



Cytonn Investments Management, Plc

Shareholders' Updates For Q3'2017

www.cytonn.com



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Executive Summary

This quarterly update is meant to keep our shareholders informed with regards to what has been going on in the firm over the last three months.

During the 3rd quarter of 2017, we made a group profit after tax (PAT) of Kshs 526.0 mn, a 504.3% growth from a prorated Kshs 87.0 mn in Q3'2016.

- Revenue grew by 134.0% to Kshs 932.9 mn from Kshs 398.7 mn a similar period last year due to increased sale of houses. The cost of sales increased by 150.3% to Kshs 608.6 mn from Kshs 243.2 mn, resulting in a gross profit of Kshs 324.3 mn, a growth of 108.6% from Kshs 155.5 mn in Q3'2016,
- Our balance sheet assets grew by 54.0% YTD to Kshs 18.2 bn from Kshs 11.8 bn in FY'2016, attributed to a 276.0% increase in short term investments in the local equities market to Kshs 1.3 bn from Kshs 338.7 mn in the same period, as we continue to grow our quoted investment portfolio and take advantage of the low valuations in the Kenyan equities market space.

Total number of staff has grown from 242 people in June 2017, to 254 as at the end of September 2017, which includes permanent staff of 170 and 84 on probation.

- The non-financial advisor staff number is 95
- The FA staff number is 159. We recruited 15 Real Estate Financial Advisors during Q3'2017 and had 6 departures, growing the team to from 150 in June 2017.

Total value of projects under mandate grew to Kshs 82 billion, with our [Summary of Investment Ready Projects](#) containing 10 investment projects.

The real estate projects are progressing well, with the Project Management team working hard to keep progress steady and mitigate against any possible risks that may affect the project timelines, quality and costs. During Q3'2017, we had a PR Launch of our Kshs 20.0 bn Kilimani-based iconic mixed-use development project, “Cytonn Towers”. See [Cytonn Towers](#).

To better improve our corporate governance structures and to continue strengthening investor confidence in the firm, we subjected ourselves to a Global Credit Rating, where we received an initial long-term rating of BB(KE), with a stable outlook. Get more on the rating [here](#).

The Cytonn Financial Services Fund is a new product by the investment team that seeks long-term capital growth and investment return through investing in financial services stocks in Sub-Saharan Africa (SSA). The fund has been in operation for 2 years, but this is the first time we pulled it out as a separate fund given the growth and track record. Like the rest of our productions, it is only accessible to high net-worth investors and institutions through private offers. The main aim of the fund is to achieve the highest possible return for the investor in the form of capital appreciation and dividend yield.



Photo Caption_Cytonn Towers
: Launched on **28th Sep 2017**

Given the many growth opportunities we still see in the region and the current size of the business, we are looking to list the business to improve our ability to access capital and also to improve transparency and accountability of the business. Specifically, we are looking to:

- List on the Nairobi Securities Exchange (NSE) through listing by introduction, but we are also looking to list in a global exchange to give us access to deeper capital markets, and,
- Pursuing a licensed subsidiary with a fund management license from the Capital Markets Authority.

No effort is without challenges and below are the challenges faced during the quarter, and how we mitigated the same:

● Fake News

During the quarter, especially after we announced our listing by introduction, we received quite a number of organized social media and blogger attacks. Negative news is a challenge we have faced in the firm since inception, with the first year beginning with legal attacks, followed by professional body complaints in the second, and regulatory complaints in the third – we were able to address all these challenges. As we enter our fourth year, we now face another challenge to our growth. As a counter measure, we have launched an initiative called ‘Open to Talk’

session where both staff and clients can engage us and get the right information. This is done by continually meeting our staff and clients, and in addition, we have provided an online platform where we address each claim in an open and transparent manner. See the link [here](#).

