



# Discovery Limited Domestic Medium Term Note Programme

Debt Investor Call | November 2024

# Team introduction



- 01** | **Deon Viljoen:** Group Chief Financial Officer
- 02** | **Andrew Rayner:** Group Chief Actuary
- 03** | **Fareed Chothia:** Chief Financial Officer - South Africa
- 04** | **Alan Joffe:** Head of Balance Sheet Management – Discovery Bank
- 05** | **Peter Bolink:** Head of Group Actuarial



# AGENDA

- 01** Overview
- 02** Business Model and Financial Performance
- 03** Debt Overview
- 04** DMTN Issuance
- 05** Questions



01

# Overview

# Purpose of debt raise

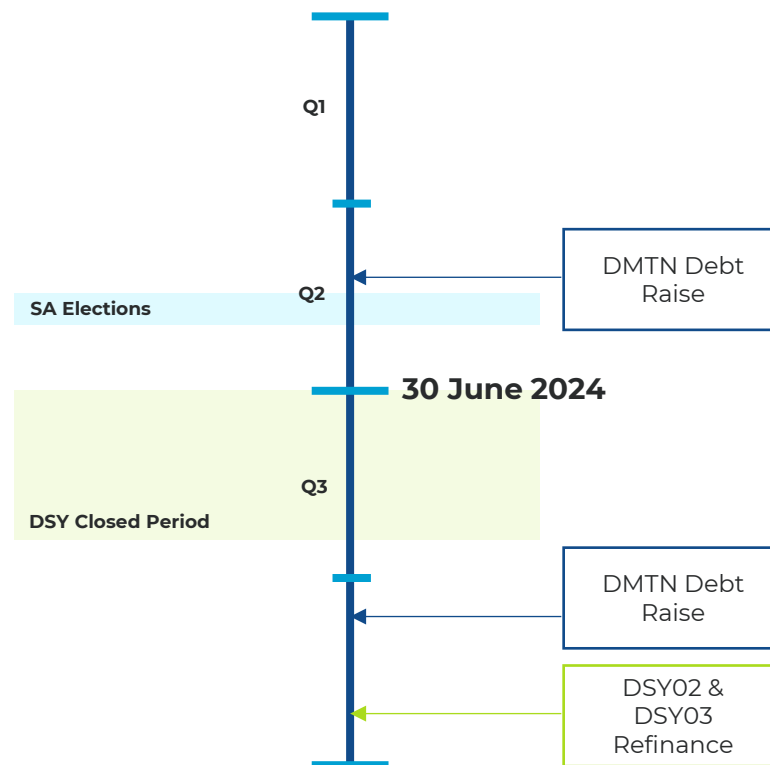


## Notes Maturing in 2024

Stock code	DSY02	DSY03
Nominal Value (Rm)	2,000	200
Tenor (years)	7	7
Date Issued	21-Nov-17	21-Nov-17
Maturity Date	21-Nov-24	21-Nov-24
Type of Notes	Floating Rate	Fixed Rate
Interest Payments	Quarterly	Semi-annual

Discovery intends to refinance these maturities as they fall due in November, in line with funding plan to keep debt flat in the short term

## Proposed Debt Raise



Discovery to stagger the debt raises intended to refinance maturing debt between H1 and H2 of 2024, to manage timing and uncertainty

## Use of Proceeds

**May 2024 Issuance:** Discovery **raised cR1.5bn**, split between 3.5- and 5.5-year tenors (DSY08 and DSY09) at lower end of pricing guidance. This issuance pre-financed part of the maturing DSY02 and DSY03 notes.

**November 2024 Issuance:** Discovery is intending to **raise cR1.5bn** (with the option to upsize to R1.75bn should pricing and volume support) to refinance the balance of the maturing DSY02 and DSY03 notes, with the remainder applied to **further optimize existing debt**. The existing bonds **DSY08 and DSY09 will be tapped** to accommodate this issuance.

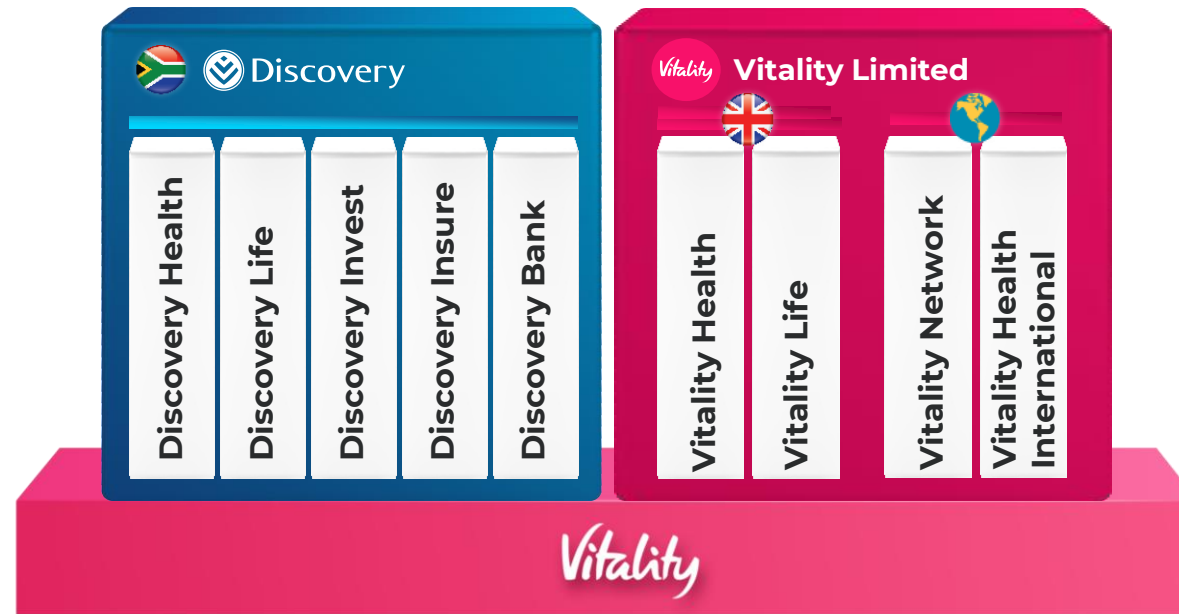
Given that the excess raised as part of the November 2024 issuance will be used to optimize existing debt, Discovery does not anticipate an increase in total debt for year-end 30 June 2025



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# Business Model and Financial Performance

# FY24 performance overview



Normalised operating profit  
**+17%**  
to R11 604m

Core new business  
**+18%**  
to R26 667m

Total income from non-insurance  
**+16%**  
to R6 191m

Normalised headline earnings  
**+15%**  
to R7 329m

Headline earnings  
**+7%**  
to R7 202m

Excluding discontinued products like VitalityInvest and DBI and Ping An Health reinsurance business



