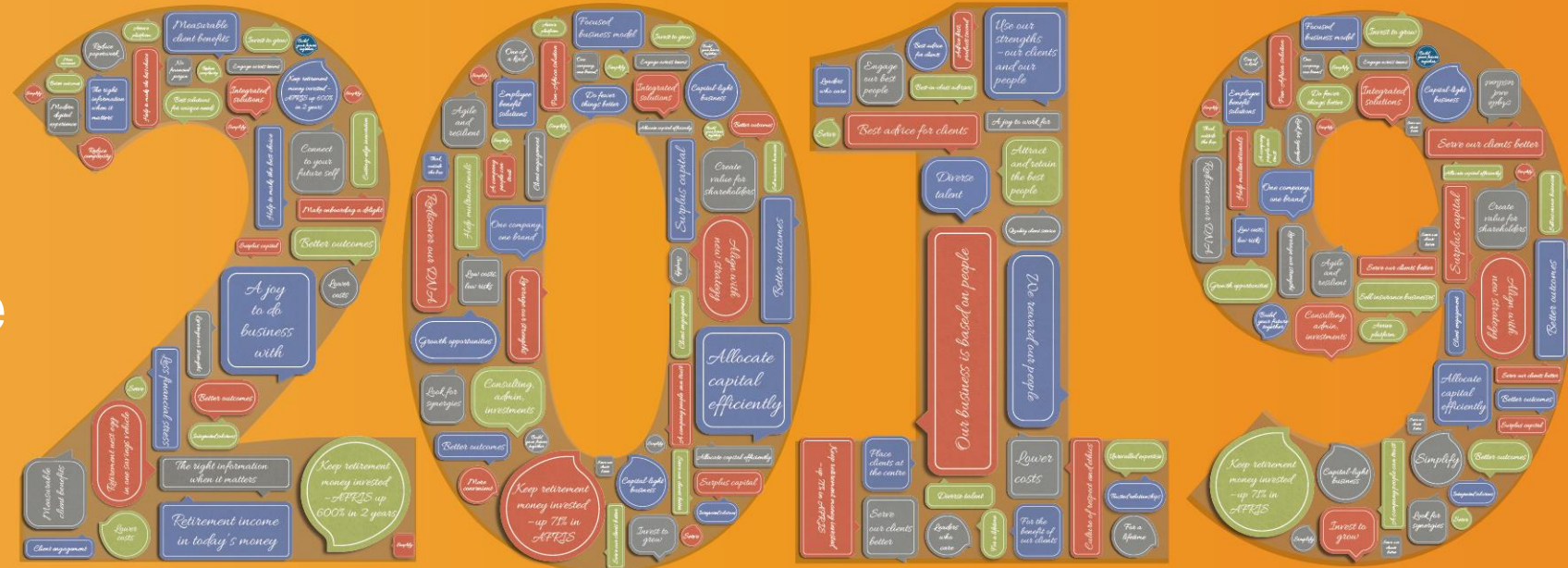


# Annual Results FY2019

## Financial Performance and Strategy Update



Dawie de Villiers  
Chief Executive Officer

Bruce Bydowell  
Chief Financial Officer

18 June 2019

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# AGENDA

1

2019 in  
perspective

2

Business  
review

3

Financial  
review

4

Strategy  
update

5

Concluding  
remarks

# FY2019 IN PERSPECTIVE



# Macroeconomic environment

	Direction	CY 2018	Previous five years
Economic growth	↓	0.8%	1.1%
Business confidence	↓	+37.0	+45.0
Unemployment rate	↑	27.1%	25.8%
Repo rate <sup>1</sup>	↑	6.75%	6.38%
JSE All Share total returns <sup>2</sup>	↓	-8.43%	5.87%

1. The repo rate reached a high of 7.0% between March 2016 and June 2017

2. The price level returns for the JSE All share: -11.37% in 2018 and 3.1% annual average from 2014 to 2018

# FY 2019 in perspective

## A challenging year for the company ....

- Tough operating environment
- Maturing industry and increased competitive pressure for clients and skilled talent
- Increased regulatory requirements
- Leadership changes in the second half of FY2019

## ... but the business demonstrated its resilience

- 6% growth in total operating income
- Client retention through a client-centric culture
- Revised strategy – focused on our core businesses
- Renewed energy and improved employee morale
- Strong cash generation
- Initiated capital reduction journey with special dividend

**Operating income**  
from total operations  
**up 6%**  
to R3 863 million

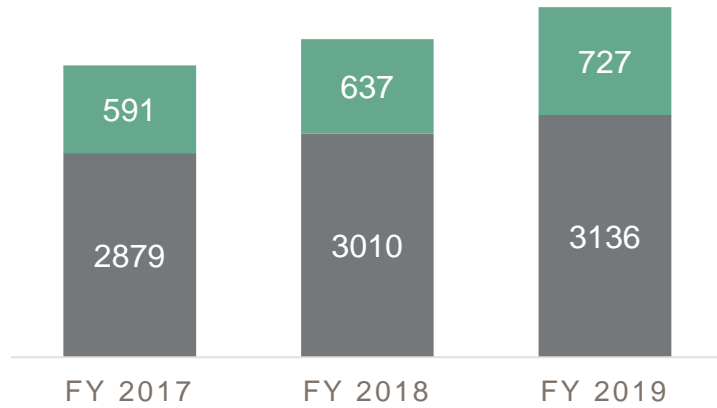
**Profit from operations**  
from total operations  
**down 7%**  
to R915 million

**Cash generated**  
from total operations  
**up 7%**  
to R1 113 million

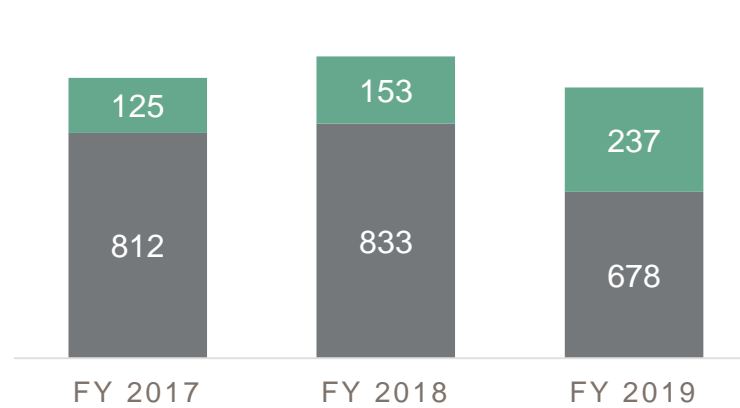
**Total dividend**  
for the year of  
**30 cps**  
**Special dividend 30 cps**

