



# DISCOVERY LIMITED | DMTN ROADSHOW

23 & 24 October 2017

DEON VILJOEN (GROUP CFO) AND ANDREW RAYNER (GROUP CRO)

# Team introduction

01 | **Deon Viljoen:** Group Chief Financial Officer

02 | **Andrew Rayner:** Group Chief Risk Officer

03 | **Fareed Chothia:** Group Corporate Finance

04 | **Michael Curtis:** Group Head Quants and Actuarial

05 | **Jackie Symons:** Group Head Investor Relations

Discovery is a global integrated financial services organisation that uses our pioneering Shared-Value Insurance model across businesses. Our growth has largely been organic.

- Funding to date has been sourced from relationship banks and Prudential in the UK
- The Group's debt is managed within a prudent risk framework
- The DMTN program is a key element of Discovery's long-term funding strategy as the Group continues to invest for growth
- The DMTN programme is being set-up to diversify funding sources
- The inaugural issuance will be used primarily for VitalityLife (UK) and general corporate purposes in SA
- Strong cash generation in Discovery Health (SA) supports debt servicing requirements
- Moody's have assigned a Aa3.za national scale credit rating to Discovery Limited

01

Introduction and strategic focus

02

Governance and risk management

03

Financial performance

04

Debt overview and DMTN issuance

# Introduction and strategic focus

# Our Ambition



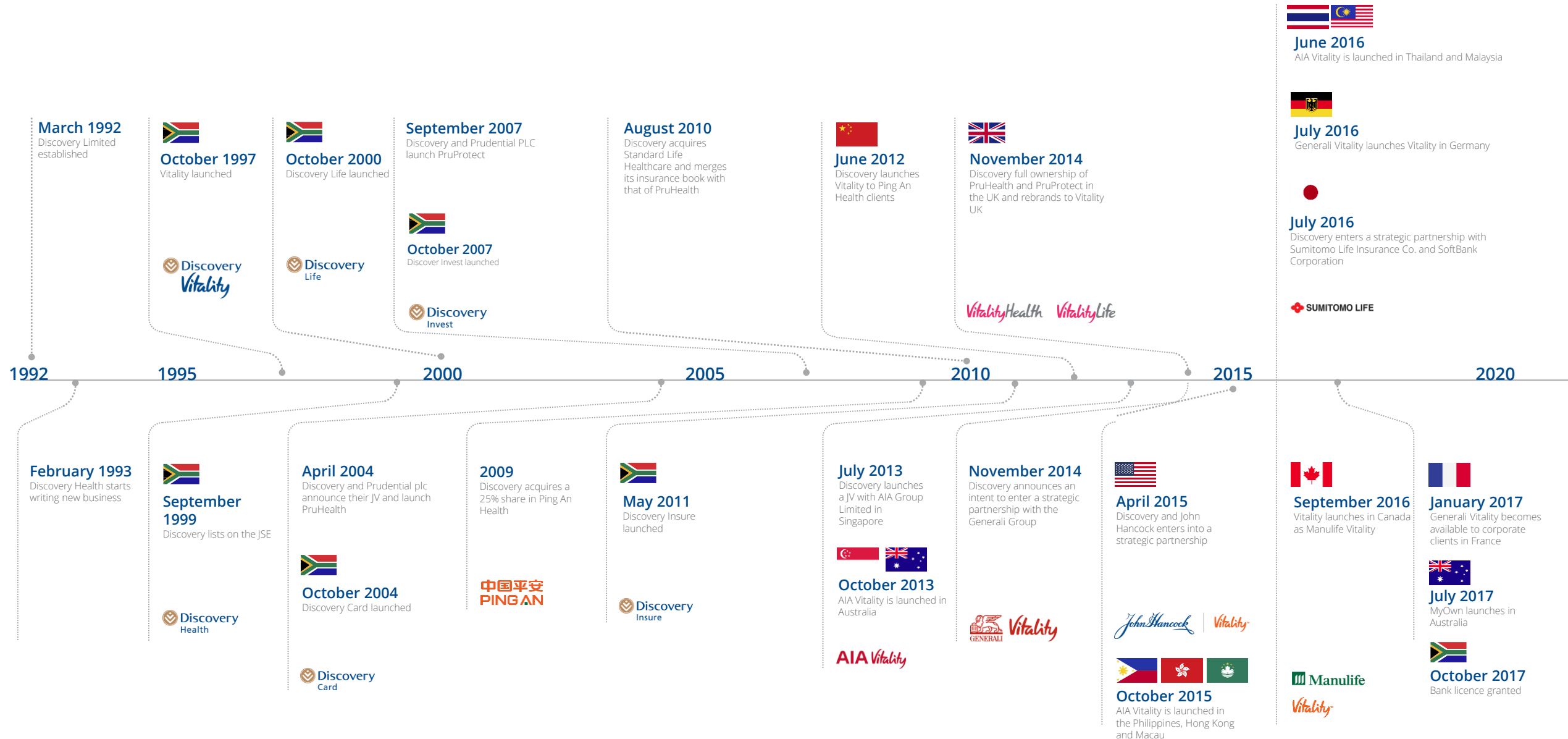
Be the **best insurer in the world** and a **force for social good** with **powerful group assets** and **brilliant businesses** resulting in a **profound impact**



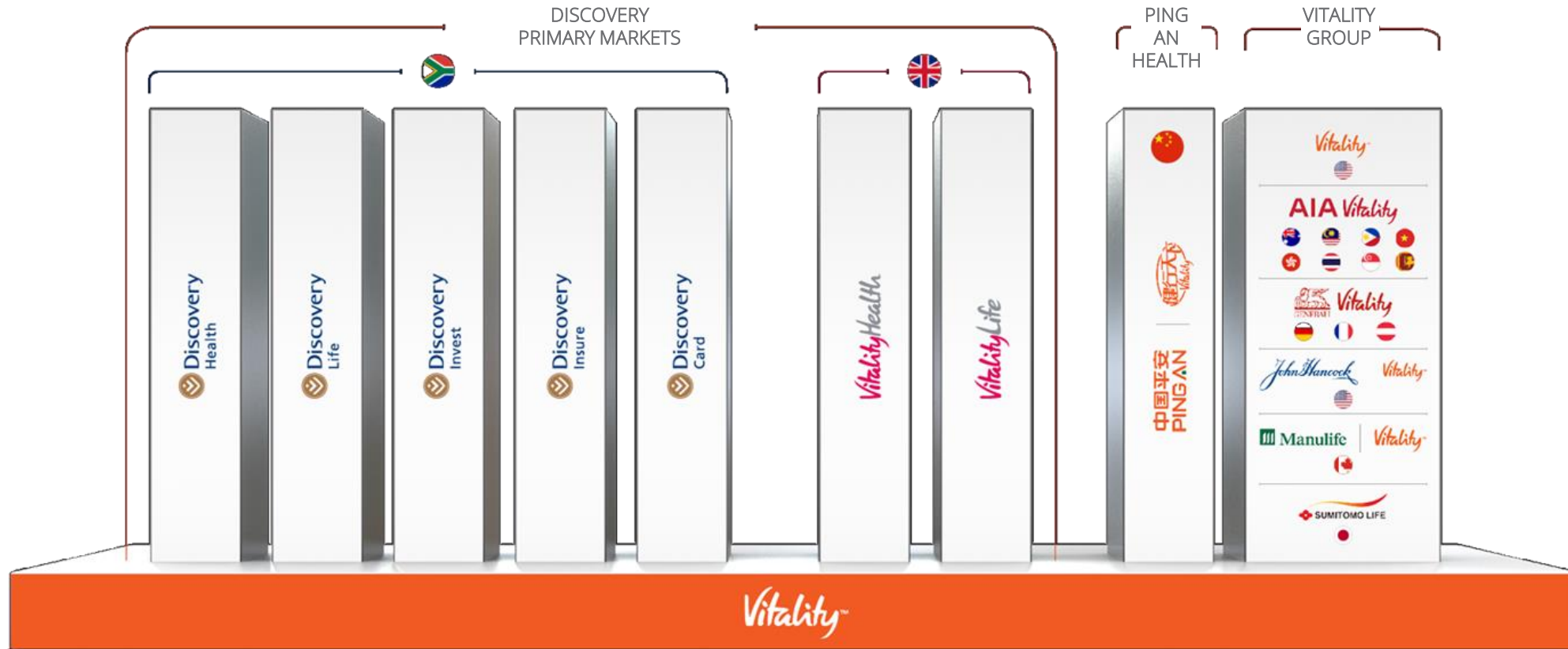
# Our Core Purpose

Make people **healthier** and **enhance** and **protect** their lives

# Evolution of the group



# Group operational structure



## Core purpose

Make people healthier and enhance and protect their lives

## Footprint

16 countries  
c10m clients  
Adding ~150k every month

- Discovery Health is administrator to Discovery Health Medical Scheme & 18 closed medical schemes
- Discovery Card will integrate into Discovery Bank on launch



## Why & How

### Core purpose

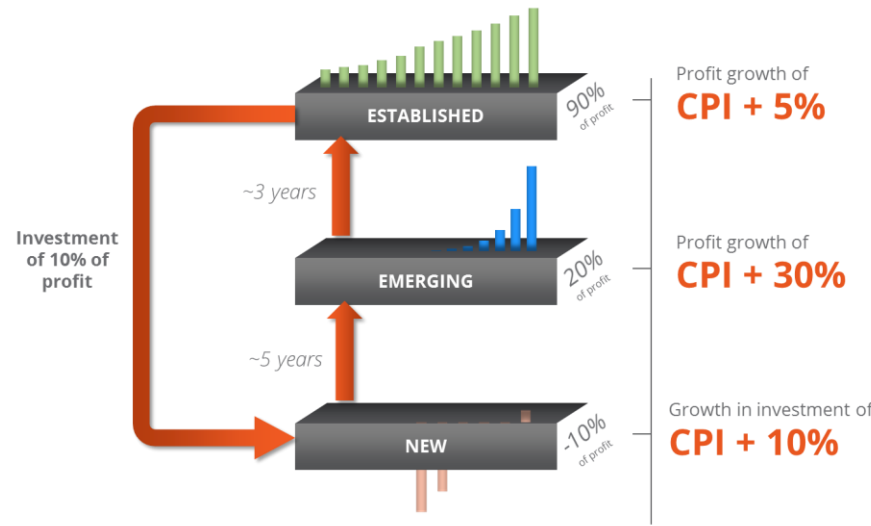
Make people healthier and enhance and protect their lives



