# Presentation transcript

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## Q1 OPERATING UPDATE

| Old Mutual Limited participants | Q&A participants |
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| Iain Williamson, Group CEO<br>Casper Troskie, Group CFO<br>Bonga Mriga, Investor Relations Manager | Michael Christelis, UBS<br>Andrew Sinclair, Bank of America<br>Larissa van Deventer, Barclays<br>Jarred Houston, All Weather Capital |

**Operator**

Good day, ladies and gentlemen, and welcome to the Old Mutual Ltd investor call in relation to our Q1 2022 voluntary operating update. All participants are in listen only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal for an operator by pressing * then 0. Please note that this call is being recorded. I would now like to turn the call over to Bonga Mriga. Please go ahead, sir.

**Bonga Mriga**

Welcome to everyone joining us on this call. We thank you for taking your time. I am Bonga Mriga, the Investor Relations Manager at Old Mutual Limited. Today we are joined by our Chief Executive, Iain Williamson, and CFO, Casper Troskie. They will both provide more colour and context on the voluntary trading update we released earlier today, which is also available on our website, after that we will open for any questions that you may have. And now we begin with our Chief Executive. Over to you, Iain.

**Iain Williamson**

Thank you, Bonga, and greetings to everybody. I'm happy to say that since the beginning of the year we've experienced continued momentum in our key focus areas of rectifying, simplifying and amplifying our business. As we keep re-energising the customer experience and as we build an entirely new financial services business, we remain focussed on our victory condition of becoming our customers' first choice.

In our full year results announcement in March, we updated you on the progress we've made on achieving our cost targets. We are re-energising our advisor experience and in Personal Finance are making progress in attracting more experienced advisors to our restricted financial advice models. We continued to embed digitalisation in our operations and we progressed the migration of our South African technology estate to Amazon Web Services. That process is 73% complete as at the end of March.

Taking a look at our KPIs, life APE sales grew 19% year on year, as the momentum witnessed in FY2021 continued into the first quarter. We saw improved productivity across all our retail businesses with volumes reaching 5.9 lives per week for the quarter in MFC. Issued sales are above 2019 levels with greater opportunity for field advisors to return to their worksites. We have also seen a shift in the sales mix with risk sales accounting for a higher proportion, now 64%, up from 61% in the prior year. And as we've stated in engagements with investors, this is positive for MFC margins and thus those of the overall Group. Also, as indicated at year end, we are pursuing opportunities to expand into the full value chain of funeral services through strategic partnerships. And we will update you at our interim results on the progress we are making in this regard.

In Personal Finance and Wealth Management sales are above 2021, 2020 and 2019 levels. These are up 4% in this segment for the quarter. This momentum continued in the first quarter driven by an improvement in savings and funeral product sales with double-digit growth there, but annuities and other risk sales did, however, decline.

In Corporate, sales were up 9% with an improving pipeline with focus on converting that pipeline into deals. We continued to see increasing quote activity across the sector. And the Corporate business' growth of funds under management gives us confidence the business is able to compete effectively in this space, and it will be assisted by the Futuregrowth and AIH transformation transaction through the Old Mutual Investment Group.

Sales in Rest of Africa were up 62% driven by corporate volumes as our pivot-to-corporate approach gained momentum. And despite lockdowns in China that were put in place to curb the spread of COVID-19, sales there grew 77% as savings were strongly promoted in the broker channel.

Across the Group, I'm encouraged by the activity we've witnessed in the first few weeks of the second quarter as well, with sales momentum and productivity holding up very well; even with the effects of the floods in KZN and a number of public holidays in April.

Our Value of New Business (VNB), as a consequence of the sales momentum, grew 53% compared to Q1 2021 to R464 million as issued sales in the Mass & Foundation cluster grew and we secured new corporate business across the Rest of Africa. We achieved a VNB margin of 2.8% for the quarter, an improvement of 70 basis points on the prior year result.

The 9% decline in gross flows was driven by lower inflows into the Investments business. Informing this was really a non-repeat of large new mandates from the prior year's first quarter. The outlook for flows and net client cash flow (NCCF) remains good with a strong secured flow pipeline.

The negative NCCF of R5 billion was impacted by the decline in gross flows but somewhat offset by lower terminations and reduced mortality claims across the life business, particularly in Personal Finance. There was a 3% pullback in funds under management (FUM) as markets and the Rand signalled what was to come in the second quarter, with major central banks and particularly the Fed in the US embarking on a hiking cycle and reducing balance sheets. In some of the regions in which we operate, central banks have also embarked on hiking cycles of their own. This we expect will contribute to a level of volatility, particularly in equity markets. However, compared to prior year, FUM have grown in our Investments and Corporate businesses, and this has supported growth in asset-based fee income.

