

Sanlam Ltd Investor Call

Company Participants

- Ian Maxwell Kirk, Group CEO & Executive Director
- Wikus Olivier, Group Executive Finance

Other Participants

- Larissa Van Deventer, Analyst
- Rudi de C  nning, Junior Equity Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Sanlam Limited's Proposed Economic Empowerment Conference Call. (Operator Instructions) Please note that this conference is being recorded.

I would now like to hand the conference over to the Group CEO, Mr. Ian Kirk. Please go ahead, sir.

Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you, Judith. Good afternoon. And thank you for joining us on the investor call today. With me on the call is Wikus Olivier, who's Executive Head, Group Finance; and also Sipho Nkosi, who's our Lead Independent Director and has obviously been actively involved in this whole process now for quite a period of time. And I would have -- I'm sort of assuming that most of you have seen this (trend) and -- I've have seen some of the reports that are out. And -- but let me go through and provide an overview of the proposal and then we'll take questions.

So today we announced a proposal to effect a series of transactions and agreements aimed at strengthening our competitive position in South Africa. And this should be seen alongside the recent completion of our acquisition on the remaining 53% shareholding in SAHAM. And that will position us to drive long-term sustainable value for all our shareholders. So it's not just -- we haven't just been working on Africa. We've also been working on these series of transactions in South Africa over a period of time. And of course, the timing of the capital raise on -- for SAHAM has led -- has worked well.

So there are really 5 key takeaways from today's announcement. First, I think leadership in South Africa, which is what we've strived for in financial services, we define as part of that is leadership in empowerment. And this is also designed to consolidate our position as

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the leading financial services player in the country. And this will really position us for growth. Of course, you're going to go out and do the business that we understand well at SAHAM. But it's how you turn up. And we really positioned our group and also some of our subsidiaries operation businesses for that growth and improve how they turn up, particularly in the institutional market.

Third, the relationship that we've had with Ubuntu-Botho, it's really worked well for us. It's a genuine strategic partnership and it's worked very well. And I think we've now taken this relationship, we've broadened it, we've deepened it, we've taken it to the next level. And all the stuff that we've sort of envisaged when we re-signed the agreement with Ubuntu-Botho in December 2014, which we've worked on is now sort of -- been finalized and announced. I'm not saying there won't be further stuff. There will be further stuff but at least this is a substantial package. And it will give our business additional resilience, particularly in the institutional market.

Then we've always had a culture of prudence and a conservative approach to capital management. Then, of course, this restores our balance sheet flexibility and our optionality. It enables us to repay -- it will enable us to repay down the debt that we had, short-term debt on the SAHAM deal and put our discretionary capital back to the level that we feel comfortable.

And it's all around, of course, finally positioning it -- us to contribute at sustainable value to our shareholders and our stakeholders. I think we've demonstrated that over many, many years. And today's announcement, I think, is all part of that value creation.

Now let's unpack that a little bit further. So the SAHAM transaction -- it means we have the most extensive network of our competitors. And that significantly diversified our earnings base. But of course, SAHAM market is where our engine room is, our IP is there. It makes up approximately 2/3 of our earnings. And of course, that will come down but will remain very substantial into the future. We have to defend. And we have to grow our market share in South Africa. And we've talked openly about 4 areas where we need to get to our leadership positions: third-party asset management, the employee benefits, the health and the entry-level market. And we want to have a stronger position, ideally a leading position in those segments. And all of these transactions are focused on assisting us to close that gap. As I said earlier, it's how you turn up to do the business. Of course, we have to go and do the business and do it profitably for Sanlam. But all of you will be aware that South African institutional clients are increasingly looking at environment not just at the listed company level which is important. But also at the subsidiary level when they award mandates in -- be it in asset management or be it in employee benefits or health care or particularly what we call the corporate cluster and the investment business. And of course, we support all of the reasoning behind transformation and improving economic output and consumption. And of course, that's important for improving business conditions in the country as a whole.

So we're the leaders. It will position us as 18% -- almost 19% direct, 55%, if you can look at direct and indirect. It puts us immediately from a strong level 2 position right up into level 1, which is unique. And that's sort of where we can plan -- trade profitably off that.

So let's go through the various legs of the transaction. I'd say there are 3 legs. But Sanlam really focuses on 2. But I want to just unpack it a little bit. The first leg is the 5 -- what we call the 5% deals and that's too broad-based. 80% of the 5% goes to the broad-based and 20% of the 5% goes to our strategic partner, Ubuntu-Botho, who's been with us since 2004. We use the proceeds of that to settle the short-term debt, it's around \$4 billion, which is where we end up at the SAHAM acquisition. Puts us back to replenish our capital position, we'll talk about that later. Then we will start to put back some funding, 30% into the structure along with one of the banks for new black shareholders.