### Vitality Shared-Value Insurance Model

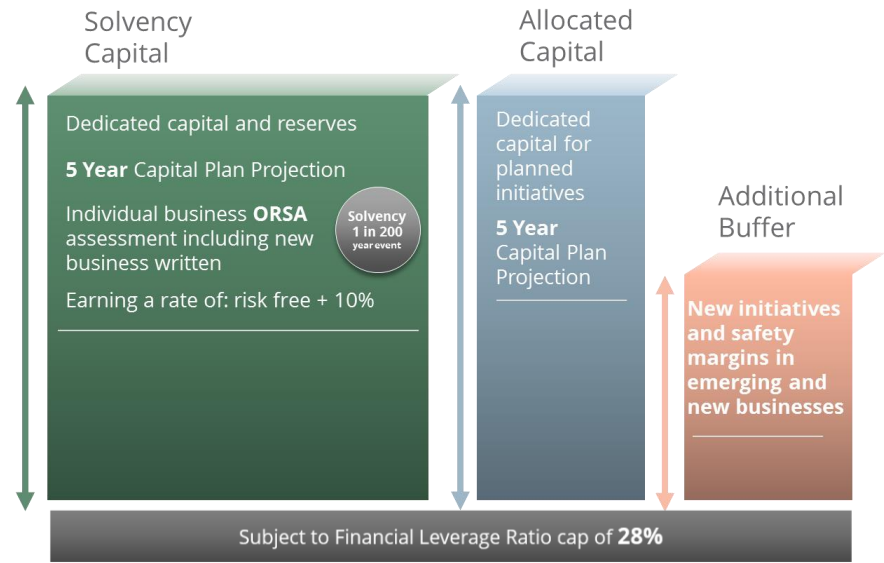


## Growth Methodology



Target group profit growth of **CPI + 10%**

## Capital Philosophy

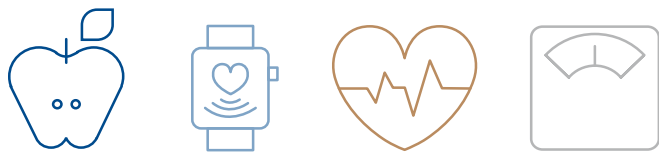


Separation of Solvency Capital, known initiatives and buffer for unplanned events

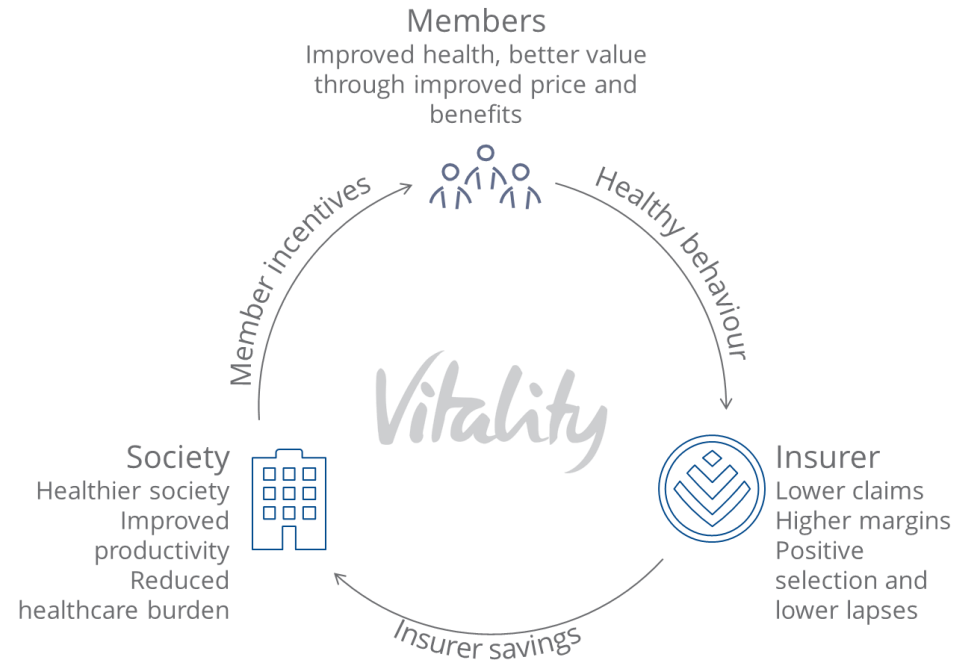
# The Vitality Shared-Value model

## WHY

Make people healthier and enhance and protect their lives



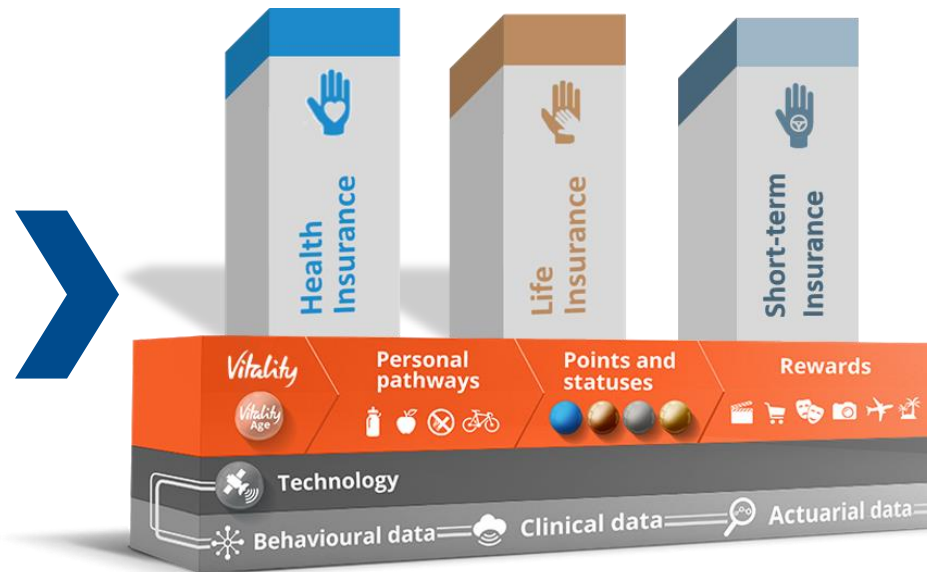
## HOW



## WHAT

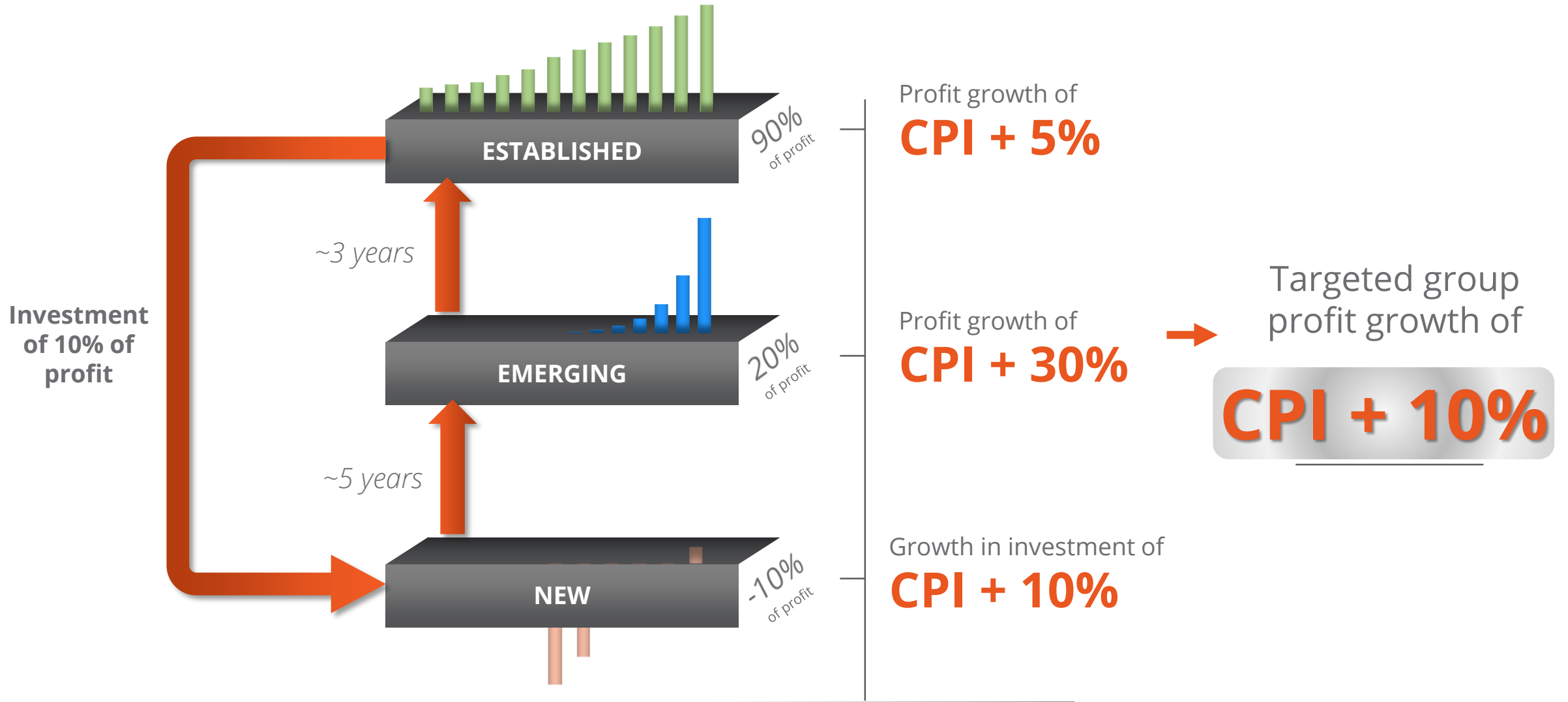
- Health insurance
- Life insurance
- Long-term savings
- Short-term insurance
- Intent to enter banking

# Consequence of the Vitality Shared-Value Insurance Model



- ✓ Competitive advantage
- ✓ Initial selection
- ✓ Selective lapsation
- ✓ Behaviour change
- ✓ Bent lapse and claims experience
- ✓ Healthier society

