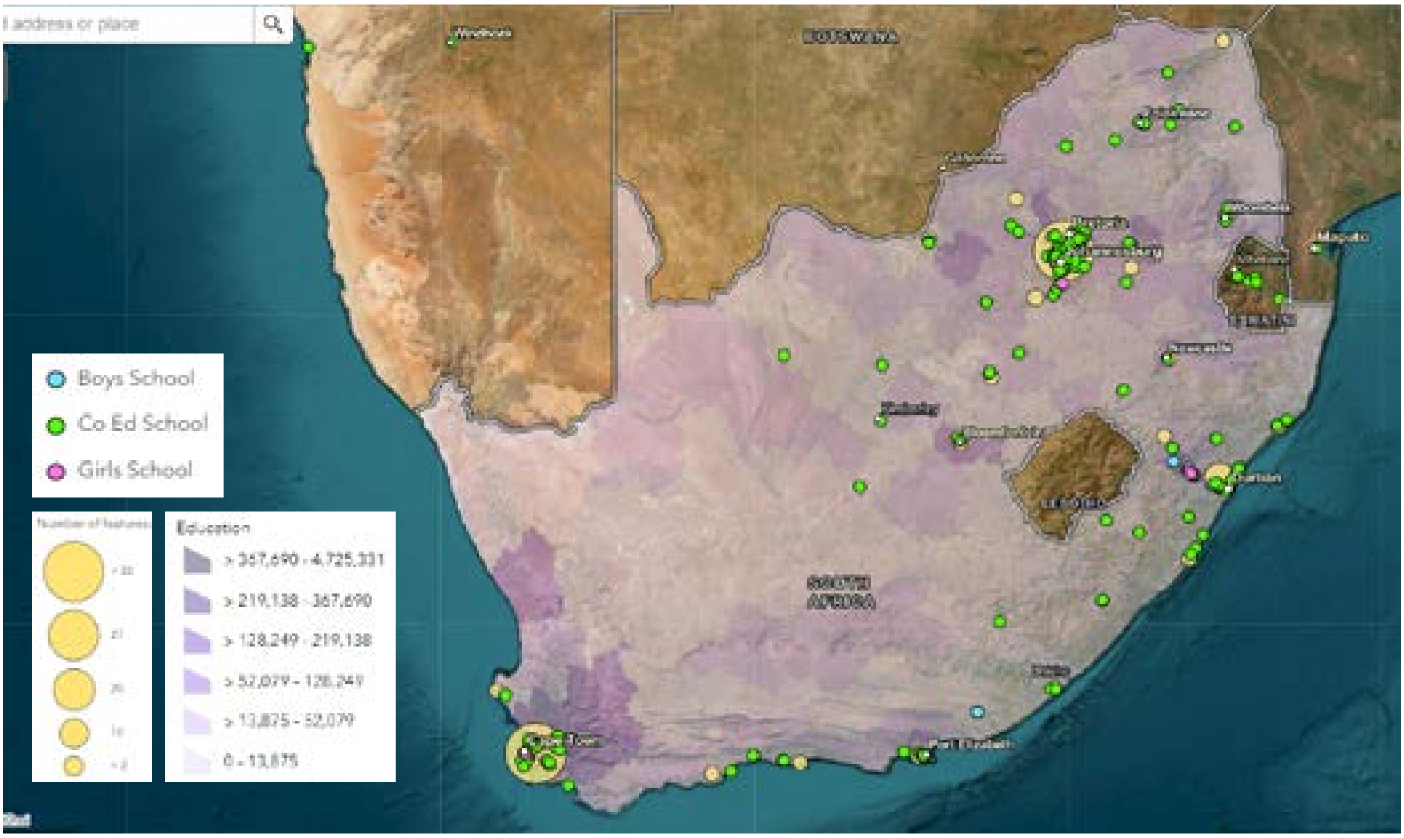


[1]Analysis and outputs on private schools (IEB)

Overview and methodology

This study aims to identify where opportunities for the expansion of private high schools in South Africa exist. The definition of a private high school is limited to only IEB-registered schools. High potential suburbs are identified according to residents' income group and modelled consumption expenditure potential on education. Opportunities are identified by their lack of proximity to an IEB high school, therefore, full boarding schools were discounted in this study.

1. National Landscape



This image shows:
Entire map image is MAYA: An interactive web mapping application enriched with demographic and consumption data ideal for locating white space across all industries, in this case, with a focus on data relevant to the private school/education industry. The data displayed within MAYA inclaudes:

