

# Discovery Ltd Conference Call With Shareholders And Investors Hosted By UBS Group AG

## Company Participants

- Adrian Gore, Founder, Group Chief Executive & Executive Director
- Deon Marius Viljoen, Group CFO, Financial Director & Director

## Other Participants

- Ann Crotty, Analyst
- Michael Christelis, Director and Insurance Analyst
- Warwick Bam, Head of Research & Research Analyst

## Presentation

### Operator

Good day, everyone. Welcome to the Discovery Management Conference Call hosted by Michael Christelis. My name is Steve. And I'm your event manager. (Operator Instructions) I'd like to advise all parties, this conference is being recorded for replay purposes.

And now, I'd like to hand over to Michael.

### Michael Christelis {BIO 15233664 <GO>}

Yes. Good morning, everybody. Welcome from my side. It's Michael Christelis here, Head of Research at UBS, South Africa. We're delighted today to be able to host senior management from Discovery, Adrian Gore, the CEO; and Deon Viljoen, the CFO, really to discuss 2 topics. Firstly, the leadership changes that were announced on the sent announcement last week on the 28th of November. Then also just to address, I guess, some of the recent directors' dealings and securities in the stock. I think having had lots of incoming questions on these 2 topics, it's great to be able to host both Adrian and Deon. There will also be a short time at the end of the presentation just for some Q&A. I mean if I can ask that you do keep the Q&A specifically to these 2 topics.

With that, I think I'll hand over to Adrian.

### Adrian Gore {BIO 3068929 <GO>}

Michael, thanks for that. And thanks for the opportunity. I'm going to make some comments on the rationale and just the issues around the 3 points that you raised. These reflect the 3 announcements we've made over the last few weeks. And I hope that's

FINAL

Bloomberg Transcript

FINAL

really clear. So maybe just firstly, with the appointment of Jonathan Broomberg, the Head of -- CEO of VitalityHealth International and replacing him in Discovery Health, Ryan Noach, as now our new CEO. Give you a bit of -- just a bit of rationale, I think just to make the point, this is something we planned over probably an 18-month period. The -- there's been a lot of really good progress, I think, in our health businesses. And I think our analysis of the opportunities, we have 3 health businesses in the Discovery Group Health Insurance businesses, Discovery Health in South Africa, Ping An Health in China and VitalityHealth in the U.K.

And our sense of all of them now, I think, are really doing, I think, really well. We're well positioned. All are -- essentially, are leaders in a way in their space. VitalityHealth in the U.K. is smaller, the fourth largest. But I think, qualitatively in our margin, I think, is doing really well. So our analysis has been that the collective experience of those 3 offer a real opportunity to use that collective in a way to penetrate other markets. And so just to make the point, I think, South Africa with Discovery Health has a complete health care system that kind of looks over. It has all kinds of unique challenges, community rating. The U.K. has a different environment, you can risk grade, use AI and very complicated risk factors. But there, you have a more of a top-up market around the national health system. Then China is something very different, the new health insurance market and structured data networks are forming. So there's a lot of learnings in our sense in the group around the 3 of them.

Jonathan Broomberg has been, I think, a brilliant CEO of Discovery Health. And our view is going forward, we see health insurance as a major growth opportunity globally in markets in Asia and elsewhere. As countries become more prosperous, private health care and health insurance tends to grow. And we're seeing that. We're also seeing opportunities with our partners in certain markets and then some just clear open opportunities we believe we can pursue. So the rationale over the last 18 months, as I said, was forming a unit inside the Vitality Group, which should find a very short term, that will really collate all of the skills that in addition to the data analytics we want to start him on that, the systems we have, et cetera, to be able to penetrate these opportunities.

Jonny's role, of course, will be to head up this unit. It will immediately back up Ping An Health. Ping An Health has made tremendous progress over the last few years. The market is getting a bit more complex. It will require a lot more integration between things like Vitality and the health insurance offering. And we think the opportunities evolve. So Jonny's -- referring to his brief, will be to collate all of these skills to back up existing initiatives like Ping An Health. myOwn in Australia, which is a small health insurer that collectively with AIA, we would like to accelerate strongly. So the idea there is a -- is a separate business unit that brings together all of these structures and capabilities and help us maximize the opportunities we currently have and pursue opportunities going forward. It does have to be said that I think the ability to bring these capabilities together, has, I think, been proven well in the context of Ping An Health, we hope to do that in other markets as well.