# Strong operating performance



ZARm	<b>R11 604m</b> <b>+17%</b> <b>Operating profit</b>		<b>R26 667m</b> <b>+18%</b> <b>New business<sup>2</sup></b>		<b>R6 191m</b> <b>+16%</b> <b>Non-insurance income</b>	
Health	3 972	+7%	11 069	+26%	1 260	+5%
Life	4 765	+9%	2 942	+4%		
Invest	1 522	+20%	3 300	+8%		
Insure	248	+240%	1 388	+11%		
Bank	-454	-41%			2 102	+39%
Other SA <sup>1</sup>	-336	+20%	1 038	+38%		
<b>SA</b>	<b>9 717</b>	<b>+16%</b>	<b>19 737</b>	<b>+19%</b>	<b>3 362</b>	<b>+24%</b>
Vitality Health	435	-47%	2 488	+21%		
Vitality Life	375	-20%	1 956	+14%		
UK initiatives	-163	-70%				
<b>UK</b>	<b>647</b>	<b>-14%</b>	<b>4 444</b>	<b>+17%</b>		
Vitality Network	533	+30%			1 894	+16%
VHI - Ping An Health	1 124	+85%	2 486	+14%	935	-6%
VHI - Other	-386	+98%				
VG initiatives	-31	-11%				
<b>VG</b>	<b>1 240</b>	<b>+57%</b>	<b>2 486</b>	<b>+14%</b>	<b>2 829</b>	<b>+8%</b>

<sup>1</sup> Vitality, Other SA Initiatives and Group initiatives and central costs

<sup>2</sup> Excl products in run down



# Below the line affected by swaption in prior period



Rm	12 months ended Jun-24	12 months ended Jun-23	%
<b>Normalised profit from operations</b>	<b>11 604</b>	<b>9 917</b>	<b>17%</b>
Forex losses/gains	-87	150	
1 DP financing lease impact	-105	-134	
Investment income and fair value gains on financial instruments	480	354	
Finance charges excl. 1DP finance lease	-1 750	-1 628	
Other	-131	-117	
<b>Profit before fair value gains on VL swaption</b>	<b>10 011</b>	<b>8 543</b>	<b>17%</b>
Fair value gains on VL swaption		516	
<b>Profit before tax</b>	<b>10 011</b>	<b>9 059</b>	<b>11%</b>
Tax	-2 647	-2 486	
Profit not attributable to ordinary shareholders	-206	-174	
Loss on impairment and derecognition	48	257	
Other headline earnings adjustments	-4	65	
<b>Headline earnings</b>	<b>7 202</b>	<b>6 720</b>	<b>7%</b>
Fair value gains on VL swaption	0	-410	
Other	127	90	
<b>Normalised headline earnings</b>	<b>7 329</b>	<b>6 400</b>	<b>15%</b>

**Forex losses/gains:** ZAR closing rates strengthened compared to opening rates resulting in losses on translation of GBP and USD currency accounts and loans receivable. In the prior year, the closing rates weakened resulting in a foreign translation gain

**Fair value gains:** prior period includes a considerable fair value gain from the swaption held in DHEL, which was realised towards the end of the previous financial year

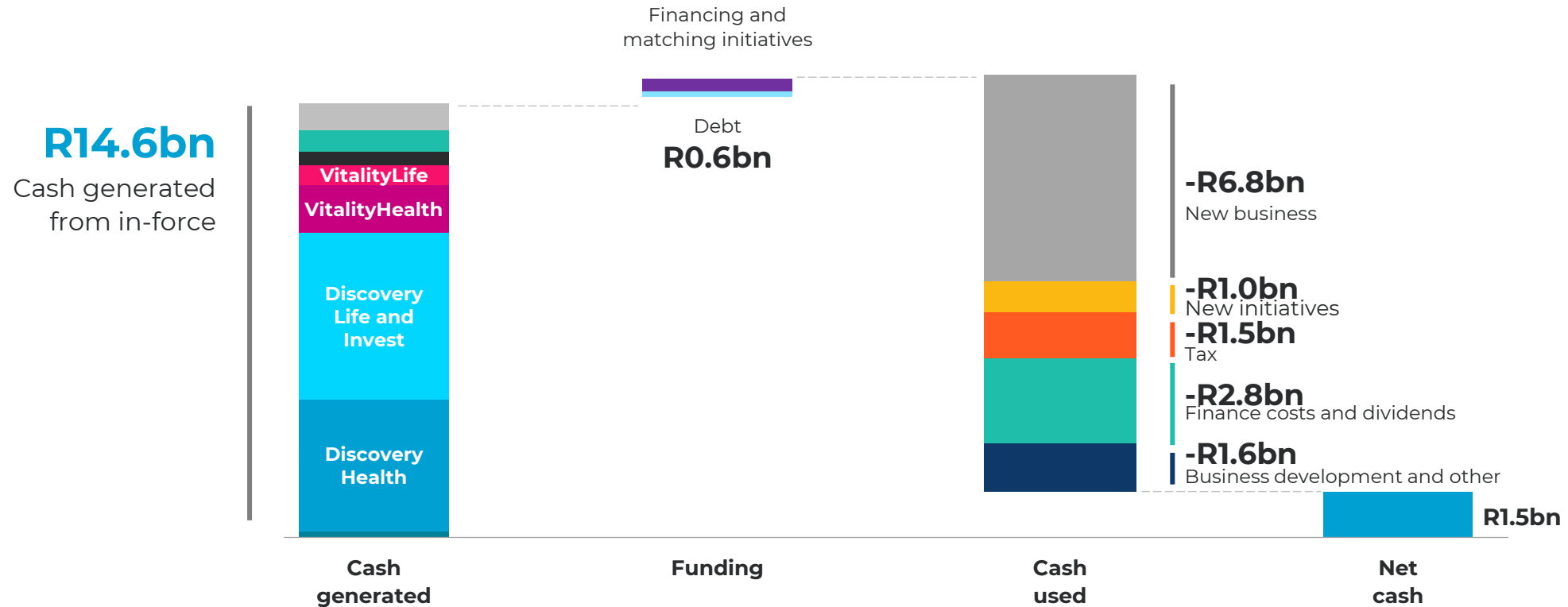
**Loss on impairment and derecognition:** Largely attributable to write-off of assets resulting from wind-down of VitalityCar and assets no longer in use in VitalityHealth

**Final dividend declaration of 152cps in respect of FY24**

# Strong cash generation



## Cash sources and uses



"Movement in Shareholder Free Cash" is an estimate of shareholder free cashflow. Life and Invest and VitalityLife are included based on the change in the Adjusted Net Worth in the Embedded Value. Changes in working capital are not allowed for in the estimate.