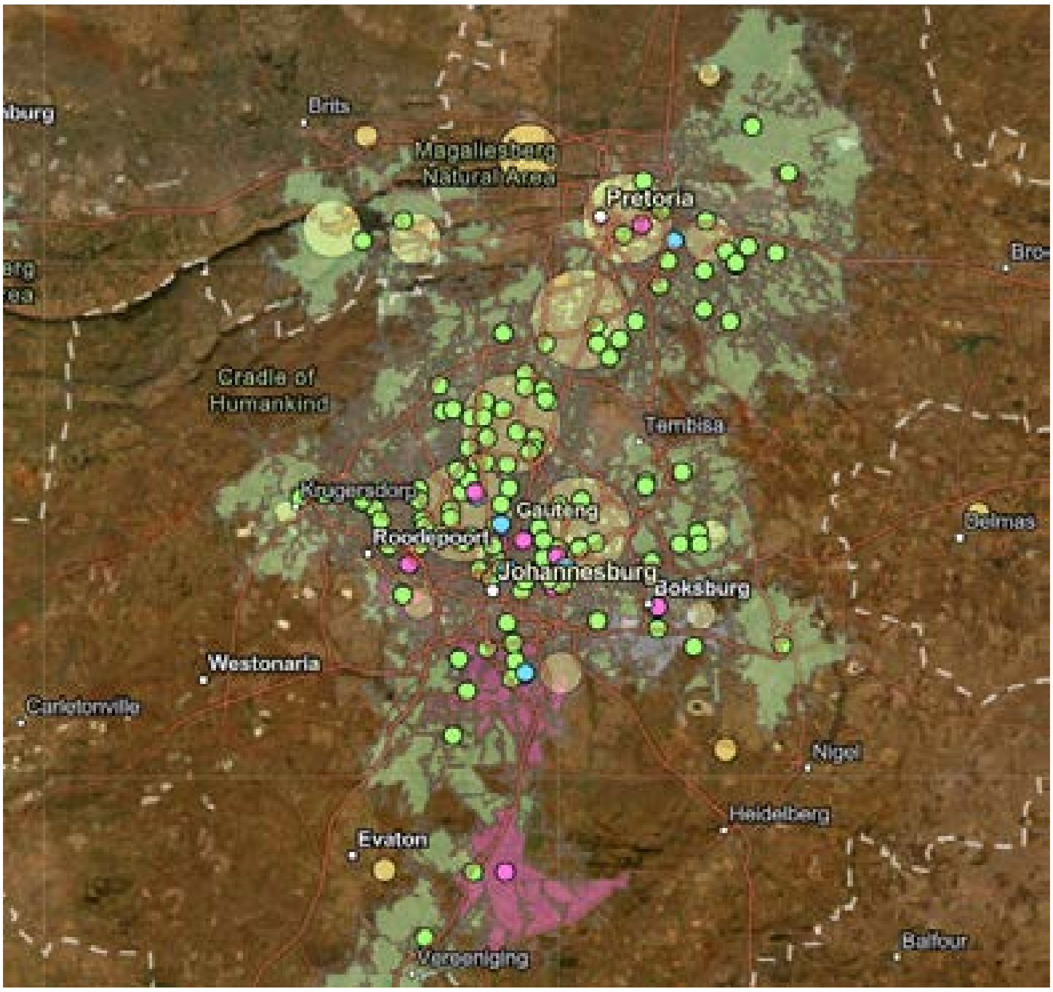
- Yellow circles: Education expenditure per capita (nodes/clusters of subplaces) where education spending exceeds R10k per month.
- Purple heat map: Education consumption by subplace displayed with a heat map/colour ramp, at a national level.
- Coloured dots: Private school (IEB) locations in South Africa and 15-minute drive time catchments.

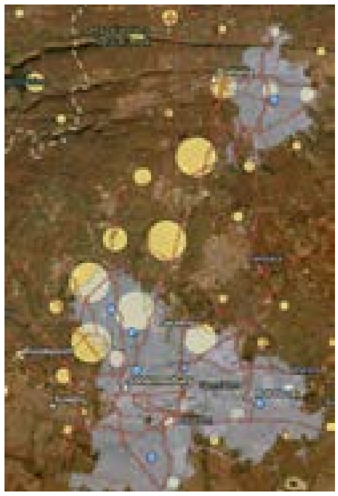
Key observations

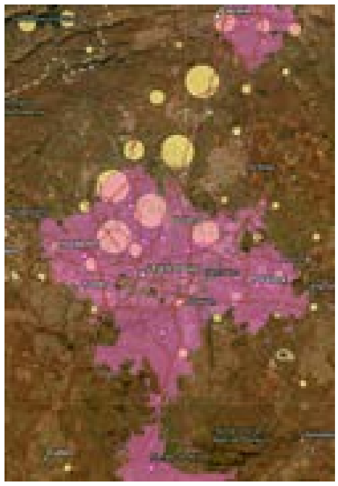
Johannesburg, Cape Town and, to a slightly lesser degree, Durban, all have expected larger nodes of above benchmark per capita expenditure on education.
These areas are also densely populated with private school facilities.
There are several other high-expenditure nodes dotted throughout the country. Notable areas include:

- Southern Cape
- Port Shepstone/Amanzimtoti
- Mbombela

2. Gauteng Province







Key observations

As expected, there are multiple nodes of high education expenditure per capita in Gauteng. Private schools in the area are predominantly co-ed. There is only a single private girls' school in Pretoria (St Mary's Diocesan School for Girls) and a single private boys' school (St Albans College). There are areas that appear to match consumption per capita criteria and have immediate private school opportunities:

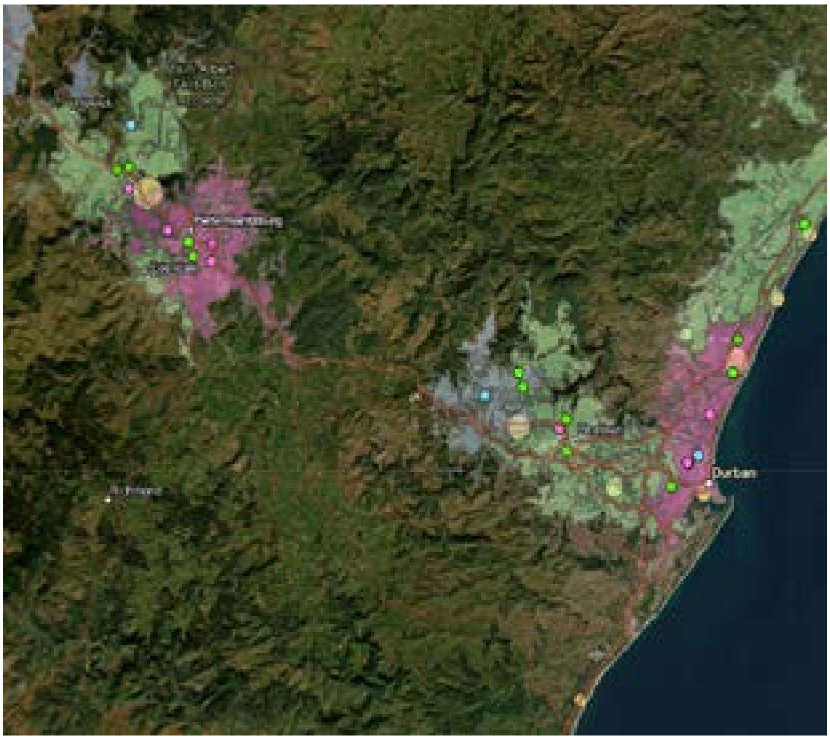
- To the northwest of Pretoria (Magaliesberg natural area, The Orchards)
- South of Johannesburg (Evaton)

