



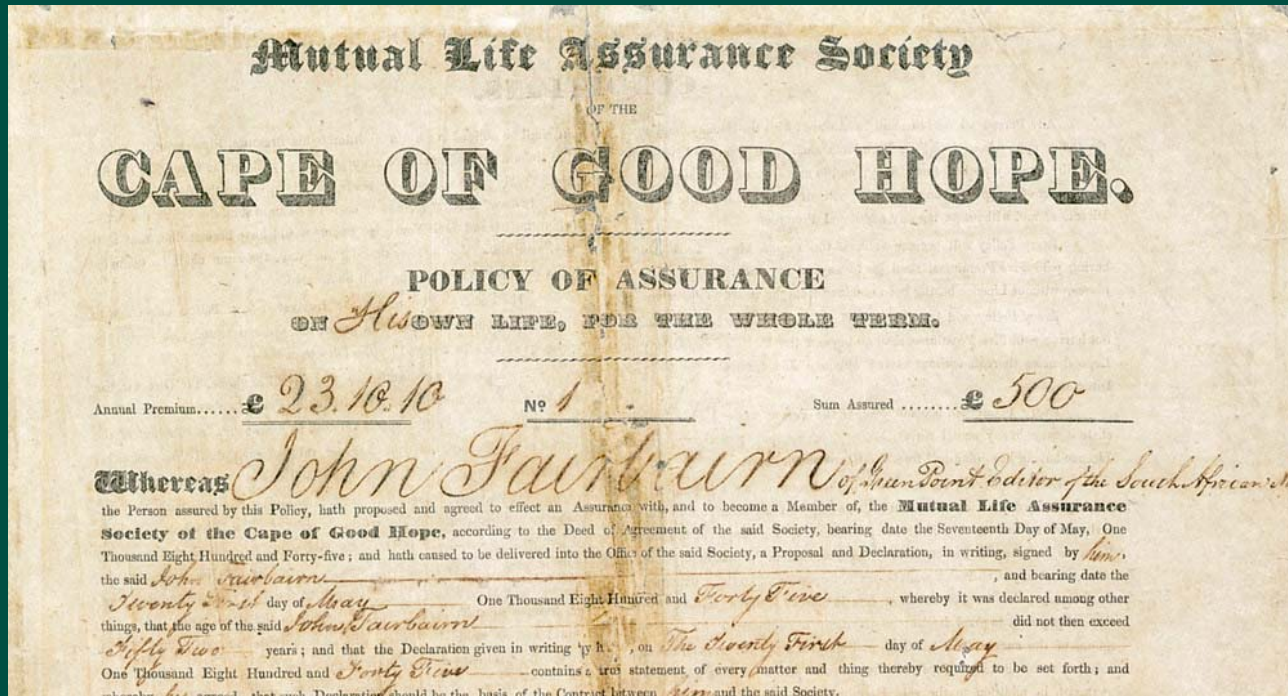
OLD MUTUAL plc

Building and Communicating Shareholder Value

James Poole

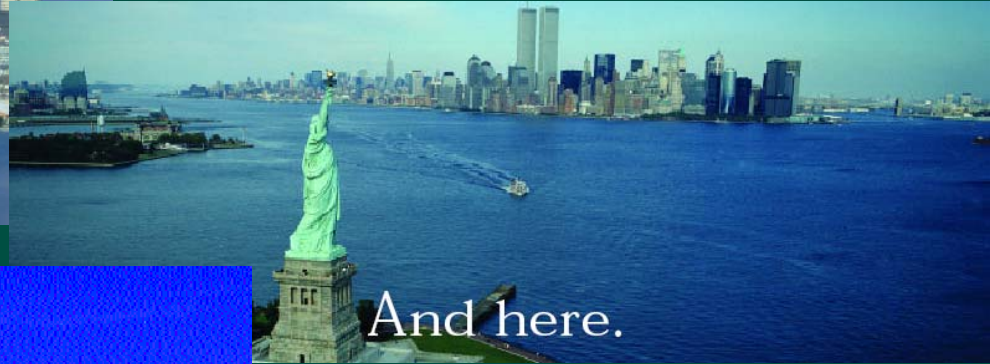
An incredible journey

From the Mutual Society of the Cape of Good Hope ...



