

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SLMJ.J - Sanlam Ltd Shareholders/Analyst Call

EVENT DATE/TIME: FEBRUARY 03, 2023 / 1:30PM GMT

CORPORATE PARTICIPANTS

Anton Gildenhuis *Sanlam Limited - CEO of SA Retail Affluent*

Grant Davids *Sanlam Limited - Executive Head of IR*

Paul Brendan Hanratty *Sanlam Limited - Group CEO & Executive Director*

CONFERENCE CALL PARTICIPANTS

Michael Christelis *UBS Investment Bank, Research Division - Director and Insurance Analyst*

Sarine Barnard

PRESENTATION

Grant Davids - *Sanlam Limited - Executive Head of IR*

Think we're good to go, Paul.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

Great. Thanks, Grant. Good afternoon, ladies and gentlemen, and thank you for joining us this afternoon. I'm joined today by Abigail Mukhuba, our Chief Financial Officer; the CEO of our retail affluent business in South Africa, Anton Gildenhuis; and Grant Davids, who is the Head of Investor Relations. This morning, we announced the conclusion of 2 transactions, which will significantly strengthen our retail life insurance operation and contribute to our strategy in building fourth disposal in South Africa.

Sorry, there's somebody who is not muted to be really helpful if they would -- can we mute everybody, Grant, or not from our side.

Grant Davids - *Sanlam Limited - Executive Head of IR*

Yes, we'll check that...

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

Okay. Because we still get somebody who's not on mute with a lot of background noise, I apologize for that.

So in the first transaction, Sanlam will partner with Capital legacy to create a significant rule states and trust management business has emerged entity, leveraging the strengths of both companies. In the second transaction, we've agreed to bring BrightRock fully under our control, increasing our shareholding from 62% to 100%. These 2 transactions represent a very significant deployment of discretionary capital of around about ZAR 1.1 billion. We're confident that the returns we're going to generate or these 2 investments will considerably exceed our targets.

And the reason for that is because in each case, there are considerable synergies between the businesses, the nature of the synergies between these 2 transactions is, of course, very different. The group's discretionary capital position remains strong post these transactions, and we will provide further guidance on capital allocation and deployment with our annual results in 2023 -- March 23. I'll just remind you of our strategy.

We always said we were trying to build a fortress position in South Africa, and this will be achieved by strengthening our client proposition through improving our existing business capabilities and client offering and through the benefits that strategic partnerships can bring us. Both the capital legacy and the BrightRock transactions further our strategic ambitions regarding building fortress position in South Africa. I'm going to start by

talking a little bit about capital legacy. It's a business that many of you may not know very much about it all. The opportunity to ensure that South Africans have their wells in place remains a really huge opportunity.

And our analysis shows that the majority of South Africans do not have a profit will in place. And the burden of managing estates on debt for the beneficiaries of wells is still a very significant source of hardship for people. The costs of wrapping up the well are very high. Capital legacy was founded in 2012, and it's had a very innovative and alternative approach to addressing the market need. It provides a world and estate offering, but this is packaged together with a unique life insurance product, the legacy protection plan.

Even legacy is an entrepreneurial owner-managed business, and it's developed into, I believe, one of the fastest-growing financial services businesses in South Africa. They've drafted more than 600,000 wells to date, and they've issued over 250,000 legacy protection plans that are still in force. 65% of the clients are younger than 50 years old, and the majority of the wells book covers a state that are relatively modest below 2.5 million and some even below ZAR 1 million. I believe that there's considerable growth still in this very underserved area of the market. In the capital legacy transaction, Sanlam will sell Sanlam Trust to capital legacy at a valuation of ZAR 390 million. And at the same time, we will subscribe for shares and capital legacy for a cash amount of ZAR 720 million.

