

# Annual results presentation

for the year ended 31 March 2020

# FY2020



**ALEXANDERFORBES**  
Securing your financial well-being

**Dawie de Villiers**  
Chief executive officer

**Bruce Bydowell**  
Chief financial officer

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# Agenda

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FY 2020  
in perspective

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Business  
review

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Financial  
review

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Concluding  
remarks





# FY 2020 in perspective

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## 1

### **The whole is greater than the sum of its parts**

From a flock of birds that move in unison to a team of rowers contributing to a team win, the whole is greater than the sum of its parts. This can take place on a small or a large scale and serves as visual inspiration for the Alexander Forbes results report.

We combine and integrate our unique skills, expertise and offerings across Alexander Forbes. This reflects our integrated strategy to achieve one Alexander Forbes, which is beneficial to our clients, employees and shareholders.

# Growth vision – five key deliverables

Opportunity to improve financial well-being

## Best advice for clients

- Implement holistic employee benefits programmes
- Encourage saving and investing pre- and post retirement



## Measurable client benefits

- Innovative solutions to employers
- Cost effective
- Better retirement/preservation for individuals



## Pan-Africa Solutions

- Servicing clients across Africa
- Independent of in-country presence
- Leveraging Mercer partnership



## Focused business model

- Consulting, investments and administration
- Reduce complexity
- Increase agility and ease of execution
- Best people in engaging culture



## Capital-light

- Exit insurance underwriting businesses
- Deliver improved return on capital
- Optimise regulatory capital



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

# Macroeconomic environment

Persistently weak economic environment expected to continue in the medium term

		Q1 CY 2020	CY 2019	5 years
Economic growth (GDP) <sup>1</sup>	▼	-1.9%	0.2%	0.8%
Business confidence index	▼	18.0	25.8	36.1
Unemployment rate <sup>2</sup>	▲	29.1%	29.1%	26.4%
Repo rate <sup>3</sup>	▼	5.25%	6.5%	6.4%
JSE All Share total returns <sup>4</sup>	▼	-21.4%	12.1%	1.7%

1. Real GDP for calendar year 2019

2. Employment rate in Q4 2019

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

4. The price level returns for the JSE All Share: -11.37% in 2018 and 3.1% annual average from 2014 to 2018, 7.2% 2019 to date and -0.75% HY2020 (1 April 2019 – 30 September 2019)

Source: Stats SA, Bloomberg, Trading Economics and Alexander Forbes Investments



# Disciplined execution of strategy

## Salient features

- Disciplined and successful execution of strategy
- Client stability and winning new business
- Simple, focused business
- Implementation of our target operating model
- Delivery on capital-light strategy strengthens balance sheet
- Shareholder reorganisation
- Our response to COVID-19
  - Seamless transition to ‘remote working’
  - New ways of work – productive and engaged workforce
  - Long-term growth prospects

## ...execution of strategy

### Building a market leading integrated advice-led consulting platform

- Client-centric integrated value proposition – being advice led is a key differentiator
- Improvement in client service standards and re-established key client relationships

### Capital-light – significantly improved capital position

- Completed disposal of short-term insurance business in SA – profit on sale R861 million
- Converted underwritten umbrella funds to privately administered – R400 million in capital release
- Completed the disposal of businesses in Uganda and Zambia and signed a binding agreement for the sale of the Namibian short-term insurance business

### Operational efficiency and cost management

- Good expense management, offset by stranded costs
- Embedding operational excellence in our administration, data analysis and reporting to enable better servicing of clients

### People and culture

- Improving employee morale and trust in leadership, 9% increase in employee satisfaction score

Operating income  
up 1% to

**R3 153** million  
(2019: R3 136 million)

Profit from operations  
flat year on year at

**R757** million  
(2019: R754 million)

Cash generated  
remains strong

**R936** million  
(2019: R1 003 million)

Final  
dividend  
of

**12cps**  
(2019: 12 cps)

Special  
dividend  
of

**50cps**  
(2019: 30 cps)

# COVID-19 response

## Pivot point for the business





# Business review

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# 2



# Retirements consulting

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Embedding our consulting approach... adding value for clients