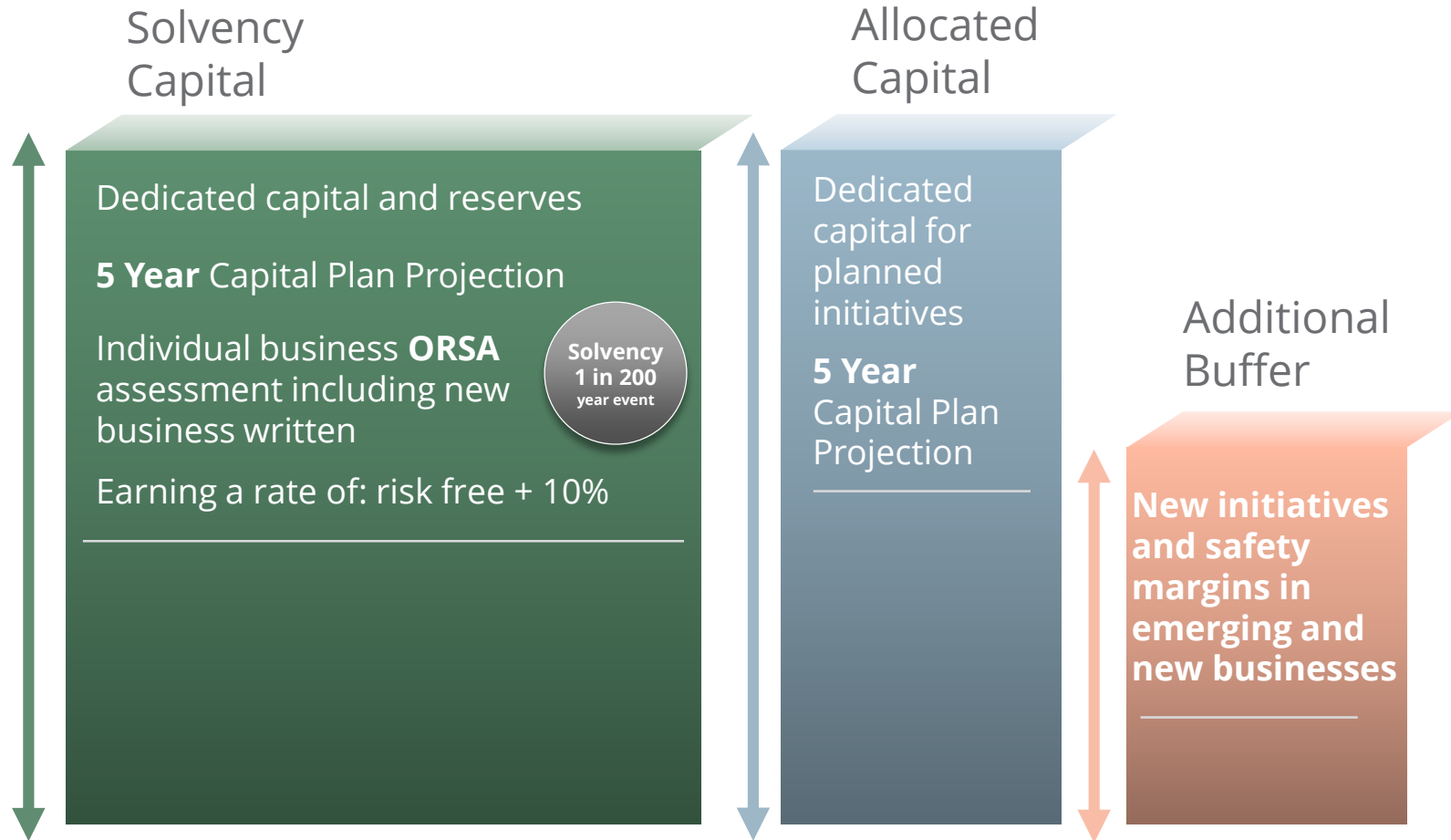
# Organic growth engine



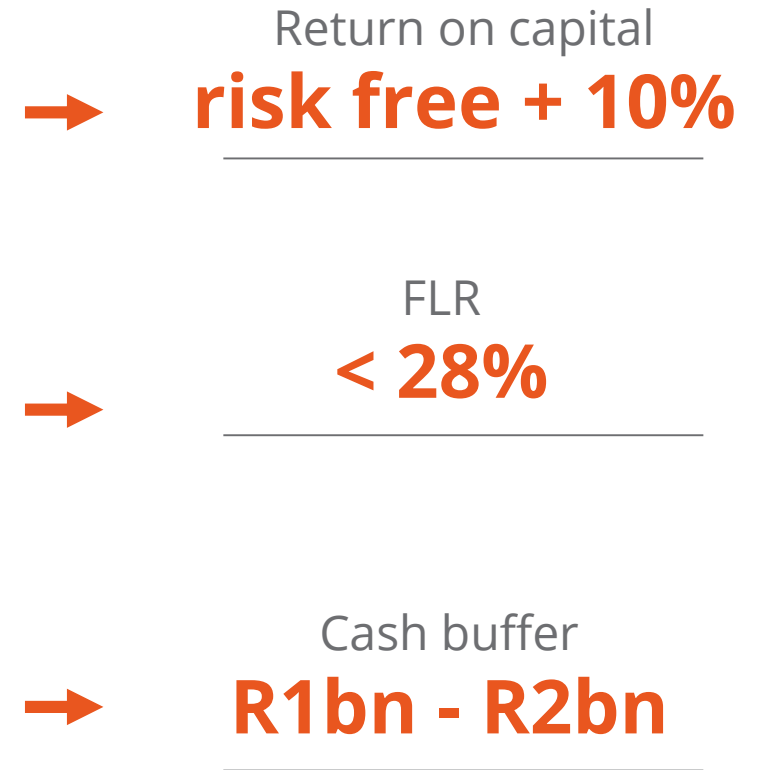
Mathematical derivation  
 $CPI + 10\% = X(CPI + 5\%) + Y(CPI + 30\%) + Z(CPI + 10\%)$   
 $X + Y + Z = 1; Z < 0$

# Capital management philosophy

## Three pillars of capital



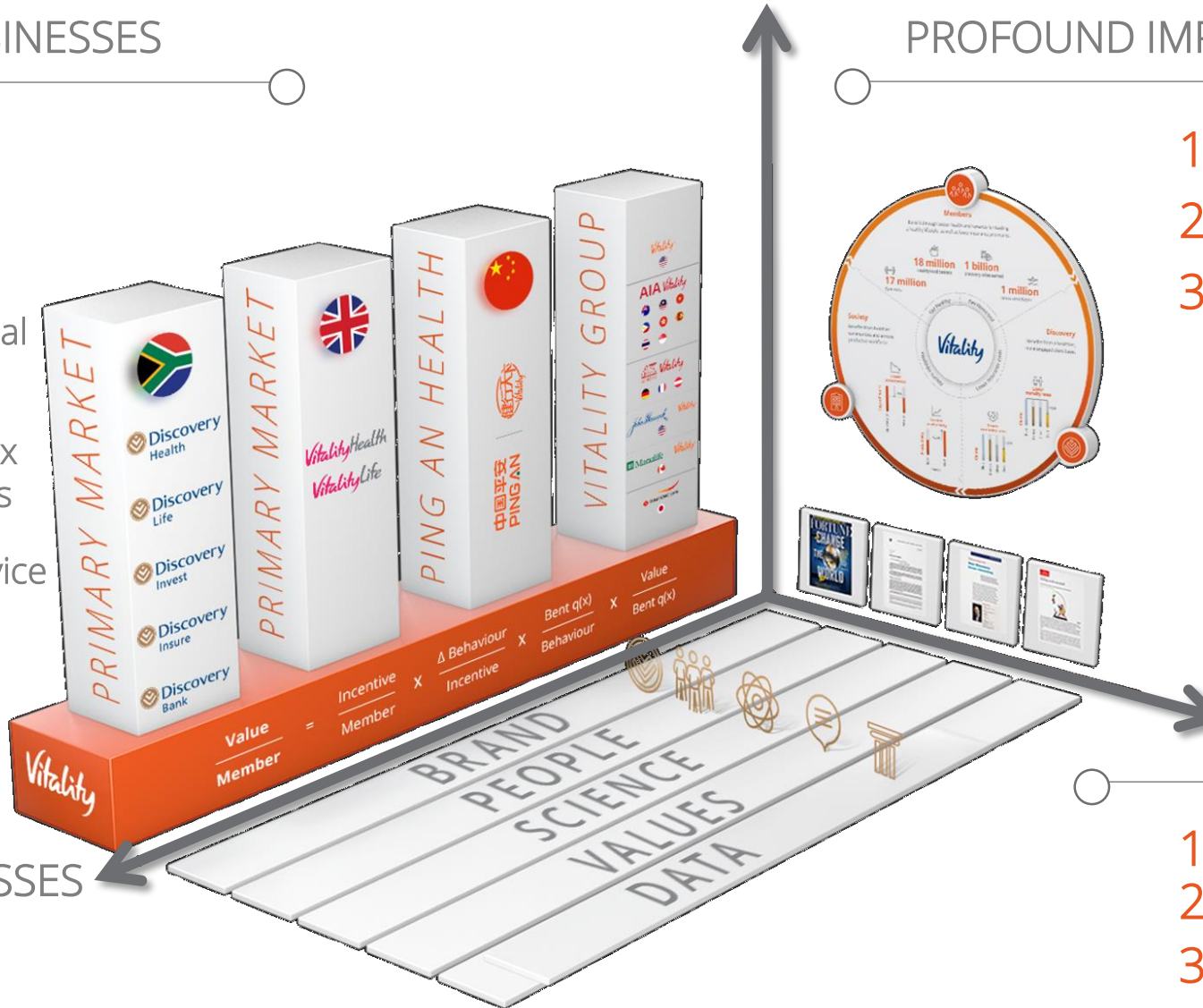
## Targeted capital measures



# Deconstructing our Ambition

## BRILLIANT BUSINESSES

- 1 Insurgent
- 2 Significant engagement
- 3 Superior actuarial dynamics
- 4 Meeting complex consumer needs
- 5 Exceptional service



## PROFOUND IMPACT

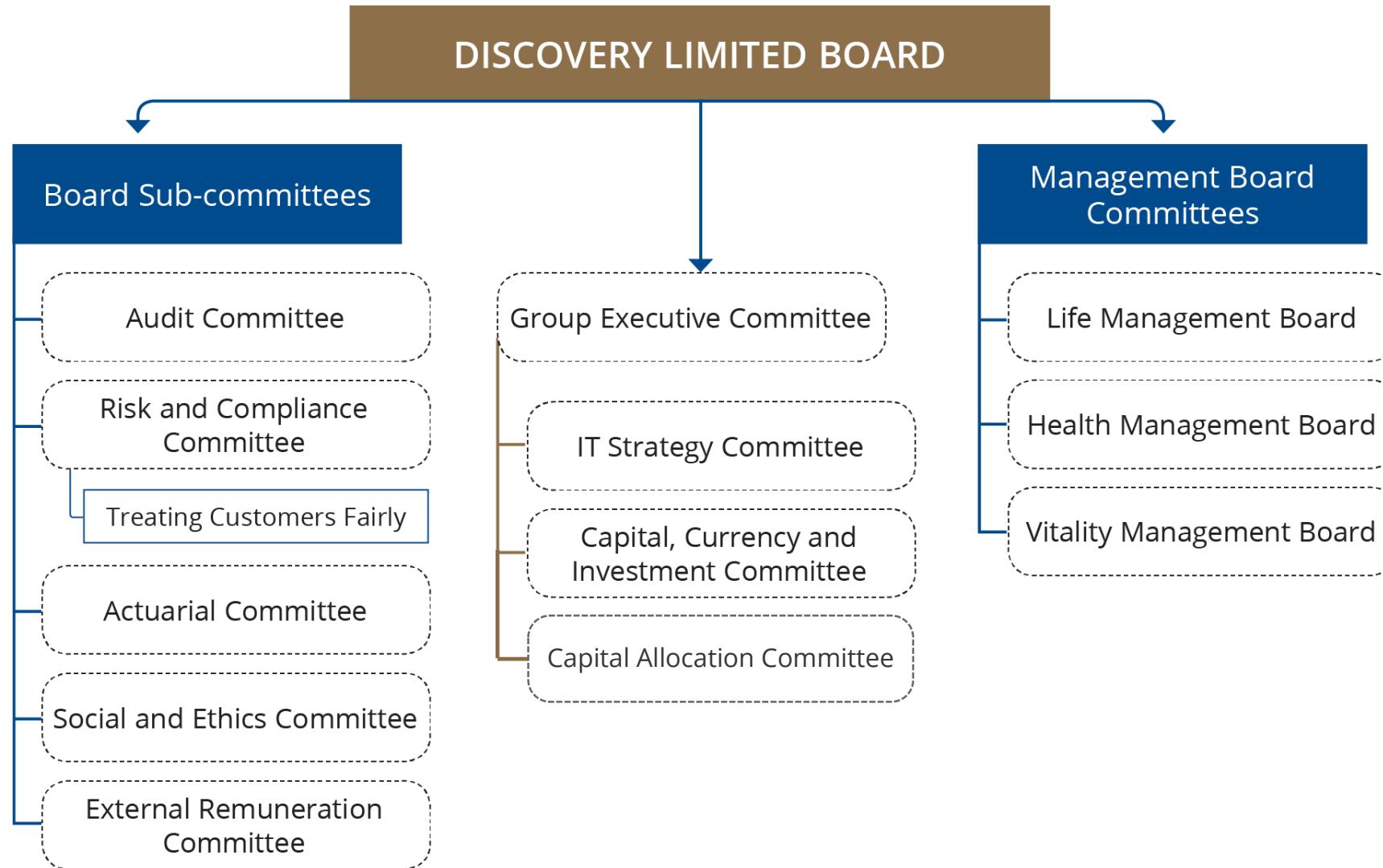
- 1 CPI + 10% profit growth
- 2 Risk free + 10% return on capital
- 3 10m Vitality members