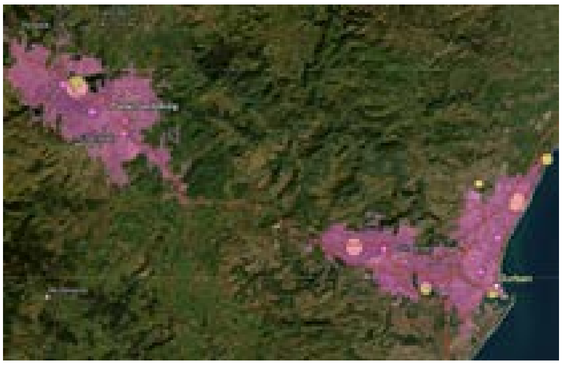
3. Western Cape Province

Key observations

- There are several top-performing public ordinary schools in the Western Cape that fill in some of the gaps that the private schools do not. Understanding which are relevant in the marketplace is key to identify opportunities in the province.
- The obvious opportunity in Cape Town is for a second boys' private school, but consider that Rondebosch and SACS do fill in some of the gaps in the southern suburbs. There are only two girls' private schools in Cape Town (Herschel Girls and St Cyprians).
- There are 14 co-ed private schools on the map extent. Stellenbosch stands out as an opportunity for a private school, so does the combined area of Kaapsig, Brackenfell and the Peninsula area.

4. Kwazulu-Natal





Key observations

- The consumption per capita nodes are significantly smaller than that of Gauteng and Cape Town.
    - The density of private schools is naturally less.
- There are four boys' private schools in the province and seven girls' private schools.
- Co-ed schools dominate with 15 (in the map extent).
- There is an immediate opportunity on the South Coast at Doonside, where per capita spending on education meets requirements but without school support.
- The North Coast cluster without a private school is Umdloti.