We expect that the conclusion of the recently announced sale of a stake in Futuregrowth to African Women Chartered Accountants Investment Holdings (AIH) at an OMIG level will contribute positively to win rates of new business and to defending existing mandates. This momentum should receive a further boost from the group-wide proposed Bula Tsela B-BBEE transaction, as the overall black ownership of OMIG business will improve to over 51% once this is approved by shareholders.

Loans and advances declined by 2% in the quarter compared to the end of FY2021. That outcome was driven by lower disbursements in Rest of Africa. Such disbursements remain under pressure with the tougher overall economic environment and increased competition in some markets. The growth of R53 million in the Mass & Foundation Cluster (MFC) loan book continues to be cautious with lending volumes following a tightening lending criteria that were in place for much of FY2021. We expect the modest growth in this book to continue over the remainder of this year and into next year.

Results from operations for the quarter were marginally ahead of the prior year, mainly due to improved mortality profits in Personal Finance. As you know, in the first quarter of last year, we recorded significant excess deaths in Personal Finance. These were later largely offset by provision releases. The improved mortality profits resulting from materially lower excess deaths in Personal Finance in the current year were partially offset by lower underwriting results in Old Mutual Insure and in Corporate as well as an increase in central expenses due to our investment in digitalisation and our innovation initiatives.

We estimate that the April floods in KZN will have a net impact on Old Mutual Insure of between R100-R150 million net of reinsurance recoveries but also including the cost of reinstatement commissions. To date, we've received over 2,200 claims related to this catastrophe and we are currently reviewing our claims pattern for the recent second wave of floods in KZN in May, and will provide further updates in due course.

During this difficult time for customers and communities in the region:

- We have deployed additional resources from across the country as part of our claims catastrophe plan to assist with handling these claims expeditiously.
- We have provided intermediaries with an immediate mandate of up to R15,000 for emergency repair settlements.
- We have mobilised service providers to prioritise affected KZN customer and processed the majority of claims as cash pay-outs to assist customers in need.
- We've also separately partnered with Gift of the Givers by committing R300,000 towards providing affected communities with immediate relief.
- And the Old Mutual Foundation has mobilised R2 million in relief to provide food and dignity packs and to assist in the rebuilding of houses with both the Collen Mashawana Foundation and the Nelson Mandela Foundation.

We remain committed to serving customers in good and bad times. With that, I'll hand over to Casper to unpack the finances in more detail. Casper, over to you.

**Casper Troskie**

Thank you, Iain, and good evening. I will take you through some additional detail of our segments to fill out what Iain has spoken to. Overall, we are pleased with the financial performance in the first quarter, and we have seen an improvement on prior year across a number of our KPIs and underlying metrics. I will begin with the Mass and Foundation Cluster. In our banking and lending business the credit loss ratio normalised to 4.9%, up from 0.9% for the 2021 financial year. We expect the trajectory to continue towards our stated target range of 7%-9% over the next three years.

When it comes to Personal Finance & Wealth Management the return to profitability following excess mortality claims last year was pleasing. Results from Operations for Personal Finance were up more than 100% from the prior year. Our expenses also remained well managed and below those of the prior year.

I'm pleased to report that improving investment performance has continued in our Old Mutual Investments business in line with our commitment to investors. Seventy-five per cent of funds are above median over three years and 69% are above their respective benchmarks over the same period. Average market levels have contributed to Old Mutual Investments' revenue growth of 24% year on year with performance fees from OMIG and fair value gains in Old Mutual Alternatives the underlying drivers.

In Old Mutual Insure we have maintained our net underwriting margin target of 4% to 6%. We do note, however, that achieving this target is likely to come under pressure given the net impact of the KZN floods of between R100-R150 million. On central costs those were higher given the costs incurred in our new growth initiatives.

Lastly, our capital position remains strong with the OMLACSA solvency ratio at 200% and towards the upper end of the 175%-210% target. The redemption of subordinated debt has contributed to the reduction from 203% we reported at the year end. The group remains well capitalised within our target range of 170% to 200%. With that, back to you, Iain.