The contribution of the cash and the Sun loan trust business together will allow us to acquire a 26% stake in the enlarged capital legacy group. The amounts are obviously as at March 2022, when we did all the calculations and there will be a roll-forward to the effective date that the transaction becomes effective. Most importantly, in addition to the shareholding that we have required acquired, which is clearly a minority stake, -- we've negotiated a profit share arrangement, which provides additional profit to Sanlam in respect of all clients, Sanlam clients that are serviced by capital legacy or where clients come in through Sanlam distribution channels.

Sanlam has also negotiated the first right to provide financial and other reinsurance to capital legacy on new business. And this is an additional source of profit for Sanlam. I'm sure this may come up in Q&A, but capital legacy is a business that grows extremely quickly, and therefore, the ability to finance the new business strain is very important, and there is a large amount of financial reinsurance involved in its structure. The capital legacy partnership is attractive to Sanlam because of the first mover advantage that capital legacy has built up in the intermediary market through their very extensive financial planning and distribution infrastructure, which will now access the Sanlam client base and the Sanlam distribution with Sanlam sharing in the value creation.

Capital legacy has over 200 consultants that provide face-to-face consultations with clients, forming specialists to state planning, drafting of wells and selling of legacy protection plans. And in addition, they have over 100 broker consultants who Liaison financial intermediaries to secure new business. Sanlam Trust, by contrast is a very -- has a very strong trust management capability, but we have a much smaller new business capability. The strong market position and proposition of the capital [AC] built out means that, that business has been growing very strongly. Its wools business has been growing at 45% per annum and its insurance business at 37% per annum over the last 3 years. Capital legacy has created significant value in its life insurance operations, where it's generated a value of new business of over ZAR 300 million for its last financial year ending in March 2022, and the CAGR has been over 40% for the last 3 years.

As I mentioned earlier, our distribution and client base offers considerable opportunity for capital legacy to now grow even more strongly and to access a bigger client base. And as I mentioned earlier, some of them will capture an extra 25% profit share on the business written to Sanlam clients or through Sanlam affiliated distribution channels. The capital legacy business relies on financial reinsurance to fund new business. And as I said earlier, we will provide this reinsurance going forward. And the margin that we will capture on that reinsurance adds to the return on investment for Sanlam-- the proposed transaction to create a partnership with Capital legacy will have minimal operational impact on the Sanlam Group.

The Sanlam Trust business and its staff will be transferred to capital agency, we'll continue to independently manage the operations of capital AC -- the opening of the Sanlam distribution channels and client base to capital legacy is not expected to create any operational complexity for Sanlam and Capital legacy. This brings me to ARC considerations around the capital legacy transaction. Sanlam through its shareholding in the portfolio of African Rainbow Capital Financial Services, already has an indirect holding in capital legacy. ARC Financial Services investments holds 29% currently of capital legacy. And this will be reduced to 25% post this transaction because, of course, Sanlam is injecting in Sanlam Trust. We identified the potential of a partnership with Capital legacy to create value by partnering them to serve our Sanlam client base.

African Rainbow Capital and African Rainbow Capital Financial Services investments are not direct parties to this transaction and this has been confirmed in a ruling by the JSE. However, despite the fact that they are not party to the transaction, we have had our independent committee of the Sanlam Board check that the terms are favorable to Sanlam. And we have also obtained expert advice by an independent adviser who has provided us with a fair and reasonable to this effect because we want to make absolutely sure that there can be no inference drawn that the terms in some way of this transaction are favorable to African Rainbow Capital even though they're not a party to the transaction. I'll turn now to BrightRock. Sanlam has agreed to bring BrightRock fully under our control. As I mentioned, we're going to increase our shareholding from 62% to 100%.

An initial payment will be just under ZAR 400 million, reflecting the current embedded value of the business. We do have a structure in place with the management team and the existing shareholders for a further payment to be made over the next 3 years, but this will depend on the extent to which value of new business targets are met. So the management team remains highly incentivized to achieve its targets. Since acquiring BrightRock in 2017, the business has grown significantly, and it did create strong shareholder value between 2017 and 2019, BrightRock delivered an average operational return on group equity value of 21.5%. But of course, as you know, the cover has been particularly tough on a pure life insurance business.

