00:00:23:05 - 00:00:32:09
Langa Manqele
Let's get ourselves settled.

00:00:32:11 - 00:00:49:22

In the morning leading up midday, I heard that the room was a bit cold, so we’ve asked to adjust a little bit. But we're going to try and balance between that and the fact that it's the afternoon session so that we stay on track. Welcome back. As I mentioned this morning, this is our final session.

00:00:49:24 - 00:01:14:10

That will just start off with a short teach-in on group equity value that will be provided by our chief accountant, Ranen Thakurdin and Ranen will be followed by Casper, our CFO. Casper will cover, as mentioned earlier, cash generation and we'll talk about the dividend policy as well as cover the approach to capital allocation. Please do help me welcome, Ranen on stage over to you.

00:01:14:10 - 00:01:23:01

Ranen

00:01:23:03 - 00:01:32:06

00:01:32:08 - 00:01:55:01
Ranen Thakurdin
Good afternoon everyone. Casper and I are going to be taking you through the financial metrics and how that links to unlocking shareholder value. So let's briefly revisit the medium term targets that Jurie took you through earlier. So before Casper covers dividends and RoNAV, I want to take a few minutes to shift gears and do a teach-in on RoGEV

00:01:55:09 - 00:02:06:15

and GEV. And, in particular, I want to explain what GEV means and why it has become a critical measure for us.

00:02:06:17 - 00:02:29:19

Right, so at Old Mutual, we have three distinct frameworks that we use for reporting performance, each with a very specific objective. So we've always had a strong focus on our IFRS reporting metrics. So those include our results from operations, our adjusted headline earnings and our return on net asset value and IFRS remains a critical measure for us because it's externally assured, it's globally comparable,

00:02:29:21 - 00:02:57:22

but it does have some limitations. So in particular for life insurance businesses, IFRS profits is not a great measure of management performance, because the profits are largely driven by the unwind in the movement in the CSM. And then for our other businesses, IFRS has a short term focus. We have a very robust regulatory reporting framework that protects our customers by requiring us to hold capital and liquidity.

00:02:57:24 - 00:03:23:07

And this framework is the framework that underpins the ability of our segments to pay dividends to the group, and subsequently, for us to be able to pay dividends to shareholders. And then lastly, we've got our value reporting framework. We are increasing our focus on the value reporting framework, largely because it provides us with a consistent and holistic valuation across all our lines of business.

00:03:23:09 - 00:03:45:07

And it allows us to take in both short term and long term value creation. Okay. So GEV really underpins our value framework. And I do want to explain a very core principle of what GEV is. So GEV, for us, is equal to the present value of the free cash flows that our segments can pay up as dividends to the group.

00:03:45:09 - 00:04:10:10
Unknown
So that is quite a tradition corporate finance principle, but it has quite important implications for how we recognize value for our segments. So firstly, it means that segments are strongly incentivised to pay dividends to the group. If a segment retains unutilised capital, they will destroy value because the returns that they're going to earn are less than the cost of capital.

00:04:10:12 - 00:04:45:19

The second thing that it does is from a group perspective, we only recognise value in a business where we expect to receive future dividends. And so, why that's quite important is, as an example for a Zimbabwe business, there's fungibility constraints in the in the country. So we don't recognize a value for Zimbabwe in our GEV. And then lastly, what this methodology means is that our businesses that are more capital intensive have to generate additional returns in order for us to recognise value.

00:04:45:21 - 00:05:08:11

Okay. Now that I've explained that GEV is equal to the discount of our free cash flows, I do want to cover what we mean by the concept of covered business and non-covered business. So covered business for us means our live operations, that makes up about 65% of our group equity value. And non-covered is our other lines of business, which makes up the residual 35%.

00:05:08:13 - 00:05:27:20

And the reason we create the distinction is because the mechanism to establish our free cash flows are slightly different for our covered and our non-covered business. So I'm going to explain the non-covered business first because it's a little bit simpler. The way we do our non-covered business or the way we value it, is using a dividend discount model.

00:05:27:22 - 00:05:51:02

In our non-covered business, we have some of our less material entities that we recognize at net asset value with some adjustments. We refer to that as adjusted net worth. And then in our valuations when we doing our dividend discount model, we value the projected dividends that come out of our most recent forecasting cycle. And we do that for a minimum of three years.

00:05:51:04 - 00:06:17:12

And there's two very critical assumptions that underpin our dividend discount models for non-covered. And so these are quite important. We have an assumption of a discount rate. And we have an assumption for the terminal growth rate. And those two items really feed the valuation. For discount rates, we use industry comparable benchmarks together with risk assessments or internal risk assessments.