- Operating income down by 4% to R895 million
  - due to weak economy, impact of historical client losses in the previous financial year and one-off change to the structure of the Alexander Forbes umbrella fund
- Signs of success in our renewed consulting approach
  - growth in consulting income and continued client retention with our standalone retirement fund clients
- Decrease in clients at risk
  - key relationships re-established and servicing standards improving

New business wins  
in umbrella funds

**262**

appointments  
across AFRF and  
AF Access ▲

Active  
members in  
umbrella funds

up **3%**

**372 794** ▲

Umbrella fund  
AuM<sup>1</sup>

down **7%** yoy

to **R76** billion ▼

Total number of  
active members<sup>2</sup>

down **3%**

to **914 000** ▼

1. Assets under management

2. Total number of active members across standalone and umbrella funds

# Healthcare consulting

Continued growth in highly competitive environment

- 8% increase in operating income to R289 million
- New business wins in competitive environment demonstrating the success of our client servicing model and integrated value proposition
- Strategic collaborations continue to yield positive results, specifically in sectors where we are under-represented
- The business is well represented at policy and industry level in respect of changing legislation

**23**

**New appointments  
in the year**

**Membership  
stable at  
217 000**

# Investments

Enhanced credibility of our advice process... multi-management approach protects the downside risk

- Operating income up 1% at R1 273 million
- AuA<sup>1</sup> and AuM<sup>2</sup>
  - 9% down year on year owing to negative market performance, mainly in the last quarter of FY 2020
  - total client losses in the current period down to R7.1 billion<sup>3</sup>
- Our funds performed well relative to benchmarks, despite poor market performance
  - 62% of our multi-asset portfolios exceeded their benchmarks
  - Diversification in our portfolio positioning, with maximum offshore exposure and allocations to private markets
- Clients gained across advisory and delegated solutions

AuA and AuM  
to **R310** billion  
down **9%** yoy, owing  
largely owing to March 2020  
performance

New business  
flows of  
**R4.4** billion with a  
further **R3.3** billion  
pending approval

Performer, our  
flagship portfolio  
at **R126** billion  
well positioned in these  
volatile markets

Performer  
consistently ranks  
**1<sup>st</sup>** quartile of  
Alexander Forbes Large  
Manager Watch Survey™

1. Assets under administration

2. Assets under management

3. This compares to outflows from client losses of R36.9 billion in the previous year



# Investments

## Movement in AuA and AuM (2019 vs 2020)



# Individual consulting

## Changing member outcomes and behaviour through AFRIS and retirement benefits counselling

- Operating income up 3% to R442 million
- Decline in the preservation rate<sup>1</sup> to 53% due to prevailing economic conditions
- Retention rate<sup>2</sup> reduced to 23% due to lower preservation rate
- AFRIS, our flagship solution, showing measurable benefits through enhanced savings and retirement outcomes for members
  - Preservation rate for funds adopting AFRIS higher at 57%
  - Retention rate higher at 28%
- Continued focus on changing savings behaviour to enhance member outcomes

**Assets under advice**  
down **7%** yoy  
to **R67 billion**  
(owing largely to March 2020 performance)

**Retention rate**  
for all funds  
at **23%**  
from 24% in the previous comparable period

**AFRIS AuA**  
up **>100%**  
to **R5.9 billion**  
since March 2019

**Retention rate**  
for funds that adopted AFRIS  
at **28%**  
achieving better savings outcomes

1. The percentage value of retirement funds that are transferred to preservation or retirement solutions after an employee resigns or retires from a company  
2. Retention rate refers to the percentage of preserved assets that remain with Alexander Forbes

# Multinational consulting

## De-risked growth potential across pan-Africa through Arrive

- Operating income up 7%
  - performance from Botswana (up 10%), Channel Islands (up 3%), and improved performance from Namibia (up 3%)
  - ARRIVE starting to gain traction:
    - 51 mandates with multinational corporations with operations in Africa since inception
    - 69 broker appointments since inception
- Arrive<sup>1</sup>
  - we are adding value to our clients through data and insights, pooling of risk and consistent treatment for all employees across the continent
  - de-risked growth potential across pan-Africa through Arrive
  - delivery footprint through in-country service provider network in 49 countries across Africa

## Arrive

We are seeing the benefits of a coordinated consulting and service approach across the continent.