The second leg is how we reposition the shareholding in the asset management business. And step one of that. And it needs to be seen as step one of that, is to sell down 25% into UBI. And that will give them, in that business, on a see-through basis, over 51%. And they can really play aggressively there on the institutional mandate. And that needs to be seen as partly "it'll represent. You'll see it as part of something further. But it is the first step that was done in terms of that and really attracting top quality black asset management into that business will be the sort of next stage. And we think there'll be some consolidation in that market. So we'll play along with that as well. Then on the -- just to clarify, sorry, on the 5% deal, we're talking about professional black women, rural and urban, poor black women, youth -- black youth groups, black partners of the business and the broad-based groups, community-type organizations and then Sanlam employees, not the ones who are sort of already in the incentive structures mainly sort of the lower level employees. Then -- and the third, last leg of the deal, which is really I think, very important is to provide the facility to UBI ZAR 2 billion. And that will enable them to acquire directly or indirectly interest in our subsidiary. That was envisaged way back in 2014. And that will serve to further their portfolio investments into financial services businesses that are complementary to Sanlam's strategy. And obviously there was, as invested in both, they would encourage businesses to work together, I wish you to understand and that's also the advantage of Sanlam.

And those benefits -- those businesses that we see as being important in this whole initiative is third-party asset management EB, health administration. And entry-level insurance. And Ubuntu-Botho will partner with us in those areas and it'll just help us close the gap in there. The \$2 billion facilities made available on market-related terms, it's available up until the end of December 2020. There'll be exits in tranches as the transactions are rolled out. And we have an independent committee of the board, it's very active -- has been very active in all these deals up to now. And they will approve those transactions on a case-by-case basis. But transactions must support the execution of Sanlam's strategy. And it will ensure that the UB investments go into financial services companies that are complementary to the broader Sanlam Group. Then our intent is also to acquire 25% stake in the portfolio of financial services investments of ARC to make sure that we're properly aligned for the next 10 years or so with Ubuntu-Botho and really broadening, deepening the relationship as we take it forward. And that's just in the financial services side of ARC, not in the others investments.

So in a nutshell, that's the proposal, just in terms of the mechanics of it. And you see -- you'll see that we went for a price range and really, we have -- we're all set to do this deal at a particular price. We thought we have the price all sorted. And obviously of late, there's quite a lot of stock market volatility. And that's really why -- that's why we

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introduced the range. You see in the range that's there, we think it's appropriate. The independent committee of the board in conjunction with UBI will decide obviously, as our partner or our shareholder, decide on the pricing. And the funding and the timing of the transactions, which would be approved based on the prevailing market conditions and the recommendations of some executives. But of course, we have to have shareholder approval prior to moving ahead with that. Then that price range will enable the committee to price and to fund the transaction in a way that balances the interest of the shareholders with the other stakeholders at the time of issue. So if we get approval, we will all set to go, the funding structures are in place. And that's why we (reduced) the 3-day (relapse) and to -- once to facilitate the funding. But obviously that can only be with -- if it's within the range of 74 to 86. We will place the shares of that discount 10% to that 3-day relapse and that's typical for such transaction. And we've given ourselves a long stop date of 30th of June once those conditions are fulfilled. Now obviously, one of the big issues that we deal with is the cost and the dilution to shareholders.

The net IFRS cost is in the order of 0.9%. And that's well below the benchmark of comparable deals we worked from the beginning with guidance from some of our independent committee, which in turn came from guidance from the market we're working within a dilution of 1.3%, which we thought was appropriate. So we're quite pleased that we got in at 0.9%. But we want -- we just want to make the point that having worked through all this stuff, I know Wikus can talk to that. But all through this, it was accounting stuff. We think that's our mistake, the cost of the transactions. And that's why we put in economic cost at a lower level of 0.6%. And we certainly think that over time, the benefits to be derived from the package will certainly outweigh. Plus we demonstrated that before with the deal we did with UB way back in 2004. And obviously, it's up to us to deliver that again.

So in conclusion, just before I hand over for the questions, this was an important strategic move. South Africa is the heart for the business. I think it enhances our long-term sustainability. It really helps us how we show up in the institutional markets, both at the group level and at the operational business level. And I think that's all very good for long-term value creation for shareholders. I think it helps us consolidate and grow in South Africa, where we still have 2/3 of the earnings. And I think, as you see this transaction together with this SAHAM transaction, really, it puts us in a very, very strong position in the continent and diversifies our earning streams. It helps our competitive advantage in the market and in terms of how we leverage the partnership with Ubuntu-Botho. I think level 1 is quite an achievement for Sanlam. 19% direct shareholding over 35% on the FSC calculation really puts us in a strong market-leading position in terms of empowerment. And it will be tough to catch us there. So -- and the beauty about that is, of course, it leverages off the fact that Ubuntu-Botho never sold and they (stayed in with us). And they have no intentions to sell. And I think if you see this strategic package together, you'll see that clearly they're with us for the long term. We think the cost of the transaction at the 0.6% is really at the lower end of the range, certainly compared with comparable economic and BEE transactions that we've seen. And it's up to us to make sure that over the medium to long term, we (keep it) at 0.6% but that's why we've done this. And of course, in terms of our prudent capital management policy, it strengthens our position on the capital side and that's important in terms of ensuring that we can get our returns, along with our dividend payout and the stable current rating. You'll probably see the timetable, it takes us through to the 12th, I think of the 12th of December for the vote. But