00:06:17:14 - 00:06:49:05

And then for the terminal growth rate, we set that to be equal to CPI plus GDP. Now that's a bit technical, but it's an important point to understand because what it means is that when we value our non-covered business, we assume that those businesses will retain the existing market share. And so one of the key levers to generate RoGEV is for these segments to increase their market share. And so earlier there was a question about how are we getting to the 14 to 16%.

00:06:49:07 - 00:07:12:09

And I forgot to mention this element of non-covered. And on our non-covered getting market share, like what we've been doing in our Wealth business and Insure business, is one of the ways that we are able to generate higher returns on group equity value. Okay. So going back to our GEV model, I will now go to the other component which is our covered business.

00:07:12:11 - 00:07:36:04

So for us we refer to the valuation of our covered business as embedded value. And valuing the free cash flows out of the life business is a little bit more complex. So what has happened globally is that the industry uses IFRS NAV plus the CSM less tax, as a proxy for the value of the business. And that's actually quite a good proxy for value.

00:07:36:04 - 00:08:02:09

But when we built our embedded value, we add in four other items. So the first thing we add in is that there are portions of our business under IFRS17 that have short contract boundaries. And so we attach a value to that short contract boundary business. So these are products like our group risk business. The second thing we do is we attach value to the businesses that are not valued under IFRS17.

00:08:02:11 - 00:08:26:18

And then we make two other adjustments. We make an adjustment for non-attributable expenses. And we make an adjustment for frictional costs. And that's what gets us to the embedded value. So on this slide we just showing a very similar build up from our IFRS NAV to the embedded value but in a waterfall. So we starting off with a nav we remove intangibles and goodwill to get to what we refer to as adjusted net worth, ANW.

00:08:26:19 - 00:08:57:21

We add the CSM net of tax and that's the IFRS proxy of value. And then we add in the four items that I mentioned earlier being our short boundary IFRS 17 business, a business that's not recognized under IFRS17, and non attributable expenses and frictional costs. The important point from this slide that I really want everyone to take away is that our EV disclosures and our EV calculations are both directly from our IFRS calculations and reporting.

00:08:57:23 - 00:09:27:10

Okay. So then when we calculate RoGEV. RoGEV is just adjusted GEV earnings as a percentage of our opening group equity value. Where our adjusted GEV earnings reflects the change in the valuation of our segments. We add back whatever capital we return to shareholders. And then we make an adjustment for economic variances over the period. And in essence, then RoGEV serves as that primary measure of value creation for us, which we will assess against the 14 to 16% hurdle.

00:09:27:10 - 00:09:31:19

That's what Jurie discussed earlier.

00:09:31:21 - 00:10:03:03

Okay. What we've got up on this slide is the way we've disclosed GEV historically. We have historically reported GEV by line of business. We will change this going forward. We are going to report GEV by our segments. So we're going to break it down by segment going forward. Also. And we spoke a little bit about this in the Q and A, at the half year for our valuation, we took into account two material adjustments being our persistency assumption set in MFC,

00:10:03:03 - 00:10:29:09

and we did a change to our cost of capital or cost of non hedgeable risk. As part of our annual process, we review our basis and we are currently in a process of reviewing the basis underpinning our GEV. And we also completing our business plan. So we will, as we normally do, take you through the outcomes of those investigations as part of our year end results.

00:10:29:11 - 00:10:46:06

Okay. On this slide, I did want to guide you on where we are heading from a future reporting perspective. What we will start doing during the course of next year is we will report GEV by segment. We will also do a breakdown by covered and non covered. And then we are going to do a reconciliation to IFRS NAV

00:10:46:06 - 00:11:07:01

So very similar to that explanation I did of the build up from IFRS NAV to embedded value. We will start providing that breakdown. And the other element that we're going to do is we're going to enhance our disclosures on the analysis of group equity values, so that we can provide more clarity on the movements over the reporting period.

00:11:07:03 - 00:11:26:01

Thanks. And with that, I'll hand over to Casper.

00:11:26:03 - 00:12:01:04
Casper Troskie
Thank you, Ranen and good afternoon, everyone. Ranen is the Chief Accountant, but he is, he's an actuary by training. For those of you who didn't pick that up, now you know the secret's out. Our systematic approach to capital management has not changed. It remains the foundation of our approach to value creation while maintaining a resilient balance sheet and strong solvency levels underpinned by disciplined capital management.