Together with BrightRock, Sanlam has the largest market share of retail risk new business, life business in the IFA market, and we're the second largest if you take all channels into account. The onset of the COVID-19 pandemic had a significant impact on life insurers in South Africa. And with BrightRock being a monoline insurer, it was severely impacted. This has created a unique opportunity for Sanlam to bring BrightRock fully into the Sanlam stable at an attractive value. Post-acquisition of the 100% of the equity in BrightRock, our intention is to transfer BrightRock's business onto the Sanlam Life license. BrightRock will remain open as an operating division of Sunline Life with its own brand distribution and product focus. But the transfer of the BrightRock business to the Sanlam Life license will lead to capital synergies and expense synergies Capital synergies and the expense efficiencies are expected to enhance the return on the BrightRock asset for Sanlam, and we expect the business to maintain its strong market position.

As I mentioned earlier, the management of BrightRock are incentivized to deliver future value through the transaction structure, which defers payments and links the price to the achievement of value of new business targets. The release of capital once BrightRock is transferred onto the Sanlam Life license and the expense synergies arising from the elimination of the license are expected to generate a significant uplift to dividends and earnings, but this process will take several years to achieve because I'm sure you know that just the regulatory process of moving the license will take some time. Although BrightRock will continue to operate as a distinct offering to the market with its own management team, there will be undoubtedly some operational impacts once the business is transferred onto the Sanlam Life license.

We expect BrightRock to continue to have its own operations, but some functions will be performed by Sanlam Life post the transfer of the business onto the Sanlam Life license in order to realize synergies These, of course, will be around finance and aerial, these types of very expensive functions. But we do not expect these operational demands will be significant for Sanlam because we already manage a very wide product set in these areas. These 2 transactions are expected to be highly accretive to return on group equity value. In the case of capital legacy from its extremely strong value of new business contribution. And of course, we also do benefit there from the extra profit share and from the financial reinsurance.

And in the case of BrightRock, the synergies come from a very different source from capital and expense synergies. It's important to note that these 2 transactions will have very marginal positive impact on earnings and dividends in the first few years. When things of the very nature of the capital legacy business, it's a very fast-growing business. And although it does have positive profits and pay a small dividend to shareholders, the emphasis is on reinvesting and growing the business. And it's more about getting a return on group equity value.

And as I mentioned earlier, in the case of BrightRock, because we are looking for capital and expense synergies that require a transfer of the life license, it will take some time for those synergies to be realized and flow through to the bottom line. So overall, we expect a return on capital deployed well in excess of our hurdle rate. We do not expect them to have a huge impact on our solvency ratios. The capital legacy transaction continues Sunland's philosophy of partnering with innovative high-potential businesses where we can contribute to the scaling of the business by connecting it to our ecosystem and where we can share in the benefits of the subsequent value creation.

The BrightRock transaction is a little bit different, and it's more about allowing Sanlam to capture cost and capital synergies. As I mentioned earlier, we do not expect the operational impacts from these 2 transactions to be significant, and we believe that they represent an excellent deployment

of our discretionary capital. Most importantly, these 2 transactions will allow us to improve our already strong client offering, and they support the purpose of Sanlam and our strategy.

Thank you very much for listening, and we will now open up to questions.

QUESTIONS AND ANSWERS

Grant Davids - *Sanlam Limited - Executive Head of IR*

Thank very much, Paul. If there are any questions, I'll ask you today. We do have a question. The first one is from Michael Christelis.

Michael Christelis - *UBS Investment Bank, Research Division - Director and Insurance Analyst*

It's interesting, this transaction with capital legacy. Maybe if you can just give me a little more color on the nature of the existing life business that's there. I noticed that it's all underwritten by Guardrisk Life. Can you tell me how much of the risk do they retain? Is there an opportunity to retain more risk under your ownership than they do currently? So that's the first question. And are you able to move the back book at all? That is sitting with Guardrisk, whatever there is, if there is? And then just on that 300 million VNB, is that the retained VNB? Or is that the total for their business? I just want to say I get on to (inaudible).