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So that's really enough for me, I think. Wikus is here, Sipho is here, I'd like to hand over to questions.

Operator

Q - Rudi de CÃ¶nning

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Q - Rudi de CÃ¶nning

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

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to invest it in both. They would also want that. But that's just on the basis that we do business with Forbes at the moment. It's not our intent on shares.

Q - Rudi de C  ning

Sorry. You're not necessarily your shareholding but more on the SIM investment management and sort of on for Alexander Forbes to invest into the SIM funds, is there any scope for that?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Oh, yes, yes, yes. I mean, of course, we would look to build the business relation. Thank you for clarifying that. We've had many discussions with Forbes over a long period of time in terms of the business relationship. But that's really strictly on an arms-length basis. Forbes will do business in the best interest of Forbes. We will do business in the best interest of Sanlam. We're trying to do as much business as we can with Forbes. And they will do business with us that makes sense for them. I'm glad you clarified that. I was on the wrong track there.

Operator

(Operator Instructions) The next question comes from Larissa Van Deventer of Macquarie.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

Two questions, I suppose. The first one is on the ZAR 2 billion that you -- that goes to the Ubuntu-Botho part of the transaction, you mentioned that 26% of their buying of -- or 25% of their buying of SIM. Can you give us a little bit more detail about the entry-level last market? Then the second question is, would you consider going wider than asset management or life? Or is that where your investment focus is going to be through that vehicle near term?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Okay. So the entry-level life is a new initiative we've been working on for a while. There is. So you know, there's a gap there, we have to close that gap. We think we've got some very clever ideas. And this is part of closing that gap along with the work that Sky is doing, along with Capitec deal and this is a new initiative with a very, very strong black control, management control, shareholding position and new initiatives. I mean we're not really announcing the deal. We have come -- that will come -- the business will announce into the market at the right time. But we're just signaling the type of the areas that we're in. And I think what you need to look with the ZAR 2 billion is to say, okay, the first part will be where they'll invest, for example, as you said, like into the asset management. And to this entry-level life initiative. So the stuff we do together with them. But also you need to see where they will build their portfolio. And you need to think about those 4 areas where we need to, I'd say, close the gap. And they will -- we will obviously be working with them in those areas, employee benefits, third-party asset management, health care and entry-level life. Those are the 4 areas. So you feel to say that's really where the ZAR 2 billion is going to move because we work them together on it.

Operator

(Operator Instructions) Sir, we don't seem to have any further -- we have a follow-up question from Rudi de CÃ¶ning of Prudential Investment Managers.

Q - Rudi de CÃ¶ning

Ian, just a question on that sort of lower last segment. Do you hear any market share being given from Sky to the new African Rainbow Life business?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

It's all complementary. It's the same question we get with Capitec. There has to be but it won't be significant. We try and position these initiatives with as little overlap as possible but accepting that there may be some overlap. But our business is -- it's not like we sit here in the group office and do these deals and we let the Sky people run their own business. The Sky people are absolutely involved in all of these initiatives. And if it doesn't work for Sky, we wouldn't do it. So I would say there'll be very little overlap there. We're moving into the new areas. Wikus, I don't know if you want to add to that.

A - Wikus Olivier {BIO 20074722 <GO>}

Just I agree with that. If you look at Sanlam Sky's (inaudible) now strong. It might mean (inaudible) like marketing, for example, where they struggle to grow. So there are specific areas where there's not that much overlap that the new company can focus on.

Operator

Sir, that does seem to be the last and final question. Do you have any closing comments?

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

No. I mean it's an important day for us. I think we have this vision to be the leading Pan-African financial services group. We have a vision to lead in South Africa. South Africa is our home. I think these transactions are in line with the national agenda. Business needs to invest to rebuild our economy and needs to work with government and labor to do that. We are not -- we're able to support projects, which we will obviously do that. But this is an indication really where we're building out black business in the country and we're improving the position of Sanlam. So we're excited with this. We've been working on it for quite a while. And I think it's going to help us really in how turn up in the institutional market for years to come.

Operator

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

A - Ian Maxwell Kirk {BIO 1778703 <GO>}

Thank you.

Operator

Thank you.

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