Analysis and outputs on private schools (IEB) – underserved opportunities

1. Plettenberg Bay

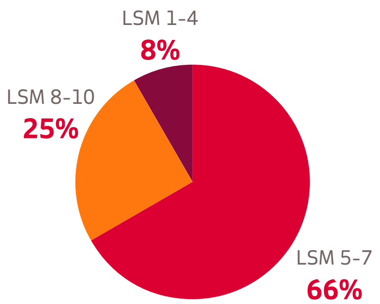
Population, Housing & Migration

47,079
Resident population

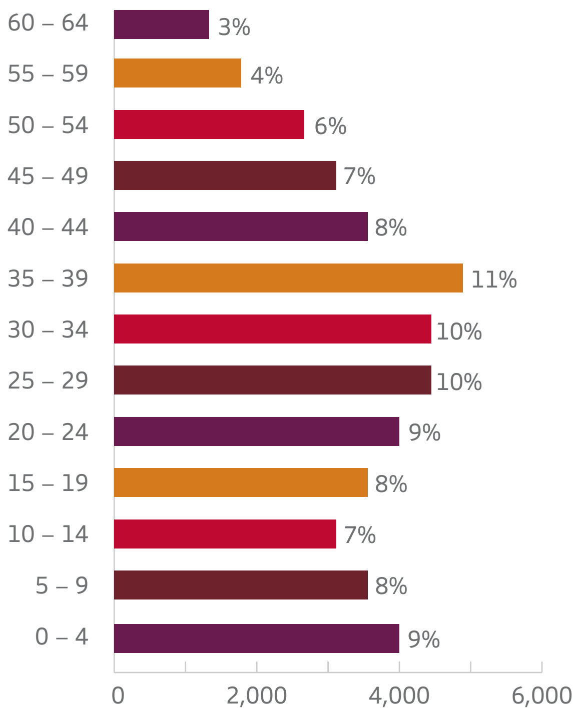
33,156
Migration in & out

16,027
Households

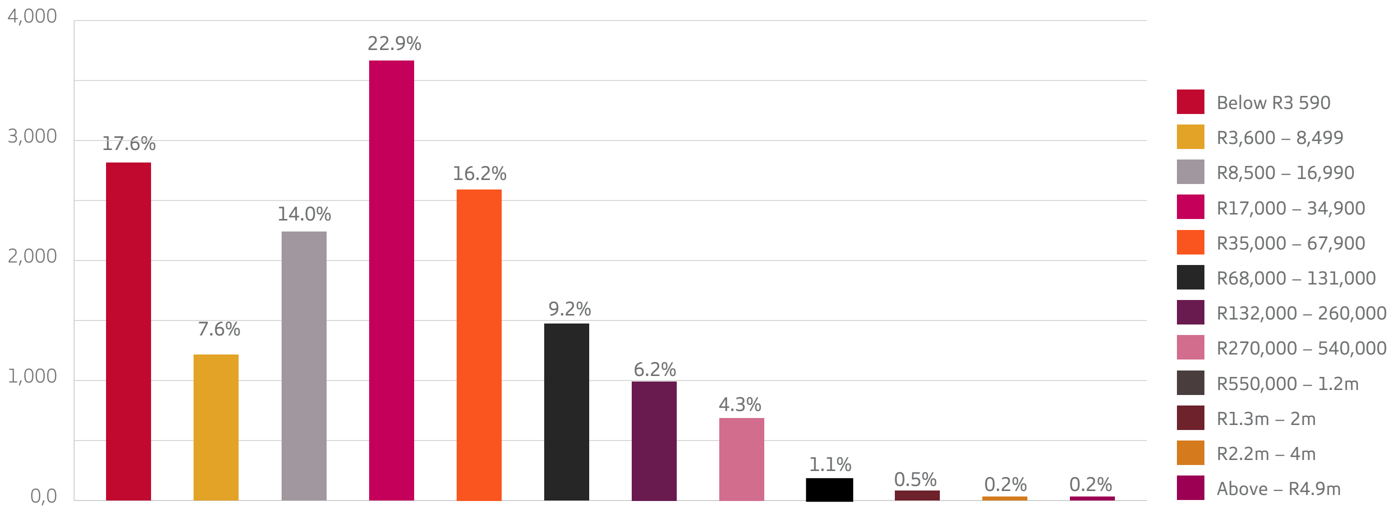
Living Standard Measure



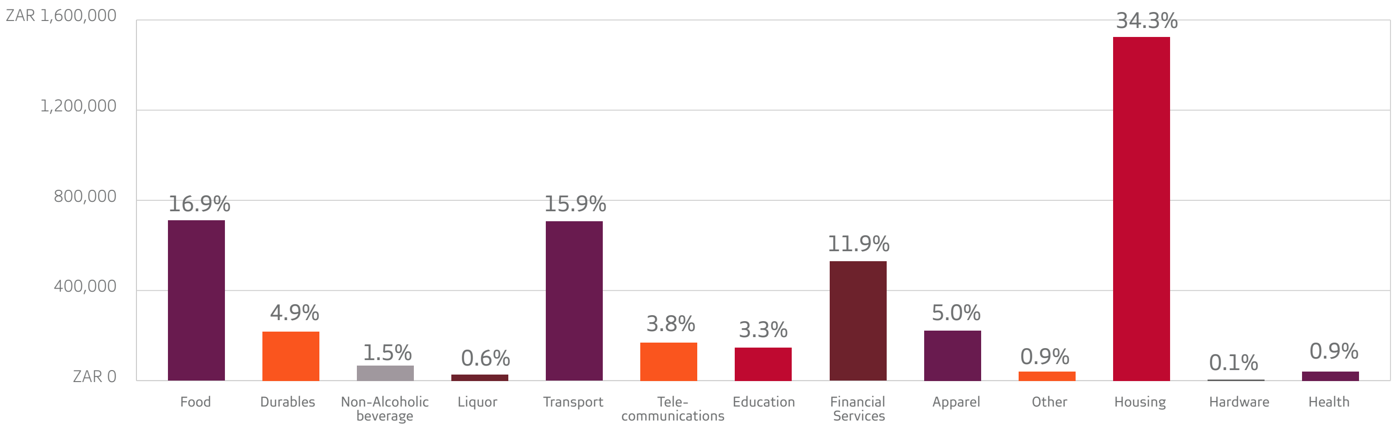
Age profile



Household Income Profile



Consumption breakdown



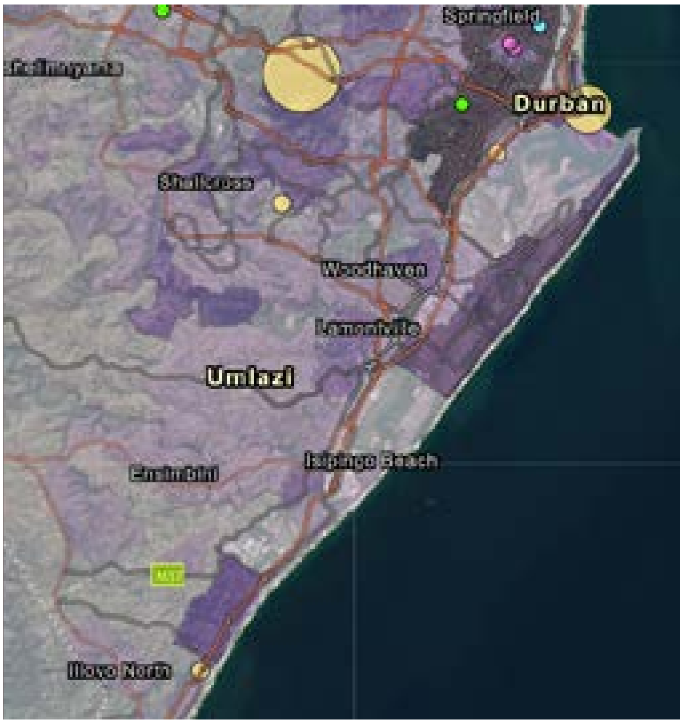
Key observations

- Plettenberg Bay is a high-profile, underserved subplace. Robberg Ridge, Whalerock, Summer Ridge and Pine Tree have the highest market potential. Knysna offers the closest private schools.
- Plett was listed in our Zoom Town Report for a high influx of semigration.
- Plett was also listed as a high holiday visitation town in 2023.
- The consumption heat map indicates that expenditure potential on education for Plett residents is more than what is observed with the residents of Knysna.

Consumption and demographic observations

- Plett demographics show that 25% of the population is in LSM 8 to 10, with a market potential of
- 16 000 households.
- The school-going age group represents 15% of the Plett population (ages 10 to 19). The income profile of Plett residents earning R550k and above is 2% of the Plett population.