Secured mandates with

**38 pan-Africa companies**

and

**28 broker**

appointments  
in SA in FY2020



1. Solutions for clients across Africa through our advice-led platform in collaboration with Mercer

# Financial review

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# Analysis of operating income<sup>1</sup>

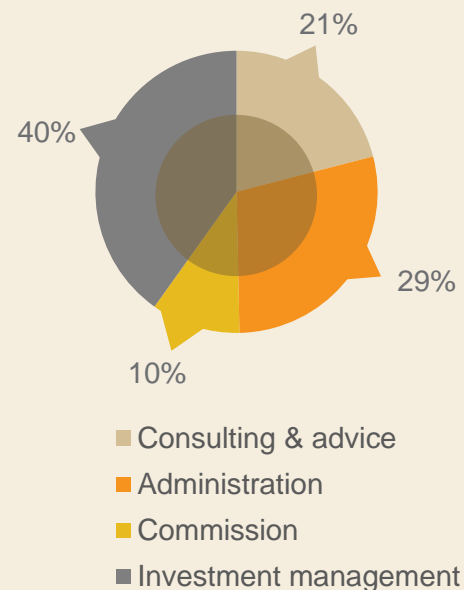
Stable result amid challenging macroeconomic environment

## Operating income

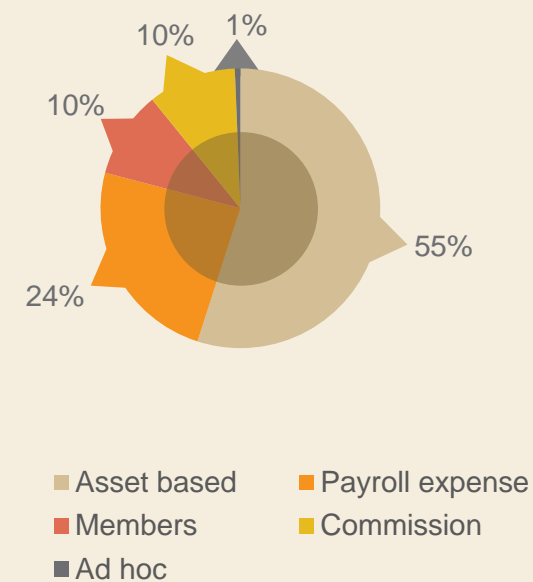
year ending 31 March (R million)	2020	%	2019
Retirements consulting	895	(4)	930
Healthcare consulting	289	8	267
Investments	1 273	1	1 257
Individual consulting	442	3	430
Multinational consulting	254	7	238
Other	--	(100)	14
<b>Total</b>	<b>3 153</b>	<b>1</b>	<b>3 136</b>

## Disaggregation of operating income

By type



By driver



1. Operating income net of direct expenses  
 2. Other income relates to IT services rendered to an external third party. This third party formed part of the group historically and was disposed of in a prior year.

# Analysis of operating expenses

Good expense management in FY2020, offset by stranded costs

## Operating expenses

year ending 31 March (R million)	2020	%	2019
Total personnel costs	1 466	2	1 442
IT costs	380	10	344
Premises	277	6	261
Professional fees	171	(17)	207
Insurance costs	76	21	63
Marketing & communication	79	(15)	93
Claims & bad debts	29	(42)	50
Other expenses	137	-	137
<b>Total adjusted operating expenses</b>	<b>2 615</b>	<b>1</b>	<b>2 597</b>
Penalty cost relating to termination of IT contract	-		50
Recoveries from discontinued operations (stranded costs)	(96)	(50)	(192)
Adjustment for IFRS 16 Leases	(77)	6	(73)
<b>Total</b>	<b>2 442</b>	<b>3</b>	<b>2 382</b>

## Operating expenses

- Well controlled
- Improved claims & bad debts
- Cost-to-income ratio remained flat at 76.0%

## Stranded costs

- Costs allocated from central functions that could not be separated and included in the sale of AF Insurance
- While the stranded cost exposure is being closely managed, this is likely to place pressure on the cost-to-income ratio

# Summary IFRS income statement *(items below profit from operations)*

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Profit from operations flat reflecting muted top-line growth, good expense management offset by stranded costs

year ending 31 March (R million)	2020	%	2019
<b>Profit from operations before non-trading items and capital items</b>	<b>757</b>	-	754
<b>Non-trading and capital items</b>	(1 283)	>100	(231)
Operating (loss)/profit	(526)	(>100)	523
Investment income	155	(27)	213
<b>Finance costs</b>	(143)	(11)	(161)
Profit from accounting for policyholder investments	-	(>100)	8
<b>(Loss)/profit before taxation</b>	<b>(514)</b>	(>100)	583
<b>Income tax expense</b>	(250)	(4)	(261)
<b>(Loss)/profit for the period from continuing operations</b>	<b>(764)</b>	(>100)	322
<b>Profit from discontinued operations (net of tax)</b>	810	>100	68
<b>Profit for the period</b>	<b>46</b>	(88)	390
<i>(Loss)/profit attributable to:</i>			
Owners of the company	(145)	(>100)	336
Non-controlling interest	191	>100	54

▶ Increase owing to the goodwill (R1 145m) and intangible assets write off (R47m) in the current period

▶ Finance costs include the effect of IFRS 16 *Leases*  
Lower interest paid - RCF repaid from the proceeds of the AFI sale

▶ Effective normalised tax rate of 36% due to net exempt income, unutilised tax losses and disallowed expenses

▶ Includes profit of sale of AFI amounting to R861m

▶ Impacted by goodwill write-off at a level above the minority

# Normalised income statement

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## Consistent application in treatment of normalised earnings

year ending 31 March (R million)	IFRS 2020	IFRS lease adj.	Goodwill and intangibles write-off	Amortisation of intangibles	Other <sup>1</sup>	Normalised 2020	%	Normalised 2019
<b>Profit from operations before IFRS lease adjustment and share scheme costs</b>	<b>687</b>	-	-	-	-	<b>687</b>	1	681
Accounting for property lease	77	(77)	-	-	-	-	-	-
Share scheme costs	(7)	-	-	-	-	(7)	-	-
<b>Operating profit before non-trading and capital items</b>	<b>757</b>	(77)	-	-	-	<b>680</b>	-	681
Non-trading and capital items	(1 283)	-	1 192	66	(3)	(28)	(86)	(200)
<b>Operating profit</b>	<b>(526)</b>	(77)	1 192	66	(3)	<b>652</b>	36	481
Investment income	155	-	-	-	3	158	(18)	192
Finance costs	(143)	74	-	-	-	(69)	(22)	(89)
<b>Profit before taxation</b>	<b>(514)</b>	(3)	1 192	66	-	<b>741</b>	27	584
Income tax expense	(250)	1	-	(19)	(2)	(270)	8	(249)
<b>Profit from continuing operations</b>	<b>(764)</b>	(2)	1 192	47	(2)	<b>471</b>	41	335
Profit from discontinued operations	810	(1)	-	-	-	809	>100	69
<b>Profit for the year</b>	<b>46</b>	(3)	1 192	47	(2)	<b>1 280</b>	>100	404
Non-controlling interest	(191)	-	-	-	-	(191)	>100	(54)
<b>Attributable profit for the year</b>	<b>(145)</b>	(3)	1 192	47	(2)	<b>1 089</b>	>100	350
Normalised earnings per share (cents)						88.7	>100	28.3
Normalised headline earnings per share (cents)						38.7	(14)	45.0

1. Other include professional indemnity insurance cell-captive results and reported profit/(loss) arising from accounting for policyholder investment in treasury shares and Investment income and taxation payable on behalf of policyholders



# Analysis of non-trading and capital items

## Increase in non-trading and capital items owing to goodwill and related intangible assets write off

year ending 31 March (R million)	2020	%	2019
<b>Goodwill written off</b>	(1 145)	-	-
<b>Intangible assets written off</b>	(47)	.-	-
Amortisation of intangible assets	(66)	(1)	(67)
Professional indemnity insurance cell-captive result	3	(92)	36
Costs relating to strategic consulting engagement	(3)	(91)	(34)
Software written off	(26)	(83)	(150)
Other non-trading items	1	>100	(16)
<b>Total</b>	<b>(1 283)</b>	<b>&gt;100</b>	<b>(231)</b>

▶ Goodwill write off relates to retirements, healthcare and individual consulting business CGUs, due to a consequence of a subdued economic outlook in light of the prevailing COVID-19 pandemic