# Company performance

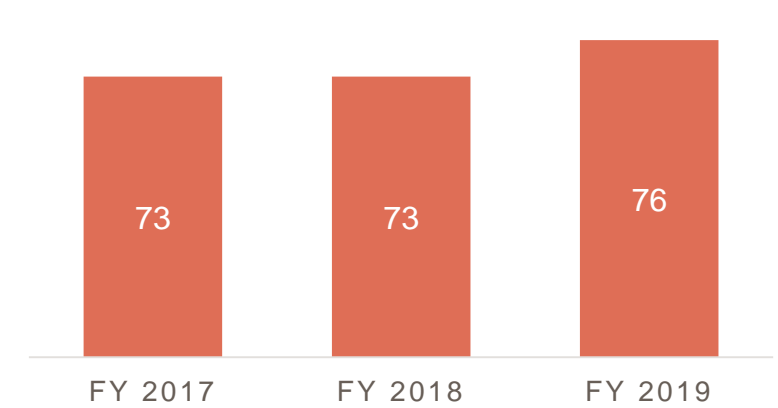
Operating income (Rm)



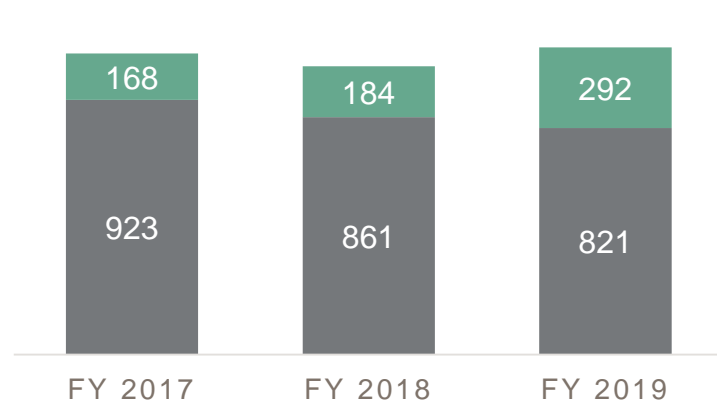
Profit from operations<sup>1</sup> (Rm)



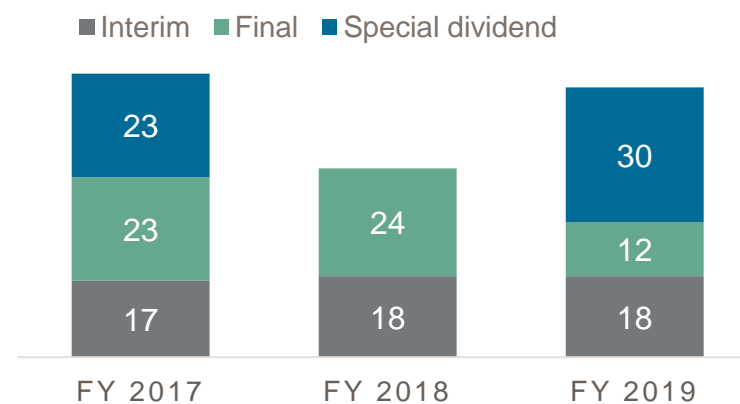
Cost-to-income ratio for total group (%)



Cash flow<sup>2</sup> (Rm)



Dividends (cps)



- Continuing
- Discontinued
- Total operations

1. Operating profit before non-trading and capital items  
 2. Cash generated from continuing operations plus cash flows from operating activities – discontinued operations



# Corporate & employee benefits

## FY2019 performance

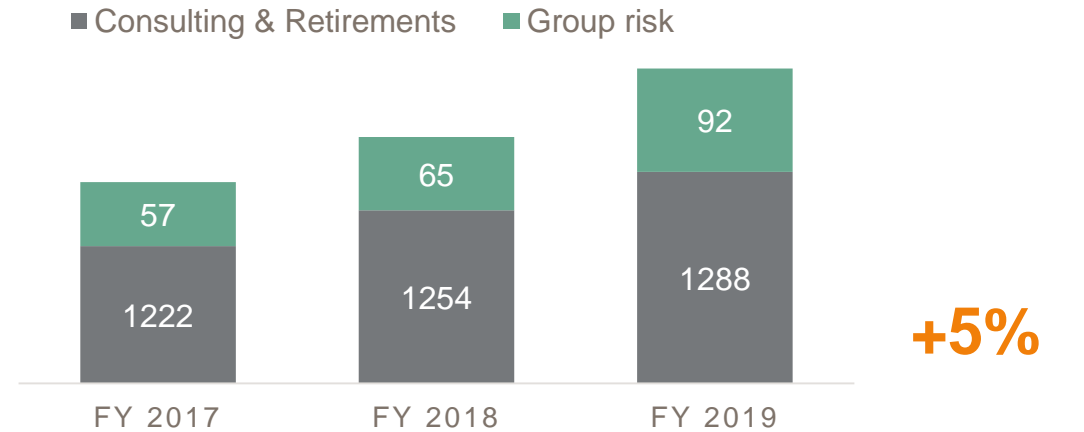
### Consulting & retirements

- Consulting
  - Healthcare consulting: 10% increase in operating income owing to new business wins, annualised impact of new business from prior year and collaboration with strategic partners
  - Consultants and actuaries: operating income up 4%
- Retirements
  - 6% growth in operating income of umbrella fund division
  - >410 000 members and 1 520 employers
  - Umbrella funds AuM<sup>2</sup> up 10% to R81.4 billion
- Profitability adversely impacted by 13% increase in costs
  - Targeted capacity build-up to strengthen the core, IT and shared services costs

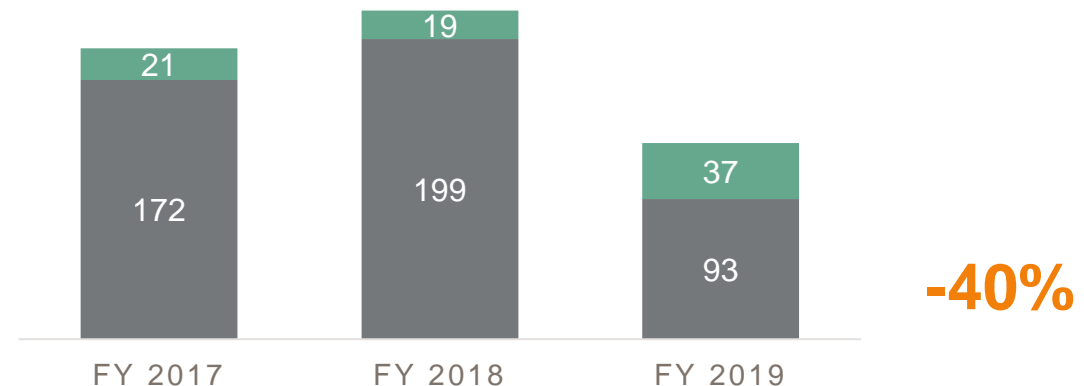
### Discontinued operations: Group risk

- Gross written premium up 19% to R638 million
- Operating income up 42%

## Operating income (Rm)



## Profit from operations<sup>1</sup> (Rm)



1. Profit from operations before share scheme costs, property lease adjustment and non-trading and capital items

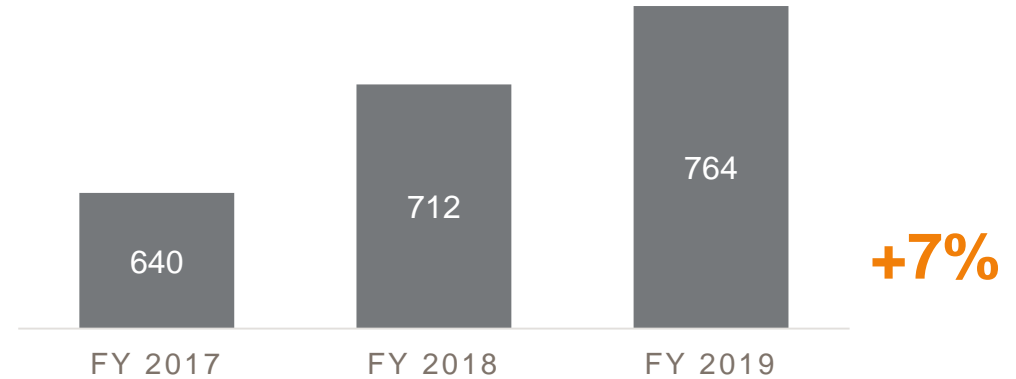
2. Assets under management

# Investments

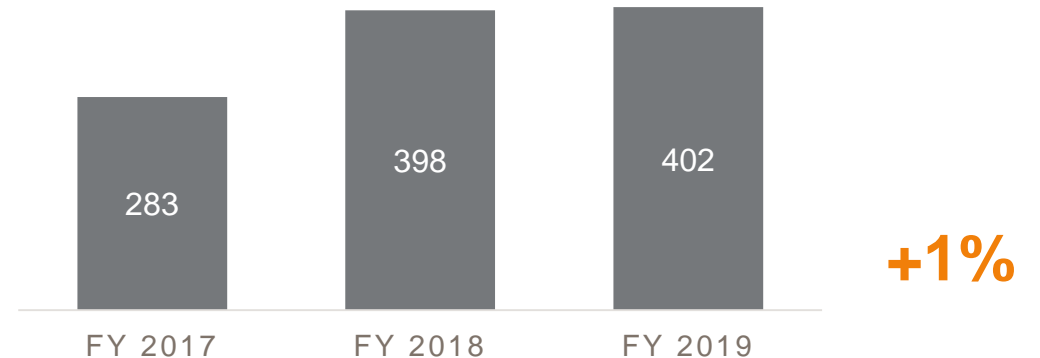
## FY2019 performance

- 7% growth in operating income supported by –
  - Extended product offering and investment strategy including:
    - An enhanced offshore offering in conjunction with Mercer
    - Introduction of alternative asset classes
  
- Institutional AuA<sup>2</sup> and AuM<sup>3</sup> down 4% to R342 billion
  - Impacted by weak new business and client losses
  
- Strong performance from Performer with AuM up 16% to R125 billion
  - Performer ranks in the top 5 performers in the Global Large Manager Watch

## Operating income (Rm)



## Profit from operations<sup>1</sup> (Rm)



1. Profit from operations before share scheme costs, property lease adjustment and non-trading and capital items

2. Assets under administration


3. Assets under management

# Retail

## FY2019 performance

### Wealth and investments

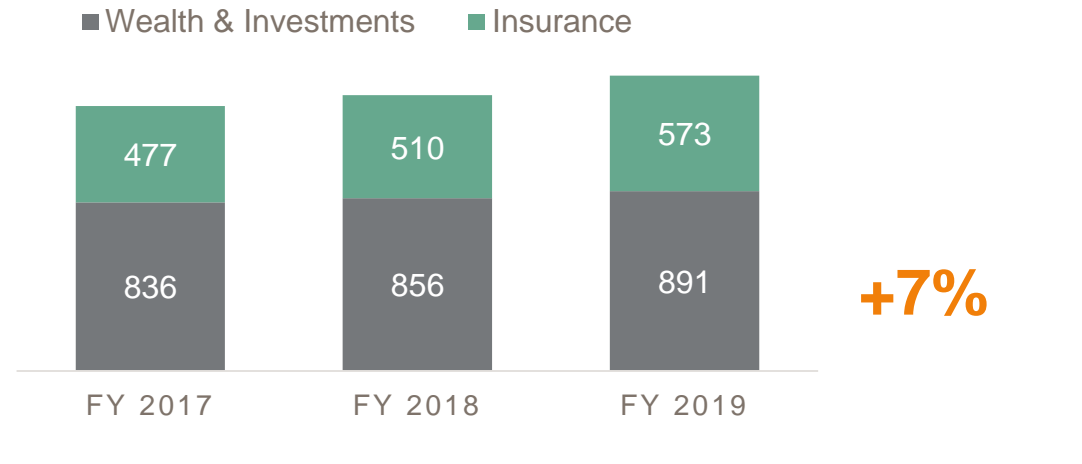
- Assets preserved remained constant at 55% and
- Retention rate improved to 43% from 41%, due to an increase in member outreach interventions
- AFRIS continues to see growth in new business
  - Closing AuA<sup>2</sup> of R2.7 billion at year-end
- 7% increase in closing AuM<sup>3</sup> to R60.6 billion