2. Amanzimtoti South Coast



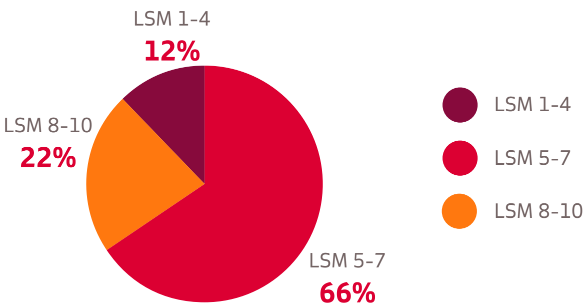
Population, Housing & Migration

508,912
Resident population

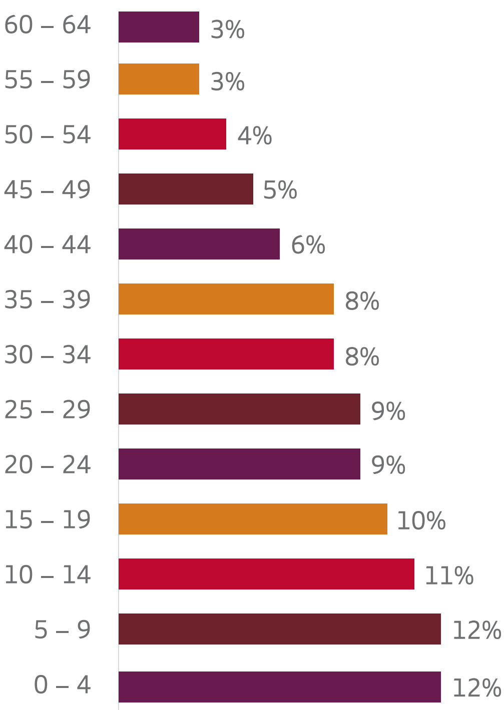
881,587
Migration in & out

124,528
Households

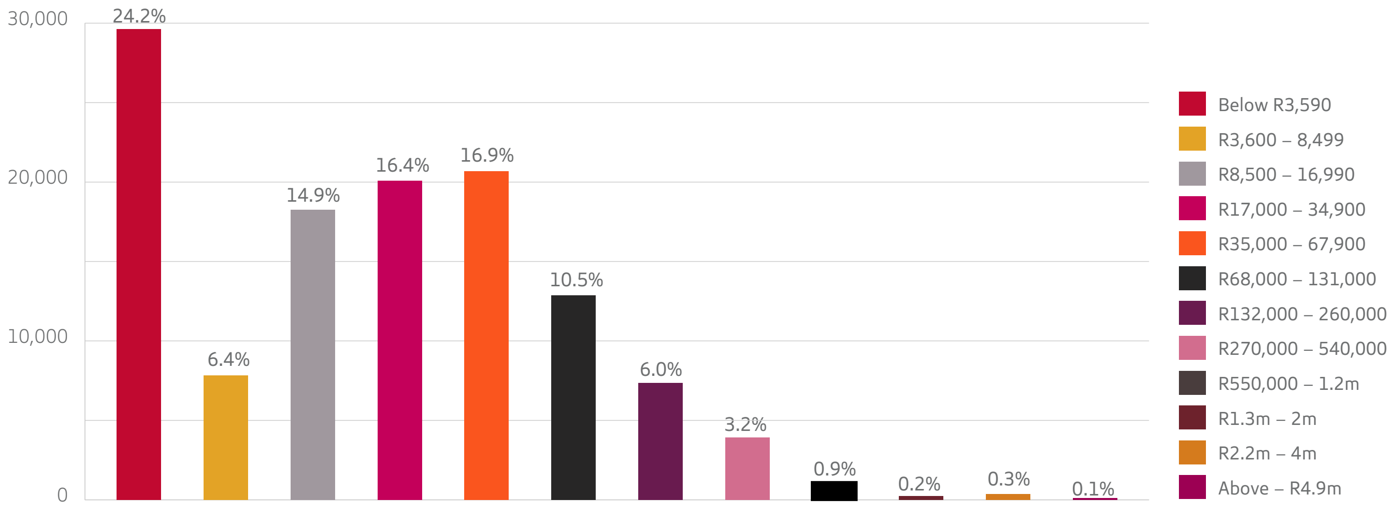
Living Standard Measure



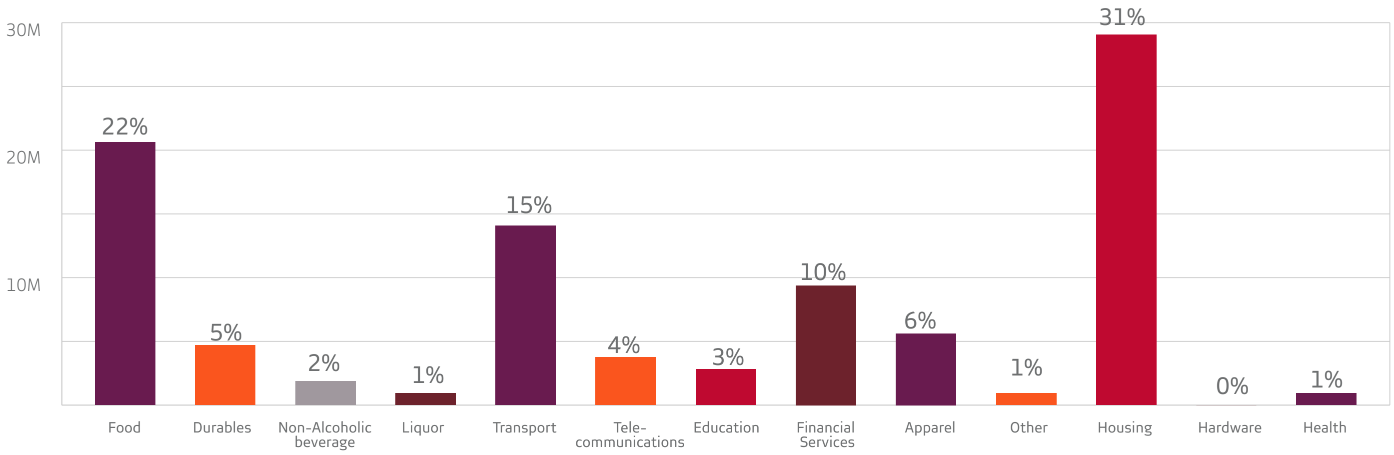
Age profile



Household Income Profile



Consumption breakdown



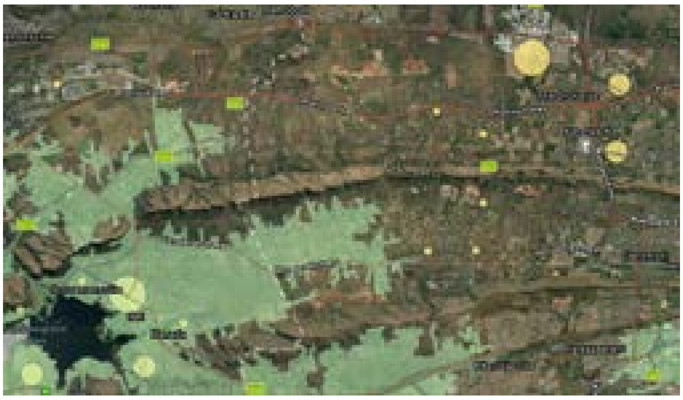
Key observations

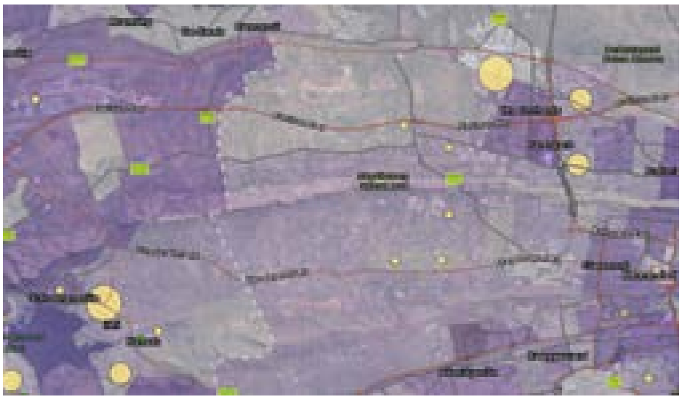
- The South Coast KZN (Amanzimtoti/Doonside) of the Durban cluster (see Illovo North area) represents a smaller opportunity.
- The next cluster is Southwards in Port Shepstone. Three private schools exist in the catchment area (not shown on the map), but the key to growth in the areas of Amanzimtoti is Galleria Mall.

Consumption and demographic observations

- There is a significant number of households in Amanzimtoti that serve a potential market. 21% of the population is school-going age (ages 10 to 19).
- 22% of the residents are LSM 8 to 10 and 1.5% of the population earn R550k and above.

