



# H1 2019 INTERIM RESULTS

Six months to 30 September 2018

**Dawie de Villiers**  
Group Chief Executive

**Naidene Ford-Hoon**  
Group Chief Financial Officer

**RETIREMENTS | WEALTH | INVESTMENTS | INSURANCE**

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# Presentation agenda

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- H1 2019 highlights
- Business review
- Financial review
- Concluding remarks
- Q&A



# H1 2019 HIGHLIGHTS

Dawie de Villiers

# My first month | Initial thoughts and impressions

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- An honour to lead Alexander Forbes
  - Respect for the people, the brand and achievements that advanced the industry
- Alexander Forbes at its core, is about –
  - A trusted advisor
  - Offering best-suited solutions to clients
  - Securing financial well-being for clients and members
- Business has been resilient in the tough economic environment
  - Growth in GDP, employment levels, financial markets provide impetus
  - Contraction makes it more difficult to grow
- Imperative to continue to –
  - Innovate to be relevant
  - Service clients to the highest standard
  - Educate members, achieve better outcomes

- 6% growth in operating income<sup>1</sup> to R1 908 million
  - Strong performance from Investments (+16%), Consulting & retirements (+7%), and Emerging markets (+10%)
- Profit from operations<sup>2</sup> down 3%, largely attributable the R52 million one-off expenses relating the termination of the core IT systems contract
- Loss from continuing operations of R45 million, impacted by the R287 million impairment of capitalised software development assets relating to the IT programme
- Sustained cash generation from the underlying businesses with cash flow from operations of R492 million, up 5% against the prior-year period
- 2% increase in closing Assets under Administration (AuA) and Assets under Management (AuM) to R371 billion at AF Investments
- Interim dividend of 18 cents per share flat on the comparable prior-year period reflecting the group's optimism with regards to sustainability of cash generation

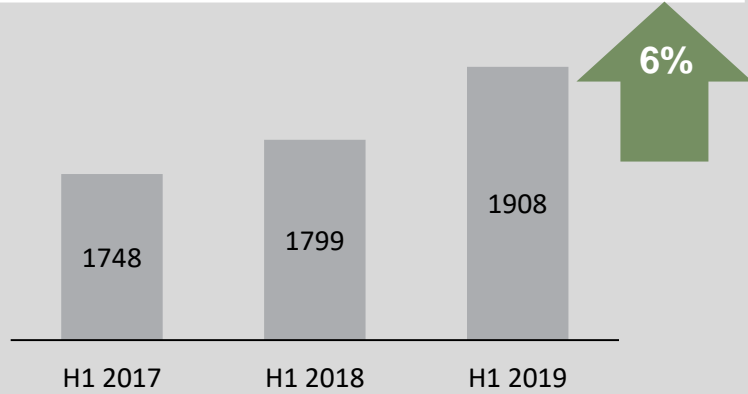
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1. *Operating income revenue net of direct expenses, defined as operating income throughout this presentation*

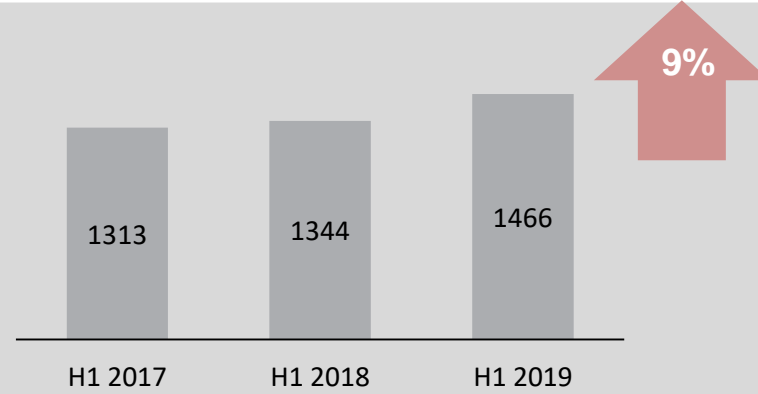
2. *Profit from operations before non-trading and capital items throughout this presentation*