▶ Intangible assets includes customer lists and trade names arising from the private reorganisation of the group in 2007

# Discontinued operations

## Profit on sale from AFI of R861 million

year ending 31 March (R million)	2020	%	2019
<b>Profit from operations before non-trading and capital items</b>	144	(39)	237
<i>Loss from operations before non-trading and capital items from previously discontinued operation</i>	(3)	(57)	(7)
<b>Non-trading and capital items</b>	(142)	(5)	(149)
<b>Operating (loss)/profit</b>	<b>(1)</b>	(>100)	81
Net investment income	38	>100	16
Share of net loss of associates (net of income tax)	(7)	75	(4)
<b>Profit before tax</b>	<b>30</b>	(68)	93
Income tax expense	(83)	2	(81)
<b>(Loss)/Profit for the year from discontinued operations</b>	<b>(53)</b>	(>100)	12
<b>Profit on disposal of subsidiaries and associates</b>	863	>100	56
<b>Total profit from discontinued operations</b>	<b>810</b>	>100	68

Decrease due to inclusion of AF Insurance results for 10 months in the current year vs 12 months in the prior year and AF Life underwriting loss

Includes impairment of associate, provision for warranties, goodwill impairment and insurance expense on enhanced transfer values (ETV)

Profit on sale of AFI (R861 million) and other emerging markets disposals (R2 million)

# Headline earnings and dividend per share

Special dividend of 50 cps declared and final dividend of 12 cps share maintaining cover ratio at 1.5 times

year ending 31 March	2020	%	2019
Weighted average number of shares in issue (million)	1 222	(1)	1 237
<b>Headline earnings per share (cents)</b>	35.4	(20)	44.2
Basic (loss)/earnings per share (cents)	(11.8)	(>100)	27.2
<b>Normalised headline earnings per share</b>	<b>38.7</b>	(14)	45.0
<b>Final dividend per share (cents)</b>	<b>12.0</b>	-	12.0
<b>Special dividend per share (cents)</b>	<b>50.0</b>	n/a	30.0

Excludes goodwill write-off and profit on sale

After considering detailed assessment of the potential impact of the COVID-19 pandemic and the significant improvement in the group's solvency and liquidity position

## Calculation of weighted average number of shares

million	2020
Shares in issue	1 310
Treasury shares	(82)
<b>Normalised weighted average shares</b>	<b>1 228</b>
Policyholder treasury shares	(6)
Weighted average number of shares in issue <sup>1</sup>	1 222

1. Net of treasury shares

### Share cancellation

- The group cancelled 53m AFH shares, acquired in previous periods as part of the share buyback programme. These shares were withdrawn on the JSE on 26 August 2019

### African Rainbow Capital (ARC) flip-up

- On 20 January 2017 shareholders approved the transaction that introduced ARC as an empowerment shareholder
  - ARC invested in the African operations by acquiring 10% of Alexander Forbes Limited for a total cash consideration of R753 million
- As part of this transaction, the ARC flip-up took place on 13 May 2020. Issue of 118m shares to ARC – not earnings dilutive


# Cash flow, available cash and balance sheet

Liquidity and solvency position significantly improved, with a regulatory surplus of R2 060 million<sup>1</sup>


Cash generated<sup>2</sup>  
from operations  
remains strong  
at **R936** million




Average tangible net  
asset value (NAV)  
up **13%** ▲  
to **R3 241** million




Average equity  
down **2%** ▼  
to **R5 805** million




Available cash  
resources  
**R 1 599** million



Normalised return on  
tangible NAV  
**33.6%** ▲  
from 12.2% (in March 2019)



Normalised return on  
equity  
**18.8%** ▲  
from 5.9% (in March 2019)