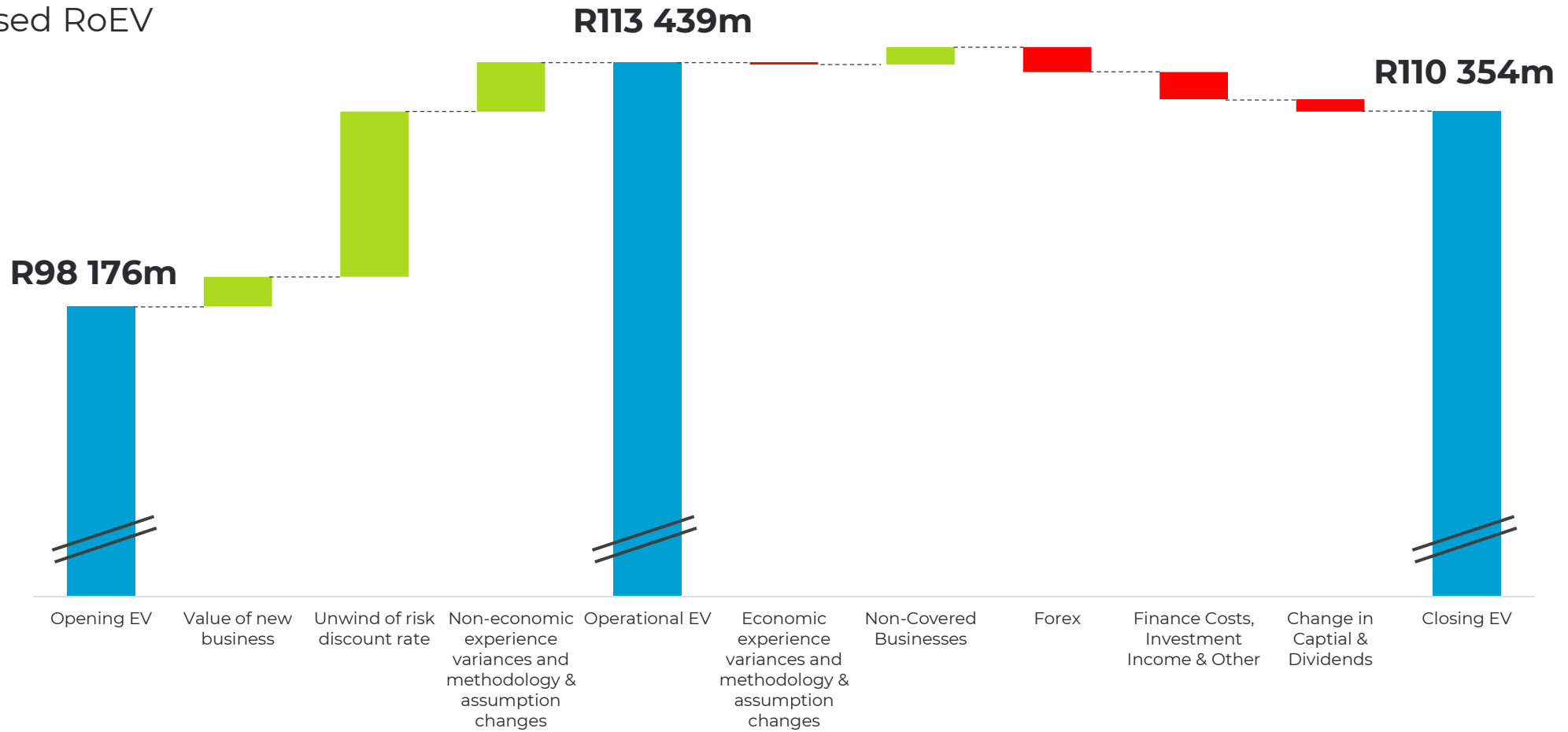
Prior to FY2024 "Financing and Matching Initiatives", previously disclosed as "Transactions with Reinsurers", included the net external FinRe cash flows for VitalityLife. From FY2024 the net external FinRe cash flows for VitalityLife have been reallocated to "Operating Cash Flow", with FinRe repayments included in "Cash Generated from In-Force Before Financing and Tax" and new FinRe receivables offset against "New Business"

# Strong growth in Group Embedded Value



## 13.2%

Annualised RoEV





## Past

*Pioneering and globalising the Vitality shared-value model; substantial investment in new initiatives for organic growth*



## Today

*Reduced spend and streamlined new initiatives; key initiatives maturing; transitioned to IFRS 17*