3. The Orchards, Akasia





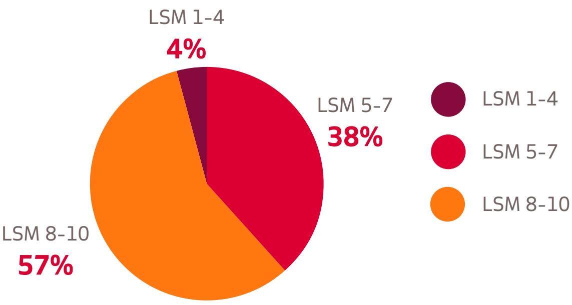
Population, Housing & Migration

375,359
Resident population

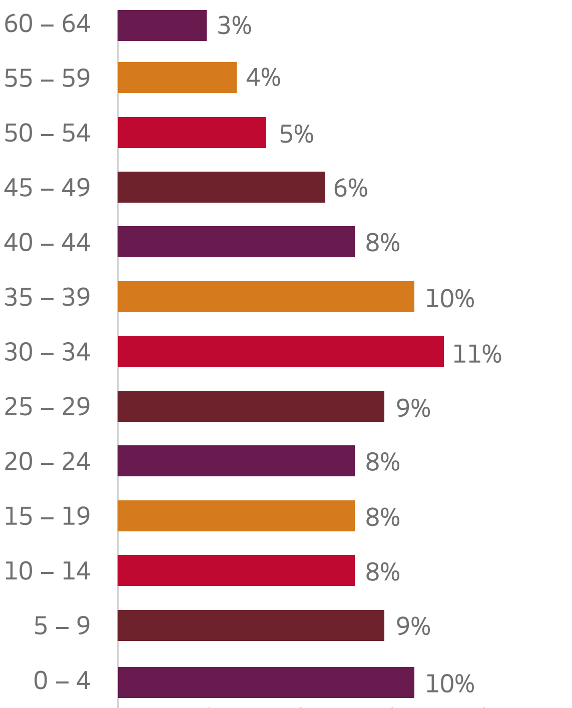
859,191
Migration in & out

105,455
Households

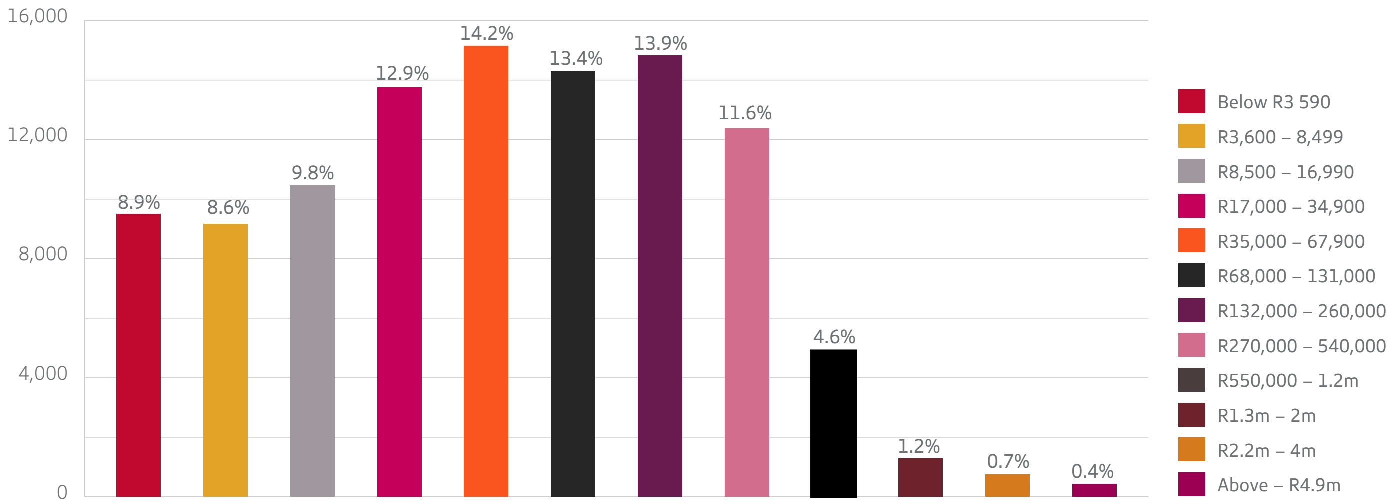
Living Standard Measure



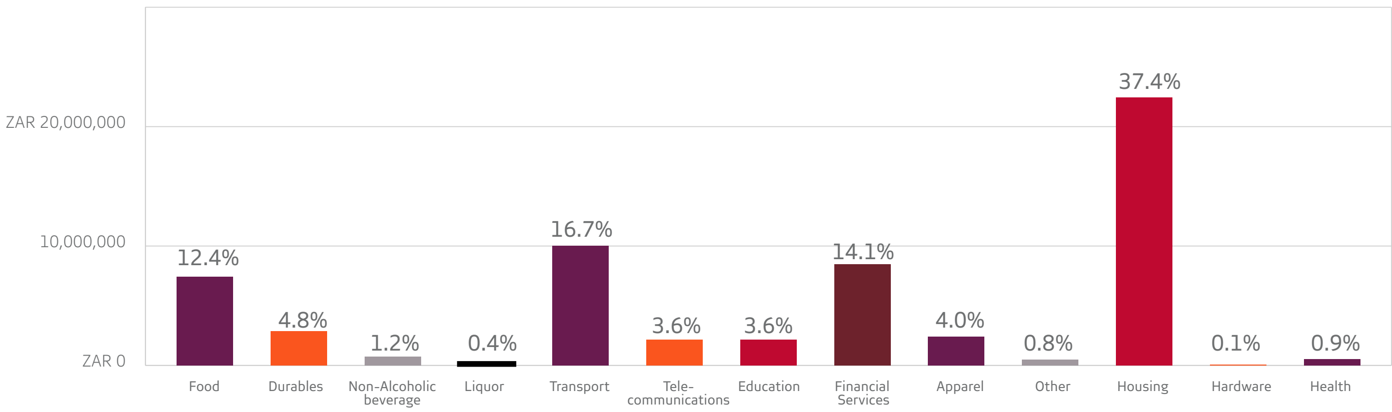
Age profile



Household Income Profile



Consumption breakdown



Key observations

- Several clusters around The Orchards indicate a number of subplaces within the main pace. Akasia has above- benchmark spend on education per capita, while remaining well outside of a 15-minute drive time to any existing private school.
- On the consumption heat map, subplaces The Orchards, Karen Park, Chantelle, Theresa Park and Pretoria North stand out as opportunities with significant spending on education.

Consumption and demographic observations

- The Orchards is a significant opportunity.
- In this catchment area, there are several clusters of subplaces exhibiting above-benchmark spend on education per capita, 57% of which are LSM 8 to 10 and 7% earn above R550k.
- School-going ages between 10 and 19 make up 16% of the catchment population. This represents approximately 60 000 youths, more than half living in high-income households, with no private school within the catchment.