**Iain Williamson**

Thanks, Casper. We're making great progress on details of the proposed Bula Tsela BEE transaction, so please be on the lookout for both a circular and the retail scheme prospectus which will be released in due course. In closing, the positive sales momentum and higher productivity across our retail segments are confirmation of a focus on enhancing customer intermediary experience. Flows in some businesses are lumpy in nature and not necessarily comparable from one year to the next, but we expect that the work we're doing to transform the business in terms of increased black ownership will have a positive effect on our ability to attract this business and retain existing clients.

The parts of the business which experienced pain last year from increased mortality claims, particularly Personal Finance and our Rest of Africa business, have taken positive strides in the first quarter. We remain on track to meet our medium-term targets communicated to you previously. Thanks for taking the time, again, and we will now take any questions that you may have.

**Operator**

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1. The first question comes from Michael Christelis from UBS. Please proceed with your question, Michael.

**Michael Christelis**

Good afternoon, everyone. Thanks for the time. Four questions if I can.

- Firstly, just on the value of new business and margins you've reported today, are these on constant economic assumptions from year end given the higher [unclear]? I'm just wondering if hat has had an impact on that margin or not.

- Secondly, just on PF, I just want to understand why the risk sales are down. You had really good momentum last year in the risk sales. If I remember back to June last year, your strategy specifically spoke about double-digit growth in risk sales from 2019 levels. Maybe if you talk a little bit about what's going on there, or how do these numbers compare to 2019 first of all, and do you still think you can get double-digit growth in 2023 given the slowdown we're seeing now?

- The third question is just a clarification around the mortality impact in Q1 versus a year ago. When you say your RFO is slightly higher than last year, what net mortality variance was in last year's first quarter versus this year? I'm just trying to get an understanding of how big the delta was on that.

- Then lastly, just on the capital position. You talk about the strong capital position, and I think you've got some debt issuance to come further this year. Is it premature for us to expect some form of capital repatriation either by buybacks or a special dividend this year? And what would your preference be between those two options at this point? Thank you.

**Iain Williamson**

Thanks Michael. Casper, I suggest that you start with most of those, or you and your team.

**Casper Troskie**

Okay. Just to confirm that the VNB margin would be on the same set of assumptions that we had at the year end. We will only relook at our assumptions at the half year. So that's important to understand. I'm happy that Iain adds colour afterwards. On the Personal Finance side where we've seen lower risk sales is in the more complex risk sales arena. So, we are still seeing simple risk sales going well, but it's really the complex risk sales where we are seeing lower risk sales. Hopefully Iain can provide more colour on that.

On the Personal Finance provisions, if you recall last year at the end of 2020, we set up quite material COVID provisions. And in the first quarter we would have released a lot of those provisions against the very high excess deaths that we saw in the prior year. So, the impact in the first quarter, the net impact is quite small. In the current year we've seen much lower excess deaths, but then because we released the lower of our pre-set release pattern, an actual excess is experienced.

The net impact on the current year for Personal Finance is also quite low. Now, you will recall that we set up another set of provisions at the half year. And given where we are to date it's unlikely that we will have to do that again. So, Michael, year on year the net impacts looks like a bit of an anomaly, but it's because we had much higher provision releases last year than we've had in the current year. And quite a large portion of the provision that we set up at the end of the year is still available.

On the capital position we remain well capitalised. And as we've said before, it's still quite a lot of risk in the system and we generally don't pre-judge what we're going to do in the interim period. So, we will give you a clear update in August when we come to market on where we stand on our capital position and what our thinking is. But to answer your question, if we were thinking about additional returns to shareholders, I think where the share price is trading it probably makes sense to look at buybacks as opposed to dividends. I don't know if I've missed anything. Iain, I don't know if you want to add.

**Iain Williamson**
Maybe I will just embellish one or two things. Michael, our practice when it comes to provisions versus experience – this is going back to your question on the mortality – is to release from the provision the lower of the expected provision release or the actual experience. So, year to date the actual experience has been a bit better than provisions, but essentially, we haven't released that piece to surplus. We've released the actual. So, in my head we think about the mortality experience as basically being zero year to date, but in a sense, provisions continuing to build, whereas last year we would have been releasing the provisions. And as you know, from a timing perspective we ended up having to bump the provisions up in Q2. So, I think because it's a quarter to quarter comparison it doesn't really tell the full story at this stage as to what's likely to emerge on a forward-looking basis.

**Casper Troskie**
Just to confirm, so there aren't any once-off releases for mortality profits in our numbers in the first quarter. I just wanted to make that point.

**Michael Christelis**
It sounds like there's a net zero variance I guess for this quarter and probably very similar net zero variance after provision releases for Q1 last year. So, mortality hasn't really been a delta on RFO. Is that a fair comment?

**Casper Troskie**
That's fair. Well, I think in the prior year there was a slight negative variance. I think in the current year the variance is quite small.

**Iain Williamson**

I don't know if it's a material number one way or the other.

**Michael Christelis**

Perfect. Thanks very much, guys. Appreciate it.

**Operator**

Thank you. The next question comes from Andrew Sinclair from Bank of America. Please proceed, Andrew.

**Andrew Sinclair**

Thank you. Evening everyone. Three from me as usual.

- Firstly, on the new business margin. You came towards the top end of the target range. I'm wondering, now that you're towards the top end of the target range are you still looking to push margins higher, or are you now be saying you can push a bit more for volume and just increased competitiveness given the margins are towards the top end of your target range?

- Second question was just on the provisions. I actually thought it was quite interesting that you were suggesting in the release that you have a look at that at H1 and be analysing the appropriate level of provisions. It suggested to me that you could be thinking about releasing then, which seems a bit quicker than I would maybe have been expecting. Are you going to be considering releasing provisions at H1, or would you want to wait till you've gone through the colder months and get towards the end of the calendar year?

- And the third question from me was just sitting in Scotland instead of South Africa, I just wondered if you had a bit of context on the May floods in KZN, just any context you can give there how the May floods compared to the April floods. And in particular, are there any changes on the reinsurance protections you have for that second bout of floods? Thank you very much.

**Casper Troskie**

So, Andy, we're only going to be looking at our half year positions in the next few weeks. So, actually as we sit here, I can quite honestly tell you that we haven't firmed up on the position. But just to confirm that at each half year we would look at reserve sufficiency. So, if we thought our reserves weren't sufficient, we would adjust them. You have to then distinguish between discretionary margins and the actual reserves that we set. You will recall we did set up some additional discretionary margins at the end of last year. So, the Corporate discretionary margins that we set up were for six months. So, we're going to have to look at that specifically at the half year. And then we will also look at what the discretionary margins look like at half year for the rest of our book. But we haven't made any calls on that yet and we'll only be doing that in the next two to three weeks. Sorry, I forgot the other part of the question, Andy.

**Iain Williamson**

I think the rest is all about the May floods in OM Insure. I can pick that up, Casper. So, Andy, I think when we refer to the May floods it's literally last weekend. So, I think it's a bit early to assess the pattern of claims that are likely to come in from that. They do appear to have been significantly less severe than April, but nevertheless still material for certain particular areas. And then, just to confirm, with the reinstatement commissions paid immediately after the April event, the full reinsurance cover we enjoyed previously was reinstated on the same terms and conditions. So that protection is still there.

**Andrew Sinclair**
The other question was just about new business margins and whether you can push more for volume and competitiveness, or if you think margins can go higher.

**Iain Williamson**
I think as has been alluded to, I think the main driver of the margin expansion seems to have been volume in Rest of Africa given the extent of the sales increase. And then the volume and mix in MFC. On the PF side the mix is not where we would want it to be. So, our main drive is to push the mix within the risk business. To the question that Michael asked earlier, essentially, we are selling a decent volume of overall risk business including funeral and non-underwritten cover, but we're selling almost too much of the non-underwritten and not enough of the other kinds from our perspective. So, the focus right now is very much on trying to drive the mix in the right direction in the PF business primarily. We don't feel any desperate need to have to reprice particularly in MFC to drive volumes further. I think productivity levels are 5.9 a week. We have pretty much got a smoothly running engine from that point of view.

**Casper Troskie**
Just one additional comment. So, if you think about business unit mix, if we sell more in Mass at higher margins and slightly less in Personal Finance at lower margins, it does push up the average ratio. So, you need to think about that. We had a very good quarter for MFC. As PF improves at a lower margin, the overall group margin will reduce. So, I think the guidance we've given of 2% to 3% I think is right for the time being because we have to think of that business unit mix as part of that equation.

**Andrew Sinclair**
Thank you.

**Operator**
Thank you. The next question comes from Larissa van Deventer from Barclays. Please proceed, Larissa.

**Larissa Van Deventer**
Thank you. Good afternoon, gentlemen. Just two from me because the other two were covered by Mike and Andy.