## BUSINESSES

## FOUNDATION

- 1 Global platform, science and data
- 2 Powerful brand
- 3 Employer of choice for critical skills
- 4 Values-based culture

# Governance and risk management



- UK operations have an independent Board and governance structure
- The Discovery Bank governance structure is separately defined in line with SARB guidelines



# Leadership team

## Group Executive



Dr Shrey Viranna  
Chief Executive Officer,  
Discovery Vitality



Anton Ossip  
Chief Executive Officer,  
Discovery Insure



Dr Penny Moumakwa  
Head of Discovery People and  
Sustainable Development



Kenny Rabson  
Chief Executive Officer,  
Discovery Invest



Dr Jonathan Broomberg  
Chief Executive Officer,  
Discovery Health



Andrew Rayner  
Chief Risk Officer

## Executive Directors



Adrian Gore  
Founder and  
Group Chief Executive



Richard Farber  
Executive Director  
(from May 2017)  
Financial Director  
(up to April 2017)



Hylton Kallner  
Executive Director  
Chief Executive Officer:  
Discovery Life



Neville Koopowitz  
Executive Director  
Chief Executive Officer:  
VitalityHealth



Deon Viljoen  
Financial Director  
(Appointed May 2017)



Herschel Mayers  
Executive Director  
Chief Executive Officer:  
VitalityLife



Dr Ayanda Ntsaluba  
Executive Director



Alan Pollard  
Executive Director  
President of Product and  
Innovation, Vitality Group



John Robertson  
Executive Director



Barry Swartzberg  
Executive Director  
Chief Executive Officer:  
Vitality Group

## Non-executive Directors



Herman Bosman  
Non-executive Director



Dr Brian Brink  
Independent Non-executive  
Director



Sonja De Bruyn Sebotsa  
Independent Non-executive  
Director



Faith Khanyile  
Non-executive Director



Dr Vincent Maphai  
Non-executive Director



Tito Mboweni  
Independent Non-executive  
Director



Les Owen  
Independent Non-executive  
Director



Sindi Zihwa  
Independent Non-executive  
Director

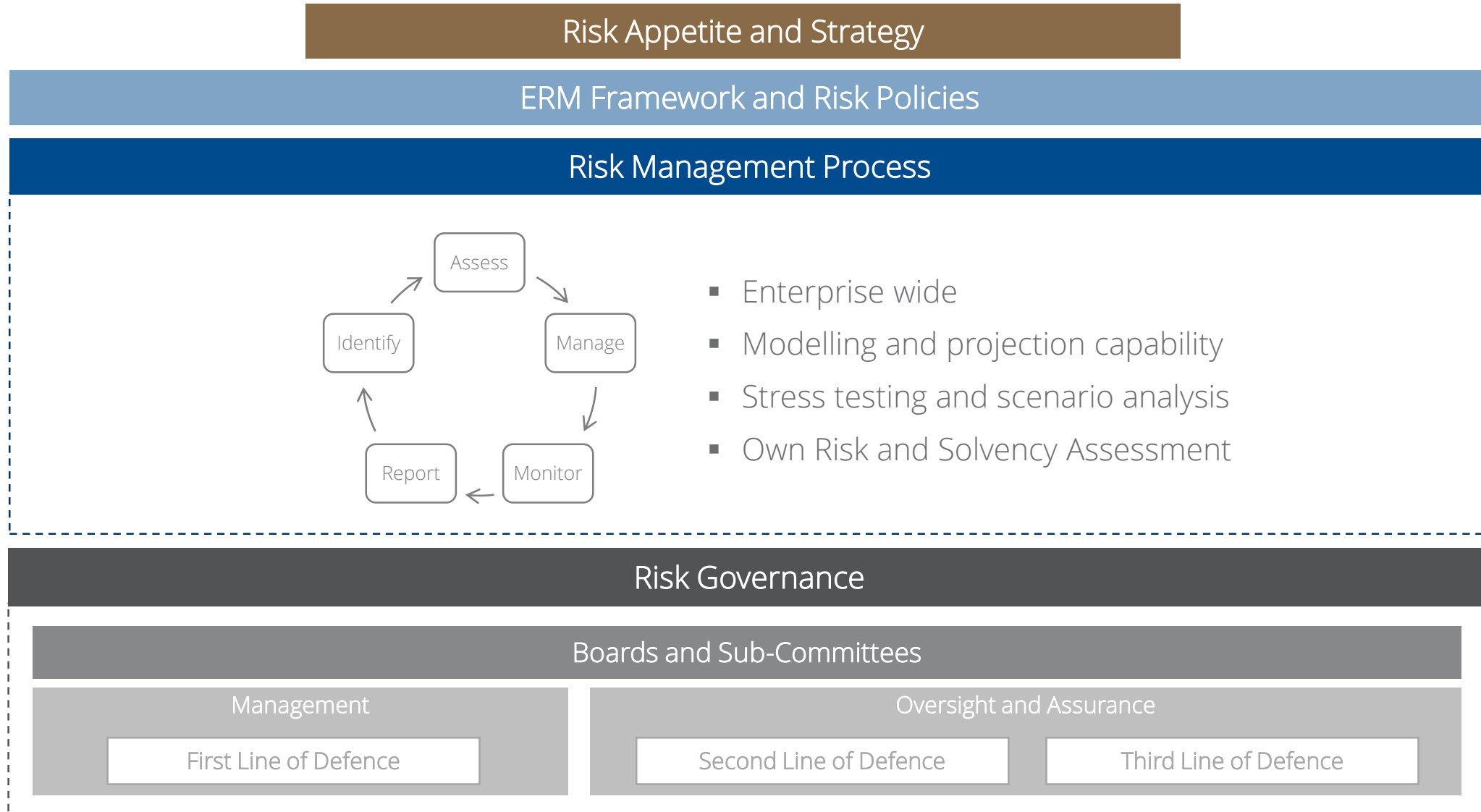


Robert Enslin  
Independent Non-executive  
Director  
(Appointed May 2017)



Monty Hilkowitz  
Chairperson of the Board  
Non-executive Director

# Group risk management framework



# Management of Financial Risks

01

## Leverage

- Debt is a key part of the funding strategy
- Manage FLR within Board approved risk appetite limit of 28%
- Debt covenants impose an external constraint
- Aim to optimize the cost of funding

02

## Funding

- 5-year financial projections maintained
  - Known funding requirements are built into plan
  - Sources of funding identified
- Internal target for Group cash buffer is R1bn to R2bn
  - Buffer for volatility and unknown future investments

03

## Liquidity

- Non-insurance entities - Detailed 12-month cashflow forecast maintained to manage liquidity
- Insurance entities - Risk framework sets minimum liquidity for operational cashflows (incl. claims and expenses)
- Each business maintains cash resources for operational liquidity

04

## Capital allocation

- Group produces cash on existing business and re-invests into new business (new insurance policies or new initiatives)
- Capital allocation decisions made in the context of the growth methodology, capital management philosophy and risk appetite
- Decisions consider return, profit growth, cash generation, capital and risk metrics

05

## Interest rates

- Policyholder assets subject to interest rate risk (discounted cashflow valuation)
  - Nature of long term insurance business
- Policyholder liabilities closely matched so low residual risk
- Interest rate sensitive shareholder assets – Risk accepted for yield
- Low appetite for interest rate risk in finance costs – Hedging instruments used

06

## Asset liability matching

- Asset-liability management policy establishes matching approach and governance
- Positions are matched by nature, amounts, timing and currency

# Challenges and Opportunities

## Economic Uncertainty

- Macro-economic pressure
- Slow pace of economic growth
- Negative impact on consumers

## Political Uncertainty

- SA political uncertainty driving economic uncertainty
- Enhanced focus on perceived slow pace of transformation

## Healthcare System

- National Health Insurance
- Role of the private healthcare system
- Sustainability of the overall healthcare system

## International Markets

- UK's exit from EU impacts our UK business
- Low interest rates
- Currency fluctuations

## Growth Strategy

- Key focus area
- Shared-Value Insurance and 2018 Ambition drive operations

# Financial performance

<p>Core new business</p> <p><b>+16%</b></p> <p>to R 16 993m</p> <p>5 year CAGR: 15.2%<sup>1</sup></p>	<p>Normalised operating profit</p> <p><b>+10%</b></p> <p>to R 7 048m</p> <p>5 year CAGR: 15.5%</p>	<p>Normalised headline earnings</p> <p><b>+8%</b></p> <p>to R 4 656m</p> <p>5 year CAGR: 13.7%</p>	<p>Dividend declaration</p> <p><b>+11%</b></p> <p>to 98cpsm (+6% FY)</p> <p>5 year CAGR: 10.6%</p>
<p>Return on Embedded Value</p> <p><b>+10.2%</b></p> <p>closing EV R 57 294m</p> <p>5 year CAGR: 12.5%</p>	<p>Investment in new initiatives</p> <p><b>8%</b></p> <p>to R 577m</p>	<p>Interest cover<sup>2</sup></p> <p><b>13.1x</b></p>	<p>Bank Borrowings</p> <p><b>R8 524m</b></p> <p>Other Borrowings<sup>3</sup></p> <p><b>R3 251m</b></p>

<sup>1</sup> Applied to core new business. Total new business 5 year CAGR (including closed schemes and fees earned by VG) is 16.6%