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

Anton, would you like to take those questions?

Anton Gildenhuis - *Sanlam Limited - CEO of SA Retail Affluent*

Thanks, Paul. Thanks, Michael. Yes, I think this is quite a unique product. And due to the nature of the product, most of the reinsurance does evolve around financial reinsurance. It's an indemnification product. So the actual exposure per policy is actually relatively small. So the business does retain most of the risk after the financial insurance. There's a little bit of greater share, but not that much. Most of the incident some participate in will be financed with insurance. Clearly, the idea would be for us to work with Capital exits team to investigate a prospect of a separate license for them to, given their growth, it makes sense to move away from a cell into a life license. There are some other advantages to that as well. So that will happen in due course.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

And then a question about the 300 million that's 100% of the capital legacy VNB.

Anton Gildenhuis - *Sanlam Limited - CEO of SA Retail Affluent*

That's correct. And that is after all reinsurance. So that is not gross of reinsurance, that's a net number that we done by capital ages.

Michael Christelis - *UBS Investment Bank, Research Division - Director and Insurance Analyst*

Can you give a sense of that margin? Is it sort of high single digits? Is it -- business -- double digit?

Anton Gildenhuys - Sanlam Limited - CEO of SA Retail Affluent

It is a double-digit margin. The main reason for that is, if you look at the radical explained the product is quite unique. We have integrated the only state proposition into a life policy as well. So the margin actually represents a profit of 2 business lines rolled up into one. So you can think of the margin, we typically get in a non-American life policy test to start with. And then you actually capitalize the state margin into the life policy as well. So if you look at the no that legacy, it's actually mostly, in fact, 95% covered business, given that the market strong activities actually materialize in the current business side.

Michael Christelis - UBS Investment Bank, Research Division - Director and Insurance Analyst

Can you kind of give us the EV itself, right?

Anton Gildenhuys - Sanlam Limited - CEO of SA Retail Affluent

We are currently. Now I'm...

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

We'll publish our own. When it comes on stream, Michael. They do actually have somebody doing their work. But you might appreciate that when we did our valuation on that, we ended up with a slightly more conservative number.

Michael Christelis - UBS Investment Bank, Research Division - Director and Insurance Analyst

Just trying to get a sense of the multiple if that's something you can give or not? -- that you're effectively paying at 1.1 million, is that something you can provide?

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

I think we will give it to you subsequently. Once the transaction is complete, and we start reporting, you'll be able to pick that up because we will put our own JV on then you'll be able to see.

Michael Christelis - UBS Investment Bank, Research Division - Director and Insurance Analyst

Perfect. And then just very quickly...

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

If you look back differently and listen to what I say about returns we expect to see being above our hurdle rate that should help you.

Anton Gildenhuys - Sanlam Limited - CEO of SA Retail Affluent

Yes. I think I just want to emphasize one more thing, Michael, is clearly, our coverage in will include 3 components, and that will be our 26% share of the 300 million, so to speak. Then we'll also be able to put even behind our profit of business returning Sanlam channels and then Finally, also gas. So we've got 3 sources in Sanlam.

Michael Christelis - UBS Investment Bank, Research Division - Director and Insurance Analyst

Make sense. Perfect. And then moving on to the BrightRock transaction. Can you give me a sense of how big the hit to the EV was during Covert maybe in terms of variances? And then yes, if the -- just trying to understand, you moved from -- you bought 53% of BrightRock in 2016. Is there any reference I can find in your annual report. When did you go from 53% to 62% -- and what did that cost you?

