

# Proposed Acquisition Of An Additional 22.8% Interest In SAHAM Assurance S.A

## Company Participants

- Paul Hanratty, Group Chief Executive Officer

## Other Participants

- Analyst
- Larissa Van Deventer
- Michael Christelis

## Presentation

### Operator

Good day ladies and gentlemen, and welcome to the Sanlam Investor Call. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. (Operator Instructions) Please note that this call is being recorded.

I would now like to turn the conference over to Paul Hanratty. Please go ahead, sir.

### Paul Hanratty {BIO 7445748 <GO>}

Thanks very much. Good afternoon, ladies and gentlemen, and thank you for joining us on this conference call. I'm joined today on this call from Sanlam by Abigail Mukhuba, who is our CFO; Heinie Werth, the CEO for Sanlam Emerging Markets; Lotz Mahlangeni and Grojan [ph] David. And then from Sansam, we are delighted to have with us today Lize Lambrechts, the CEO; and Hennie Nel, the CFO.

Earlier today, we announced our intentions to increase Sanlam's shareholding in SAHAM Assurance Maroc, the leading property and casualty insurance -- insurer in Morocco, and a business, which we have a very strong regard for within our portfolio for the long-term. Through our SAN JV, we are acquiring an additional 22.8% of the issued shares of SAHAM Assurance Maroc from Mr.Said Alj from Sanlam Holdings.

Sanlam has a very strong partnership with Mr.Alj and Sanam, with whom we've been discussing for some time how we might expand our business and distribution in the region in the longer-term through further partnerships, while retaining Mr.Alj's skills and experience. To this end, the parties have agreed to sell the stake in SAHAM Assurance Maroc, so that in the medium to long-term, we can contemplate bringing in further complementary partners, who can help to increase our distribution reach, because we believe that this will further strengthen our position in North and West Africa. The SAN JV,

will therefore increase its shareholding in SAHAM Maroc to 84.5% for a total consideration of MAD1.2 billion, which is around about ZAR2 billion payable in cash on the effective date of the transaction.

Sanlam will fund the transaction using debt facilities, which will initially consist of short-term bridging finance. We will determine the longer-term funding of the transaction in due course once this transaction is finalized and subject to a number of sectors such as market conditions and the closing of potential transactions that Sanlam has already announced to the market. The transaction is subject to certain conditions including approvals from the relevant regulatory authorities in both South Africa and Morocco. We expect the transaction to close immediately after these approvals.

You will know that Santam is a co-investor alongside Sanlam in the SAN JV and Santam is supportive of this transaction. As part of the transaction, Mr.Said Alj of Sanam Holdings will reinvest 50% of the total consideration of the transaction in order to acquire shares in the Sanlam Group on the open market over the next few months and these shares will be held by them for a minimum period of two years. The management team together with the Sanlam Board are delighted by Mr.Alj and Sanlam's decision to reinvest in Sanlam. And we take pride in his vote of confidence regarding our plans to enhance the prospects in the SAHAM Assurance Maroc and the Sanlam Group.

Additionally, Sanam Holdings is chaired and represented by Mr.Said Alj, who will continue to provide Sanlam with strategic economic and commercial advice on matters related to the activities in Morocco in the years to come. This ensures that Sanlam continues to benefit from Sanam's experience and the knowledge of the local Moroccan market.

In summary, this transaction supports our strategy at Sanlam to optimize our pan-African portfolio and to strengthen our position in core markets. We are transitioning and elevating our successful partnership with our Moroccan partner to the Sanlam Group level, while also creating the opportunity for further Partnerships over time. We're acquiring Mr.Alj's stake at a value that we believe is attractive relative to its long-term value. Noting that the listed price of SAHAM Assurance Maroc reflect minority and illiquidity discounts to the fundamental value of the business.

I will now open the call for questions and I'm likely to pass the listeners [ph] to some of the management team.

## Questions And Answers

### Operator

(Question And Answer)

Thank you very much, sir. (Operator Instructions) The first question comes from Michael Christelis from UBS. Please go ahead, Michael.

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

Good afternoon, guys. Thanks for the time. Just a few questions if I can. So, is this a -- an opportunistic transaction? I mean, this has never been flagged as before you've often spoken about wanting to deploy capital need, if you see okay, but never have you mentioned potentially, investing more into Morocco. So, I'm just trying to understand the -- I guess the, events or the almost the rationale for the Sanlam wanted to sell and the strategic rationale for deepening your investment here? That's the first question.

The second question is there any point to this business remaining listed, once you earn more than 80% of virtually, this cost in the future that can maybe, be extracted by delisting the business? And then thirdly, as a sort of question around the earnings is when I look at the earnings of this business, I'm trying to translate them very badly from French to English, that's been obviously very volatile. What do you see as a normalized earnings level that you effectively think you're paying in terms of across earnings multiple for this business. I mean, it looks over the last few years to be anywhere between 13x and 30x earnings. What should we think about in your mind as a normalized level of earnings you're paying for here? Thank you.