Ryan Noach is a very, very capable leader. He has been Jonny's deputy in Discovery Health for a number of years. And I said, over 18 months, it's been clear, the glass top is

clear. This has been set up very clearly. He went to the bank so he can help set that up and is due to coming back and taking over from Jonny.

So in terms of VitalityHealth International, Jonny Broomberg's role and Ryan Noach's role of CEO of Discovery Health, this is a well-planned process. We remain optimistic about its potential and excited, obviously, about how it will interact with Ping An Health and offer even more, hopefully, IP transfer and more into that growing business.

If I turn to the U.K., we announced the change of Neville Koopowitz taking over as the overall CEO of the business and announced that Herschel Mayers, who is CEO of Vitality Life, will be stepping down from that role and will remain in the group as a Nonexecutive Director. These are 2 essentially different parts that cross due to the timing. There's been on the Board for us the desire of creating this composite insurer in the U.K., very much like the Discovery model with singular focus on marketing and distribution on the Vitality platform and in both Life & Health, sitting on top of that. The rationale behind that has been a very clear view that the 2 businesses kind of grew up separately. They were both entrepreneurial startups that came out of the joint venture with the Prudential. Both grew organically very strongly. But had very little overlap. The truth is, I think, 1.5% to 2% of the client base, even though the businesses are in common markets actually intersected at all.

So the first issue is that there's a huge opportunity just for overlap in the client base if we could sell more products to both sets of clients. The second is the power of Vitality, it took us some time. But I would tell you that over the last 3 to five years, especially the last two years, the quality of the Vitality program, quality of partners, levels of engagement have been tremendous. And therefore, we've had this very strong view that we would form one composite, one Vitality chassis serving both or more businesses like Vitality Invest creating this composite that could offer a very different value proposition to customers.

Then thirdly, the opportunity to create a different channel to our customers. We look to advisers and ISAs and that has worked very well for us. But there is a very big opportunity to go direct-to-consumer in addition. And our best view is that having one composite with a set of Vitality benefit, that is in fact additive if you have one or more 2 products with us that works to get in an integrated way would offer composite in the minds of the customer that is very different. And we've seen receptivity to that already. So the concept of saying to our customers, if you're with us on Life and Health, we can offer you more value to Vitality because we're managing more of your health and the mortality so there's more economic value to add.

And so over the last 18 months or so, we've had on the -- in the R&D process a composite model that we put together. It's required a complete restructuring of the system. So that's, in fact, the mobile first, all those kinds of journeys catered for all of the businesses inside the Vitality U.K. structure. And that is being developed. I think it's gone very, very well. We've worked with American Express on a credit card that was launched just a few weeks ago around the cash back flexing based on how you manage your health. So the more you manage your health, the more products you have, the higher that cash back becomes. And I think the value proposition is quite remarkable. I think it offers up to 3% or even more % cash back on having our products and managing your health. So really getting this added to the effect of a composite model is what we set out to do.

FINAL

And so the businesses were coming together anyway. Around the same time, as it happened, unfortunately, Herschel Mayers had a health incident that has really made him make a decision to opt out of the executive -- out of all the executive roles and will be staying with the group as a Non-executive Director. So the 2 actually happened coincidentally. I don't see -- of course, Herschel has considerable skills that we will miss. I don't see dramatic saving in it, in that we've had, of course, previous succession for Herschel. They are 2 very strong people, both in Vitality Life and VitalityHealth. We're hiring in some senior people into Vitality Invest. So we have backfilled somewhat. I think we're pretty comfortable with the nature of the leadership. And I do think Neville Koopowitz taking over as overall CEO will facilitate a very fast acceleration into the composite structure.

So in a sense, the composite has been planned for probably two years. Herschel Mayer's role changed, unfortunately due to a health incident that will see him playing a very different role in the group going forward in respect of all the different issues.

Let me then end with making comments about the directors' dealings that actually Michael just -- I'll deal with myself. I mean I think that's obviously something that I'd like to explain and just give you some rationale. So this is just comments from my side to explain why I extended a collar last week and asked the extension of a collar last week and exactly the rationale behind it. Perfect to say that I have had a personal strategy of trying to retain as much shares as possible. I followed all of the rights, I think, that we've ever issued from the get-go of the group. And that is, of course, a very difficult thing given the scale of the organization and the quantum of capital that's required to follow these rights issue.