● Economic Environment

The economy is projected to grow much slowly despite a stable currency and interest rates environment due to the slow-down in private sector credit growth to 1.6% in August 2017 from 5.4% in August 2016 and 21.0% in August 2015 and the prolonged electioneering period. We have taken advantage of this to ensure we get the best assets at very good prices,

● Talent

it is difficult to hire and retain the best talent that can thrive in a team context. However, through our Cytonn Young Leaders Programme (CYLP), we hire graduates that are driven and passionate to make a difference, and blend well into Cytonn’s culture. We continuously are in the market looking for the best talent and below is a link to some of the open positions we are looking at filling, especially at the top level. See open positions [here](#)

● Culture

Our unique and high performing culture is key to our competitiveness and growth, however as we grow in numbers, it has become harder to

infuse and sustain the culture that has been the key driver for the firm. However, we continue to mitigate this by having as many culture building forums and discussions as we can

and being deliberate about propagating and sustaining our culture, such as the bi-weekly book reading sessions, the monthly cake-cutting sessions and out-of-office team building events.

Financial Performance

Financial Performance: Group balance sheet growth of 54.0% to Kshs 18.2 billion and group profitability growth of over five times to Kshs 526.0 million

During the quarter, we officially released our unaudited H1'2017 financial results, published in the dailies and also available on our website. From our September management accounts, we can see that Q3'2017 ended with balance sheet assets worth about Kshs 18.2 bn, a YTD growth of 54.0%, and a profit of Kshs 526.0 mn, which grew by 504.3% from Kshs 87.0 mn in Q3'2016.

Income statement

At the end of Q3'2017, we made a YTD profit after tax (PAT) of Kshs 526.0 mn, a 504.3% growth from a prorated YTD profit of Kshs 87.0 mn recorded at the end of Q3'2016.

- Revenue grew by 134.0% to Kshs 932.9 mn from Kshs 398.7 mn in a similar period last year, due to increased sale of houses as our investment in distribution pays off. The cost of sales increased by 150.3% to Kshs 608.6 mn from Kshs 243.2 mn, resulting in a gross profit of Kshs 324.3 mn, a growth of 108.6% from Kshs 155.5 mn in Q3'2016,
- Operating profit grew by 315.6% to Kshs 732.8 mn from Kshs 176.3 mn in Q3'2016, as a result of the 108.6% growth in gross profit,

- Fair Value (FV) adjustments, which form part of our core business, because we are in the business of generating FV gains throughout the real estate development cycle and also through Quoted Private Equity, grew by 129.8% to Kshs 922.5 mn from Kshs 401.4 mn. We ended the quarter with 27.6 mn shares in KCB Group, 6.7 mn shares in NIC Bank and 610,200 shares in Housing Finance Group,
- As a result, we are were the 14 th largest share holder in KCB Group, and the 9 th largest in NIC Bank,
- Our balance sheet assets grew by 54.0% YTD to Kshs 18.2 bn from Kshs 11.8 bn in FY'2016, attributed to a 276.0% increase in short term investments in the local equities market to Kshs 1.3 bn from Kshs 338.7 mn in the same period, as we continue to grow our active equities investment portfolio and take advantage of the low valuations in the Kenyan equities market space,

- We continue to be prudent in investment, and ensuring that not a single investor is affected by our exposure to Nakumatt and Imperial Bank, which we have written off, with impairments at Kshs 134.5 mn. Important to note is that these impairments are 0.7% of our Kshs 18.4 bn balance sheet.

Statement of Profile/ Loss (Kshs in Millions)	Group Unaudited Sep 17 YTD	Group Audited Sep 16 YTD		Y/y Change(%)
Revenue	932.9	398.7	↑	134.0%
Cost Of Sales	(608.6)	(243.2)	↑	150.3%
Gross Profit	324.3	155.5	↑	108.6%
Other Income	159.2	86.8		83.4%
Operating Expenses	(211.9)	(210.0)	↑	0.9%
Employee Costs	(326.7)	(185.7)		76.0%
Impairment Loss	(134.5)	(71.7)	↑	87.7%
Fair Value Adjustments	922.5	401.4		129.8%
Operating Profit	732.8	176.3	↑	315.6%
Finance Costs	(195.8)	(73.6)		165.9%
Profit Before Tax	537.0	102.7	↑	422.9%
Tax Expense	(11.0)	(15.7)		(29.7%)
Profit / (Loss) After Tax	526.0	87.0	↑	504.3%

*2016 results are prorated FY'2016 Audited Financials

Business Operations

In this section we cover strategic aspects of the business, which include people, processes, distribution and initiatives by our subsidiaries

People

Total number of staff has grown from 242 people in June 2017, to 254 as at the end of September 2017. At the close of Q3'2017, our staff comprised of 170 permanent staff and 84 on probation. Interns in our Cytonn Young Leaders Programme (CYLP) were 121 from 92 at the end of the first half of the year.