**A - Paul Hanratty** {BIO 7445748 <GO>}

Michael, thanks very much for your questions and if we talk a bit that you have the first question and then it would consist of three questions. So, we pay a lot of money on you today. So in answer to your first question, I think we did explain the strategic rationale of this, we've said all along that we would favor investing further in markets in our core markets and strengthening our position. And that moving to new markets was not out of the question in the longer term are certainly not on our radar in the short term. I think you mentioned Egypt and Ethiopia, and I think I've personally been very clear that whilst I don't have any problem with those two markets, I don't envisage anything in the foreseeable future. I think, we've been discussing as I said the opportunity to expand our distribution and I think this does create that opportunity in the medium to longer term.

On your second question about removing minorities, I think technically, you're correct and it's not impossible in the longer-term. But I think you can understand that in a market such as Morocco, the delisting of a stock like that brings with it lots of implications. But certainly, it's something that we would consider where to be viable. And then your third question about normalized earnings. We think that if you, this -- obviously, last year was a very strange year and in our minds, a normalized PE multiple that this transaction implies is a multiple of 12.9.

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

Okay. Great, thanks.

**A - Paul Hanratty** {BIO 7445748 <GO>}

Heinie, do you have any points to this?

**Operator**

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Paul, I think you really to add, Michael. But just to add to what Paul said I think you will understand that Moroccan regulatory referred for the share to be listed and even currently, even before Sanlam are doing this transaction, they do not count the shares of Sanlam Group as part of the free-floating stock in Morocco. So, from Morocco Stock Exchange, they anyway look at the stock as having 15% free float.

Okay. Thank you. (Operator Instructions) The next question comes from Larissa Van Deventer from Barclays. Please go ahead, Larissa.

**Q - Larissa Van Deventer** {BIO 21570130 <GO>}

Thank you. Good afternoon, gentlemen. I also have three actually. The first one, you mentioned in the press release that Sanlam currently, provides strategic economic and commercial advice, could you please give us more insight into the kind of advice that they provide currently and how you see that evolving over time? Pretty obvious question, but why increase the stake if you already control it? Because you already have 62%? And then the last one, is there a particular reason why you're using debt financing and not financing out of excess capital?

**A - Paul Hanratty** {BIO 7445748 <GO>}

Okay. Thanks, Larissa. I -- sorry, I was smiling so much about something you said that I might have missed some of your questions, but we're not only gentlemen on the call, but you can question for the -- any gentlemen on this call, but we've got Abigail and Lize with us as well.

So, I've noticed myself confused, the first question was why would we step up another -- when we already control the stock? I think it's because we view this as a really good investment at -- on these terms and we believe that it's accretive to both earnings and to our group equity value. And it also creates the opportunity for us very importantly, going forward to at some point, sell some of our stakes while still retained and controlled to other potential distribution partners. So that's why we would do it. It's attractive financially and it's attractive, because of the optionality that it gives us strategically.

Your next question was why debt and not excess capital. Well, it's entirely possible that down the line, we could use discretionary capital. Our discretionary capital right now, would not be sufficient to fund this, but I'd take the point that you can also run negative discretionary capital. So that's a slightly sort of technical point. But as far as you probably know, we have very low level of leverage and actually, again financially, right now, it's really attractive for us just to use short-term debt financing and we will put in place a set of arrangements in due course.

You are aware that we've announced the hopefully, sale of our Nucleus business in the UK. So that's just one example of things that we flagged to the market. Sorry, you asked what kind of strategic advice, Mr. Alj in the Sanam Group provided to us. They are very intimately involved in the Moroccan economy, not specifically, in the insurance sector, but I think you'll appreciate this is a market that is far away from us different. And so for us actually, having ongoing advice both about local economic matters, potential distribution

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partners, relationships with brokers is all critically important and we don't envisage that's changing post this transaction. Heinie, is there anything you can -- color you could add to that.

## Operator

No, nothing Paul, thank you so much. You did it well. As you know, we value people on the ground that can continue to help us with advice in addition to management.

Larissa, does that answer all of your questions or do you have any other questions? Hello, Larissa.

## Q - Larissa Van Deventer {BIO 21570130 <GO>}

It does. Thank you. And my apologies again to Lize and Abigail.

## Operator

Thank you, ma'am. The next question is a follow-up question from Michael Christelis from UBS. Please go ahead, sir.

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

Hi guys. Sorry, apologies. I got cut off right at the end of the answering to my earlier question. So apologies, if you already answered this, but just coming back to the rationale for your partner, SAHAM. I mean, was this a case of Sanlam wanting new distribution partners in Morocco, and therefore, you needed to effectively take him out in order to have the ability to negotiate with other partners? Or was it him coming to you saying he'd like to liquidate while still advising to you rather. So, I'm just trying to understand what the I guess the driver of this transaction was whose side it was coming from? If you can, maybe, give me some color on that, appreciate it, apologies again.