Market strategy has been a collar approach, wherein I had a floor and kind of a cool strike that I find acceptable. It provides the ability to fund the life issues and the capital requirements in a very efficient basis. It provides the ability to get considerable upside if the collar's wide enough. And I've done this over the last number of years, it would be nothing different in this process. As you will appreciate, these structures typically have a 3; to 5-year period to run. And that's been fairly convenient for me.

In the case of this particular collar, there are a few that I think came together in different times. And to the extent we've got a number of periods in the year where the maturity of these structures and the close period or restriction in dealing those shares tend to coincide. And this was one of them. So one of the large structures was coming to maturity. And I've taken the view that the collar structure, as I said, is the right one for me. Personally, I do find it a very good structure. So I've tried my best to make sure that -- that going forward, I can keep those same kinds of structures.

What happened in this particular case was the existing collar had a, I think, the put price or floor of about ZAR 88 per share. And I think an upside of about ZAR 150, I'm not sure, I don't have this in front of me. So I should be better prepared with the detail. But I'll give you the direction of it. But essentially, it's largely historic, that collar was coming -- was running its course. And in effect, I wanted to create a new collar that would run 3 to five years going forward. And the difficulty is that as we finalize the dealings of that collar, the market conditions actually worsened quite considerably. And in effect, the width of the

Bloomberg Transcript

FINAL

collar that was feasible, in my view, is way too narrow. While the downside of the collar was quite appealing and offered the right kind of structure, I think the upside would limit the growth of the share that I'd be exposed to a compound annual growth rate that was like 15% to 18%. I don't think that, that was acceptable.

So I was faced with a dilemma of locking to a collared structure that has a limited upside. I am obviously -- I think we as a team talk about the business and believe that we have considerable upside. Are there limited upside, or I have to think of another structure? And given the restriction in share trading from the 1st of December, a call had to be made. So my sense was that delaying that decision by extending the existing collar would give me the ability to see how the market played out. And to see, hopefully, over time, the market conditions will be better and I could achieve a wider collar.

It's important to say, in the decision to delay the collar, I have exposed myself to more downside risk in the sense that the existing flow of the collar is quite a bit lower than the new collar would have yielded. But I've done that in the strong conviction that I think the upside potential for me personally that's my view, is better. And therefore, I thought the trade-off of extending the collar and waiting a number of months, would give me the optionality that I desire.

So it's -- just to make the point. So I'll do a bit of both, to make the point. It's a fairly standard structure I've used. I've rolled it over every number of years. I tend to do the same going forward with the structure. And it's simply that, I think, conditions are not ideal, I will do that in a few months' time. And to stress the point, extending it exposes me to more downside, in fact, acceptable upside for the next few months. But I think that I can do better over time as market conditions hopefully do change.

And I'll make one other point before going to questions. I think it's worthwhile saying that the director team or the management team of Discovery is heavily invested in the stock. I don't know this. But I guess one of the most invested leadership teams in the stock. Most of our directors have similarly followed rights and most of them have cycles to their structures that honestly roll over portions of shares that had to be sold to somehow support debt or whatever these structures work. So it is not uncommon over these times to actually see selling of shares. We, of course, don't call that anything. Directors are free to do what they like. In Herschel's case, he did sell some shares. But I mean obviously his role has changed somewhat going forward.

So sorry, some off-the-cuff remarks on the 3 issues. Just maybe summarizing, I think, we're excited about VitalityHealth International doing very strongly. Jonny Broomberg will play a pivotal role in building that, together with the model we've created across many of our partners. Secondly, Ryan Noach, I think, will be an excellent CEO. He's done that role in effect for some time with Jonny. The U.K., we've launched a composite model. I think bringing it together will create efficiencies and more of a composite structure. Then finally, on directors' dealings and my own, to make the point, I've made a personal decision based on optimism and belief in what we're doing. And I hope market conditions do improve. But these are choices I will make as conditions change and I can evaluate them properly. So those are my comments.

Michael, I'll be very happy to take any questions.