An incredible journey

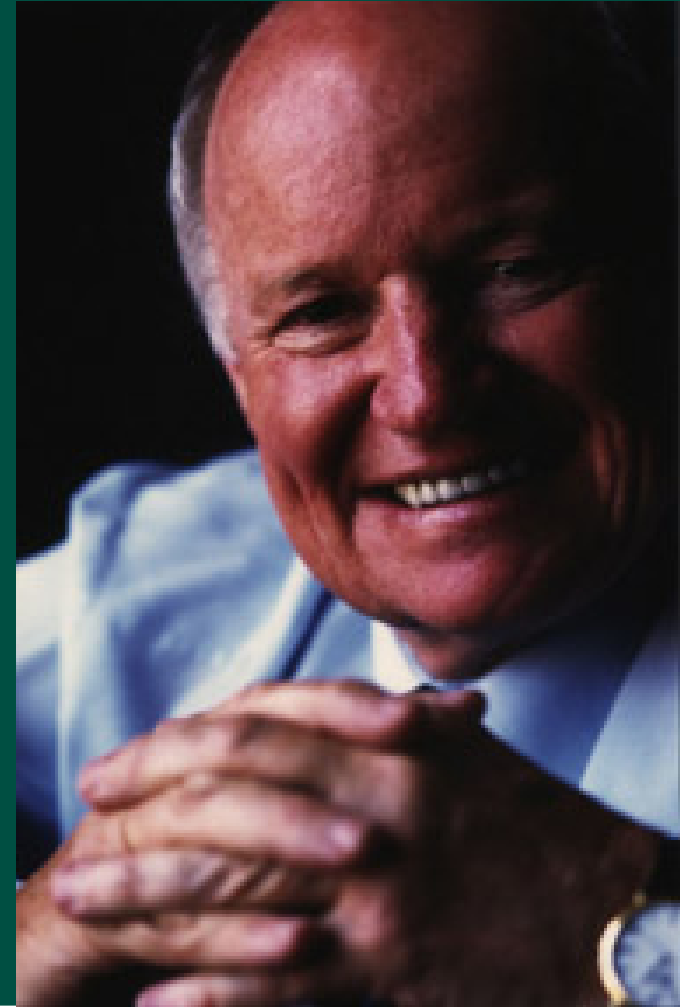
... to a global markets player



Demutualisation changed everything

*"We have one task
and one task only
and that is to deliver
Shareholder Value."*

Michael J. Levett,
IPO; July 12th 1999



How do you set out to create, build, and deliver Shareholder Value?

- The next stage of the journey
- Change the way you do business
 - principally staff *Project 500*
 - price capital properly internally
 - identify activities that destroy value; and,
 - *stop doing them*
- *Communicate*; and get support of investors