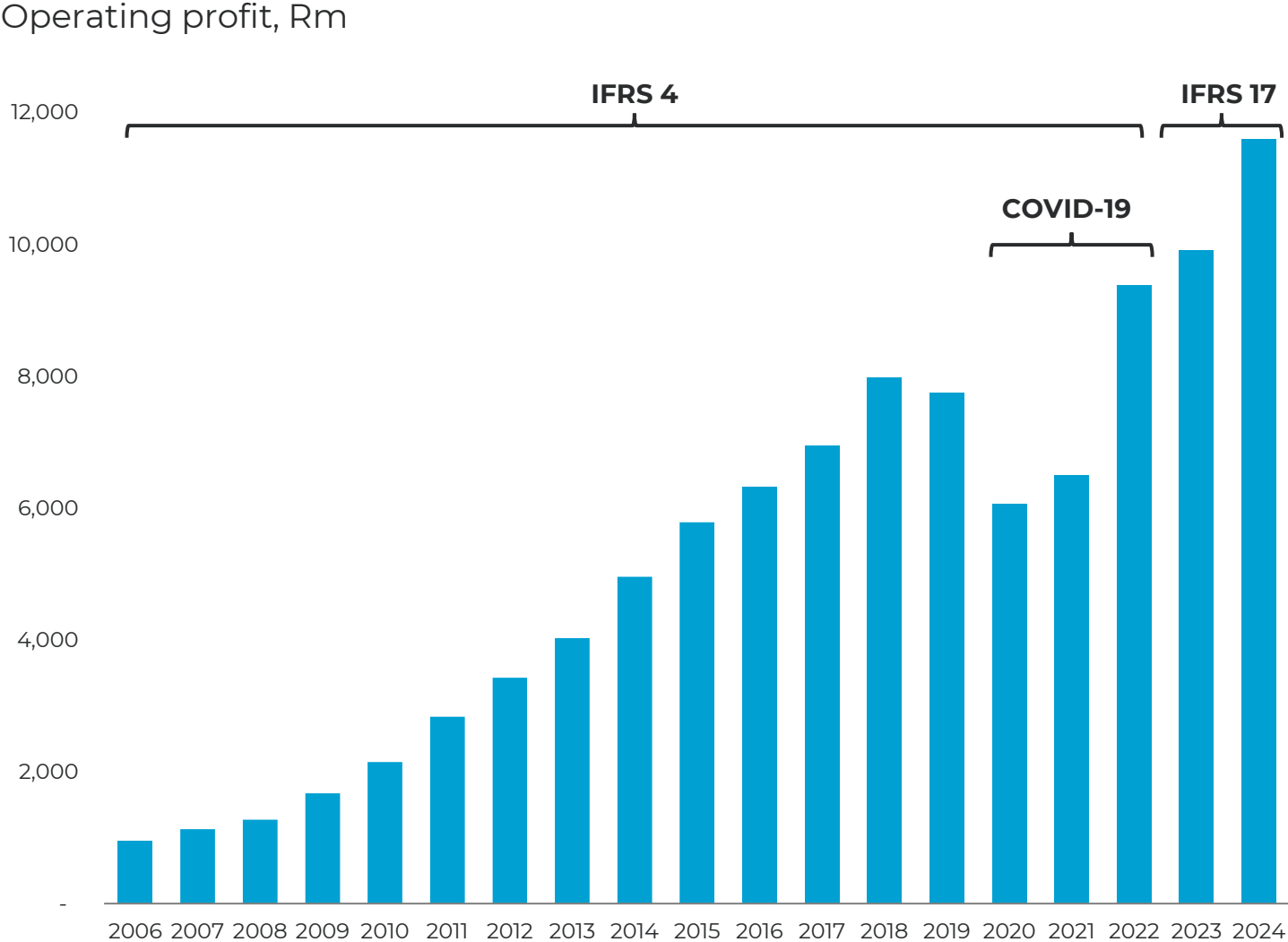
## Future

*Highly cash generative with superior growth. Maintaining leadership in SA with the Bank scaling; and a material international business*