<sup>2</sup> Interest Cover = EBIT / Finance Costs

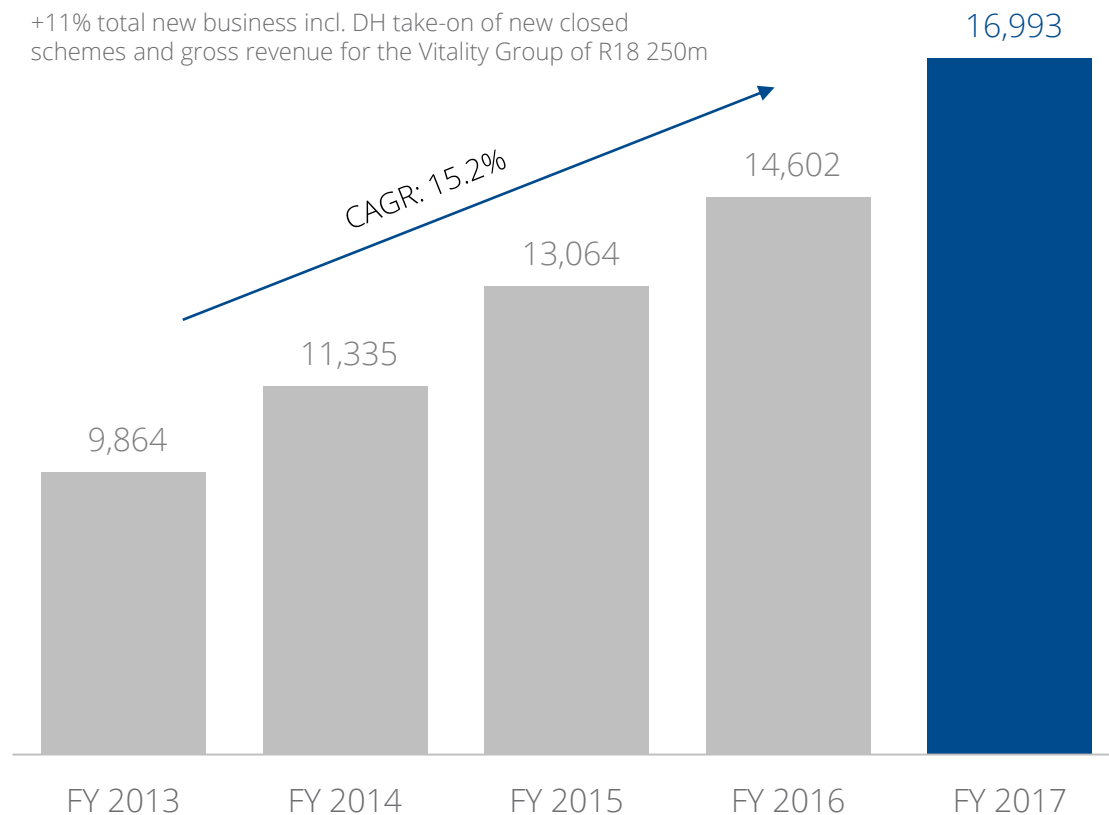
<sup>3</sup> Other Borrowings is made up of R3 080m owed to Prudential in respect of historic new business liquidity funding and R171m in respect of recourse financial reinsurance balances

# Core new business

# +16%

to R 16 993m

+11% total new business incl. DH take-on of new closed schemes and gross revenue for the Vitality Group of R18 250m



	Rm	12 months to 30 Jun 2017	12 months to 30 Jun 2016	% change
Established	Discovery Health	6 109 <sup>1</sup>	5 187 <sup>1</sup>	<b>+18%</b>
	Discovery Life	2 175	1 866	<b>+17%</b>
	Discovery Invest	2 496	2 413	<b>+3%</b>
	Vitality HEALTH INSURANCE	56 <sup>2</sup>	54 <sup>2</sup>	<b>+4%</b>
	Vitality LIFE INSURANCE	62 <sup>2</sup>	62 <sup>2</sup>	<b>-1%</b>
Emerging	Discovery Insure	895	749	<b>+19%</b>
	Vitality GROUP	634 <sup>3</sup>	512 <sup>3</sup>	<b>+24%</b>
	中国平安 PINGAN HEALTH	3 111	1 732	<b>+80%</b>

<sup>1</sup> Excludes new scheme take-ons

<sup>2</sup> In GBP terms

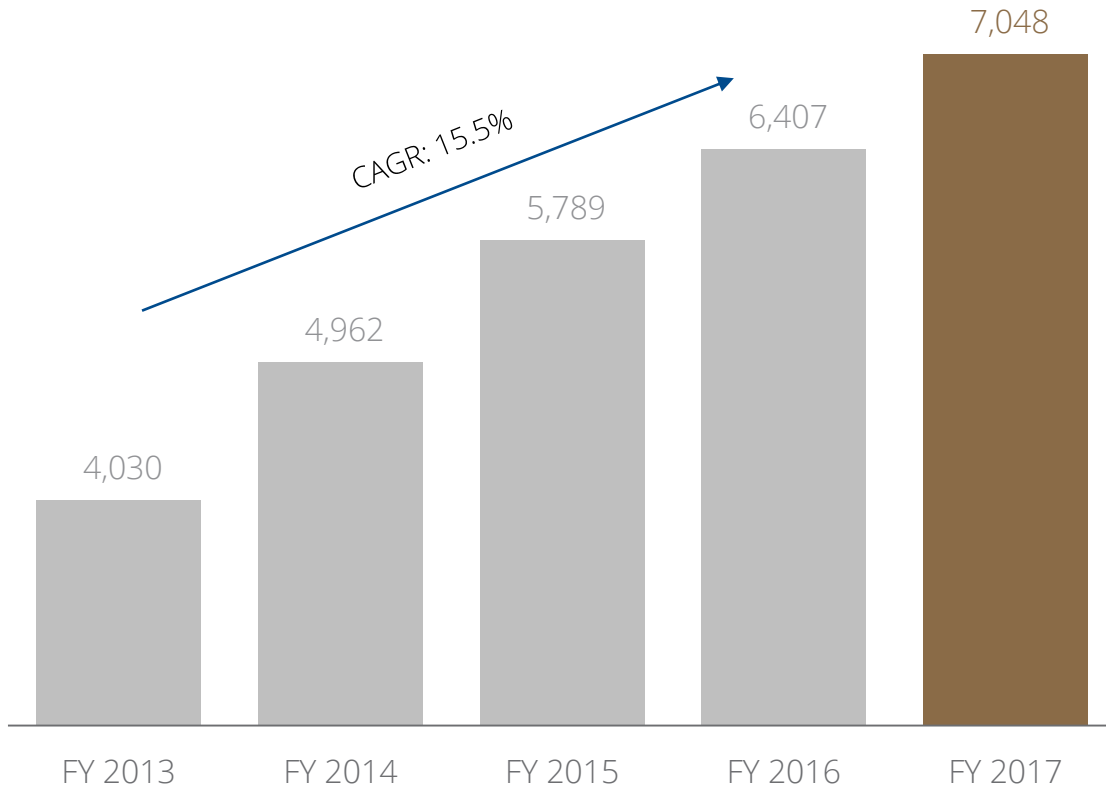
<sup>3</sup> Includes gross revenue in respect of the Vitality Group



# Strong operating profit growth

# +10%

to R 7 048m



<sup>1</sup> 54.99% share of DiscoveryCard. Card will be moved to the Banking Segment in time  
<sup>2</sup> In GBP terms

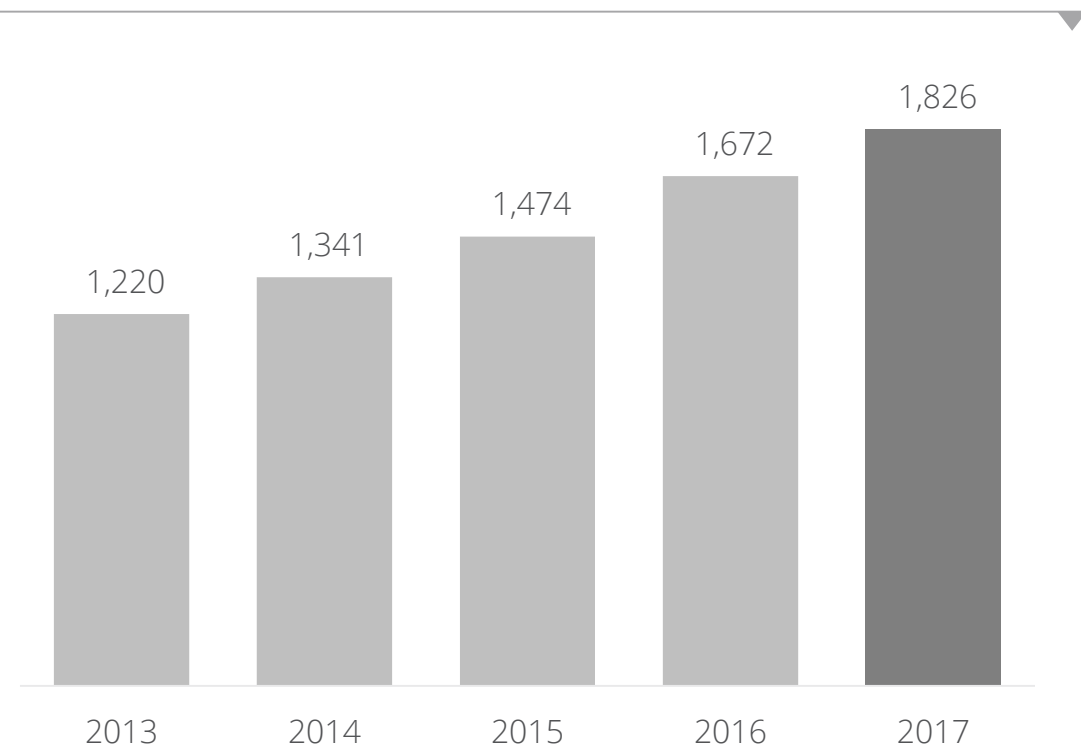
	12 months to 30 Jun 2017	12 months to 30 Jun 2016	% change	
Established	Discovery Health	2 505	2 265	<b>+11%</b>
	Discovery Life	3 588	3 271	<b>+10%</b>
	Discovery Invest	744	665	<b>+12%</b>
	Discovery Card	140 <sup>1</sup>	121	<b>+16%</b>
	Vitality HEALTH INSURANCE	16.4 <sup>2</sup>	8.7 <sup>2</sup>	<b>+89%</b>
	Vitality LIFE INSURANCE	28.1 <sup>2</sup>	31.6 <sup>2</sup>	<b>-11%</b>
Emerging	Discovery Insure	(21)	(151)	<b>+86%</b>
	Vitality GROUP	(116)	(189)	<b>+39%</b>
	中国平安 PINGAN HEALTH	(33)	(99)	<b>+66%</b>
New	(577)	(384)	<b>-50%</b>	
OTHER				

# Strong SA Health profit and cash generation

Profit after tax (Rm)