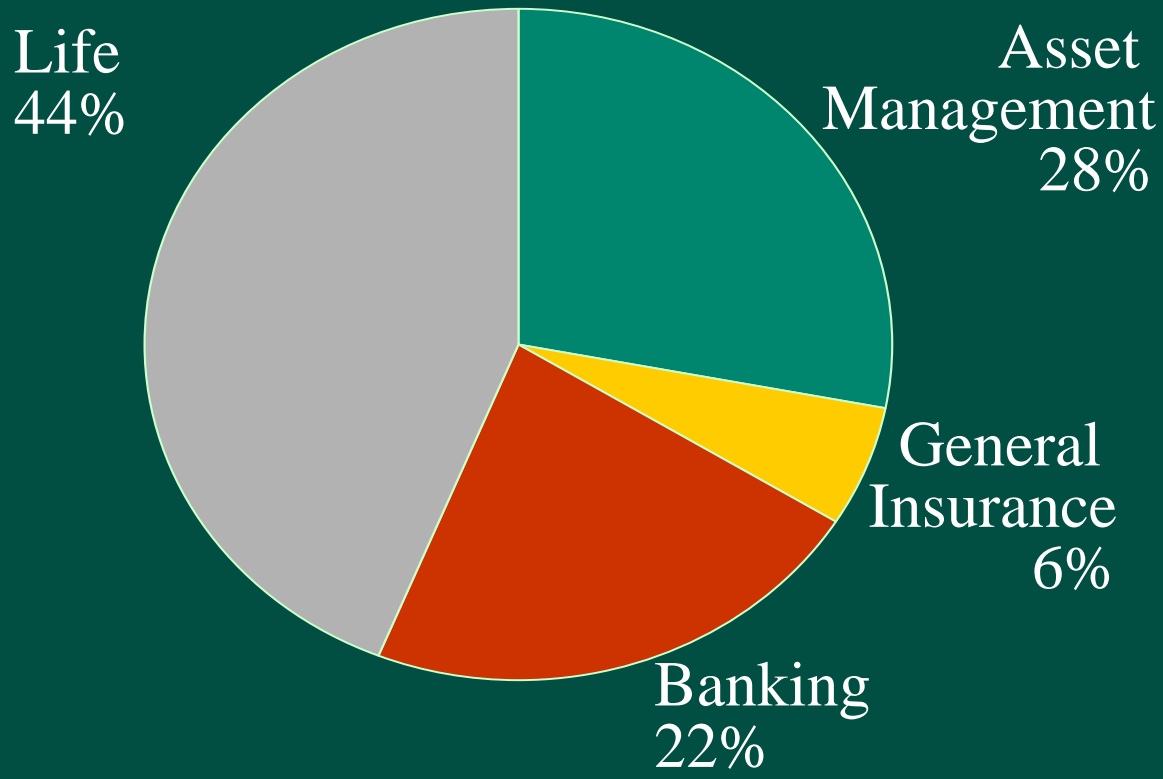
Before we start

A few vital technical issues

- OM set v. high hurdle rates for investment
- 1/3 of earnings ex-Africa by 2005
- FTSE - Life Assurance sector. Eurotop 300, and MSCI
- Life Assurance Company accounting.
- What is EV? *Embedded value; Enterprise Value*
- Dual listing: - Transforming the shareholder base



Split of Operating Profits



Proforma Smoothed operating profit for full year (2000 figures)

Old Mutual's objectives

Set in October 1999

Two broad themes



Optimise the value of Old Mutual's position and assets in South Africa

- Improve returns in Old Mutual's core life and wealth accumulation businesses
 - Target high growth/margin segments
 - Contain costs
- Support consolidation
 - Nedcor
 - M & F
- Use capital more effectively
 - M & F and Life Businesses

Grow related businesses in selected markets overseas

- Extend international capability to support South African businesses
 - Offshore funds
- Further develop asset management businesses
 - Add-ons to CCS, OMAM
- Exploit distinctive capabilities
 - In low income/developing markets

Scorecard

What has Old Mutual achieved to date?

Two poles of development



Optimise the value of Old Mutual's position and assets in South Africa

- **world-class benchmark Life margins**
- Internationalised OMAM's reputation
- Business segments; new products
- Project 500 + platform transformation
- Support consolidation
 - Nedcor
 - M & F
- Capital allocated, controlled, enhanced returns to shareholders -

Grow in selected markets overseas

- Two major asset management additions Europe and USA
- Life assurance in UK and USA
- Private Banking; Offshore funds in Far East, SA, Europe
- OMAM SA, UK and SA; Wealth Management segment
- Credit rating access to low cost capital
- India sub continent developed to exploit distinctive capabilities in developing markets

The Vision thing:

- What's the big idea?
- *Siyakhula*
- Benchmarks
- The acid test



Creating an Investment Case

What are the value drivers?

- South Africa remains the core market - what is the Growth Story
 - The Rand - impact on the international investor
 - Can OM minimise SA risk?
 - Optimising costs and capital profile (gearing)
 - Getting value from acquisitions
 - Asset gathering - asset management - the savings boom
 - Performance, Markets and Margins
-



What are the Investor's Objectives?

- Purely domestic - SA, UK, Zim etc.
- Emerging Market Growth; E.M. Value
- Speculative
- Trackers and other passive
- Global Value; global growth
- Stock specific



International Investor's Rate:-

- Geographical Diversification
 - Western Europe, US, Emerging Market
 - Scale and Risk - Large Caps
 - Growth vs Value
 - Key tests:
 - Management
 - Cash Flow
 - earnings growth
 - ROE / ROI
 - Transparency
-