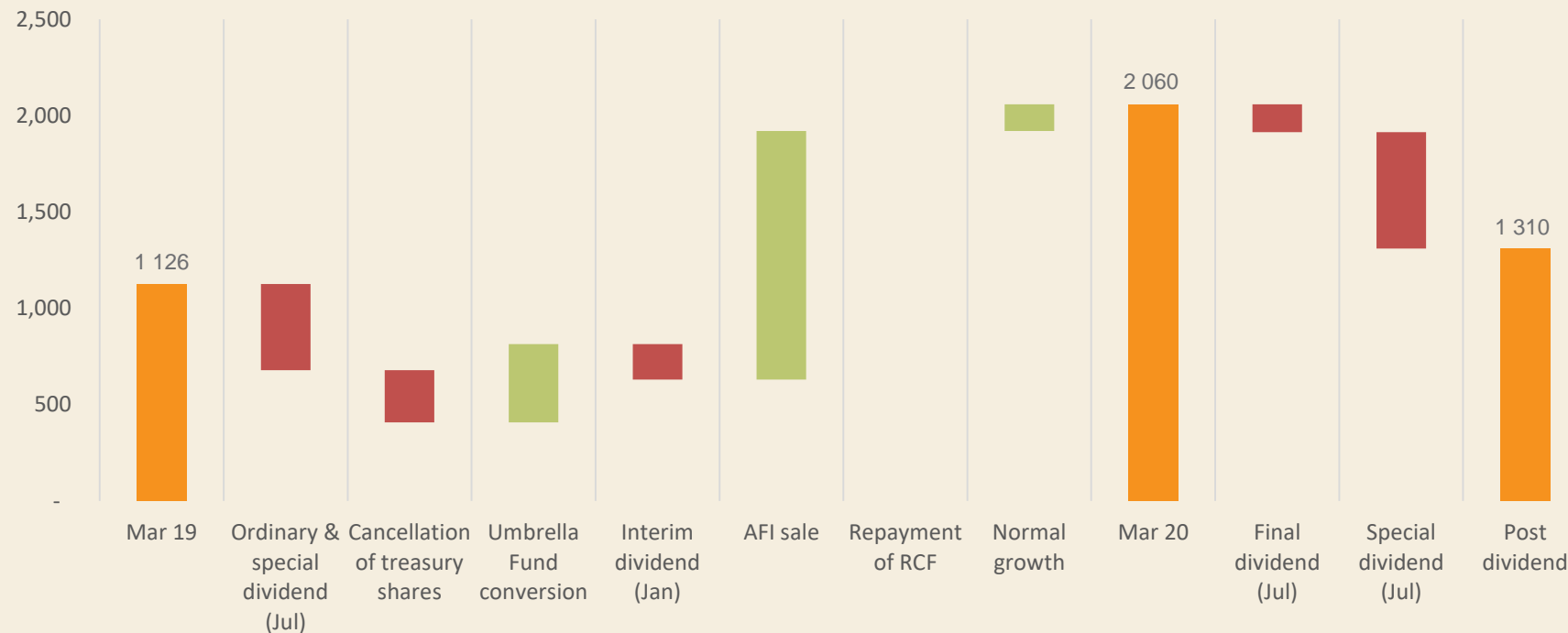


1. Cover ratio of 2.6 times  
2. Cash flow generated from continuing operations

# Delivery on our capital-light strategy

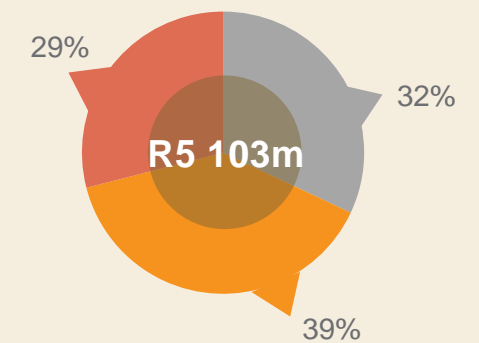
Substantial increase in capital position further strengthening the balance sheet

## Regulatory surplus – Mar 2019 to Mar 2020 (Rm)

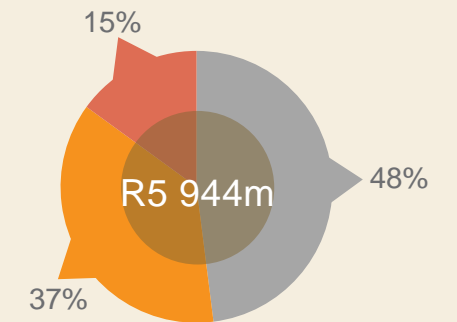


<b>Surplus</b>	1 126	(447)	(271)	406	(184)	1 292	-	138	2 060	(145)	(605)	1 310
<b>Own Funds</b>	2 957	(526)	(319)	(115)	(210)	1 358	-	225	3 370	(165)	(687)	2 518
<b>SCR</b>	1 831	(79)	(48)	(521)	(26)	66	-	87	1 310	(20)	(82)	1 208