# H1 2019 | 6 Key group metrics

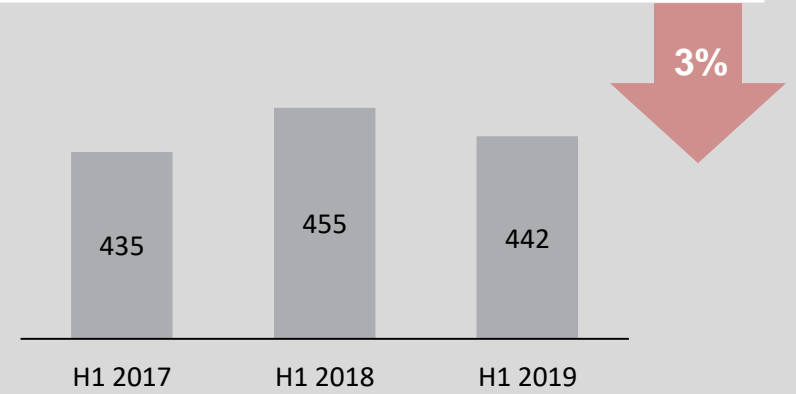
## Operating income (Rm)



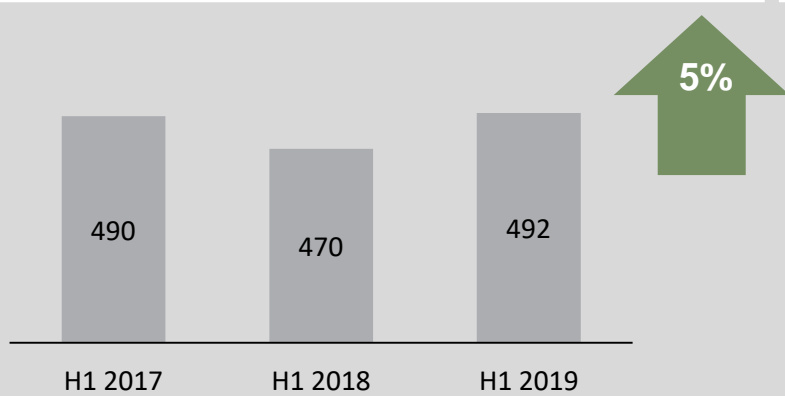
## Operating expenses (Rm)



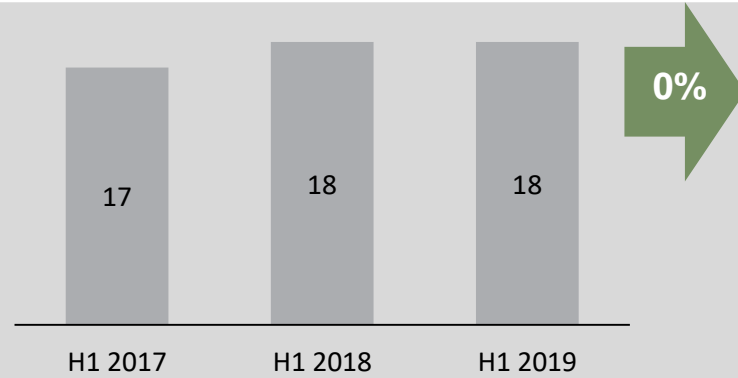
## Profit from operations (Rm)



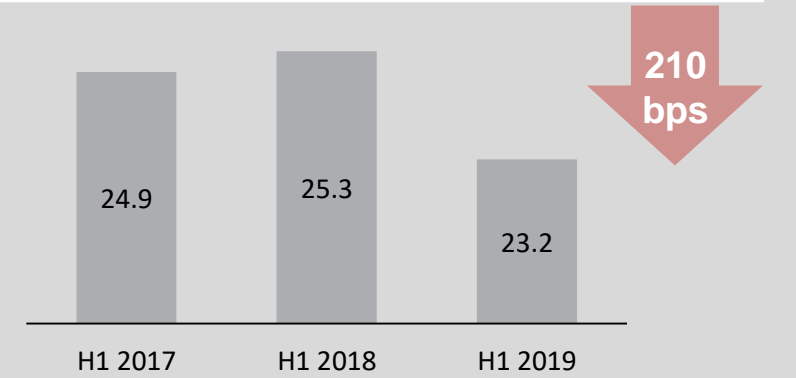
## Cash flow<sup>1</sup> (Rm)