We are currently on the look-out for the following strategic hires: Chief Operating Officer, Financial Controller, Development Manager and Relationship Manager – Institutions.

Processes

To enhance efficiency at Cytonn, during the quarter we embarked on the following activities

- The hiring of an Internal Audit Manager, Audit Associate, and Risk associate to beef up controls and risk management in the firm
- Launch the research and deal origination (RDO) System, which is used to manage research and deal origination process for the RDO team. The system has managed to make it easier to record new leads, term leads as “in progress” or “rejected”
- Launch the Single Sign-on Platform that has made processes more efficient by streamlining the way users log onto our internal systems, making it a one-stop-shop for access to Cytonn systems
- Improved site navigation for the [Cytonn Investments Website](#)
- We have launched an ‘Open to Talk’ platform on our website where we address each fake news claim in an open and transparent manner. See the link [here](#)

Distribution

We recruited 15 FA’s during Q3’2017 and had 6 departures, growing the team to 159 in September from 150 in June 2017. On the distribution regional expansion plan, the process of getting a fourth Cytonn office in Nyeri that will double up as the Mt Kenya Distribution center, was started on during the quarter. We target to have the office fully operational with a team of over 40 Financial Advisors (FA’s) by the end of 2017. To add to the sales efforts by our internal distribution team, we recruited 19 Independent Financial Advisors (IFAs) during the quarter, taking the team to 186 IFAs by the end of September 2017 from 167 at the end of June 2017.

In a continuous effort to recognize and award excellence & dedication, we held an [award ceremony](#) for our top performing Financial Advisors and Independent Financial Advisors in Q3’2017.



Cytonn Real Estate

Below is a summary of our projects and an update on the progress as at the close of the third quarter of the year:

OTHER INITIATIVES UPDATES AS AT 30TH SEPTEMBER, 2017			
Project	Construction Progress	Sales	Jobs Created
Amara Ridge	The project is behind schedule due to delays in the importation of GRC for finishes but now we have most that on site	Sales progressed well with 100% of sales achieved	230 workers employed
Situ Village	The project has undergone delays due to delays in court Hearings, Our last Hearing could not proceed as the Chairman's term had lapsed. Her term has however been renewed and we expect the matter to be closed	Situ Village was 22% sold at the end of Q3'2017	11 jobs created
The Alma	66 weeks into its 141-week construction contract period. The project has 35% of construction work complete	Sales progressed well with over 55.0% of the units having being sold	408 workers employed
Taraji Heights	The project ended the quarter with 24-weeks elapsed in its 104-week contract, The Club House is currently at 1st floor level and the underground tank installation is 65% done.	14% of the units had been sold by the end of Q3'2017.	37 workers employed
The Ridge	The earthworks are still in progress	Phase I of The Ridge was 31% sold at the end of Q3'2017	34 workers employed
Newtown	An advisory team consisting of legal advisors and advisors with masterplan community construction experience was put together	Phase I of Newtown was 1.4% sold at the end of Q3'2017	26 jobs created
RiverRun Estates	Detailed design is currently on-going and we expect to be on the ground in the first quarter of 2018	Phase I of RiverRun estates is currently over 11% sold	31 jobs created
Westlands	The project is at design stage of development	Sales are to be done on an income stabilized development	20 jobs created
Cytonn Towers	The PR launch for Cytonn Towers took place on 28th September 2017 The project is a mixed use development worth Kshs 20.0 bn and will be situated on a 4-acre land parcel in Nairobi's Kilimani area	20% of the Residential Phase 1 has been sold	50 jobs created
Project Karen - Applewood	The project will include 20 exclusive villas in a gated community in Karen It is currently at design stage	We are yet to launch the product and begin sales	N/A

In a bid to uphold quality standards in our real estate projects, our Real Estate Project Procurement team launched the Cytonn's Supplier Code of Conduct, highlighting the principles that we expect our suppliers to uphold and giving guidance on the standards that they are expected to meet.