00:12:01:06 - 00:12:34:04

We see that our OM solvency ratio has remained healthy and within our target range over the last few years. At half 25, our OML solvency ratio remained above the midpoints with a reduction in solvency from the full year 2024 impacted by the recognition of the 3 billion share buyback as a foreseeable dividend. OMLACSA's ratio was stable at 187%

00:12:34:06 - 00:13:29:02

as we continue optimisations to free up excess solvency and liquidity, creating flexibility to release capital to the group for strategic use or surplus distribution. We have a well managed balance sheet with low gearing supported by diverse sources of liquidity, and OML has remained within the lower end of its optimal gearing range of 15 to 20%. OMLACSA has issued a further 840 million in quarter three, and has redeemed 623 million in September, with a further redemption of 2 billion rand expected in November, resulting in an 8.1 billion total issued debts by December 2025. On a forward looking basis,

00:13:29:08 - 00:14:13:04

OMLACSA also plans to issue 2 billion rand each year and should have a smoothed maturity profile post 2025. We will continue to optimise our capital stack and gearing ratio to ensure the efficiency of our balance sheets. Now turning to historical cash generation and allocation. Overall, we have seen strong cash generation from our core operations with ongoing capital optimisations continuing to support medium term capital generation and flexibility. from 2022 to half year 2025,

00:14:13:06 - 00:14:48:07

we generated 27.6 billion in cash after reinvestment into our core businesses and central working capital. Cash flows were driven by strong earnings across operating segments, with consistent remittance to the Group via dividends. We are also starting to see the impact of Old Mutual Insure’s turnaround reflected in cash submitted to the group. Cash generated was used for dividends, with the balance contributing to our discretionary capital balance.

00:14:48:09 - 00:15:31:03

If you include the allocations earmarked in our current discretionary capital balance, we have since 2022, allocated 49% to ordinary dividends, 20% to share buybacks, 22% to the bank and 5% to other capital deployments which included acquisitions. As Jurie mentioned earlier, we are targeting a rolling three year dividend per share growth rate of 6 to 9%. From 2022 to 2024, we delivered a 6.4 compound growth rate in ordinary dividends per share.

00:15:31:05 - 00:16:24:09

This per share growth rate exceeded the growth in our cash dividend, supported by the 2.5 billion share buybacks in 2023 and 2024. Our RoNAV or ROE has been on an upward trajectory since 2022, with a half year 2025 growing at 15.5%. Although this is within our target range, excluding higher than expected market returns during the half run, I would have been 170 bps below the targets, and a reminder that the three levers for optimizing RoNAV are increasing revenue, reducing costs and equity optimisation. Jurie spoke to how we are addressing revenue and costs.

00:16:24:11 - 00:17:02:01

And I will cover our capital framework and equity optimisations. As highlighted earlier, our capital framework hasn't changed, but it is now guided and supported by our horizon based approach. Our horizon based approach guides decision making as we seek to optimise RoNAV in the shorter term and generate growth and value in the longer term. Capital allocation decisions are based on our RoNAV delivery aligned to the two value creation phases.

The philosophy is underpinned by the extent to which we have obtained our right to invest by achieving acceptable RONAV outcomes. This approach guides decisions on whether excess capital should be either returned to shareholders through dividends or buybacks, or reinvested into opportunities aligned with our strategic priorities. Looking at each horizon in more detail. In horizon one, and our value unlock phase, where RONAV is below the Group's medium target, we will prioritize capital returns with a higher strategic hurdle for making additional investments.

00:17:49:00 - 00:18:33:10

Capital returns will take the form of share buybacks. While our shares are trading at a material discount to group equity value. Whilst we prioritize efficiency and RoNAV recovery in horizon one, we will retain strategic optionality and we will consider growth investments that are strongly aligned to our strategic priorities. As RoNAV improves across horizon one and two, capital is progressively directed towards near-term business priorities and operational requirements, with more appetite to growth investments as we move towards our gross generation phase.

00:18:33:12 - 00:19:10:04

And in horizon three, we have transitioned to our gross generation phase where RONAV performance is stronger, and we have earned our right to invest. In horizon three, we are well positioned to allocate capital towards longer term strategic J Curve type investments that deliver meaningful returns over time. We are already actively managing our capital allocation decisions on this horizon based approach, as evidenced by our recent capital allocation decisions.

00:19:10:06 - 00:19:45:19

The 3 billion share buyback that we announced in September was specifically aimed at unlocking value and improving our RoNAV while the OML share price trading at a significant discount to group equity value. As Jurie and Prabashini highlighted earlier, acquisition of 10X is a key strategic investment for the group as is our continued investment in Old Mutual Bank, which Clarence took you through earlier. On 10X,

00:19:46:00 - 00:20:17:09

we expect the return on investment, including synergies, to be above our hurdle rates and the impacts on RoNAV to be slightly positive. This also highlights the points that even though we are in horizon one and in our value unlock phase, we will still consider investments that are strongly aligned to our strategic priorities. With our focus in horizon one on unlocking value,

00:20:17:11 - 00:21:00:07

we will also identify capital and liquidity optimisations and trap capital that can be distributed to the Group. This includes further optimisations within OMLACSA as we have previously communicated and in Old Mutual Africa Regions, or OMAR, where there are opportunities to unlock capital, with practical challenges in some jurisdictions like Zimbabwe. To sum up, our solvency remains strong with a well-managed debt profile supported by a healthy leverage ratios and diverse liquidity pools.