## Questions And Answers

### Q - Michael Christelis {BIO 15233664 <GO>}

Sure. I mean, maybe before we open up to Q&A from the audience. If I can start off. I think Jonny has been instrumental, I think, in your businesses through development in the health business. And particularly, in navigating his way through the NHI proposals that have been made over the years, particularly the latest poll that was published as well as the health market inquiry. I mean presumably, Jonny will still be available to the SA business to continue in that kind of capacity in terms of dealing with regulators and the potential that NHI offers. Is that the plan?

### A - Adrian Gore {BIO 3068929 <GO>}

That is the plan. I mean there's a strong regulatory team in Discovery Health. Jonny's role, as I said, is coordinating well. So in fact, there's a bit of a matrix structure. Each of the CEOs will have a dotted line to him. But he will have a specific role in terms of regulation and policy for the group. So Jonny's role in the NHI and all of that stuff will remain as it is, unchanged.

### Q - Michael Christelis {BIO 15233664 <GO>}

All Right. Excellent. Unidentified Speaker, can we see if there's any questions from the audience?

### Operator

(Operator Instructions) And your first question comes from the line of Ann Crotty, Business Day.

### Q - Ann Crotty

Adrian, could you just clarify to me that the extent of your shareholding that you've taken up in the collar, is it 15.6%? Or is it higher?

### A - Adrian Gore {BIO 3068929 <GO>}

Ann, I think, Deon can confirm that it's thereabout. So it's not the material portion of shareholding. It's simply the cumulative amount over time of rights and more than I've accumulated. I think Deon, it's about of that order. I think could you disclose it?

### A - Deon Marius Viljoen {BIO 15316870 <GO>}

It's 12.6 million shares out of a total holding of 50.5 million.

### Q - Ann Crotty

50.5 million. Okay.

**A - Deon Marius Viljoen** {BIO 15316870 <GO>}

5-0, 50.5, 5-0.5 million.

**Q - Ann Crotty**

Yes, yes. Okay. And are there any restrictions on your executives in terms of limiting the exposure, the percentage of the shares in collars?

**A - Adrian Gore** {BIO 3068929 <GO>}

Ann, no, those are decisions that directors, individually will take on, on his own. We don't have policy from our perspective of limiting people. So there are shareholders locking the others in there, they get advice on how they'll structure their affairs. So no. And not from a central perspective, no.

**Operator**

Your next question is from the line of Warwick Bam from Avior Capital.

**Q - Warwick Bam** {BIO 19921967 <GO>}

Maybe if you could just expand on the new VitalityHealth International entity. You mentioned capitalizing on global opportunities. But could you just hone in a little bit more on the type of structure that the opportunities would take. Would you look at equity partnerships, or should I say, equity stakes? Or would you look more at the partnership model that you've got in the life insurance businesses?

**A - Adrian Gore** {BIO 3068929 <GO>}

Warwick, thanks for that. I think there's work to be done. The initial port of call for Jonny and the team he builds will be focusing on the existing structures we have. So Ping An Health, we do think it needs more -- we do think we can add considerable value. And we will continue to do so. So Jonny will be focusing on that. In addition, we have myOwn as I said, it's in a smaller phase with AIA in Australia. So these are equity holdings -- these are equity positions that we've taken. And therefore, that's kind of the structure. But in fact, in Jonny's business plan, there are potential other structures of fees and potential consulting in certain areas. But we would ideally like to create equity structures where we have considerable value creation. So I mean the analysis we've done is that the Vitality Group, as we've extended it with partners, offers considerable opportunities in certain markets. And we hope that some of those can result in equity holdings. There are certain markets where we believe that we can be directly a health insurer and those that we may invest in over time. So these are still and there a few on the -- we have a few, I understand, that we're analyzing. But at the moment, the principal call will be for Jonny to actually to intensify the focus of Ping An Health and Australia.

**Operator**

There are no further audio questions at the moment. (Operator Instructions)

FINAL

Bloomberg Transcript

**Q - Michael Christelis** {BIO 15233664 <GO>}

Great. If there's no additional questions, then I guess what's left here for me to say is, Adrian, thanks very much for your time. I appreciate it. And we'll look forward to engaging, I guess, next year at your results.

**A - Adrian Gore** {BIO 3068929 <GO>}

Michael, thank you. Thanks to everyone. We really appreciate the opportunity.

**A - Deon Marius Viljoen** {BIO 15316870 <GO>}

Thank you.

**Operator**

That concludes your conference call for today. You may now disconnect. Thank you for joining. And have a very good day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript