



FY2019

Alexander Forbes Group Holdings Limited
Results for the six months ended 30 September 2018
Additional information

KEY PERFORMANCE INDICATORS

For the six months ended 30 September

Institutional

		Sept 2015	Sept 2016	Sept 2017	Sept 2018	2018/2017 % change	CAGR %
Operating income net of direct expenses*	(Rm)	834	870	918	1 000	9	6
Corporate & employee benefits							
Number of Umbrella corporate clients		1 234	1 361	1 417	1 483	5	6
Umbrella fund AuM	(Rbn)	58.8	66.7	73.2	79.8	9	11
Standalone retirement funds AuA	(Rbn)	314	347	354	364	3	5
Number of active member records	('000)	1 034	993	935	944	1	(3)
Number of healthcare corporate clients		530	550	550	534	(3)	–
Group risk							
Group risk gross written premium	(Rm)	173	202	246	306	24	21
Group risk annualised premium income	(Rm)	381	405	534	621	16	18
Risk retention	(%)	– ¹	– ¹	23.4	24.2	3	– ¹
Investments							
AF Investments closing AuA	(Rbn)	48.7	50.9	51.1	50.7	(1)	1
AF Investments closing AuM	(Rbn)	216.3	233.1	248.2	255.0	3	6
Total closing AuA and AuM	(Rbn)	265.0	284.0	299.3	305.7	2	5
Blended net margin	(bps)	23.6	21.6	22.7	25.2	11	2
Number of clients		2 101	2 088	2 062	2 092	1	–

Retail

		Sept 2015	Sept 2016	Sept 2017	Sept 2018	2018/2017 % change	CAGR %
Operating income net of direct expenses*	(Rm)	624	664	695	726	4	5
Wealth and investments							
Number of FPC clients	('000)	46	47	50	53	6	5
Assets under advice FPC – closing	(Rbn)	57.5	63.5	67.8	71.1	5	7
AFICA closing AuA (includes preservation funds)	(Rbn)	54.2	59.0	62.0	64.0	3	6
AF Investments closing AuA and AuM	(Rbn)	– ¹	58.0	63.7	65.4	3	–
Insurance – motor and household							
Gross written premium	(Rm)	676	740	776	808	4	6
Active policies		80 604	82 933	81 949	82 912	1	1
Loss ratio	(%)	74.0	74.1	67.3	66.1	(2)	(4)
Risk retention	(%)	25	25	25	25	–	–
Insurance – accident and health							
Gross written premium	(Rm)	18	17	17	15	12	(6)
Loss ratio	(%)	19.0	19.0	12.0	11.1	(8)	(16)
Risk retention ²	(%)	92	93	94	94	–	(2)

Emerging markets

	Operating income net of direct expenses Rm	Profit from operations ³ Rm	Headcount	Ownership %
September 2018				
Namibia	78	24	139	75
Botswana	44	12	95	67
Other EM countries ⁴	5	(2)	21	100
AFEM head office	–	(12)	7	–
September 2017				
Namibia	76	20	156	75
Botswana	36	4	98	67
Other EM countries ⁴	3	(6)	21	100
AEFM head office	–	(13)	9	–

		Sept 2015	Sept 2016	Sept 2017	Sept 2018	2018/2017 % change	CAGR %
Operating income net of direct expenses	(Rm)	127	125	115	127	10	–
Number of members under administration		251 041	120 871	121 001	129 260	7	(20)
Number of policies AFI Namibia		13 849	16 787	17 892	17 117	(4)	7
AF Investments Namibia AuM	(Rbn)	3.2	3.6	3.8	3.6	5	4

1. Prior-year numbers not available.

2. Prior-year numbers have been restated due to changes in the computation methodology.

3. Profit from operations before non-trading and capital items.

4. Other EM countries include Uganda and Nigeria. Ownership for Nigeria is 100% whereas Uganda is 51%.

* Restated due to change in segmental reporting.

EXPLANATION OF ADJUSTMENTS FOR NORMALISATION

The group's segmental results are reflected to include the normalised results which is the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows:

Amortisation of intangible assets arising from business combination

Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R34 million for the period 30 September 2018 (2017: R46 million; 2016: R61 million). The capitalisation of intangible assets, and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group in 2007.

Professional indemnity insurance cell-captive results

The profits and losses of the facility are a result of the premiums paid, claims experienced and the changes made to the provision for expected future claims. The recorded profits and losses of the cell-captive facility should trend to zero over the longer term. The annual premiums paid for this insurance is included in the operating expenses of each segment. The group is required to consolidate the financial results of the cell-captive which are recorded in the non-trading and capital items.

Accounting for property lease

The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the operating profit growth rate while the absolute value is an expense of R5 million for the period ended 30 September 2018 (2017: R10 million; 2016: R15 million).

Reported loss arising from accounting for policyholder investment in treasury shares

In terms of IFRS, as presently constituted, any Alexander Forbes shares acquired by underlying asset managers (under a discretionary mandate) and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes' consolidated financial statements as treasury shares. As a result any fair value gains or losses made on the shares, which are economically matched to the policyholder liabilities, are recognised in the group's income statement.

Investment income and taxation payable on behalf of policyholders

The group's tax expense includes both deferred and income taxation payable on behalf of policyholders within the AF investments insurance licensed entity. The recognition of the recovery of this tax expense is included in the group's investment income. The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

NORMALISED INCOME STATEMENT

For the six months ended 30 September

Rm	Normalised Sept 2018	% change	Normalised Sept 2017	Variance %	Normalised Sept 2016
Operating income net of direct expenses	1 908	6	1 799	3	1 748
Operating expenses	(1 461)	10	(1 334)	3	(1 298)
Operating profit before non-trading and capital items	447	(4)	465	3	450
Non-trading and capital items	(317)		(28)		7
Operating profit	130	(70)	437	(4)	457
Net investment income (excluding policyholder investment income)	51		81		35
Share of profit of associate (net of tax)	-		2		3
Profit before taxation	181	(65)	520	5	495
Income tax expense	(194)		(161)		(140)
(Loss)/profit from continuing operations	(13)	>(100)	359	1	355
(Loss)/profit from discontinued operations	(2)		-		110
Attributable (loss)/profit for the period	(15)	>(100)	359	(23)	465
Attributable to non-controlling interest	(3)		(39)		(65)
Normalised (loss)/profit attributable to owners of the company	(18)	>(100)	320	(20)	400
<i>Adjusting items:</i>					
- normalised headline adjusting items	258		6		-
Normalised headline profit attributable to owners of the company	240	(26)	326	(19)	400
Normalised number of shares					
Weighted average number of shares in issue	1 246		1 279		1 279
Weighted average shares held by policyholders classified as treasury shares	9		16		20
Normalised number of shares in issue	1 255		1 295		1 299
Normalised (loss)/earnings per share (cents)	(1.4)		24.7		30.8
Normalised headline earnings per share (cents)	19.2		25.1		30.8

INCOME STATEMENT ITEMS

For the six months ended 30 September

Operating expenses

Rm	Sept 2018	%	Sept 2017
Employee costs	828	3	804
Premises (excluding IFRS adjustment)	135	6	127
IT costs	173	24	139
Professional fees	112	51	74
Insurance costs	33	3	32
Other costs	180	14	158
Normalised operating expenses	1 461	10	1 334
IFRS lease adjustment	5	(50)	10
Operating expenses	1 466	9	1 344

Headline earnings

Rm		Sept 2018	%	Sept 2017
Weighted average number of shares in issue	(million)	1 341	–	1 341
Headline earnings per share	(cents)	16.7	(23)	21.7
Basic (loss)/earnings per share	(cents)	(4.0)	<(100)	22.0
Normalised (loss)/earnings per share	(cents)	(1.4)	<(100)	24.7
Normalised headline earnings per share	(cents)	19.2	(24)	25.1
Actual shares in issue	(million)	1 341	–	1 341
Weighted average shares held by policyholders classified as treasury shares	(million)	(9)		(16)
Weighted average treasury shares	(million)	(87)		(46)
Weighted average number of shares in issue (net of treasury shares)	(million)	1 245	(3)	1 279

Dividends

Cps		Sept 2018	Sept 2017
Headline earnings per share	(cents)	16.7	21.7
Normalised headline earnings per share	(cents)	19.2	25.1
Interim dividend	(cps)	18	18
Dividend cover (on normalised HEPS)		1.1	1.4
LTM dividend yield (2018: (18c interim+24c final)/4.95 share price); (2017: (18c interim+23c final)/6.75 share price)	(%)	8	6

EBITDA

Rm	Actual Sept 2018	Normalised Sept 2018	%	Normalised Sept 2017
Profit before tax	141	181	(65)	520
Add back depreciation and amortisation ¹	90	56		61
Add interest cost of long-term borrowings	29	29		30
Add impairment of intangible assets	287	287		6
EBITDA (including interest received on capital)	547	553	(10)	617

¹. Actual depreciation and amortisation includes the amortisation of intangible assets arising from business combination.

BALANCE SHEET RECON AND ROE

As at 30 September

Balance sheet reconciliation adjusting for policyholder and insurance-related balances

Rm	Sept 2018 IFRS	Adjustment-linked investment policyholders	Adjusted insurance-related balances	Sept 2018 Corporate	Mar 2018 Corporate
Assets under management	307 792	(307 792)	–	–	–
Property, equipment and computer software	294	–	–	294	574
Goodwill and intangible assets	3 394	–	–	3 394	3 428
Financial assets	119	–	–	119	305
Deferred tax asset	180	–	–	180	175
Insurance receivables	1 423	–	(1 423)	–	–
Trade and other receivables	363	–	–	363	299
Cash and cash equivalents	5 884	–	(2 100)	3 784	3 561
Assets classified as held for sale	86	–	–	86	82
Total assets	319 535	(307 792)	(3 523)	8 220	8 424
Liabilities under management	(307 831)	307 831	–	–	–
Borrowings	(719)	–	–	(719)	(719)
Employee benefits	(172)	–	–	(172)	(162)
Deferred tax liabilities	(117)	16	–	(101)	(111)
Finance and operating lease liabilities	(202)	–	–	(202)	(248)
Provisions and deferred income	(410)	–	–	(410)	(304)
Insurance payables	(3 523)	–	3 523	–	–
Trade and other payables	(630)	126	–	(504)	(473)
Liabilities associated with assets held for sale	(16)	–	–	(16)	(14)
Total liabilities	(313 620)	307 973	3 523	(2 124)	(2 031)
Total equity	5 915	181	–	6 096	6 393

Return on equity (ROE)

Rm	Normalised LTM Sept 2018	Normalised LTM Sept 2017	Normalised LTM Mar 2018
Average equity (excluding policyholder treasury shares and share buy-back) ¹	6 309	6 735	6 675
Average tangible net asset value (excluding intangible assets and the related deferred tax)	3 081	2 948	3 172
Profit for the period from continuing operations	355	762	734
– Less attributable to non-controlling interest	(41)	(80)	(77)
Profit from continuing operations attributable to ordinary shareholders	314	682	657
LTM return on equity (normalised)	(%) 5.0	10.1	9.8
LTM return on average capital employed (normalised)	(%) 10.1	15.1	14.1
LTM return on tangible net asset value (normalised)	(%) 10.2	23.1	20.7

¹ The average equity is before deduction of policyholder treasury shares that are held for benefits of policyholders and other third parties who will benefit from the returns as well as shares purchased in terms of a general buy-back.

Alexander Forbes Group Holdings Limited

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