**+9%**

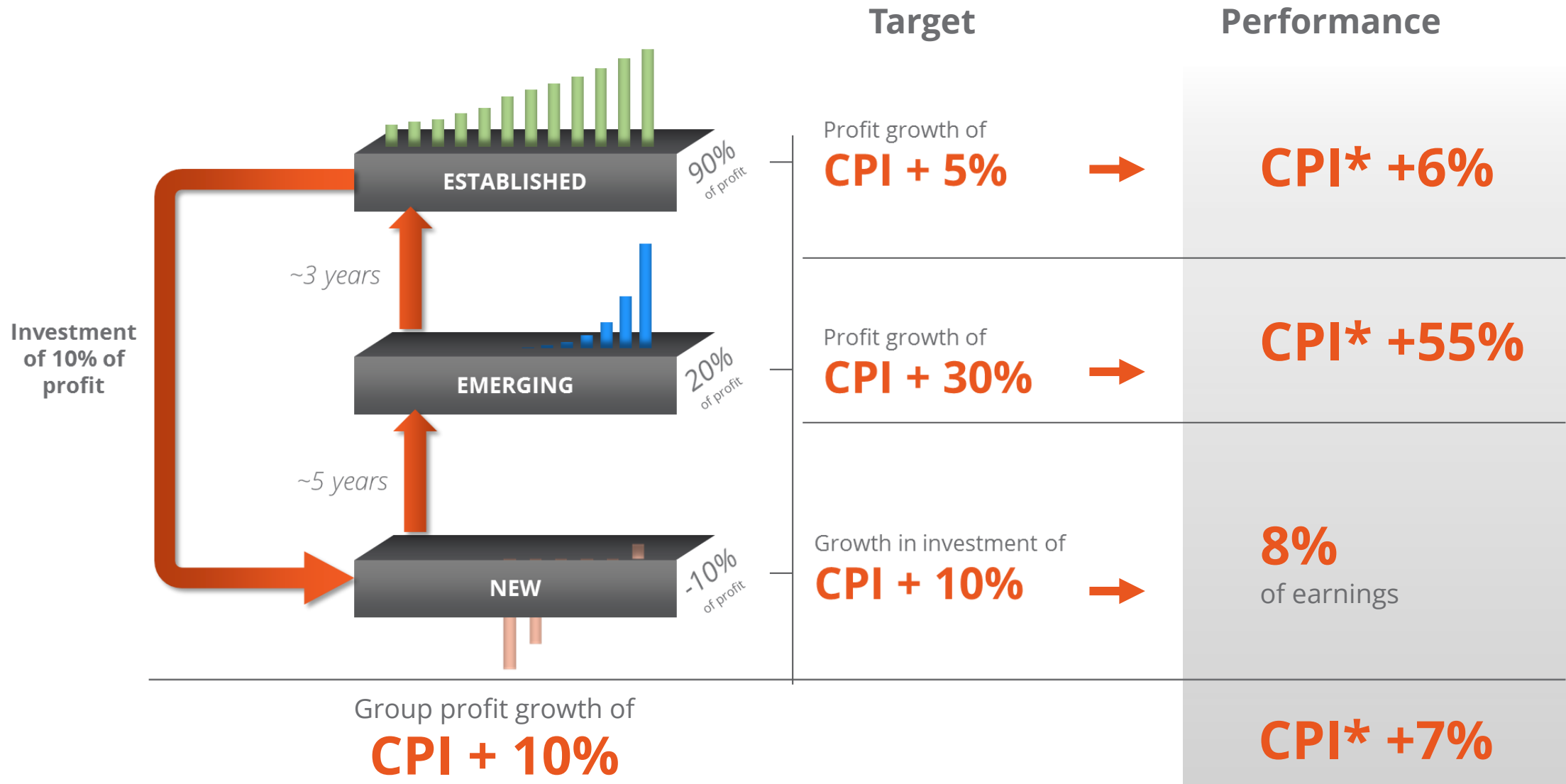
to R 1 826m



## Cash Generation

- Strong cash generation in SA Health supports debt servicing requirements
- Profit for the year reasonable proxy for cash generation
- Continued strong growth in profit and cash generation

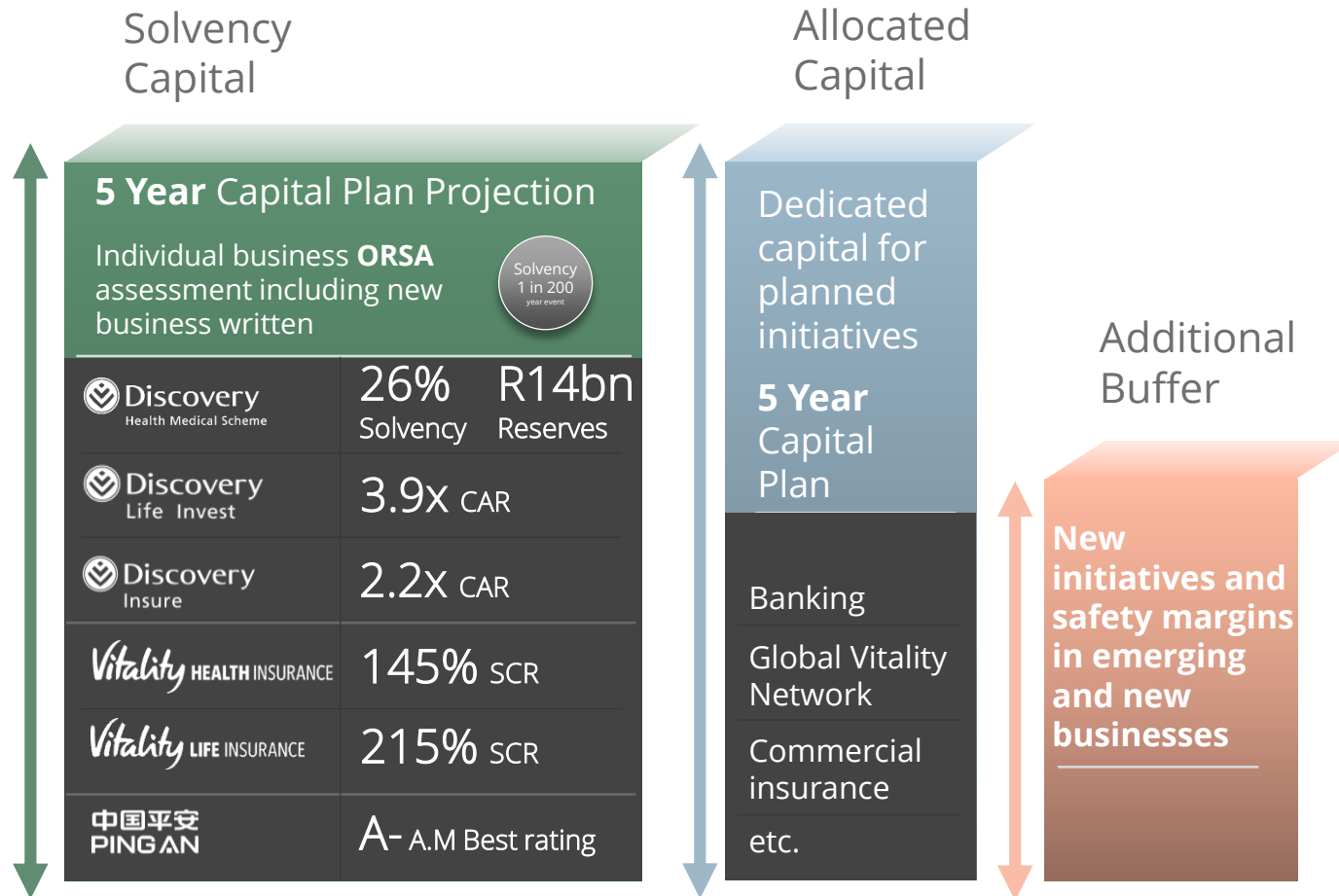
# Performance against the organic growth methodology



\* Weighted average CPI rate of 4.8% based on CPI rates in markets

# Performance against the capital management philosophy

## Three pillars of capital



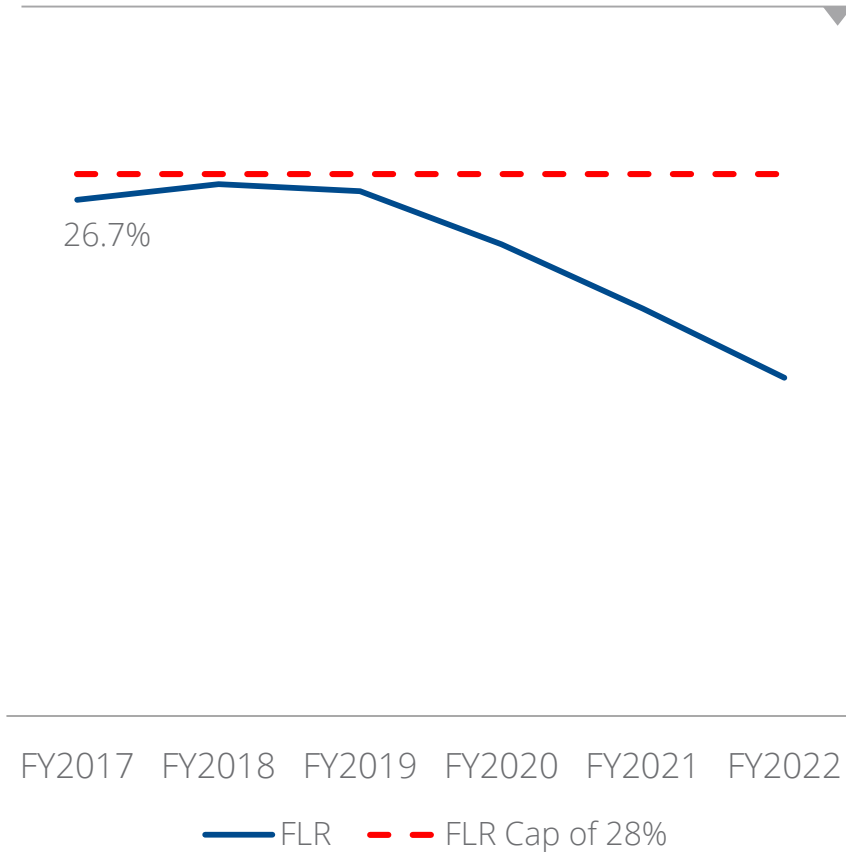
Target	Performance
Return on capital risk free + 10%	Return on capital <b>risk free + 9.3%</b>
FLR < 28%	FLR = <b>26.7%</b>
Cash buffer R1bn-R2bn	Cash buffer <b>R1.6bn</b>

# Debt overview and DMTN issuance

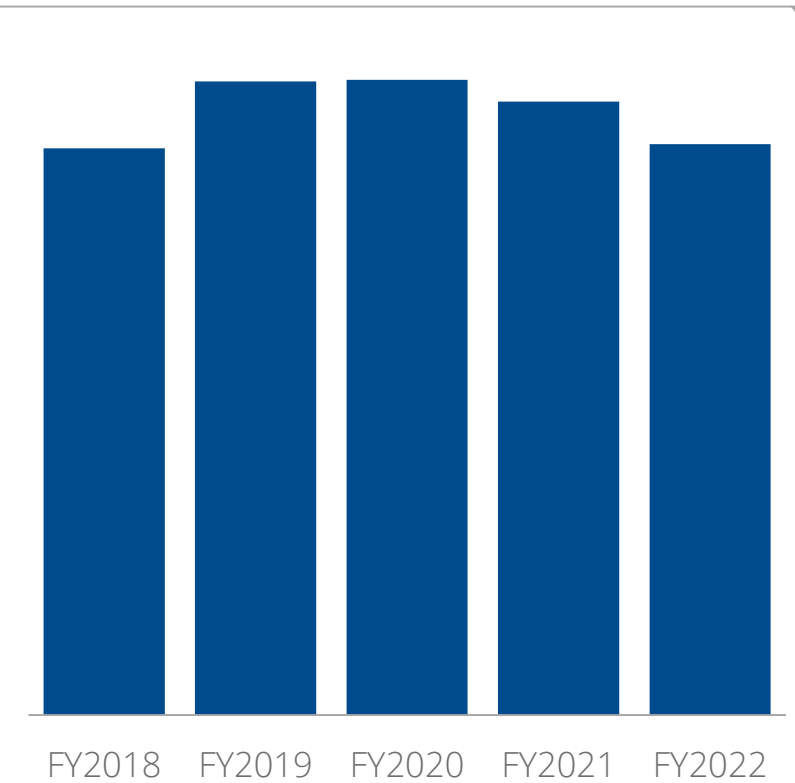
# Group Funding Plan

- 5-year financial projections maintained
- Funding strategy includes debt subject to FLR cap of 28%
- Debt levels remain well within risk appetite and existing debt covenants
- Interest cover in FY2017 is 13.1x and remains above 6x through the projection