- On the sales growth, congratulations on a very strong number. My question is about sustainability and run rates for the rest of the year. Iain, you mentioned that you're happy with the productivity. Is the current rate sustainable? Were there once-offs in the prior year that we need to take into account, or do you believe that a heightened run rate is sustainable to December?

- And then the second question is related to the BEE deal. Are you able to give any indication when the circular to shareholders may be made available, please?

**Iain Williamson**
Okay, on the sales one, Larissa, my personal view is that there is really good momentum in the system on a weekly basis, and it continues to be like that. So, I 'm fairly confident that we have got a sustainable momentum going at least in the retail businesses. Corporate is obviously a lot more lumpy and more difficult to call with the timing of closing out the pipeline, etc. ROA, I think is also on a good momentum recovery from certain of the COVID issues etc. So, I think there is no reason as I sit here now to think that we shouldn't be able to sustain it. I haven't gone back and looked at the patterns during last year to understand whether there's a particular surge in the prior year that might mean that the percentage comparative shifts. But at an absolute level of productivity from that perspective I think it's sustainable. The real challenge is the mix particularly in PF. I think the other businesses we're actually quite comfortable with how that's going.

**Larissa Van Deventer**
And the circular?

**Iain Williamson**
Casper, the circular, do you have anything you can add around the timing?

**Casper Troskie**
The team is telling me in the next few weeks. Within the next month we should be releasing.

**Larissa Van Deventer**
Thank you. Actually, if you don't mind a follow-up question, Iain. In the slides at FY21 you had a really interesting chart about COVID and how you expected the waves to become less severe, which certainly has played out post Omicron. South Africa had a surge in cases in the last few weeks, but deaths have remained really low, and the curve has been coming down. Was that the firth wave, or do you anticipate that is still on its way?

**Iain Williamson**
No. The way that our model works, the wave that we've been experiencing in South Africa has pretty much peaked in the last week from an infection perspective in all the provinces except the Western Cape. I think the Western Cape may have peaked this week. I haven't checked the data in the last two days. And from our perspective – certainly in my head – that is the fifth wave. So yes, in short.

**Larissa Van Deventer**
Thank you. Very helpful. I appreciate your time.

**Operator**

Thank you. Ladies and gentlemen, just one final reminder, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. We will pause to see if there are any further questions before we conclude. We have a follow-up question from Michael Christelis from UBS. Please proceed, Michael.

**Michael Christelis**
Hi guys. I thought I would ask another one seeing that there aren't any others there. There is no comment in the release and in your commentary earlier about persistency. Can you give us a sense of whether the really good persistency we've seen over the last two years has continued, or have we seen periods of deterioration or any areas that you're concerned about? Thank you.

**Casper Troskie**
Michael, I think we haven't seen a material change from what we saw at the end of last year. I think you shouldn't expect at this stage any surprises from persistency.

**Michael Christelis**
Perfect. Thanks.

**Operator**
Thank you. The next question comes from Jarred Houston from All Weather. Please proceed, Jarred.

**Jarred Houston**
Afternoon and thanks very much for the call. I just want to clarify the estimated impact of the KZN floods and the timing of when that's included in these numbers. Is that in the Q1 numbers, or given that happened post March was that something we will see in Q2? I'm just trying to understand the timing of when it's actually included.

**Iain Williamson**
You will see it come through in Q2. The published numbers are struck at the end of March. At that stage we weren't anticipating the floods and certainly had no idea of the extent. The only reason for providing specific post-March commentary is that obviously it's a potentially material event and we're just trying to give shareholders a sense of how material it is, on a net basis possibly a lot less material than people might have expected.

**Jarred Houston**
Just to clarify, Iain. The underwriting margin in Insure in Q1 is also lower ex the floods. Is that what you're saying?

**Iain Williamson**
It's ex the floods.

**Jarred Houston**
Prefect. Got you. Thanks very much.

**Operator**
Thank you. At this time, we have no further questions. Bonga, may I hand over to you to conclude? Thank you.

**Bonga Mriga**
Thank you, ladies and gentlemen, for joining us on the call today. We would like to remind you to keep an eye out for future announcements and to use our investor relations website for any detailed information that you may need. A transcript of the call will be made available on our investor relations website by close of business tomorrow. Thank you, and good evening.

**Operator**
Thank you very much. Ladies and gentlemen, that does conclude today's conference call. Thank you very much for joining us. You may now disconnect your lines.

END OF TRANSCRIPT