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

Okay. So I think this is a question everyday be able to answer. So what happened, and I don't remember the exact date, but Grant and Abigail can you help here. So what happened is during COVID, Michael, their finances got stretched, and we injected, I think the ZAR 160 million of capital in exchange for an increase in shareholding. So that's why from the original to now, it's increased. I don't know if anybody on this call knows the impact at the fingertips of the reduction in embedded value from the COVID period. But I don't know, maybe I'm underestimate.

Anton Gildenhuis - Sanlam Limited - CEO of SA Retail Affluent

Talk in principle to it, Paul, Brito makes extensive use of reinsurance. So they have taken a better edge in terms of mortality experience, but that has been muted significantly by reinsurance. But on the other hand, BrightRock also experienced excellent persistence most ensure has intended to do, during '20 and 2021. So the EV has also been limited by that as well. So it's not been that significant.

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

we need to explain to Michael that the reason was recurrence and they were protected from a claims point of view. The reason that they ran into difficulty is because it's the volume a liquidity problem on the balance sheet for them, and that's why it needed capital injectors.

Anton Gildenhuis - Sanlam Limited - CEO of SA Retail Affluent

And so it was more of a liquidity constraint than a solvency constraint.

Michael Christelis - UBS Investment Bank, Research Division - Director and Insurance Analyst

All right. Excellent. And then lastly, can you give me any idea as to your thoughts around the remaining excess capital? Do you still see many areas to deploy? Or could we expect perhaps a repatriation to shareholders through some sort of special...

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

Michael, just in case you need here, but I did say the group's discretionary capital position remains strong, both these transactions and further guidance on the capital allocation of the deployment will be provided with the annual results on the 9th of March.

Grant Davids - Sanlam Limited - Executive Head of IR

Do we have any further questions, please raise your hand, if you are any? Was there a question, please go ahead.

Paul Brendan Hanratty - Sanlam Limited - Group CEO & Executive Director

I think somebody is trying to raise their hand.

Sarine Barnard

Sorry, it's Sarine. I'm trying to find the right button. Can I ask a question? I'll let I just wanted to ask, so in the ARC investments, financial statements, they value the stake in capital legacy fair value before the discounts that they apply at 370 million, and that's for a stake of 11%. And then it's not stating that the valuation technique is EV. So is it fair to assume that the EV of that business is just that 370 million divided by 11%, so about ZAR 3.4 billion so implicating implying that you've paid a slight premium to embedded value.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

So Sarine, I... I don't have those numbers that you're quoting at hand. What I can tell you is that of going to be very careful about the dates. I'm not sure which are date you're looking at.

Sarine Barnard

June '22. So there is a difference, yes.

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

And this thing has been growing at a pricing rate. You will recall that we bought into our financial services in have remind me, was a 2020. So we ourselves put a value on this business at that point. And it's been quite extraordinary how it has grown. But I can't find a logic error in what you said. My own view is that we've created a considerable multiple to embedded value. So rather wait until we publish the GEV on us. The transaction was based around appraisal value, not embedded value.

Anton, can you add anything, but I think Sarine's numbers don't ring true for me. Although I can't -- logic, but...

Anton Gildenhuis - *Sanlam Limited - CEO of SA Retail Affluent*

If I listen to the numbers, it sounds like an appraisal value numbers from Arbor...

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

I think so. I think that's an appraisal value. They may have said it's based on embedded value, but. And so we don't have that Sarine's quite hard. I don't have that in front of me.

Grant Davids - *Sanlam Limited - Executive Head of IR*

Do we have any further questions?

Paul Brendan Hanratty - *Sanlam Limited - Group CEO & Executive Director*

Brilliant. Okay. Well, look, thank you. We really appreciate it at time on a Friday afternoon. We sure you've got more exciting things to plan for the weekend. So thank you very much, and thanks very much to Abigail and Anton, Grant for making time as well. And I hope you all have a wonderful weekend.

Grant Davids - *Sanlam Limited - Executive Head of IR*

Thanks very much. You may disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.