See [event note](#)

Private Equity and Affiliates

OTHER INITIATIVES UPDATES AS AT 30TH SEPTEMBER, 2017

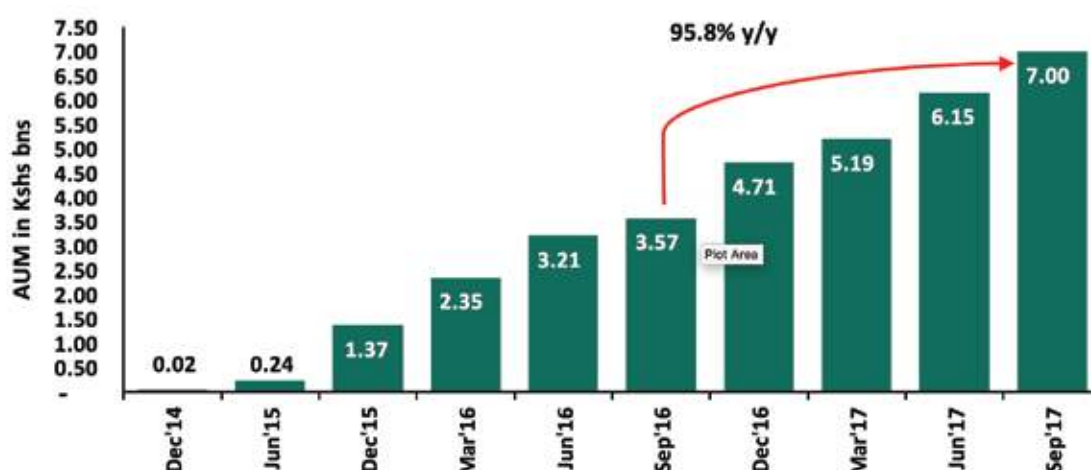
P.E. Deal/Initiative	Progress Updates
Superior Homes Kenya Limited	<ul style="list-style-type: none"> Superior Homes is pursuing a number of land parcels, and is awaiting the new Mombasa Road layout so as to proceed with their Road Frontage and Apartment block projects, and also won the appeal case against East African Portland Cement (EAPC) for 337-acres of land, To enhance governance, they on boarded 2 new board members, Michael Murphy and Eric Latiff, who joined the board as non-executive directors
Cytonn Technologies	<ul style="list-style-type: none"> The team launched 2 new systems: RDO System and a Single Sign-on Platform; and improved site navigation on the Cytonn Website. Three photographers and one videographer were hired, with an aim to provide competitive photography solutions. The business is preparing to offer services to third parties
Cytonn Education Services	<ul style="list-style-type: none"> Cytonn Education Services (CES) is Cytonn Investments' affiliate for investments in the education sector. CES has the mandate to provide the education services component of our comprehensive master-planned developments such as day care centres for The Alma in Ruaka, Taraji Heights in Ruaka, and The Ridge in Ridgeways; and to set up comprehensive education institutions within the country, During the quarter, the team embarked on setting up the pilot initiative which is the Technical College, through the newly hired CES Business Manager, Mr. Benjamin Ikenye, who was formally the Business Manager of Nairobi Institute of Business Studies (NIBS), and has begun by hiring a Head of Academic Affairs to develop the curriculum and begun the process towards development of the Cytonn Technical College.
Cytonn Residences	<ul style="list-style-type: none"> Cytonn Residences is Cytonn's Serviced Apartments Brand that represents a clean sleek & sophisticated space, where the travelling businessman finds a home away from home experience. During the quarter, the team completed the operating and design manual, and the business case, and the Hospitality Business Associate was on-boarded, Mr. Abraham Biketi
Cytonn Business Centre	<ul style="list-style-type: none"> Cytonn Business Centre is our brand of serviced offices. In Q3'2017, we finalised on the registration of the business name – Cytonn Business Centre, hired a business lead from within the company to drive the initiative and prepared the operations manual and marketing plan whose implementation is set to begin in Q4'2017

Investment Products

Cytonn Cash Management Solution (CMS) & Project Notes (CPN)

Our Assets under Management (AUM) has grown by 95.8% in a 1-year period, to Kshs 7.0 bn from Kshs 3.6 bn in September 2016. The total firm spread on investments closed the quarter at 5.3% during the quarter, which is higher than our 5.0% target total spread. The target spread is the difference between our investments product cost of funds and the average return / yield on investments.

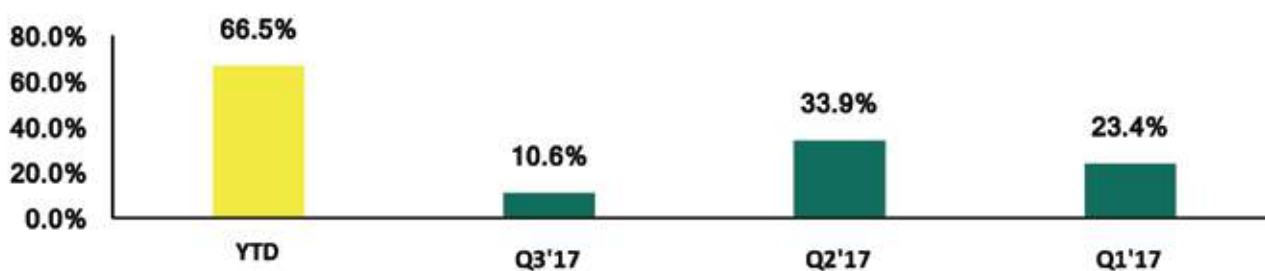
Total Assets Under Management (AUM)



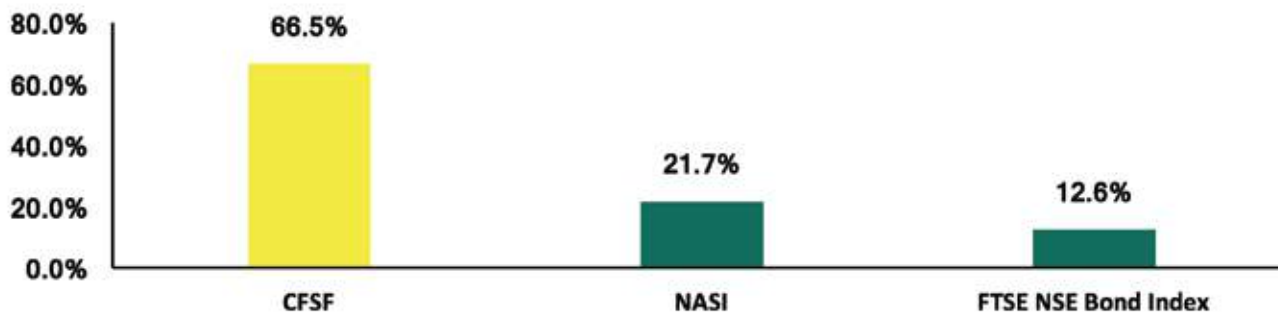
On our fundraising efforts, the team held a [Pension Trustee Training](#), where they trained the pension trustees in the Nairobi region on alternative investments.

Cytonn Financial Services Fund (CFSF)

The Cytonn Financial Services Fund is a new product by the investment team that seeks long-term capital growth and investment return through investing in financial services stocks in Sub-Saharan Africa (SSA). The fund has been in operation for 2 years, but this is the first time we pulled it out as a separate fund given the growth and track record. Like the rest of our productions, it is only accessible to high net-worth investors and institutions through private offers. The main aim of the fund is to achieve the highest possible return for the investor in the form of capital appreciation and dividend yield. The selection of companies is based on countries with a relatively stable macro-economic environment and possessing a market capitalization of at least USD 70.0 mn. From the chart below, the fund returned 10.6% in capital appreciation in Q3'2017, as compared to 33.9% and 23.4% recorded in Q2'2017 and Q1'2017, respectively



Q3'2017 YTD CFSF Performance Compared to Other Asset Classes



Others

Investments and Real Estate Research

In a bid to continue providing informative and engaging research to the public, we released the following reports and hosted the following workshops:

[Kenya Banking Sector Report: H1'2017](#),

[Nairobi Metropolitan Area Residential Report – 2017](#)

- [Mortgage and Rental Affordability in Nairobi Metropolitan Area Report](#),

[Kampala Real Estate Investment Opportunity Report](#), and

[Corporate Governance Workshop](#).

Through reports, newspaper articles and appearances on TV and Radio, our investment and real estate research teams have garnered Kshs 131,144,842 and Kshs 109,733,210 worth of PR Value (PRV), respectively, in Q3'2017, jointly contributing to 62.2% of the total PRV generated by the whole firm of Kshs 387,015,892 in the quarter. We also held a Corporate Governance Workshop with the aim to transform the focus on Corporate Governance from a Cytonn initiative to an industry initiative.



Client Services

Below are the activities that the client services team embarked on during the quarter;

- Client appreciation events: we had a Client Appreciation Dinner at Radisson Blu Hotel in Upper Hill on 14th July and a Cytonn Sponsored Golf Day at Muthaiga Golf Club on 23rd September,
- Client satisfaction surveys: a satisfaction survey was sent out to all our clients at the end of the quarter, to gauge our clients' satisfaction levels and get the views on what can be improved on.
- Client site visits: during Q3'2017, the team has held 13 site visits, usually held on Saturdays, with 6 clients and 114 non-clients attending in a bid to centralize site visits and cut on costs of travelling back and forth to and from sites.
- Client financial training: part of Cytonn Foundation initiatives under client services is to ensure our clients are regularly trained on wealth management. The team managed to host 5 private Wealth Management Training (WMT) sessions in Q3'2017, with 28 clients and 97 non-clients attending.



Other Initiatives

OTHER INITIATIVES UPDATES AS AT 30TH SEPTEMBER, 2017

Initiative	Q3'2017 Update
Regional Expansion	<ul style="list-style-type: none">● During the quarter, our Real Estate Research and Deal Origination (RDO) and Investments teams covered ground in 4 countries, namely Uganda, Nigeria, Tanzania and Ghana. The aim of the visits was to establish which countries would be suitable to venture into from an investment perspective and the outcome was as follows:<ul style="list-style-type: none">● The RDO team was in Kampala to release the <u>Kampala Real Estate Investment Opportunity</u> Report, a comprehensive market research on residential, commercial and retail themes in Kampala and its environs; and hosted a <u>Kampala Investors' Dinner</u> to discuss the potential investment opportunity in Uganda
Cytonn Foundation	<ul style="list-style-type: none">● Cytonn Foundation, under its entrepreneurship pillar, kicked off <u>Cytonn eHub Season 2</u> and with 20 entrepreneurs on 26th August. The training is a 12 week programme and they shall be graduating on 11th November, by showcasing their business opportunities to potential investors
Listing of Cytonn on the Nairobi Securities Exchange (NSE)	<ul style="list-style-type: none">● To better improve our corporate governance structures, continue to strengthen investor confidence in the Company and provide an avenue for raising capital, Cytonn is planning to list on the Nairobi Securities Exchange (NSE)

We thank you for your continued support and encourage you to engage us continuously, especially in this market environment. We have always held that “the best time to invest is when markets are difficult and people are distracted”, and such is the current environment.

In case of any queries or any clarifications, please do not hesitate to contact us through your financial advisor and I am also reachable at ceo@cytonn.com.

Yours Sincerely,

For and on behalf of Cytonn Investments Management Plc



*Edwin H. Dande
Managing Partner & Chief Executive Office
cc. Prof. Daniel N. Mugendi
Chairman*