## A - Paul Hanratty {BIO 7445748 <GO>}

Michael, I'll ask Heinie to add some color, but basically, Mr.Alj is our partner, but also the Chairman of our board. And so as a matter of course, we have ongoing debates discussions about how to grow and improve the business while the, Alj is also the very well-known businessman. We do think that having in the longer, medium term potentially somebody with a banking franchise and distribution in that space would help us.

So, it's been an evolving discussion and we think that strategically, it's the best outcome for the -- for this company in the long run, but Mr.Alj clearly does not want to lose any -- want to lose all of these exposure and he was therefore very keen to invest into the Sanlam Group, which of course, means that he has some small indirect exposures. But Heinie, is there anything you can add? Because maybe, I don't know --

## Operator

Probably, honestly you've answered very well. I think, as it just came through natural conclusion this way. And I think the important thing, Michael is the confidence that Mr. Alj is showing by reinvesting substantial part of his proceeds in the Sanlam share in the sense that he and that is very open about the ones, who maintained a relationship with Sanlam and he want to continue to be supportive to the Sanlam Group, because he believe in our African story.

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

Was the two-year lock-in requirement of yourselves, or is that something you offered sort of interest?

**A - Paul Hanratty** {BIO 7445748 <GO>}

Well, it's a -- it's a part of the agreements. So, it's like all conditions, either way we think of transactions and agreements as it's a whole agreement. We can't say, which part belongs to him or whose idea it was.

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

All right. Understood. Very clear. Thanks, guys. Appreciate the time.

**Operator**

Thank you. (Operator Instructions) The next question comes from (inaudible) from Ninety One. Please go ahead.

**Q - Analyst**

Hi good afternoon, everyone. Paul, you mentioned that the normalized multiple was 12.9 times earnings. But on 2019 earnings, it's around 13 times, which would suggest that we don't think you can substantially improve the earnings of the business. Is that correct? Because you have guided to certain margin improvements in the business over time? Or am I reading too much into that? So, that's the first question.

And then the second question is the reason for Sanlam delaying the decision dependent on what the capital looks like, because we don't know the extent of the COVID BI claims? That's the second question. Thank you.

**A - Paul Hanratty** {BIO 7445748 <GO>}

Okay. So that's nice to hear from you. Look, I'm obviously not clever like you and Granton, and -- every year, not any. But when I did the multiple wasn't a normal office average of between 2015 and 2019, that's just a factual statement. Certainly, we're very bullish about the business, which is obviously, how we're stepping up our investment and I'd be very surprised if I need to deliver good earnings growth going forward. So, unless I misunderstood your question, I certainly don't take any greed from the price we paid into outlook for growth in earnings.

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And on your second question, yes, it's just -- that factually, it's not necessary for anyone to make any decisions at this point, because we're bridging this -- the financing of this for the short term, and when we come to the end of that period, we'll decide how to fund it. So, it could be equity from Santam and Sanlam could be more debt financing on either or both sides going forward or some combination. So, the fact is that just hasn't reason and you shouldn't take any read through. As far as I am concerned, Santam has an extremely strong capital position, the businesses operate (Technical Difficulty)

## Operator

Ladies and gentlemen, if you could please remain online, we have just lost our main speaker line. If you could please remain online, thank you. Ladies and gentlemen, we have been rejoined by the main speaker. You may proceed, sir.

## A - Paul Hanratty {BIO 7445748 <GO>}

Yes, I'm very sorry about this. I don't think it was our fault, but anyway. I'm not sure if you had the full answer, but if you didn't, I was talking with Lize with our explanation. She wanted to add anything but and I was just saying with Santam currently is in a very strong capital position, and that is trading very well. So, there's -- that has nothing, no bearing at all on this issue. But if you didn't get a full answer with us getting cut off please just let us know.

## Q - Analyst

Sure. I've got one follow-up question. So, I mean given that you want to keep having a local partner in the various entities that Sanlam Group owns, and specifically, related to Morocco. I mean, could I say it is a very high probability that you will sell the stake or a stake to a local, another local distribution partner at some point fairly shortly. Is that people say?

## A - Paul Hanratty {BIO 7445748 <GO>}

No. I think your definition is short and minor, or different I suspect. So we think that this is something that we would -- we have, yeah, we talked about long-term partnerships. So, it's really important for us that we delve out this in a methodical way and then we take time to find the right person. It's also possible that it could be somebody, who services Francophone rather than just Morocco. And so you shouldn't expect anything in the short-term. We've been very clear. This is something you should think about it two to four-year time horizon, doesn't mean something couldn't happen shortly, but that would not be our intention beat to deal with this thing in the medium-term in a sustainable way.

## Q - Analyst

Okay. Thanks very much.

## Operator

Thank you. Paul, we have no further questions in the queue. Do you have any closing comments before we conclude?

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## A - Paul Hanratty {BIO 7445748 <GO>}

No. I just would like to thank you for being as usual a very good host. Thank you very much and thank you everybody on the call, and the most as well as the management team, and Lize and Heinie. So, thank you very much for taking the time and (inaudible).

## Operator

Thank you very much, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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