## Dividends (cps)



## Trading margin (%)



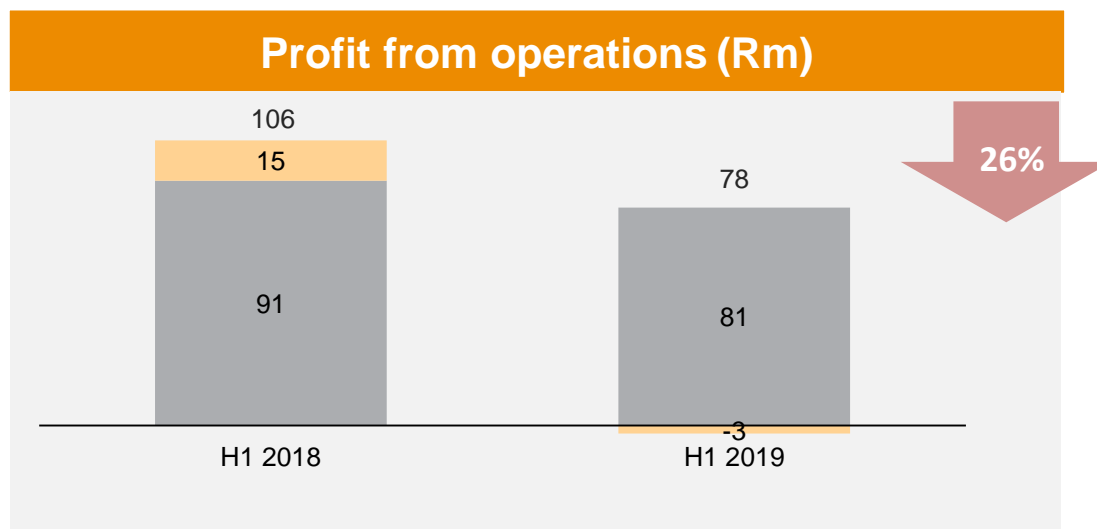
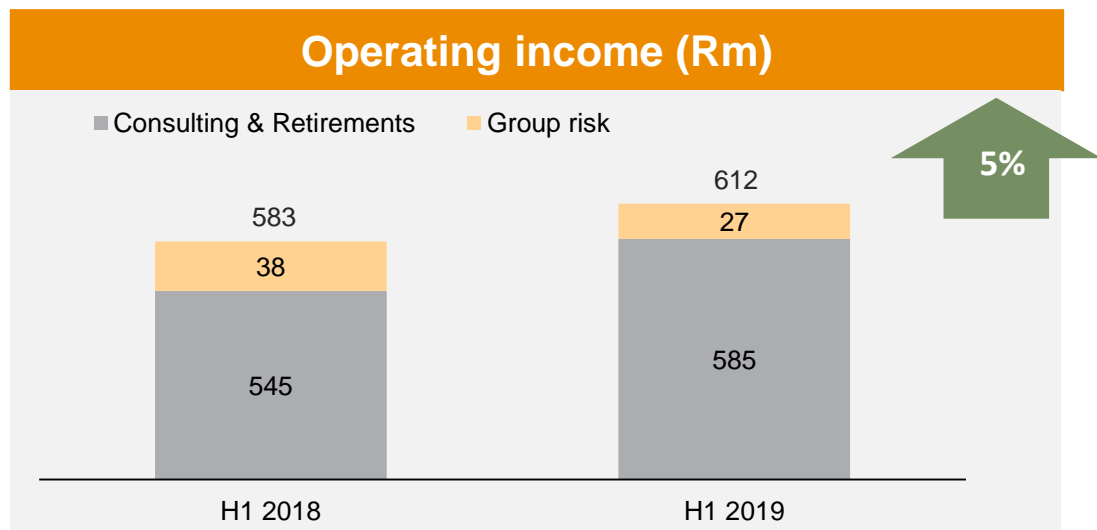
1. Cash generated from operations