Investor Communications

Only 1 in 20 do not want conference call meetings

7/8 want to see “whites of their eyes” in face-to-face meetings

One half regard the website as first call for company information

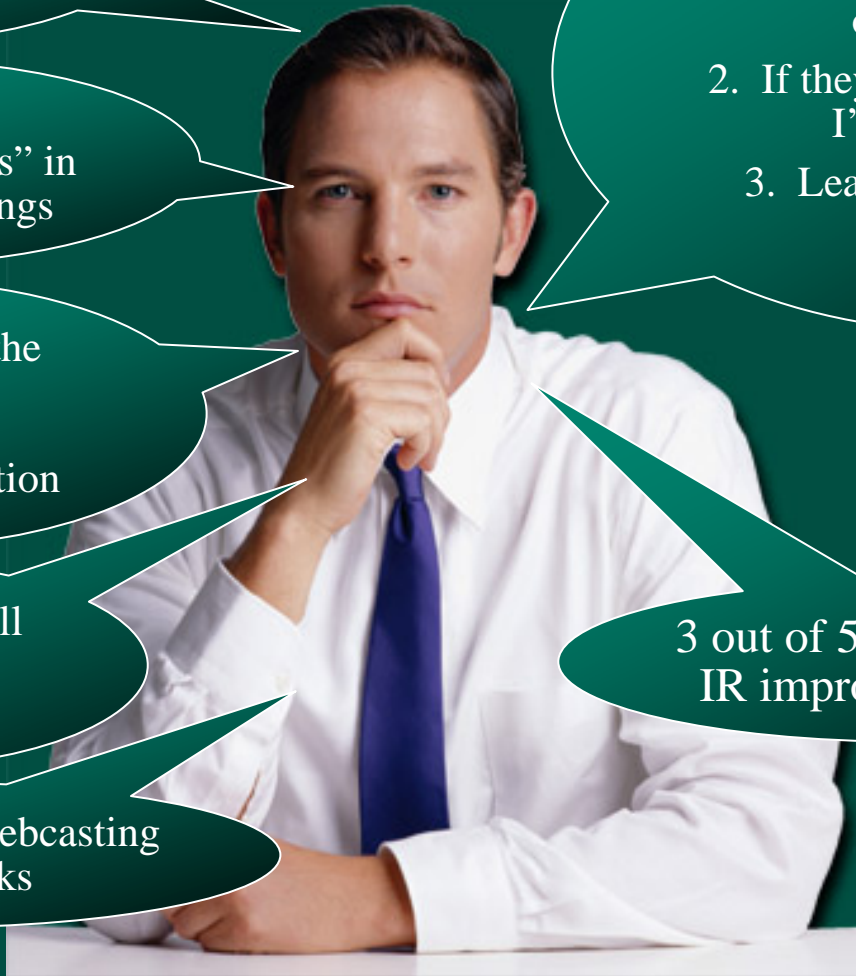
3/4 want to get all documents by e-mail only

7 out of 10 have webcasting at their desks

All say:

1. The volume of information is overwhelming
2. If they don't return my calls I'll sell the stock
3. Leave a message on my voicemail

3 out of 5 say Corporate IR improved last year



Talking to the International Investor

- Three-quarters prefer e-mail
or use the corporate website for direct communication
 - Effective IR
 - Open Research universe
 - Negatives:
 - Insufficient disclosure
 - Executive access limited
 - time zone problems
 - lack of business visibility
 - lack of segmental data
 - lack of quarterly reporting and inter-quarter guidance
-



What do Investors Want - II?

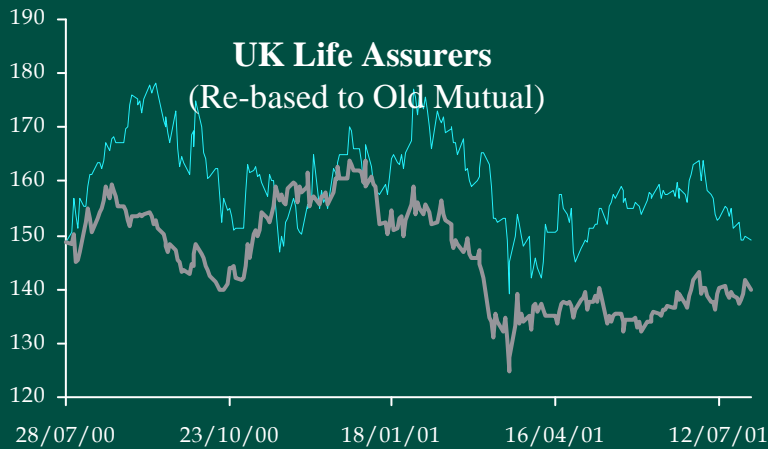
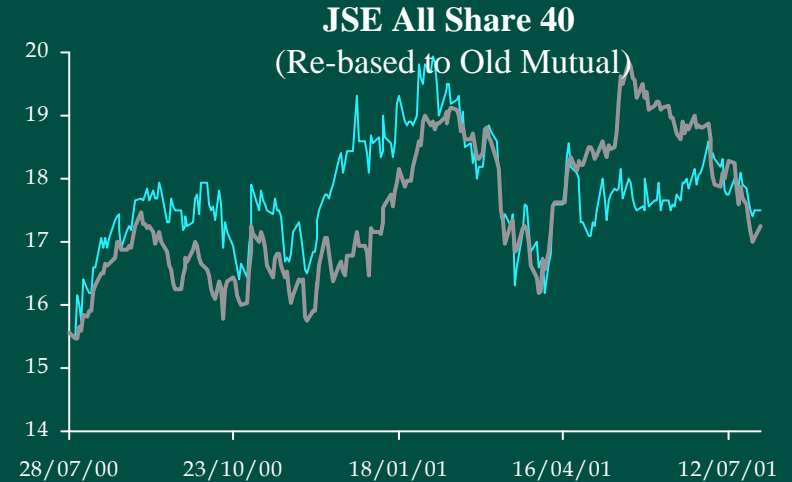
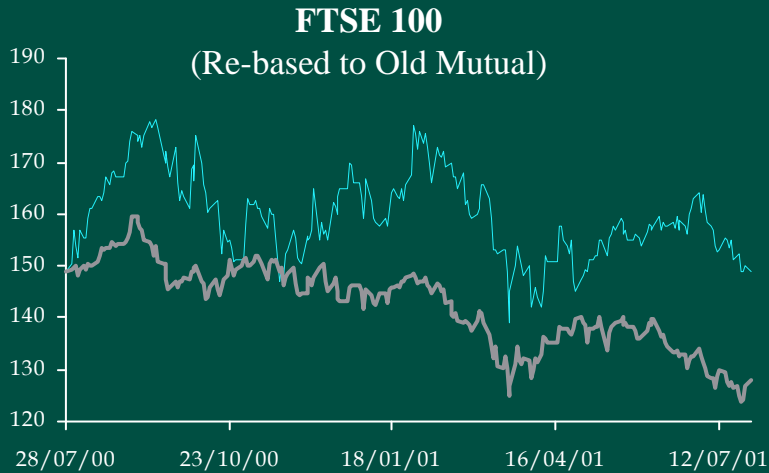
No Surprises!

A word about Intermediaries

- The Sell-side Analyst
 - Role of Published Research and Published forecasts
 - Models
 - Equity Sales - the process
 - Multiple listings - problems and practice
 - IR support - analyst feedback research, investor studies
 - Rating Agencies; Investment consultants; Insurance advisers
-



Price Relatives



12 months
July 2000 – July 2001

— Old Mutual (JSE)
— Index



The Shareholder Value Measures

- TSR = Rise in share price + dividends
 - *over what period of time? In what currency?*
- Market *alpha*
- Market relative; Price relative
- Intrinsic valuation methods:
 - *NAV per share; EV per share; Sum-of-the-Parts*
- Rating revaluation - Peer group values
- Performance measures - *ie EV / EBITDA*



Benchmarks or distorting mirrors?

- Position in the Index
- Sub-Indices - segmenting the market
- Index weightings
- Free-float adjustment
- Index changes = systemic bias



The Shareholder Value Process

- Total Return reporting
 - Share buybacks
 - Capital dividends
- Capitalisation
 - Is Investment and asset or an expense?
- Regulatory Capital - level playing fields?
- On-books and Off books Assets
 - Insurance and Asset Management
- Cost of capital and the “Virtuous Circle”



Cost of Capital and Value

- What are OM's hurdle rates?
 - 14% now 12% outside SA
 - The *Capital Asset Pricing Model*
 - OM Cost of Capital
 - JSE South Africa = 17 - 19%
 - LSE London = 10.5%
 - WACC = ??
 - Effect of Gearing and marginal CoC 6 - 7%?
 - Creating Value = an asset which earns more than it costs to maintain = the *Excess Return*
 - *ER* determines the rate of growth in EV
-



Cost of Capital and the Virtuous Circle

Reputation

- a) unproven
- b) enhanced

Lower cost of capital;
Excess return rises

Perceptions of
growth

Better rating
(α and β)

High hurdle rate
= excess return



Acquisition (growth)
Strategy validated

People and Communication

- Markets are human; Companies are human.
- Is shareholder value the opposite of stakeholder value?
- People understand the trade-off profits = growth
- Difference between IR and PR
- The Value of Reputation - the virtuous circle II

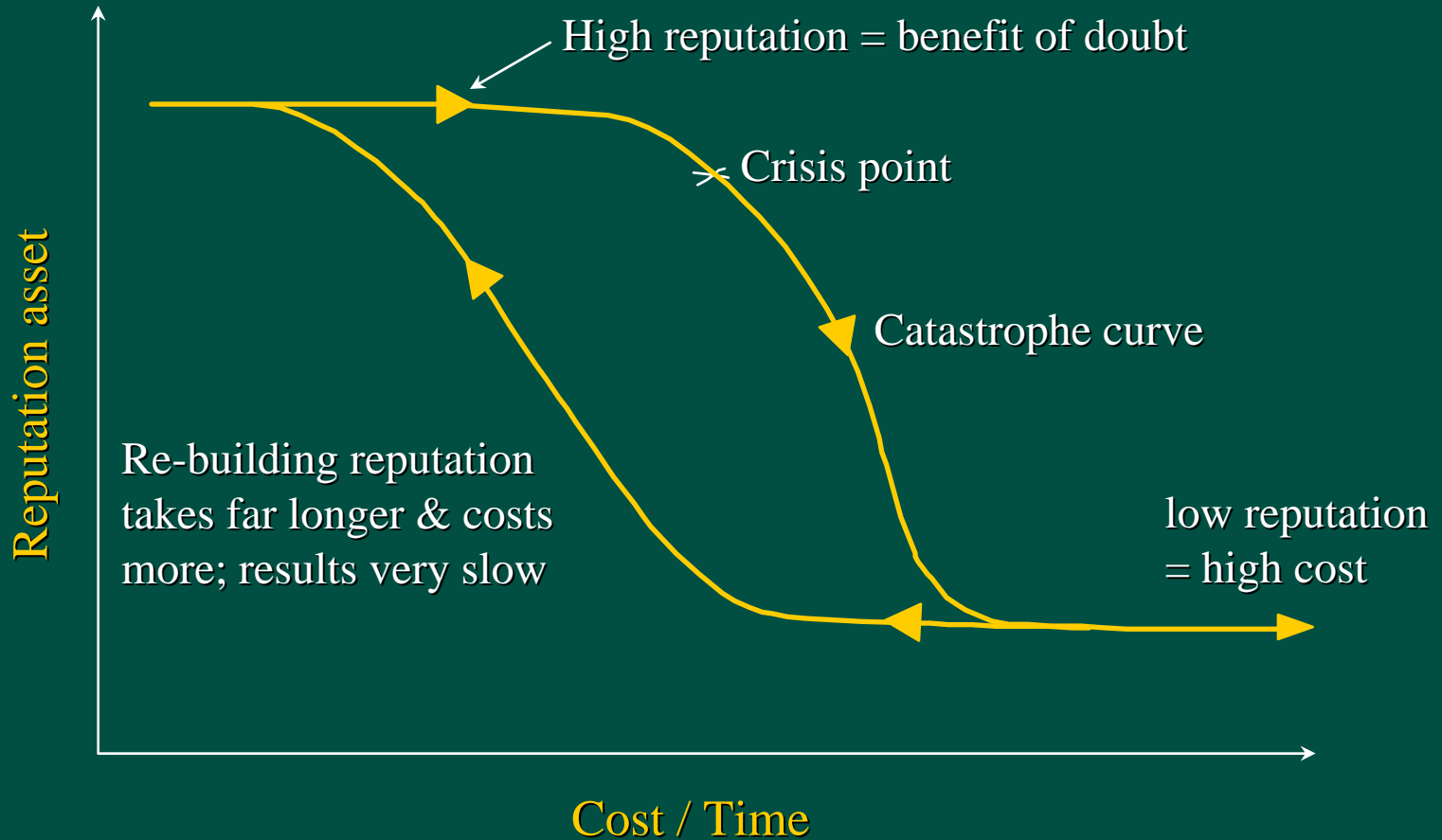


The Reputation thing

- Market alpha: position in the Investment space
 - Emerging Markets
 - Financial Conglomerates
 - Investment trust
- Non-financial measures
 - SRI, FTSE4Good; King II
 - Shifting the goalposts - governance
- Reputation - Difficult to make, easy to break



The cost of lost Reputation



Driving Value Forward

Committed to growing Shareholder Value

- Benchmarking *Against the world's-best*
- Building *The core businesses*
- Growing *Internationally*
- Earning *Reputation; Re-rating; and Results*





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