55% x 43%  
  
 23.7%

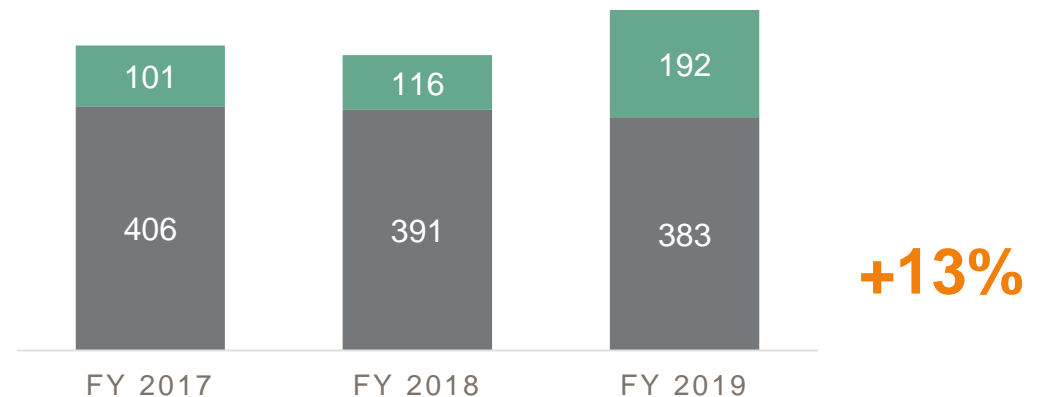
### Discontinued operations: Retail insurance

- Gross written premium (for short-term insurance) up 5% to R1.8 billion
- 13% increase in new business in the motor and household portfolio
- Loss ratio improved to 62.2% from 64.0% due to enhanced underwriting interventions
- Retail Life business placed in run-off from 1 July 2018

## Operating income (Rm)



## Profit from operations<sup>1</sup> (Rm)



1. Profit from operations before share scheme costs, property lease adjustment and non-trading and capital items

2. Assets under administration

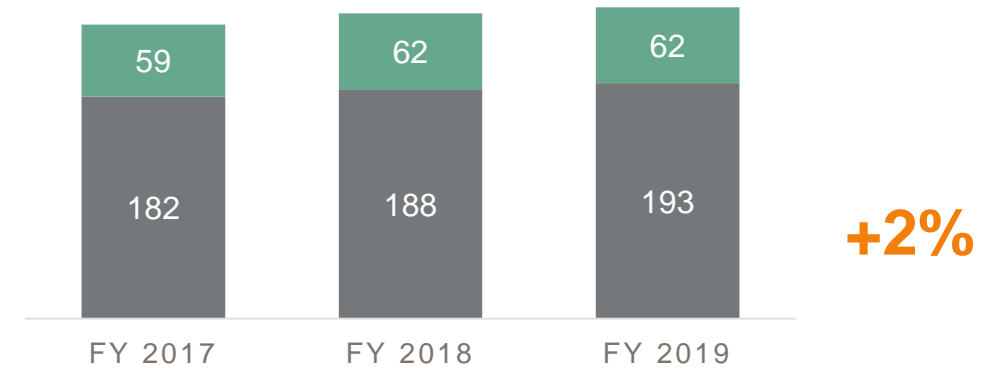
3. Assets under management

# Emerging markets

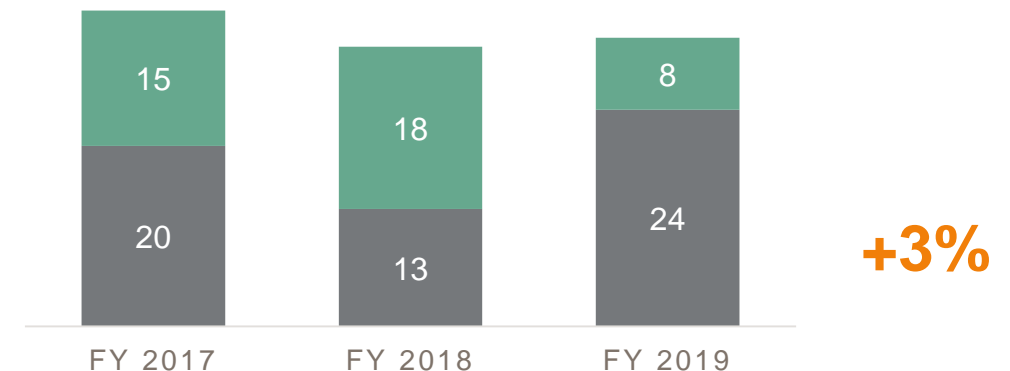
## FY2019 performance

- Operating income up 2%, primarily led by institutional retirements in Botswana from new revenue initiatives
- Namibia's performance remains muted as a result of the continued economic recession and increased competitive environment
- Discontinued operations:** The short-term insurance business in Namibia and sub-scale operations in Uganda and Zambia have been classified as discontinued in this set of results
- Disposed of Kenyan operations in 2H 2019, discontinued in previous years

## Operating income (Rm)



## Profit from operations<sup>1</sup> (Rm)



1. Profit from operations before share scheme costs, property lease adjustment and non-trading and capital items

# FINANCIAL REVIEW



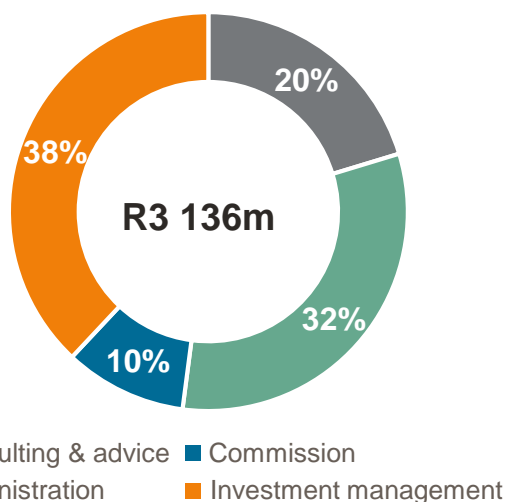
# Operating income and profit from operations

Our current segmental analysis is aligned with the way we operated through the year (includes total operations)

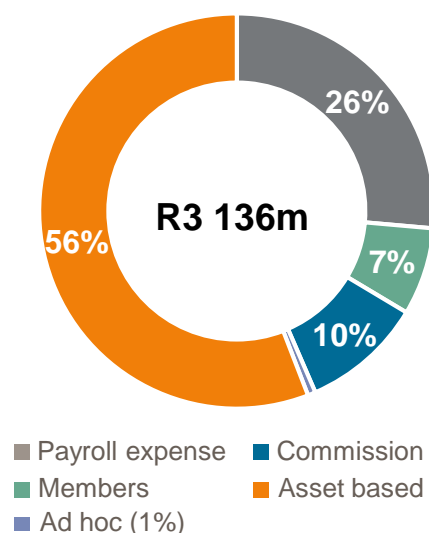
Rm	Operating income			Profit from operations		
	2019	%	2018	2019	%	2018
Continuing operations	3 136	4	3 010	678	(19)	833
Discontinued operations	727	14	637	237	55	153
<b>Total operations</b>	<b>3 863</b>	<b>6</b>	<b>3 647</b>	<b>915</b>	<b>(7)</b>	<b>986</b>

## Disaggregation of operating income (continuing operations)

### By type



### By driver



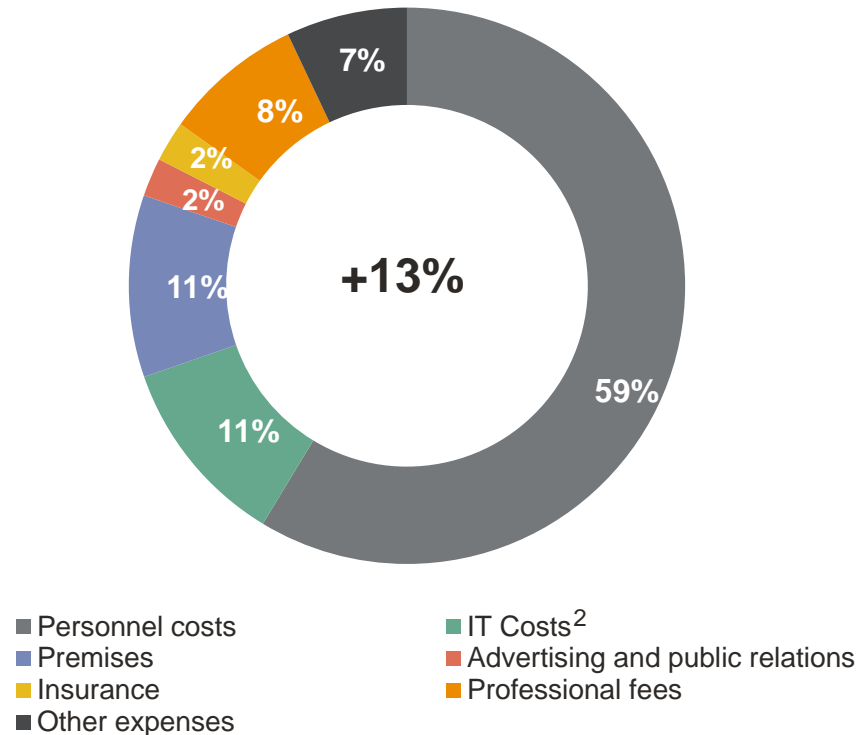
## Analysis of Operating income (net of direct expenses)

- Operating income by “type” reflects the revenue based on services provided
- Operating income by “driver” reflects the basis upon which the fees are calculated
- Retail advice and administration fees are driven by assets under management
- Key dependencies for growth in income are:
  - New business
  - Growth in formal employment & employee payroll inflation
  - Cash flows: contributions, preservation & withdrawals
  - Market growth

# Analysis of operating expenses

The increase in operating expenses is a focus area for management and the revised strategy includes plans to address this

## FY2019 Operating expenses<sup>1</sup>



### Key drivers of expense increase

- R50 million termination cost on IT contract
- 6% increase in total personnel costs
- 25% increase in IT costs
- 40% increase in professional fees
- 56% increase in claims and bad debts

### Management action

- ✓ One-off cost. Focused IT investment in our core going forward
- ✓ Continue to address skills gap, alignment to total rewards philosophy
- ✓ Restructure supplier contracts, reduce reliance on external contractors and reduce number of licences
- ✓ Controlled use of external consultants
- ✓ Operational excellence initiative and target operating model

1. Operating expenses for continuing operations

2. IT costs include maintenance and support costs as well as depreciation and amortisation

# Summary income statement

Rm	2019	%	2018
<b>Profit from operations before non-trading items and capital items</b>	<b>678</b>	(19)	833
Non-trading and capital items	(231)	(45)	(159)
Operating profit	447	(34)	674
Investment income	213	2	208
Finance costs	(89)	(7)	(96)
Profit/(loss) from accounting for policyholder investments in treasury shares	8	>100	(24)
Share of profit of associate (net of tax)	(4)	-	-
<b>Profit before taxation</b>	<b>575</b>	(25)	762
Income tax expense	(259)	-	(260)
<b>Profit for the year from continuing operations</b>	<b>316</b>	(37)	502
Profit/(loss) from discontinued operations (net of tax)	72	>100	(175)
<b>Profit for the year</b>	<b>388</b>	19	327

Increase in non-trading and capital items due to software development assets write off during the year

Effective tax rate at 43% due to non-deductible software write off, unutilised tax losses and disallowed expenses

Profit from discontinued operations includes profit on disposal of Kenyan operations

# Headline earnings and dividend per share

Special dividend declared, in line with the strategic objective to return surplus cash to shareholders

cents	2019	% <sup>1</sup>	2018
Weighted average number of shares in issue (million)	1 237	(3)	1 269
Headline earnings per share	44.0	(1)	44.4
Basic earnings per share	27.0	43	18.9
<b>Normalised headline earnings per share</b>	<b>45.0</b>	<b>(14)</b>	<b>52.4</b>
<b>Interim dividend</b>	<b>18</b>	<b>-</b>	<b>18</b>
<b>Final dividend</b>	<b>12</b>	<b>(50)</b>	<b>24</b>
<b>Special dividend</b>	<b>30</b>	<b>&gt;100</b>	<b>-</b>

Final dividend of 12 cps, taking annual dividend to 30 cps – reverting to a cover of 1.5 times

million	2019
Shares in issue	1 341
Treasury shares	(95)
<b>Normalised weighted average shares</b>	<b>1 246</b>
Policyholder treasury shares	(9)
Weighted average number of shares in issue	1 237

Includes 29.5 million shares repurchased during the year at an average price of 511 cps

# Summarised balance sheet (excl. policyholder balances)

Reduction in equity impacted by software write-off and cash distribution to shareholders

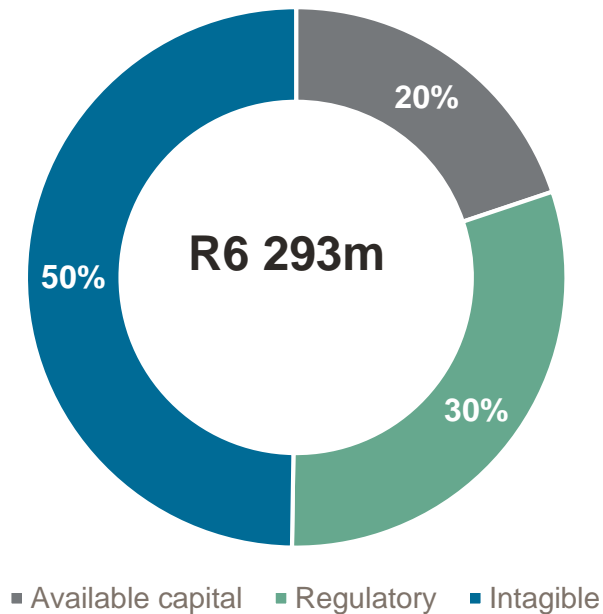
Rm	March 2019	March 2018
Property, equipment and computer software	290	574
Intangible assets (largely arising from PE transaction)	2 860	3 428
Financial assets and associates	132	305
Deferred tax	200	175
Current assets	419	299
Cash and cash equivalents	3 352	3 561
<b>Total assets – continuing operations</b>	<b>7 253</b>	<b>8 342</b>
Assets and disposal groups held for sale	3 500	82
<b>Total Assets</b>	<b>10 753</b>	<b>8 424</b>
Borrowings	(719)	(719)
Long-term liabilities	(813)	(825)
Current liabilities	(443)	(473)
<b>Total liabilities – continuing operations</b>	<b>(1 975)</b>	<b>(2 017)</b>
Liabilities of disposal group held for sale	(2 485)	(14)
<b>Total Liabilities</b>	<b>(4 460)</b>	<b>(2 031)</b>
<b>Equity</b>	<b>(6 293)</b>	<b>(6 393)</b>
<b>Return on average equity (normalised)</b>	<b>5.8%</b>	<b>9.8%</b>

Significant reclassification based on assets and liabilities held for sale

# Our capital journey

Over the next 24 months we plan to reduce surplus capital held in the group and address areas where we have capital trapped

## FY2019 Capital composition



## Management of capital

- Our equity includes intangible assets – 50% of NAV
- Intangible assets relate to PE deal in 2007 – internally generated - does not represent invested capital
- Regulatory capital – based on the prudential standards for Solvency Assessment and Management
- Strategy includes:
  - Distribution of available capital above our solvency cover ratio
  - Maintain target dividend cover of 1.5 to 2.0 times
  - Exit of insurance business to release regulatory capital and intangible value associated
  - Restructure of businesses to reduce inefficient regulatory capital
  - Reduction in capital through distribution
- Future acquisitions to be considered through capital efficient borrowing structures

# STRATEGY UPDATE



# Strategy reset: 'future proofing Alexander Forbes'



## SA macroeconomic environment

- Maintain Alexander Forbes' resilience within the SA macroeconomic environment
- Create agile operation poised for growth



## Mature industry

- Differentiate through best advice in a maturing industry
- Create client value through a client-centric operating model



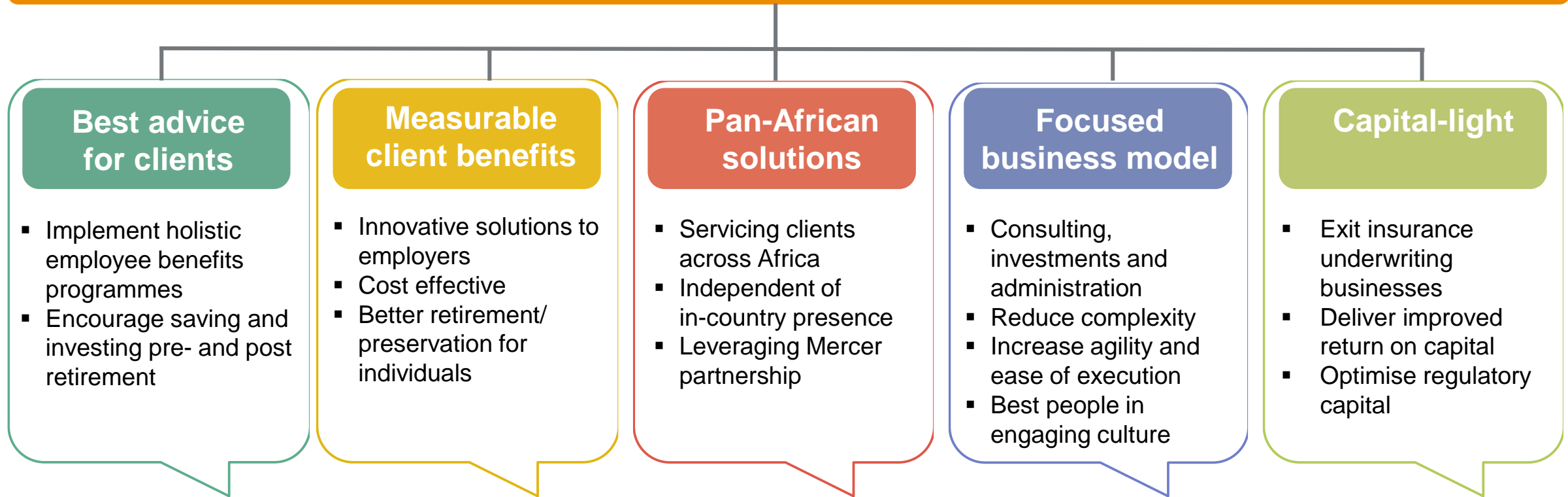
## Internal efficiency

- One client-facing team
- Strengthen talent pool
- Simplify and consolidate to increase efficiency
- Focus on core

**Our value proposition  
providing financial  
well-being and peace of  
mind, underpinned by  
integrated and holistic  
advice throughout your  
life journey**

# Growth vision – five key deliverables

## Opportunity to improve the financial well-being of South Africans



Fundamental change in the way we do business, unlocking growth through an integrated approach that focuses on best advice for our clients

# Best advice for clients

## Project 'red carpet'

**155 000**

Members on-boarded per year

**110 000**

Member resignations per year

**7 000**

Member retirements per year

- **Target:** Move current member experience from 'administrative interventions' to building a partnership based on trust
- **Approach:** Reinvent the member journey along pivotal events like onboarding, resignation, retirements.
- **Status:** Presented to >100 clients, launched pilot with 10 clients in June. 'Go live' roll-out targeted for September 2019

### Our clients have told us...

*'This is both mind boggling and quantum leaping in terms of what needs to happen with onboarding'*

*'We have tried to do bits to improve the process but we are nowhere close to what you have designed'*

### ...and our members have told us

*'These concepts are a game changer'*

*'I didn't even realise how little I knew about retirement planning and my benefits until now'*

# Best advice for clients

## Retirement benefit counselling (RBC)

- Regulatory requirement to provide retirement consulting to members has typically been answered in the industry through low-cost inbound solutions
- We have adopted a **client centric approach** by developing an outbound solution, **customised to the needs and priorities** of our **members**
- **RBC enhanced service** offer on-site retirement consulting with members and proactive consulting at pivotal events during the member retirement journey
- Phase 1 Pilot: presented to 232 clients with 117 signed up

Our clients have told us...

*'Do you believe that our new solutions will improve your financial well-being?'*

**'YES'**

2017  
<30%

**2019**  
**86%**

# Measurable client benefits – AFRIS

## Why AFRIS ?

- **Unique life and legacy solution** developed to allow pension funds to meet obligations under new regulations
- Provides a **simple** and **cost-effective solution for trustees** to meet complex regulatory requirements
- Single set of portfolios consistently priced (at levels similar to that paid by retirement funds)
- Provides **simplicity to members** in making decisions about their retirement savings and ensures **better retirement outcomes** for members

AFRIS  
Retirement  
Annuity  
Fund

AFRIS  
Preservation  
Fund

AFRIS  
Living  
Annuity

## Delivering growth

Delivers leading retirement outcomes to



1 300  
individual clients

Assets under management



R3 billion

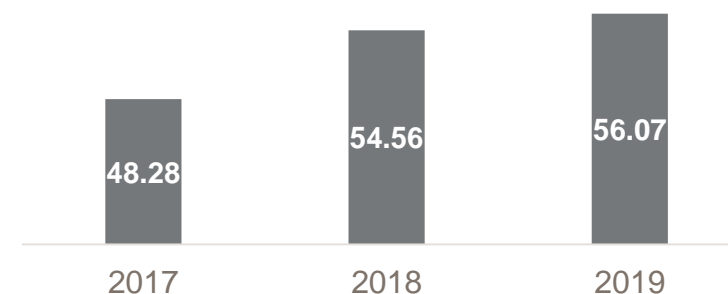
Clients using AFRIS

119



## Improving retirement outcomes

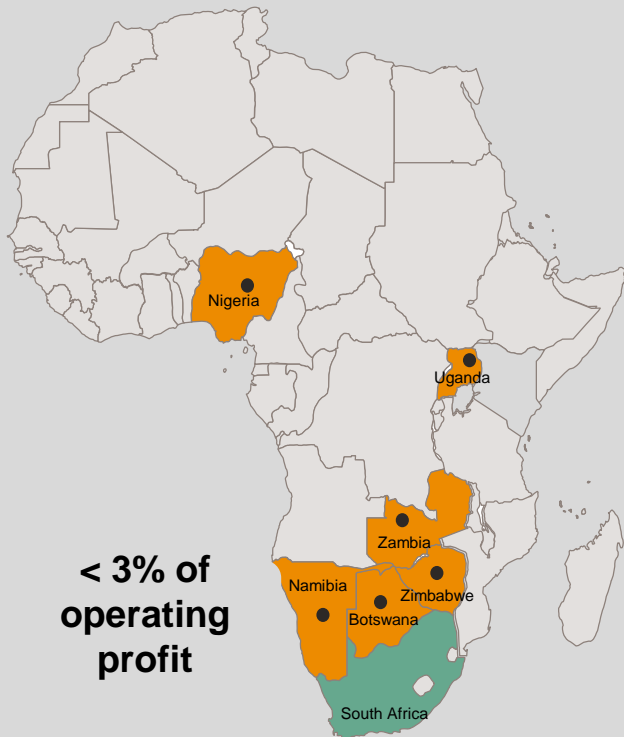
### AFRIS preservation rate (%)



Our data has shown that where funds have adopted AFRIS, member outcomes have improved

# Pan-African solutions

## AF traditional model



## But our clients are asking for...

- Pan-African advice and solutions
- Single point of contact across all pan- African countries
- Pan-African access to experts covering regulation, retirement, health, investments
- In-country insight and knowledge
- Global best in breed

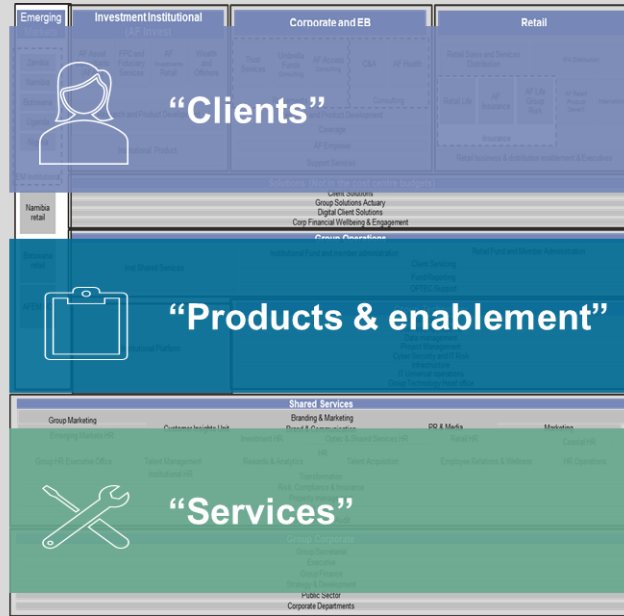
**Opportunity: multinationals with pan-African operations**



Moving from a sub-scaled in-country model towards a client-centric pan-African solutions platform without physical presence

# Focused, integrated business model

## Our new way of working



**1** One jointly orchestrated client-facing team, with divisional experts

**2** A hub for innovative solutions development and product enablement

**3** A joint platform for services, including fund administration and supporting centres of excellence

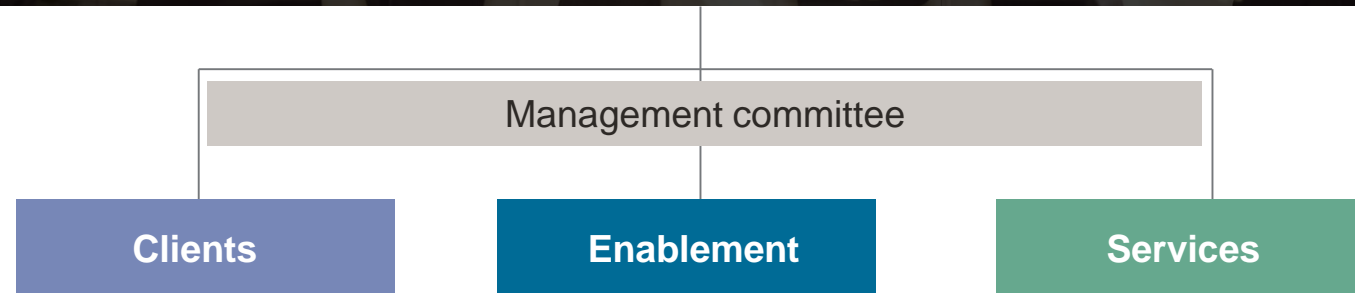
## A simplified, integrated way of working

# The new executive committee and management structure



**Vacant**  
Executive:  
'Services'

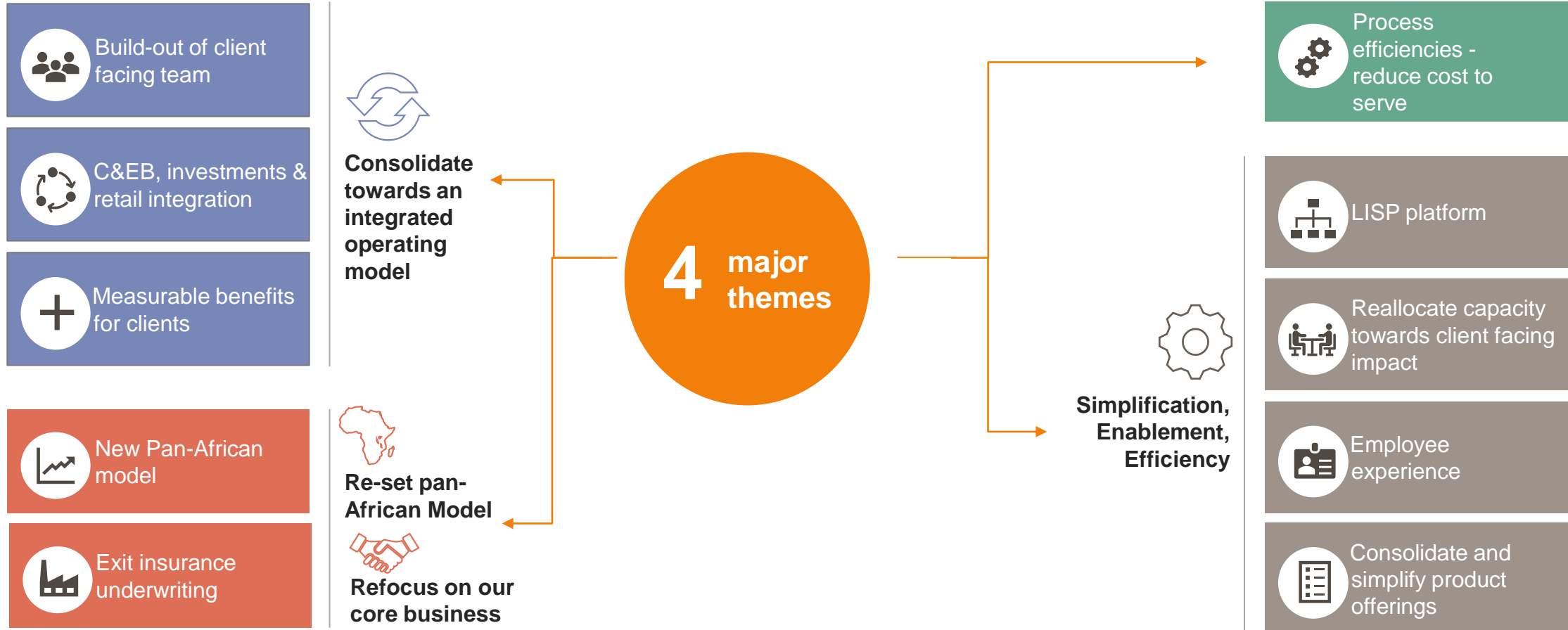
**Vacant**  
Executive:  
'Enablement'



- Starts 1 July 2019
- Immediate impact for our clients

- Managing committees to be place during the 2H FY2020

# Our execution plan





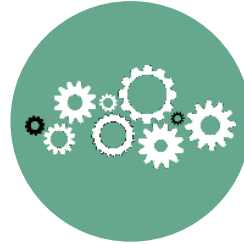
# Measuring our success



## Operating income

*Improving top-line growth  
through core business*

**Target:  
8% – 10%**



## Cost to income

*Operating model to introduce  
efficiencies and improve  
productivity*

**Target:  
<70%**



## Return on equity

*Capital-light model*

**Target:  
>14%**

## Concluding remarks



Provide clients with outstanding service and solutions using our advice-led approach



Expect a stable year where profit growth will be constrained



Correct previous inefficiencies and invest to grow



Continue to address skills gap in certain areas



Poised for growth

## FY2020 focus



Implementation of the integrated operating model



Engaging our best people and improving culture



Disposal of insurance businesses



Client retention and winning new business



Transformation