00:21:00:09 - 00:21:43:06

We have been disciplined in our capital allocation, with nearly half of cash generated return to shareholders via ordinary dividends and our strategic investments into OM bank and our discretionary capital supporting our long term growth ambitions. Going forward, we expect to see continued strong contributions from our established Old Mutual Life and Savings, Old Mutual Investments and Old Mutual Insure businesses. And we also expect to see positive future cash generation in Old Mutual Africa Regions, subject to the in-country constraints that I mentioned.

00:21:43:08 - 00:22:20:24

This will be bolstered by ongoing optimisation initiatives which will enable further releases of capital to the group. That then takes us to our new progressive dividend policy as we transition from an earnings based dividend framework, which was based on adjusted headline earnings, to a cash generation approach. The previous AHE-linked model was subject to market volatility. The new policy is guided by actual cash generation from subsidiaries, improved stability and transparency.

00:22:21:01 - 00:23:06:09

The new policy also aligns to our value framework, which Ranen took you through earlier, where we value our businesses based on future cash flows which will be available to be paid as dividends. Dividend decisions will continue to consider liquidity, solvency, available cash, strategic capital needs and market conditions. We remain confident in our ability to meet our long term dividend growth target rates with a policy that is flexible and resilient, enabling us to manage through the cycle while supporting long term value creation and our RoGEV targets.

00:23:06:11 - 00:23:55:23

This brings us to the end of this session. I hope we have provided to you with a clear view of our strategic intent, and how we plan on tracking progress and delivering on our medium term targets. We have clarity on our priorities, clear accountability, and a focus on execution and delivery. This is underpinned by a disciplined capital allocation framework and our horizon based approach, which aligns capital deployment strategy and performance over the short to long term. And with that, over to you Langa.

00:23:56:00 - 00:24:30:02
Langa Manqele

Thank you, Casper and Ranen for that presentation. We are nearly landing this plane. May I kindly ask that Jurie, Casper, Ranen, please join me on the stage for the Q&A.

00:24:30:04 - 00:24:59:00

00:49:27:15 - 00:49:46:07
Langa Manqele
It looks like we are good. Okay. From my side, you've been a wonderful and pleasant crowd. Thank you for staying with us and for the people online who have stayed with us, thank you very much for joining us. Thanks to you, Casper, Jurie, as well as Ranen, for covering this session. Thank you, Nico, for joining in.

00:49:46:09 - 00:50:09:20

And I'd just like to thank the members of Exco who came in through, who've been helping the MDs in the business units and their teams who are all here. And definitely to thank you all our investors who have come through, as well as the analysts who cover and follow us. That's all from my side. I would like to hand over at this point to Jurie to provide us with the closing remarks.

00:50:09:22 - 00:50:16:01

Thank you very much. Thanks.

00:50:16:03 - 00:50:39:05

No clicker. Guys, don't worry, I don't need a clicker. Okay. Just to say from my side, thank you for sticking with us after lunch. First of all, I hope you enjoyed lunch, but I can see the graveyard shift, everybody was actually pretty active with questions. So thank you for that. I think just to kind of remind you where we are, we wanted to do the CMD.

00:50:39:07 - 00:51:01:21

It's kind of five months in to the new CEO. But as a team, we really committed to doing this because we wanted to provide clarity as soon as possible in some kind of really key issues. It is the first of the engagements or the second, I suppose, after the interims, but we will be giving you progress at our results in March and then, you know, at halfway next year and then again in CMD next year.

00:51:01:21 - 00:51:21:08

So someone asked me kind of what the question around timing, I mean, we have a we have a very ambitious execution plan over the next two years. What we what I hoped to give you today was a sense of what we consider to be important, you know, how are we going to go about doing it and what are going to be the milestones for you as investors to see,

00:51:21:09 - 00:51:38:18

actually, are we hitting our numbers, and are we achieving what we’re setting out to achieve. And so, you know, talking about kind of going back to that kind of one up, the scale of our business, the opportunity we see there for that for value creation, both kind of value unlock phase and then the generating growth phase.

00:51:38:20 - 00:52:02:06

Hopefully now you can see the application of our capital horizons and how we go about thinking about that. And then finally our four strategic priorities and how that's cascading into the businesses and getting action. So, thank you for being with us. We look forward to, I think we've got some more food and drinks. So it’s early dinner, it's extremely early dinner, I think.

00:52:02:08 - 00:52:29:23

But, please stick around with us. Love to chat to you. Love to take more questions. Thank you for being with us and we will see you, I'm sure, soon enough. Thank you.