# H1 2019 BUSINESS REVIEW

Dawie de Villiers





## H1 2019 Performance

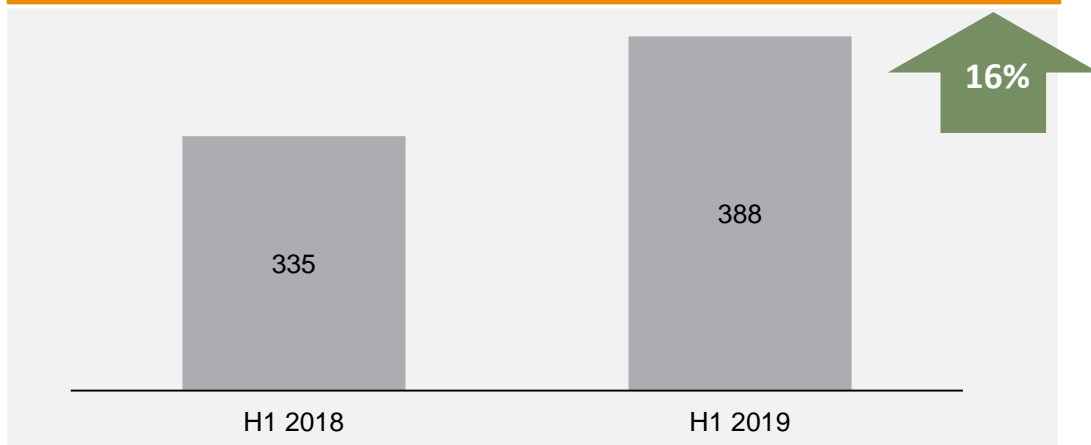
### Consulting and retirements

- Operating income up 5% attributable to:
  - 8% increase in operating income in healthcare consulting due to an increase in the regulated cap commission income and new business wins; and
  - Retirements benefited from Administration only conversions to umbrella
- Profit from operations impacted by higher expenses resulting from various client service and marketing initiatives
- Continued good traction on Alexander Forbes Retirement Income Solutions (AFRIS) – with total assets currently at R1.4 billion since launch in February 2018

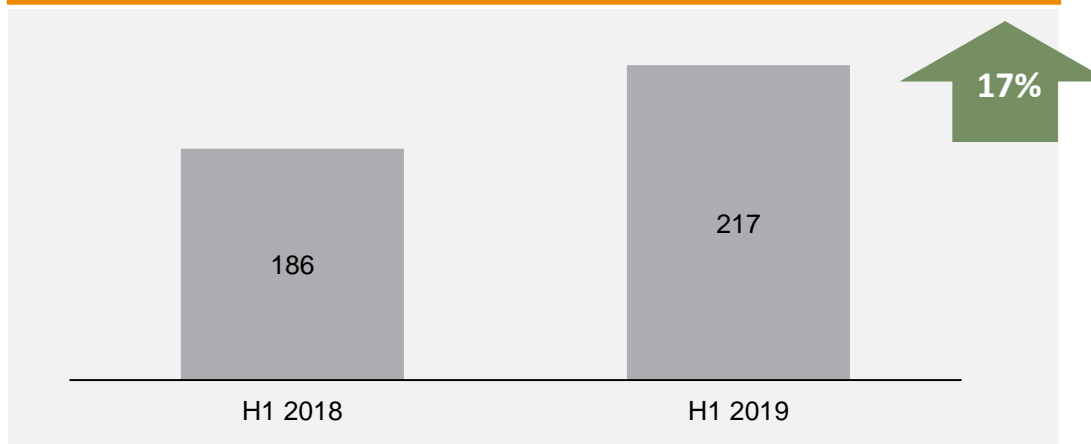
### Group risk

- 16% increase in API to R621 million
- 29% decrease in operating income impacted by higher reserves related to the increase in disability claims experience

## Operating income (Rm)

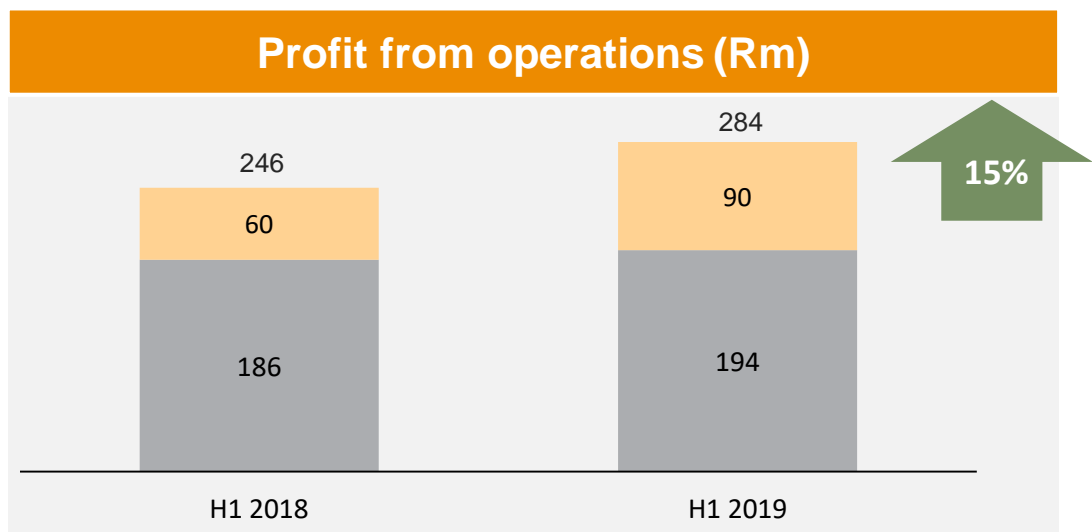
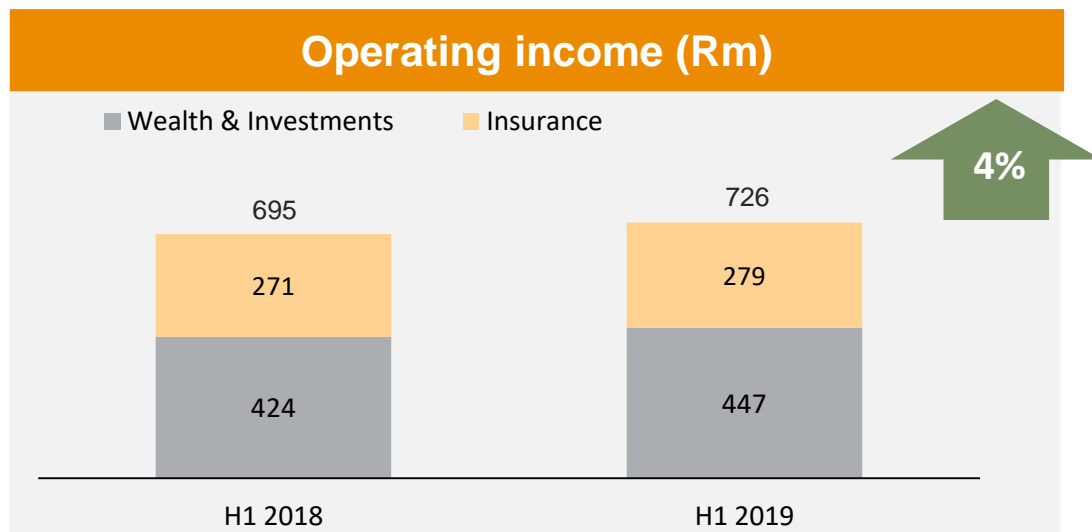


## Profit from operations (Rm)



## H1 2019 Performance

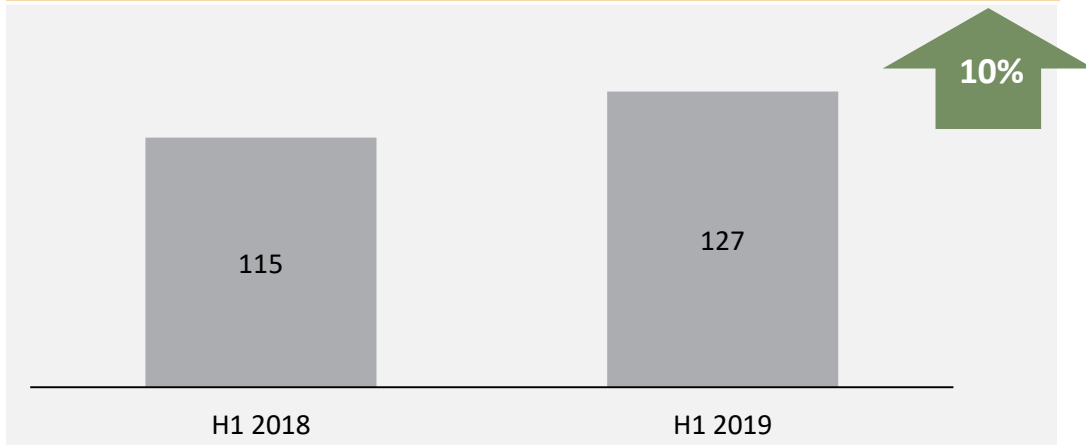
- Net revenue growth of 16% supported by:
  - Strong market performance, delivery on investment strategies and improvement in the net blended margin
- Improved institutional net margin to 25.2 bps (from 23.5 bps at March 2018) achieved by:
  - Offering innovative products
  - An enhanced the offshore offering in conjunction with Mercer
  - Development of internal Smart Beta (tracker) capabilities
- New business inflows of R1.6 billion with client outflows of R3.6 billion resulting in net controllable outflow of R2 billion
  - A further R2.5 billion in client flows awaiting transfer
- Institutional AuA and AuM up 2% to R306 billion
  - Performer AuM up 15% to R118 billion



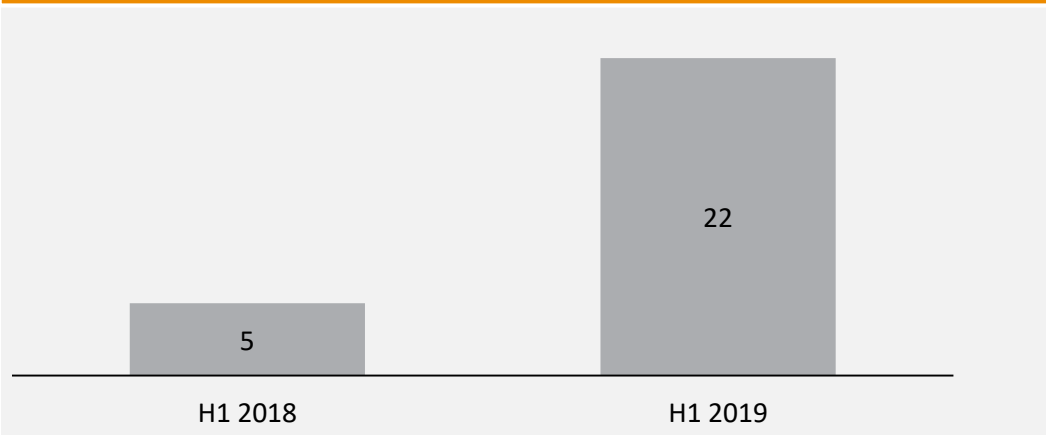
## H1 2019 Performance

- 4% improvement in operating income driven by:
  - Increase in FPC new business resulting from improved productivity
  - Improved underwriting results in short-term insurance business
  
- Wealth and investments
  - Preservation rate declined to 55% from 57%, impacted by current economic conditions
  - Improvement in the capture rate to 42% from 41%, on the back of the presence and success of FPC
  - 3% increase in closing AuA and AuM to R65 billion
  
- Retail insurance
  - Gross written premium (for short term) up 4% to R823 million
  - 11% increase in new business in the motor and household portfolio
  - Loss ratio at 66.1%, improvement on the 67.3% reported in H1 2018
  - The Retail Life business has been placed in run-off from 1 July 2018

## Operating income (Rm)



## Profit from operations (Rm)



## H1 2019 Performance

- Operating income up by 10% led by Botswana.
- Namibia's performance remains muted as a result of the continued economic recession coupled with increased competitive pressure
- Operating profit increase, coming off a lower base, delivered by growth in revenue and cost savings of 5%
- Collaboration with Mercer to launch 'Arrive', which is a distribution-led global benefits solution



# H1 2019 FINANCIAL PERFORMANCE

Naidene Ford-Hoon

# H1 2019 | Summary income statement

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Rm	IFRS H1 2019	IFRS H1 2018	Comments
<b>Continuing operations</b>			
Operating income net of direct expenses	1 908	1 799	6% growth
Operating expenses	(1 466)	(1 344)	9% increase including R52 million ramp-down and termination cost
<b>Profit from operations before non-trading and capital items</b>	442	455	(3%)
Non-trading and capital items	(385)	(73)	Impairment of intangible assets of R287 million
<b>Operating profit</b>	57	382	
Investment income	100	143	Decline due to cash being utilised for the share buy-back programme and lower cash balances
Finance costs	(36)	(48)	Cost savings upon close out of forward exchange contract
Reported profit/(loss) arising from accounting for policyholder investments in treasury shares	20	(11)	Impacted by the decline in share price
Share of profit of associate (net of tax)	–	2	
<b>Profit before taxation</b>	141	468	
Income tax expense	(186)	(159)	Effective tax rate at 135% (excluding policyholder inv.) impacted non-deductible impairment
<b>(Loss)/profit for the period from continuing operations</b>	(45)	309	
(Loss)/profit on discontinued operations (net of tax)	(2)	15	East Africa operations
<b>(Loss)/profit for the period</b>	(47)	324	