4. Lakeside and Evaton

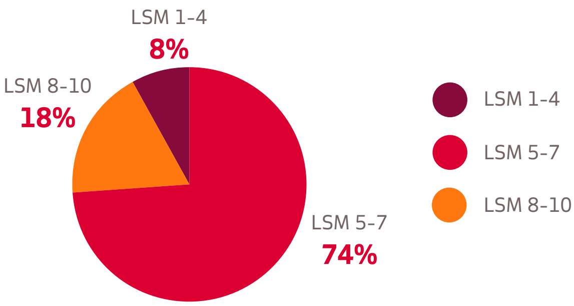
Population, Housing & Migration

770,928
Resident population

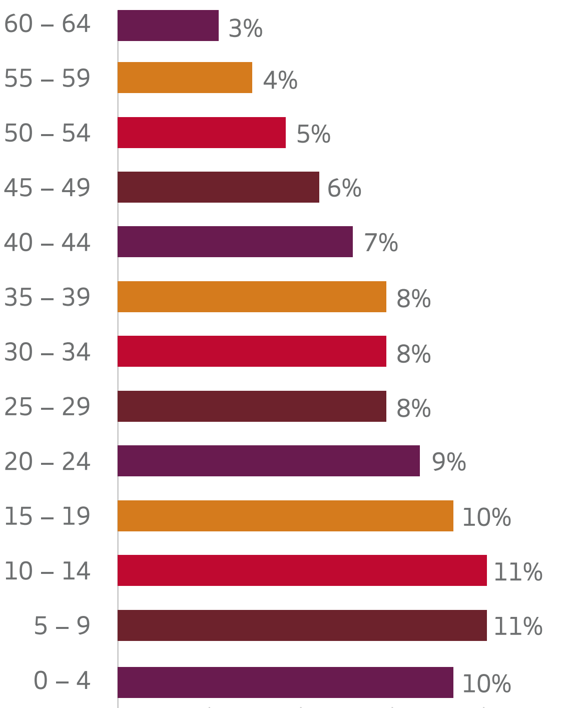
1,389,559
Migration in & out

212,214
Households

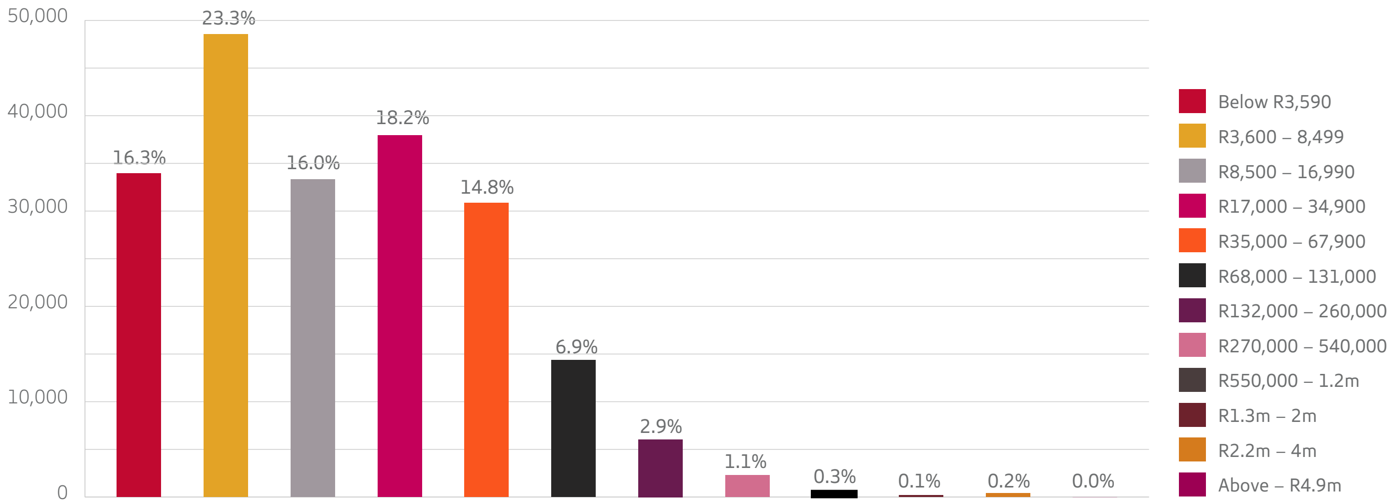
Living Standard Measure



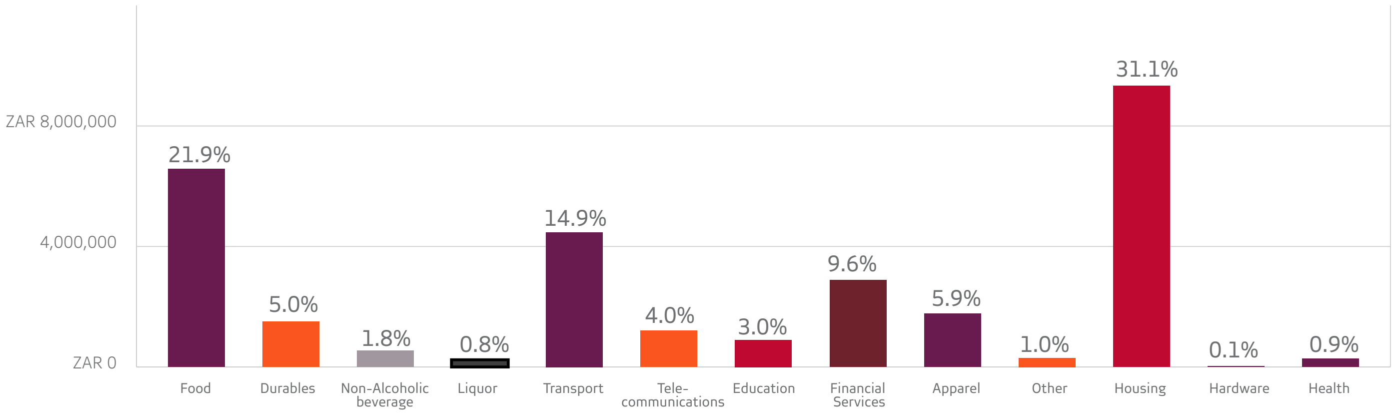
Age profile



Household Income Profile



Consumption breakdown



Key observations

- Lakeside and Evaton represent a growth potential opportunity.
- The single cluster outside of the 15-minute drive time to private schools indicates that several subplaces with Evaton and Lakeside have above-benchmark spending on education per capita.
- The consumption heat map indicates that while these subplaces have above-benchmark spending on education, it is not as significant as in Meyerton, where Greenacres Private College and Oprah Winfrey Academy for Girls are located.
- Interesting to note is the current development of Letsheng Mall in Lakeside opening in November 2023. On completion, the new neighbourhood centre will likely act as a catalyst for economic growth in this emerging market.
- Further to this, there is a housing development project underway in the area northeast of Lakeside, called Savanna City, with 18 000 planned households of modern aesthetics aimed at alleviating the population density in a catchment with a growing economy.

Other notable areas

Mbombela and Thabachweu

Key observations

- The farming area around Mbombela is extremely interesting. There are three private schools within the area. Northwest of Mbombela, in Mashishing, a single cluster indicating above-benchmark spend on education per capita, is evident.
- The subplaces that contribute to this cluster can be seen standing out in the consumption heat map, a long distance from the nearest private schools. The travel distances versus the population may be a hurdle to overcome for a potential private school targeting this area.
- This presents an opportunity for online learning platforms/digital school.

Mahikeng and Lichtenburg

Key observations

- Several clusters around Mahikeng indicate that numerous subplaces have above-benchmark spend on education per capita, while a singular co-ed private school exists in the catchment.
- The next cluster is southeast in Lichtenburg. The consumption heat map indicates that the population within the Ditsobotla NU (non-urban district) that surrounds Lichtenburg contributes significantly to spending on education in the map extent.

Klerksdorp and Potchefstroom

Key observations

- Subplaces in both Klerksdorp and Potchefstroom exhibit above-benchmark spending on education per capita, while only Klerksdorp is served with a private school.

Muizenberg, Simon's Town and Seaforth

Key observations

- The entire stretch from Muizenberg to Simon's Town is only served by a single private school – Silvermine Academy in Sun Valley. There are multiple clusters within the map extent and this is an opportunity within the Cape Peninsula.
- Education consumption is particularly high in Fish Hoek and Muizenberg, but clusters exist throughout Simon's Town.