FLR\* projection



Group debt projection



\* Financial Leverage Ratio ("FLR") = Debt (Excl. Lease Liability) / [Debt (Excl. Lease Liability) + Equity]

# Key Drivers of Funding Requirements

## 1-2 years

- Vitality Life new business
- General corporate purposes

## 2-3 years

- Transfer of Vitality Life business from Prudential balance sheet to Vitality Life Limited (Part VII)
- Refinance maturing South African and UK bank debt arrangements

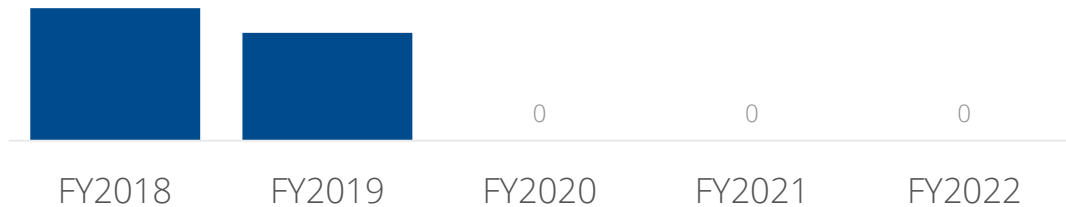
## 3-5 years

- Refinance maturing South African and UK bank debt arrangements

All included in 5-year financial projections

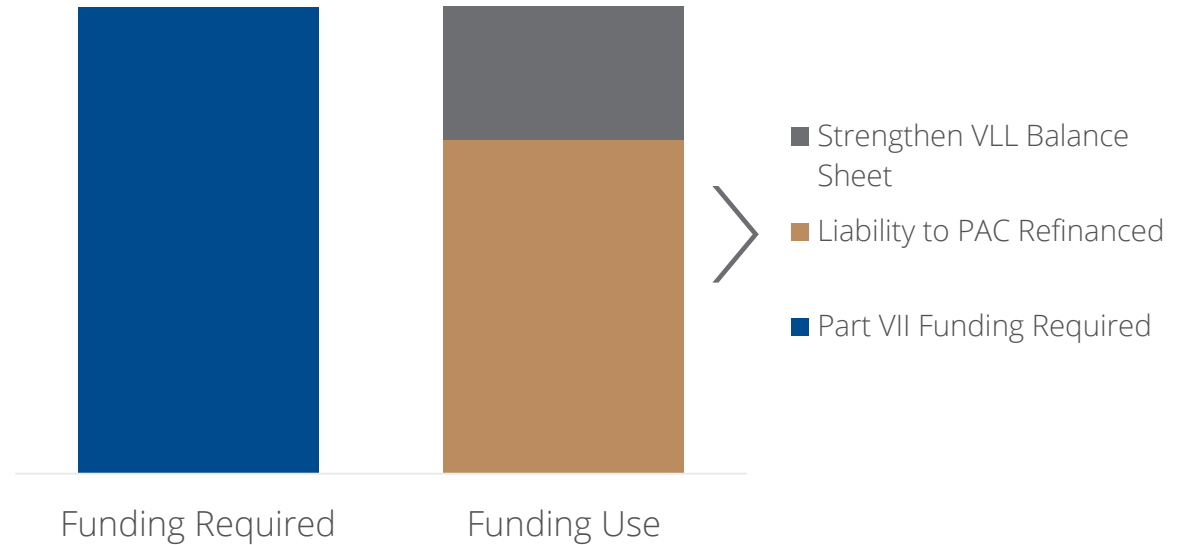
# Vitality Life Funding Requirements

Vitality Life new business funding required



- New business funding required
  - Life insurance pays significant up-front commission
  - Recovered over the life of the policy
  - Paid back over 8-10 years
  - Results in a liquidity strain
- Post Part VII (FY19) the business is expected to be self-funding

Vitality Life Part VII funding



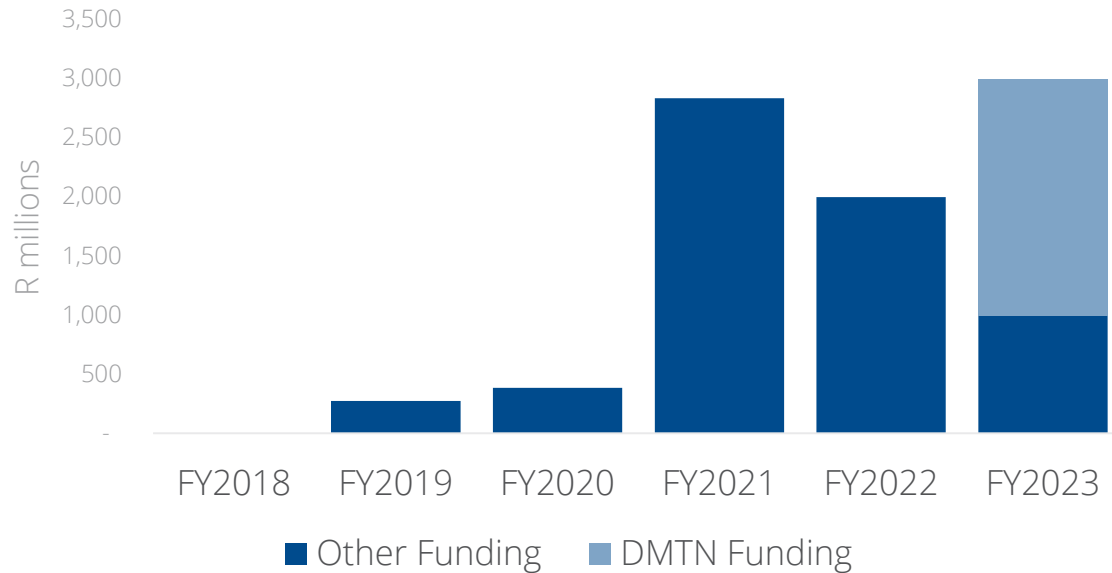
- Part VII Funding required:
  - Historic new business liquidity funding provided by the Prudential
  - On transfer this “debt balance” needs to be refinanced
- Part VII expected to be complete by November 2020

The two charts above have the same y-axis scale

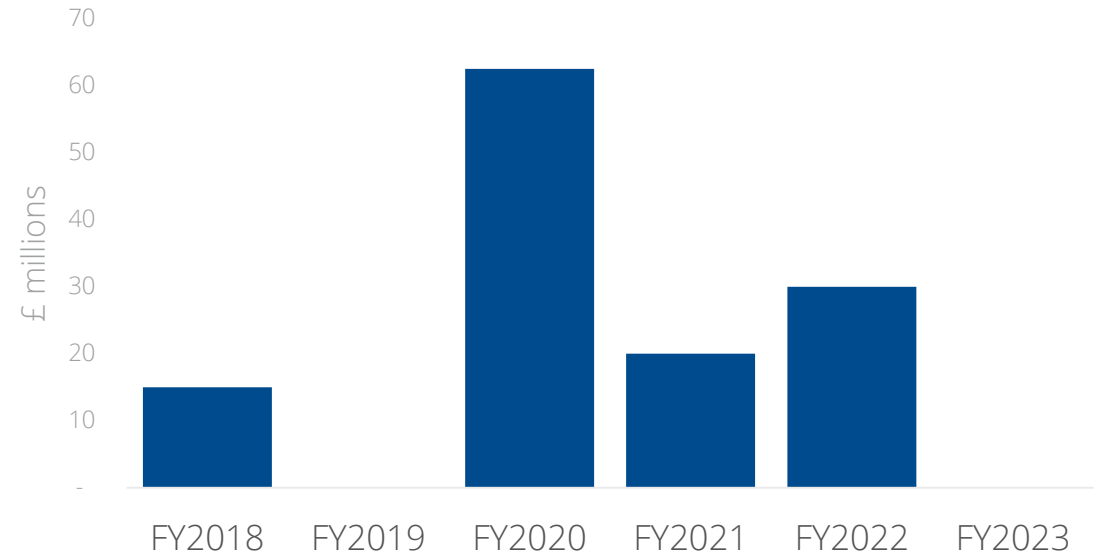


# Existing Bank Debt Repayment Profile

## South African debt refinance profile



## UK debt refinance profile



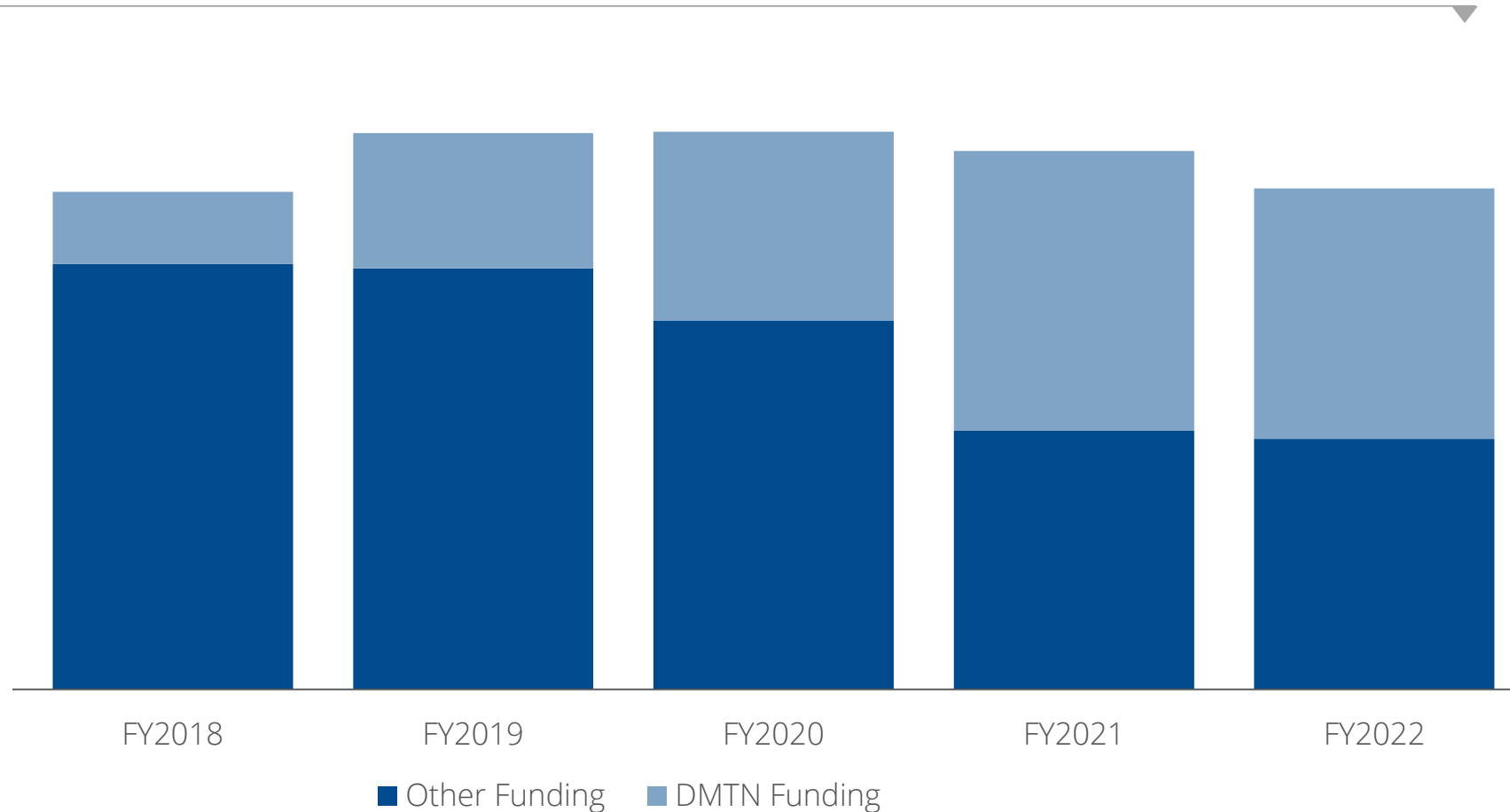
- South African bank loan syndicate established in FY2016
  - R5bn of 5-year bullet and amortising
- Investec Funding (R0.5bn) on 5-year basis raised in FY2017

- Two bank loans with HSBC
  - £100m 5-year amortising loan
  - £50m 5-year bullet loan

DMTN Programme to refinance existing debt

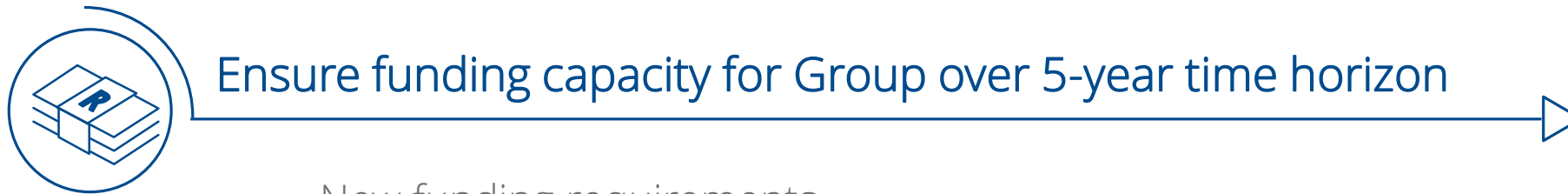
# DMTN programme will broaden funding base for the Group's debt requirements

Group debt projection overlaying DMTN\*



\* The mix between bank and DMTN funding may vary depending on market conditions at the time

# Debt Programme Objectives

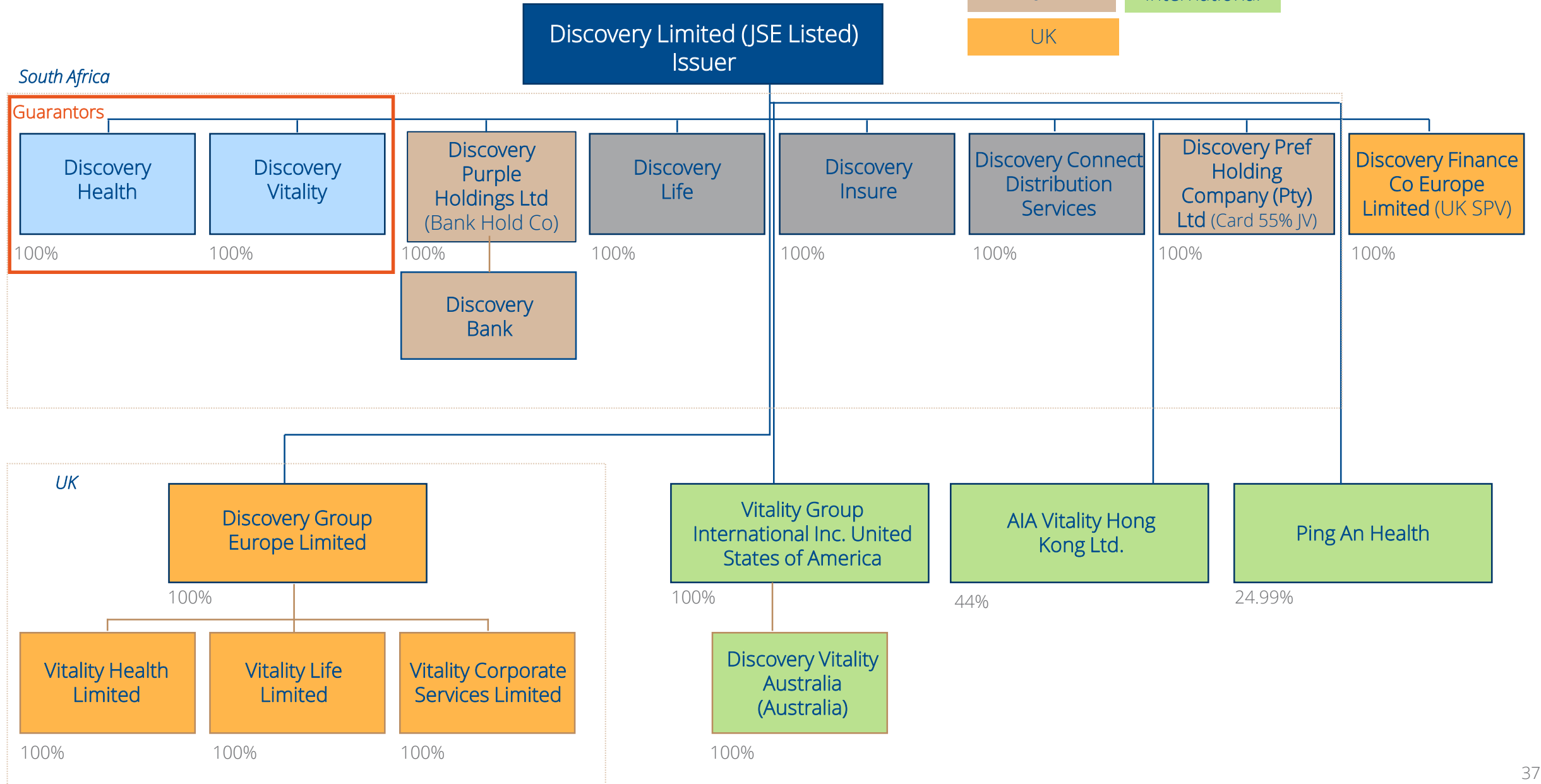
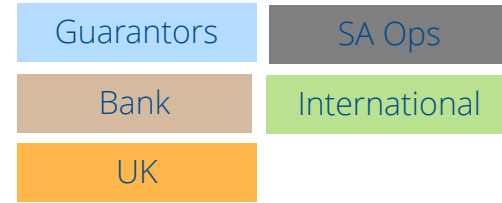


- New funding requirements
- Refinance of existing debt arrangements

# Existing Bank Debt Covenants

Covenant	Minimum Requirement	As at 30 June 2017	As at 30 June 2016
Group Debt to EBITDA ratio	Less than 2.5X	1.74	1.76
Group financial Indebtedness to Embedded Value	Less than 30% of Group EV	21%	21%
Group Embedded Value	Greater than R30 billion	ZAR 57.3 billion	ZAR 53.1 billion
Discovery Life Capital Adequacy Requirement	Greater than 1.5 times	3.9 times	3.6 times
Value of New Business (VNB)	Positive VNB for 3 consecutive 6-month period	Jun 2017: R1 281 million Dec 2016 : R1 156 million Jun 2016: R946 million	Jun 2016: R946 million Dec 2015: R1 386 million Jun 2015: R1 393 million

# Group structure: Key operations



## Moody's Insurance Financial Strength Rating (IFSR)

---

- Baa2
- 1 above the Sovereign (Baa3)

## Moody's long-term issuer (LT Issuer) rating

---

- Ba1 (global) / Aa3.za (national)

## Rating outlook

---

- Negative outlook reflects outlook on South African sovereign

## Credit strengths

1. **Very strong franchise** in South Africa and a growing global footprint
2. **Strong profitability** and **significant non-insurance fee income** from SA Health
3. **Moderate exposure** to local investments because of the capital-light nature of its business
4. **Good capitalisation** on both **regulatory** and **economic** basis

## Strength offsets

1. Challenging **operating environment** in South Africa
2. **Complexity** inherent in **shared-value insurance model**
3. **Ambitious expansion** initiatives

# Key Features of the DMTN Programme

ISSUER	Discovery Limited
SIZE (NOMINAL AMOUNT)	R10 billion
GUARANTORS	Discovery Health and Discovery Vitality (as per current SA Bank Loans)
LISTING	The Interest Rate Market of the JSE Limited
TYPES OF NOTES	<p>Notes to be issued under the Programme may comprise:</p> <ul style="list-style-type: none"><li>• Senior notes (the “Senior Notes”);</li><li>• Subordinated notes which are subordinated to the Senior Notes (the “Subordinated Notes”); and/or</li><li>• Capital subordinated notes with terms capable of qualifying the proceeds of such Notes as Regulatory Capital. Regulatory Capital Notes will require FSB approval at the time of Issuance.</li></ul>
CROSS DEFAULT	<p>The cross default will be triggered by a default by Discovery Limited and or its Guarantors in relation to the greater of R50m or 1% of EBITDA</p> <p>A material subsidiary is defined as:</p> <ul style="list-style-type: none"><li>• any Guarantor; and</li><li>• any Subsidiary<ul style="list-style-type: none"><li>• of which the Issuer owns more than 50% (fifty percent) of the ordinary shares and</li><li>• which has EBITDA (calculated on an unconsolidated basis), representing 10% (ten percent) or more of the EBITDA of the Discovery Group (calculated on a consolidated basis), according to the methodology used in the latest audited financial statements of the Issuer, consistently applied, but excluding any Subsidiary</li></ul></li></ul>
MATERIAL SUBSIDIARY	
OPTIONAL REDEMPTION EVENTS	<p>Investors will have the option to redeem their Notes should the following events occur:</p> <ul style="list-style-type: none"><li>• Issuer is no longer listed on a Financial Exchange</li><li>• The Notes are no longer listed on a financial Exchange</li><li>• There is no rating assigned to the Notes</li></ul>
EVENTS OF DEFAULT	Standard events of default including but not limited to non-payment, breach of the negative pledge, liquidation or winding up, judicial proceedings, cross default, inability to continue to operate the whole or substantial part of the business

# Indicative Issuance Terms

ISSUER	Discovery Limited
GUARANTORS	Discovery Health and Discovery Vitality (as per current SA Bank Loans)
LISTING	Interest Rate Market of the JSE Limited
ISSUER RATING	Aa3.ZA
RANKING	Senior
INDICATIVE SIZE	R1.25bn to R1.75bn
TENOR	<ul style="list-style-type: none"><li>• 5-year;</li><li>• or a combination of 5-year and 7-year notes</li></ul>
INTEREST RATE PROFILE	Floating rate notes
PROPOSED AUCTION DATE	15 November 2017





# Notes





DISCOVERY LIMITED | DMTN ROADSHOW