# H1 2019 | Analysis of non-trading and capital items

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Rm	IFRS H1 2019	%	IFRS H1 2018
<b>Profit from operations before non-trading and capital items</b>	<b>442</b>	(3)	455
Professional indemnity insurance cell-captive result	(34)		1
Amortisation of intangible assets arising from business combination	(34)		(46)
Costs relating to strategic consulting engagement	(26)		(22)
Impairment/write-off of software	(287)		(6)
Other	(4)		–
<b>Total non-trading and capital items</b>	<b>(385)</b>	>100	(73)
<b>Operating profit</b>	<b>57</b>	(85)	382

- A thorough review of the strategic roadmap and related projects within the IT programme which resulted in:
  - the termination of the contract with the primary implementation partner; and
  - R287 million impairment of capitalised software development assets.

# H1 2019 | Balance Sheet (excluding policyholder and insurance-related balances)

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Rm	Sept 2018	Mar 2018
Assets including developed software	294	574
Intangible assets (largely arising from PE transaction)	3 394	3 428
Financial assets	119	305
Deferred tax	180	175
Trade and other receivables	363	299
Cash and cash equivalents	3 784	3 561
Current assets and assets held for sale	86	82
<b>Total assets</b>	<b>8 220</b>	<b>8 424</b>
Borrowings	(719)	(719)
Long-term liabilities	(885)	(825)
Current liabilities and liabilities held for sale	(520)	(487)
<b>Equity</b>	<b>6 096</b>	<b>(6 393)</b>
<b>LTM return on average equity (normalised)</b>	<b>5.0%</b>	<b>9.8%</b>
<b>LTM return on average capital employed (normalised)</b>	<b>10.1%</b>	<b>14.1%</b>
<b>LTM normalised return on tangible net asset value</b>	<b>10.2%</b>	<b>20.7%</b>

- Total assets down by 2.4% to R8.2 billion during the period (Mar 2018: R8.4 billion) largely due to the impairment of software development assets



# H1 2019 | Analysis of cash balances

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Rm	Sept 2018	Mar 2018
Cash and cash equivalents – per IFRS balance sheet	5 884	5 794
Cash held on behalf of policyholders	(2 100)	(2 233)
Cash and cash equivalents – per summarised balance sheet excluding policyholders	3 784	3 561
Cash held for regulatory capital, liquidity and solvency requirements	(1 686)	(1 557)
Cash held in insurance cell-captive facilities	(408)	(373)
Restricted cash	(222)	(95)
Available cash	1 468	1 536
Net current liabilities	(300)	(379)
<b>Available cash resources</b>	<b>1 168</b>	<b>1 157</b>

- Available cash resources remains consistent after taking into account cash returned to shareholders in the form of final dividends for FY 2018 of R307 million and share buy-back of R91 million

# FY2018 | Strong regulatory surplus

	SAM Standard Formulae (Sept 2018)			SAM Standard Formulae (Mar 2018)			% change in regulatory surplus
	Own Funds	Solvency Capital Requirement (SCR)	Regulatory Surplus	Own Funds	Solvency Capital Requirement (SCR)	Regulatory Surplus	
Rm							
Group corporate (including revolving credit)	778	161	<b>617</b>	683	183	<b>500</b>	<b>23</b>
Shared services	(27)	–	<b>(27)</b>	180	79	<b>101</b>	<b>&lt;(100)</b>
Institutional	1 388	1 134	<b>254</b>	1 419	1 080	<b>339</b>	<b>(25)</b>
Retail	508	275	<b>233</b>	452	250	<b>202</b>	<b>15</b>
Emerging markets	102	45	<b>57</b>	120	51	<b>69</b>	<b>(17)</b>
<b>Total group</b>	<b>2 749</b>	<b>1 615</b>	<b>1 134</b>	<b>2 854</b>	<b>1 643</b>	<b>1 211</b>	<b>(6)</b>

- Decrease in own funds due to dividend paid in July 2018 as well as impairment of the software development asset



## CONCLUDING REMARKS

Dawie de Villiers

- Alexander Forbes is a trusted brand with market leading businesses
- The second half of the year expected to be challenging including the impact of client losses experienced, difficult operating environment and ongoing competitive pressure
- Focus on:
  - Clients
  - Concluding strategic review
  - Validating positioning in the South African market
  - Start unlocking inherent value potential in the business
- Regulatory changes in the industry improves transparency and creates opportunities
- Alexander Forbes is well-positioned to execute



Q&A