# Entering a new phase of growth

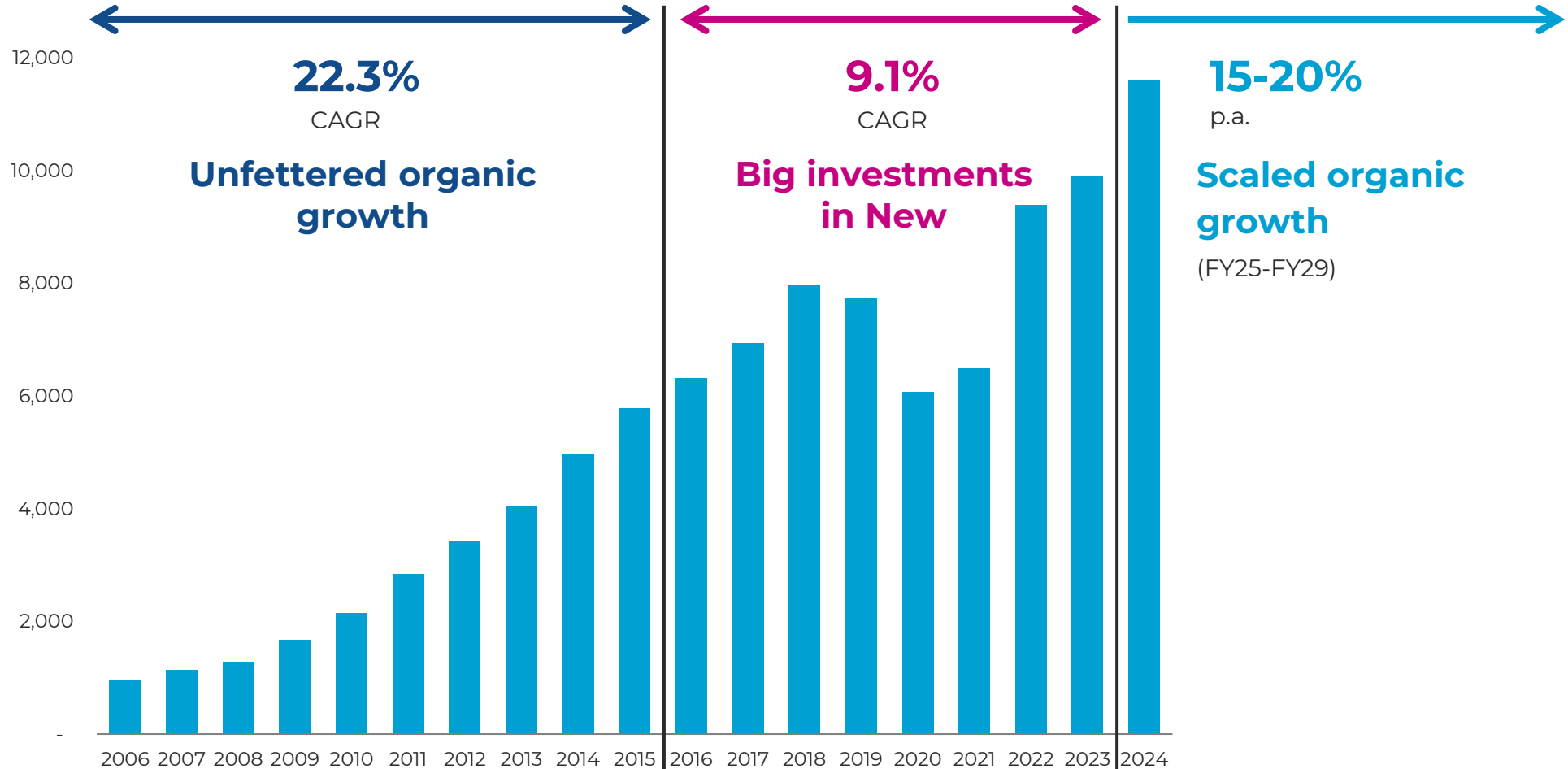
# Strong operating profit performance



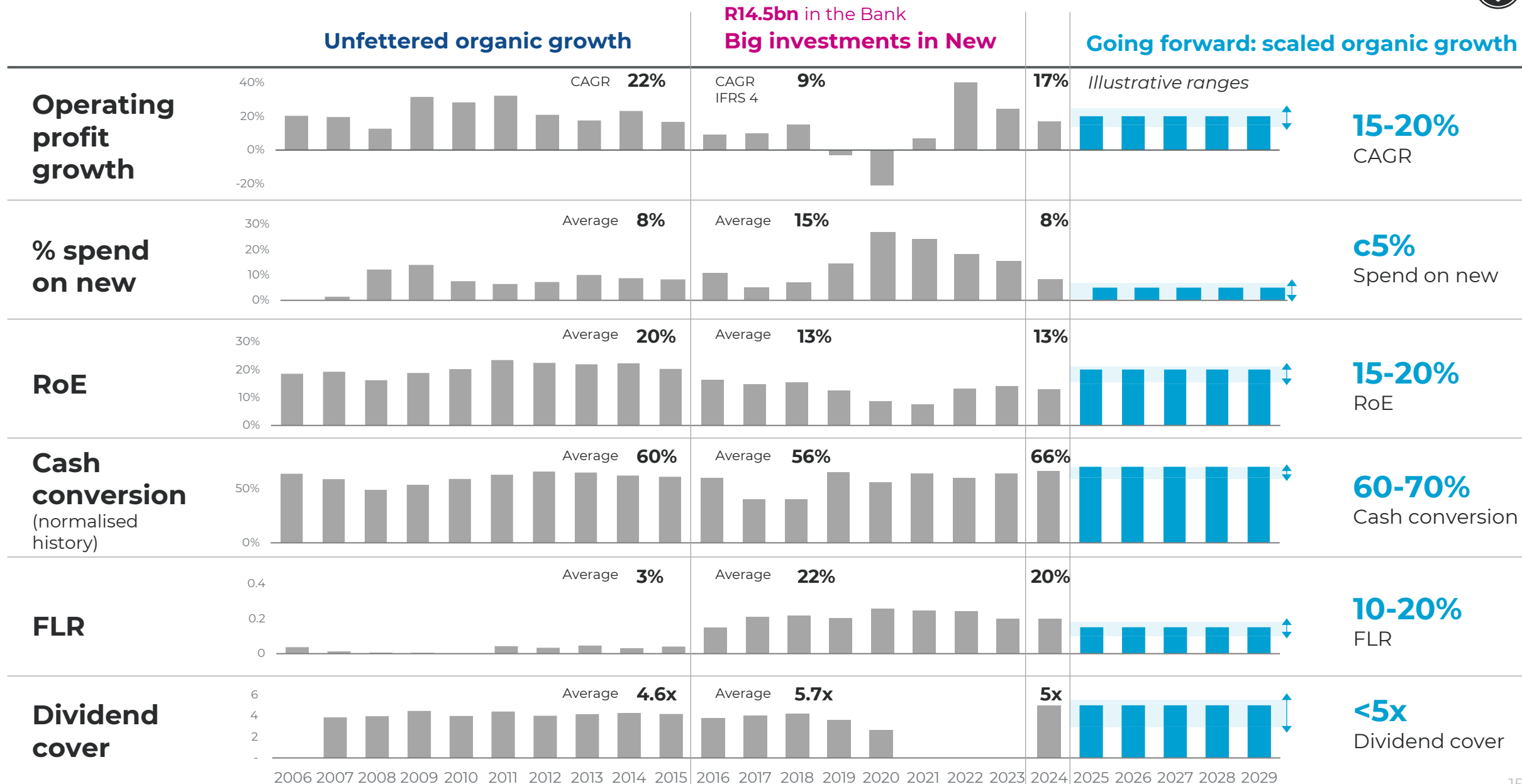
# Three distinct phases



Operating profit by phase of growth, Rm



# Entering a new phase of growth



Forward looking information on this slide is for illustration and has not been reviewed or reported on by the auditors and reflects the average expected over the time frame

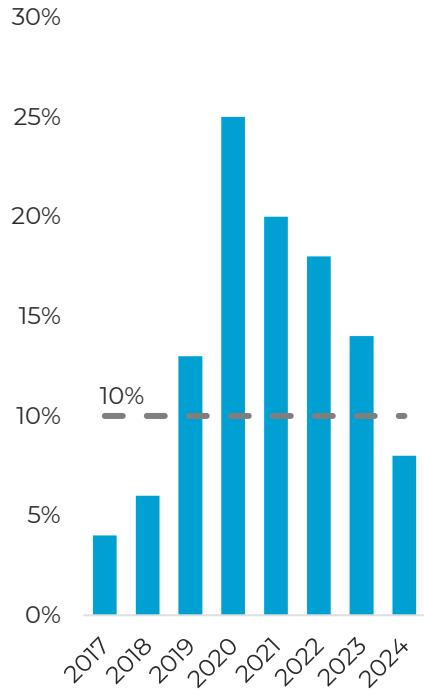


# The new phase should result in an improving central cash position



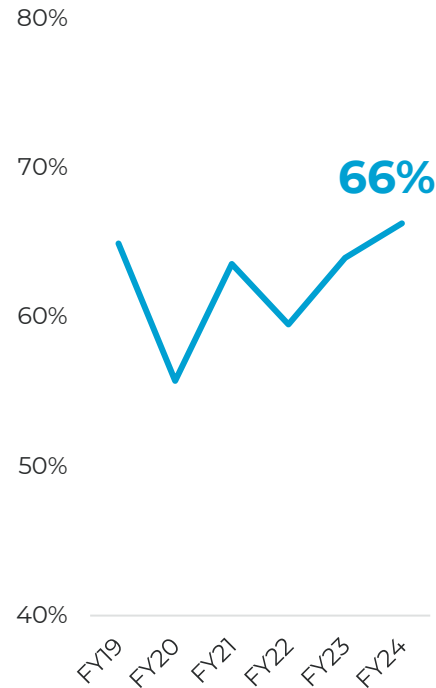
## Decreasing spend on New initiatives

% earnings on new



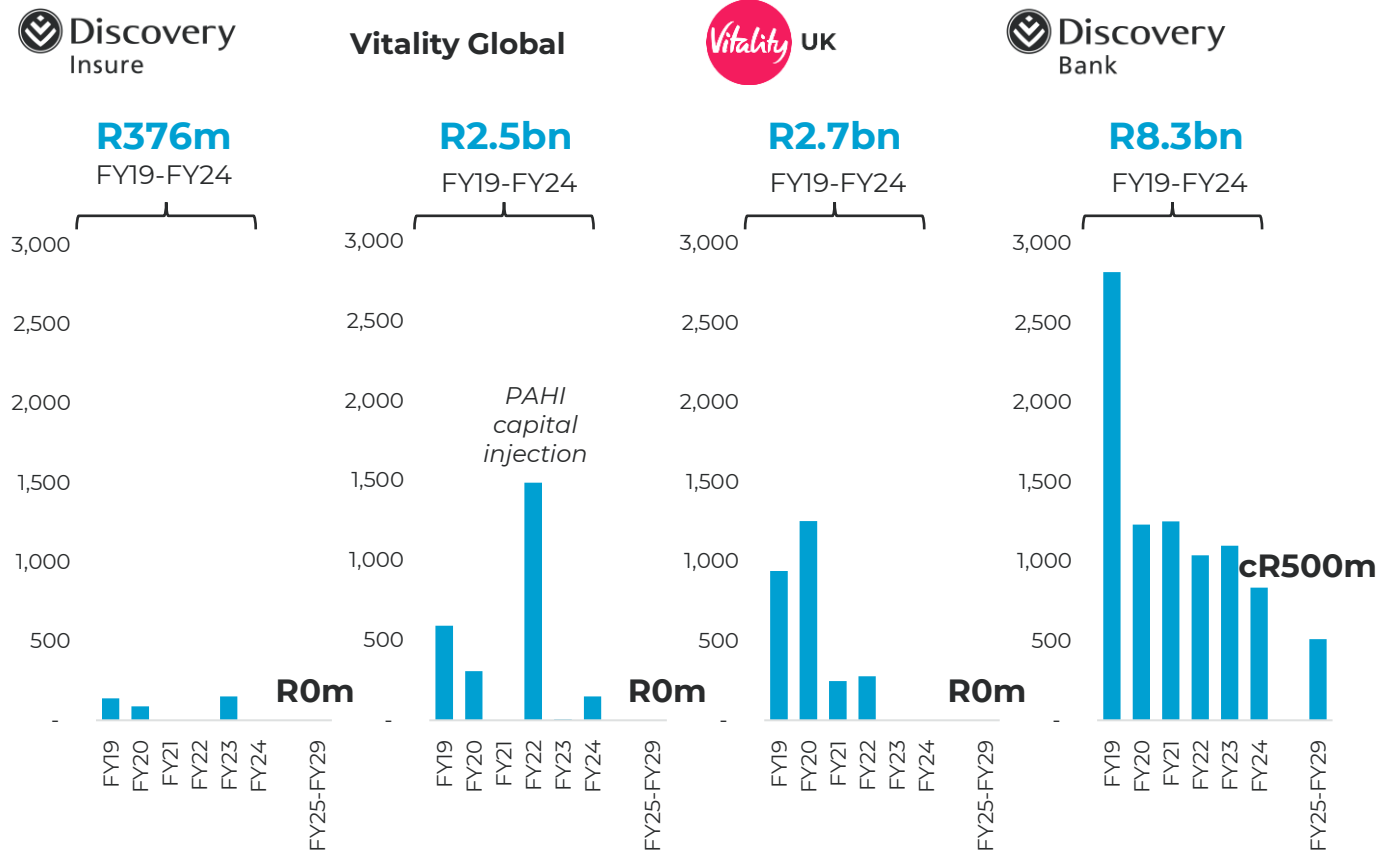
## Improving cash conversion

Cash conversion



## Reducing demand for cash from the centre

Cash from the centre, Rm





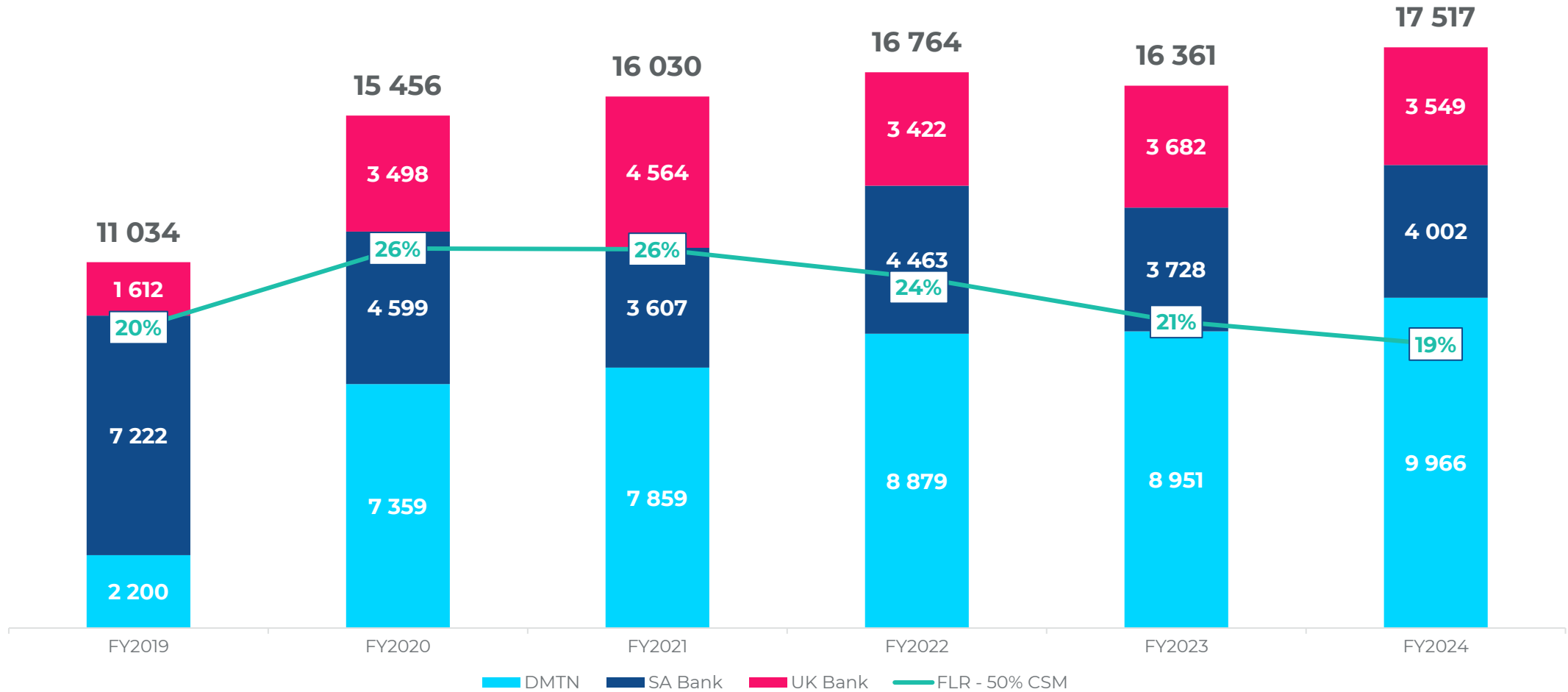
**03**

## **Debt Overview**

# Debt Profile



R Millions

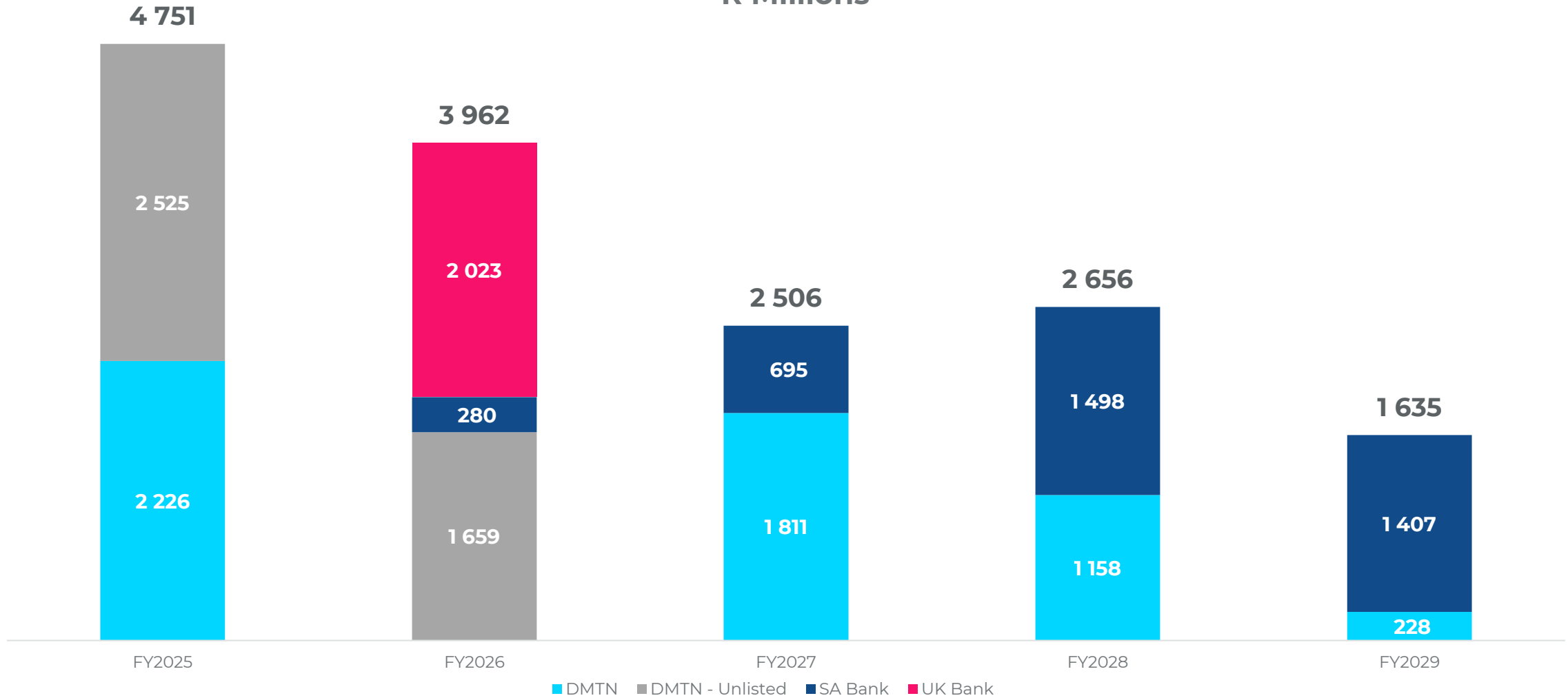


From FY22, FLR is calculated on an IFRS 17 basis accounting for 50% CSM as 'equity-like'

# Debt maturity profile – Financial Year



R Millions



The maturing UK Bank debt in FY2026 will be refinanced in the UK

DMTN Unlisted debt refers to structured bank debt using DMTN notes issued into commercial paper market

# Bank debt covenants



Covenant	Minimum Requirement	30-Jun-24	30-Jun-23
<b>Group Debt to EBITDA ratio</b>	Less than 2.5X	1.4	1.4
<b>Group financial Indebtedness to EV</b>	Less than 30% of Group EV	16.7%	17.6%
<b>Group EV</b>	Greater than R30 billion	R110 billion	R98 billion
<b>Discovery Life SCR Cover</b>	SCR Cover > 1.1	1.8x	1.9x
<b>New Business EV not negative</b>	Positive VNB for 3 consecutive 6-month period	June 2024: R1 148m Dec 2023: R684m June 2023: R500m	June 2023: R500m Dec 2022 R940m June 2022: R1 234m

# Discovery's credit rating



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

- Ba1
- 1 above the Sovereign (Ba2, stable)  
Supported by diverse business mix, significant fee income and limited exposure to SA invested assets

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

- Ba3 (global) / A1.za (national)

## Rating outlook

- Stable outlook reflects outlook on South African sovereign, and the linkage between Discovery and South Africa

*Discovery Holdings Europe Limited, the holding company for **Vitality UK's operations**, was rated **A- by Fitch** in October 2023*

## Credit strengths

1. Very strong **franchise in South Africa** that the group is leveraging across multiple business lines, and increasingly, **globally through the Vitality franchise**
2. A meaningful, and growing, portion of **profits being generated outside of South Africa**
3. Significant, stable, fee income that places **limited strain on capital** and provides a buffer against the risk of asset price shocks
4. Good **capitalisation and resilience to a range of stress scenarios**, along with very good **access to capital markets**