## FY 2020



## FY 2019



■ Intangible assets ■ Regulatory capital<sup>1</sup>  
■ Capital allocated

1. Regulatory capital – based on the prudential standards for Solvency Assessment and Management together with applying a cover ratio of 1.5 times in FY2020 and 1.2 times in FY2019

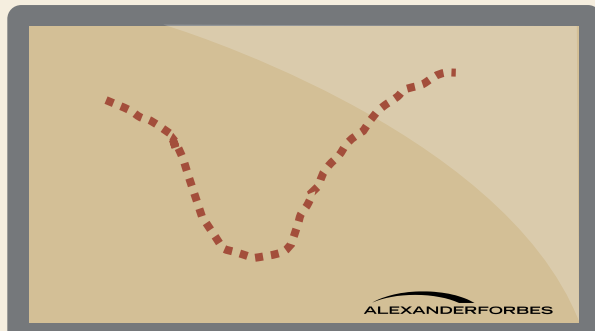
# Initiated out of cycle ORSA

While there is no change to our strategy, the change to the operating environment resulting from the COVID-19 pandemic has necessitated relooking at our priorities

The economic indicators predict a decrease in our operating income of between 3% and 15% for FY2021

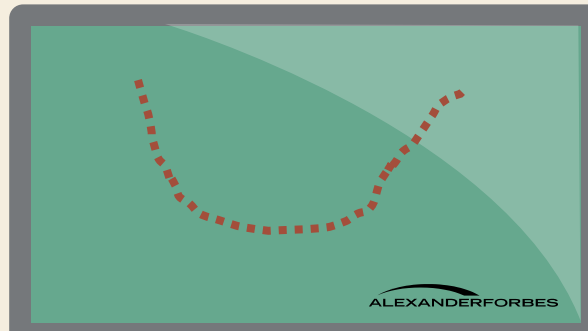
## SCENARIO 1 - unlikely

Expect a reasonably quick recovery, V-shaped recovery



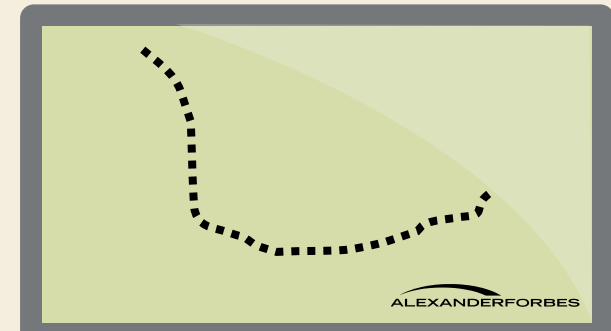
## SCENARIO 2 – highly likely

Expect a slower recovery, U-shaped recovery



## SCENARIO 3 - likely

Expect a very slow recovery, L-shaped



Review of all improvement projects under way, specifically relating to efficiencies and automation

Immediate changes to our planned spending for the year



# Impact on our targets



**Operating income**  
Improving top line  
growth through core  
business

**Target:**  
**8%-10%<sup>1</sup>**  
*to be revised*



**Cost to income**  
Operating model to  
introduce efficiencies  
and improve productivity

**Target:**  
**<70%**



**Return on equity<sup>2</sup>**  
Capital-light  
model

**Target:**  
**>14%**

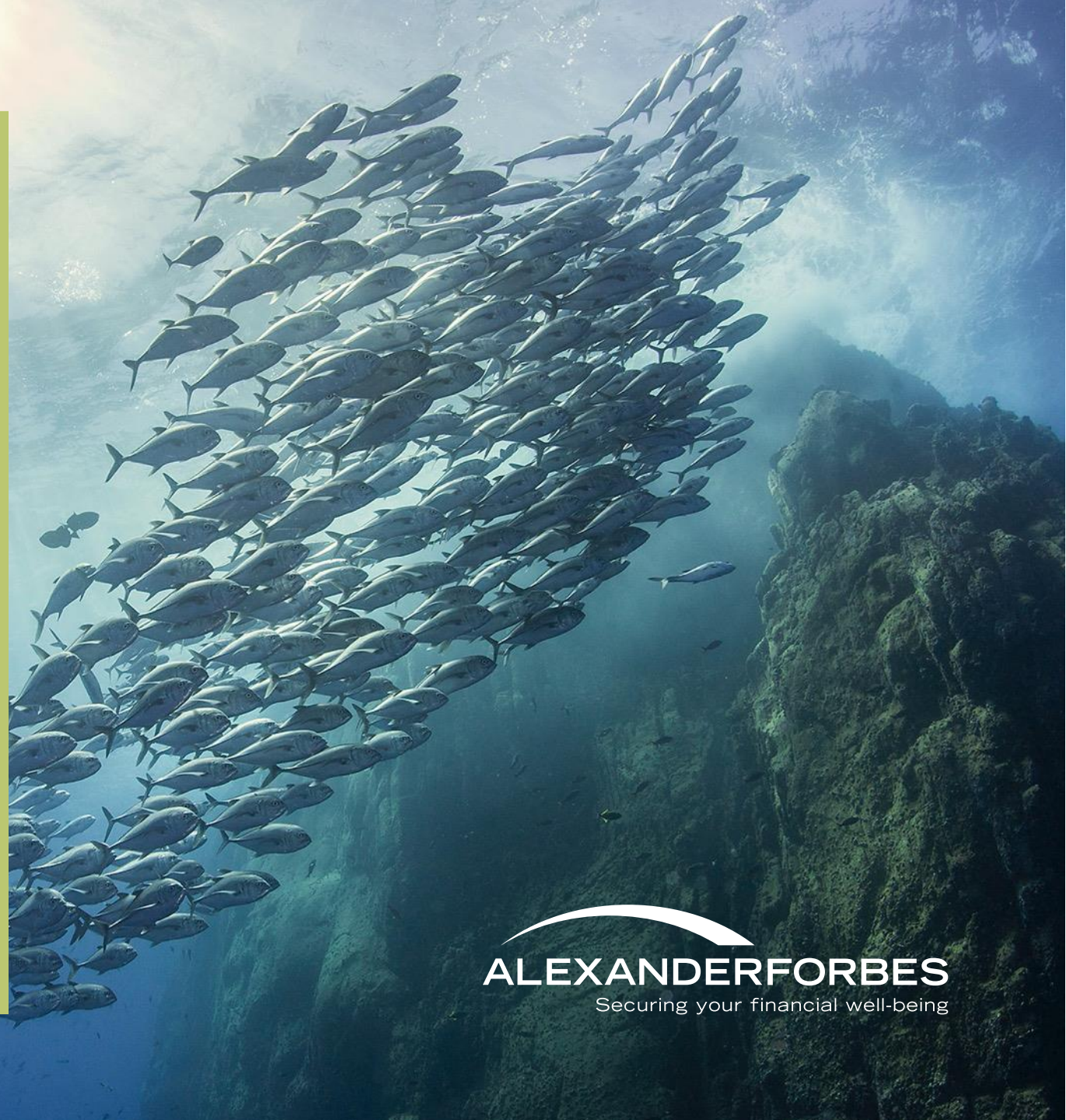
1. 5 year compound annual growth rate

2. Return on equity (including intangible net assets in the calculation of equity value)

# Concluding remarks

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# A year of disciplined execution

## Market leading integrated advice-led value proposition for clients

### Client base stabilised

Key relationships being re-established and service standards improved



### Delivering beneficial outcomes

for our clients and members

New business wins in investments, health consulting and retirements



### Target operating model

Successfully implemented



South African short-term insurance business

**sold**

Significantly improved capital position



### Simplify

Exit non-core

Continued traction in de-risking the business model



### Arrive

platform gaining good traction



### Improving

employee morale and culture



# Our priorities going forward

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Drive Operational Excellence as key principle across the organisation



# Concluding remarks

A year of disciplined execution

FY2020: Solid successful execution of strategy and well positioned for the future

Strong balance sheet a buffer against uncertainty and subdued economic activity

Company took the lead in playing a pivotal partnering role with clients to navigate during these unprecedented times

COVID-19 an opportunity to reposition the company as the market leader for advice-led and client centric solutions



# Thank you



**ALEXANDERFORBES**  
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