## Credit challenges

1. **Challenging operating environment** with low economic growth in South Africa which could lead to negative persistency, lower volumes of new business value as well as investment volatility
2. **Execution risk** in developing profitability of new businesses, including **Discovery Bank and Vitality operations**
3. Reliance on Discovery's **complex shared value insurance model**, across most areas of its business, raises the stakes in case of a potential disruption of this model, and elevates **regulatory risk due to complexity**



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## DMTN Issuance



# Key features of the DMTN programme



<b>ISSUER</b>	Discovery Limited
<b>SIZE (NOMINAL AMOUNT)</b>	R12.5 billion (DMTN Programme size is being increased from R10 billion) with R9.9 billion in issue
<b>GUARANTORS</b>	Discovery Health and Discovery Vitality (as per current SA Bank Loans)
<b>LISTING</b>	The Interest Rate Market of the JSE Limited
<b>TYPES OF NOTES</b>	<p>Notes that can 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 Prudential Authority (“PA”) approval at the time of Issuance and for redemption at maturity. Key terms include mandatory interest and principle deferral at the election of the PA (only expected to be implemented on a breach of the SCR ratio for Tier 2 qualifying notes and MCR FOR Tier 3 qualifying notes)</li> </ul>
<b>CROSS DEFAULT</b>	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
<b>MATERIAL SUBSIDIARY</b>	<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>
<b>OPTIONAL REDEMPTION EVENTS</b>	<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>
<b>EVENTS OF DEFAULT</b>	<p>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</p> <p>Events of default for Regulatory Capital Notes will be in line with Regulatory requirements</p>

# DMTN issuances to date



Total of R9.9 billion in issue

Stock code	DSY01	DSY02	DSY03	DSY04	DSY05	DSY10U& DSY11U	DSY12U	DSY06	DSY07	DSY28U	DSY08	DSY09
Nominal Value (Rm)	500	2,000	200	1,000	500	2,500*	1,100	792	226	1,650*	582	935
Tenor (years)	5	7	7	8	3	5	3	5	7	3	3.5	5.5
Date Issued	21-Nov-17	21-Nov-17	21-Nov-17	29-Aug-18	28-July-20	21-Feb-20	10-Mar-20	21-Jun-22	21-Jun-22	10-Mar-23	15-May-24	15-May-24
Maturity Date	21-Nov-22	21-Nov-24	21-Nov-24	21-Aug-26	21-Aug-23	21-Feb-25	10-Mar-23	21-May-27	21-May-29	10-Mar-26	21-Nov-27	21-Nov-29
Type of Notes	Floating Rate	Floating Rate	Fixed Rate	Floating Rate	Floating Rate	Fixed	Fixed	Floating Rate	Floating Rate	Fixed	Floating Rate	Floating Rate
Interest Payments	Quarterly	Quarterly	Semi-annual	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly

: Matured

\* : Unlisted structured notes issued in the capital market

# Key issuance terms



## Indicative Issuance Terms

Issuer	Discovery Limited, guaranteed by Discovery Health and Discovery Vitality
Issuer rating	Moody's long term national: A1.za
DMTN Programme size	R12.5 billion (DMTN Programme size is being increased from R10 billion)
Volume	Volume sought of R1.5bn; option to upsize to R1.75bn should pricing and volume support
Instrument	Senior Unsecured Floating rate notes – Tap issuance of existing DSY08 and DSY09 notes
Auction date	14 November 2024
Settlement date (T+5)	21 November 2024
Term	3-year/5-year
Interest profile	Floating rate as a margin over the Reference Rate
Reference rate	3-month Jibar

# Key dates



Issuance process	Dates
Termsheet (without Price Guidance) distributed to the market	Thurs, 31 October
Virtual debt investor call	Tues, 5 November
Termsheet (with Price Guidance) distributed to the market	[Thurs, 7 November]
Auction date	[Thurs, 14 November]
Settlement (T+5)	[Thurs, 21 November]

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Questions



# Discovery Limited Domestic Medium Term Note Programme

Debt Investor Call | November 2024

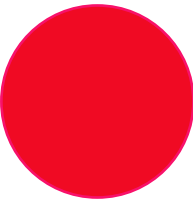


# Appendix

## Operating Model



# Group Operating Model



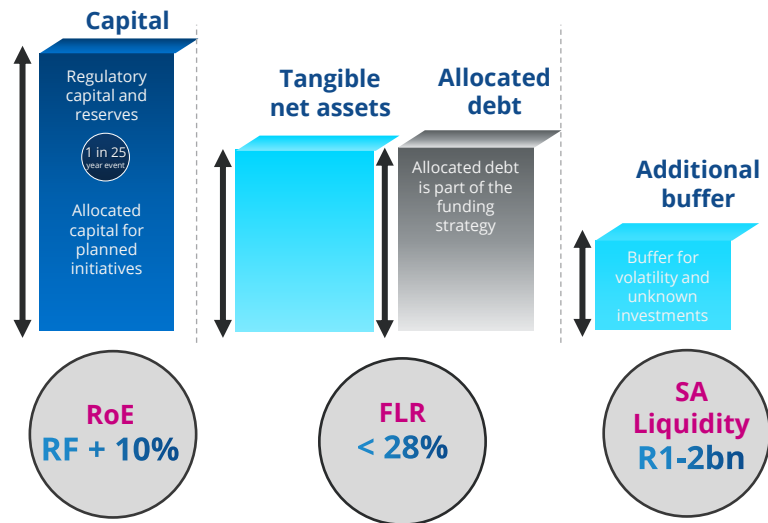
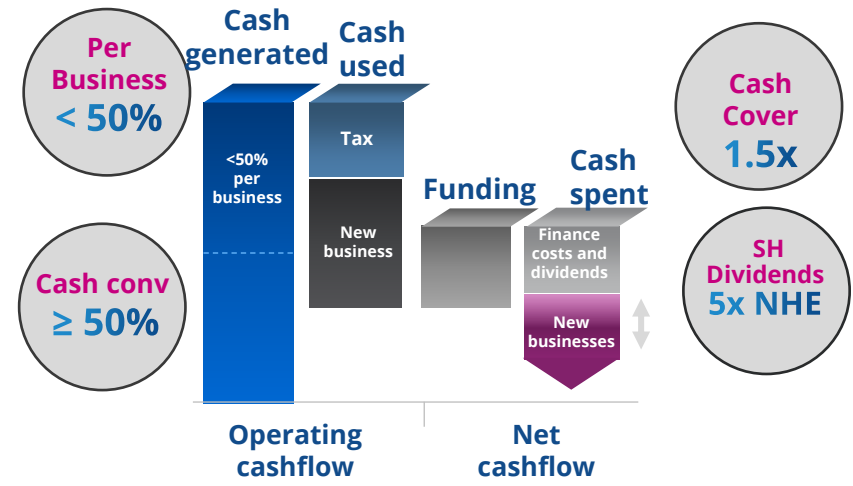
## Growth Engine

- SA Composite
- UK Composite
- Vitality Global

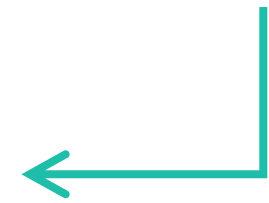
Normalised Operating Profit  
CPI + 10%



## Cash Management



## Capital Model





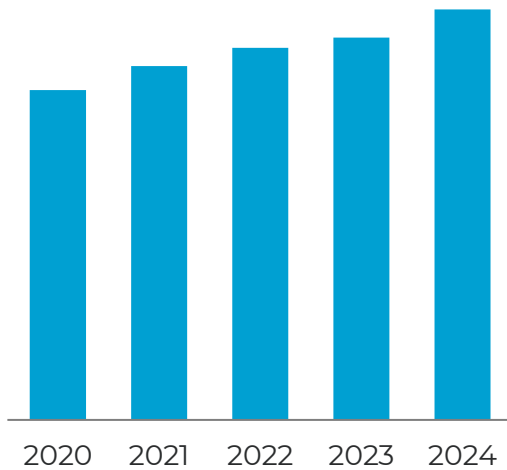
# Appendix

**Entity**  
**Performance**



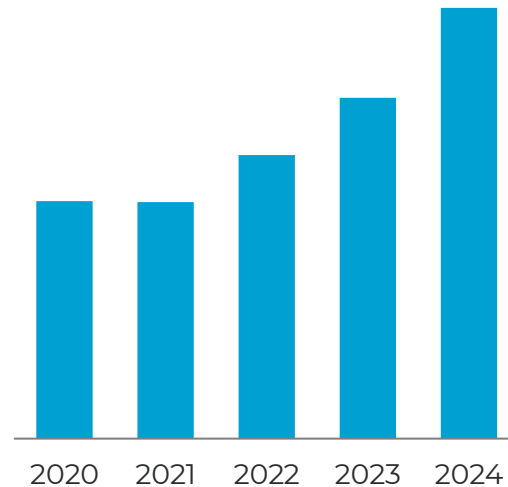
## Operating profit

**+7%**  
to R3 972m



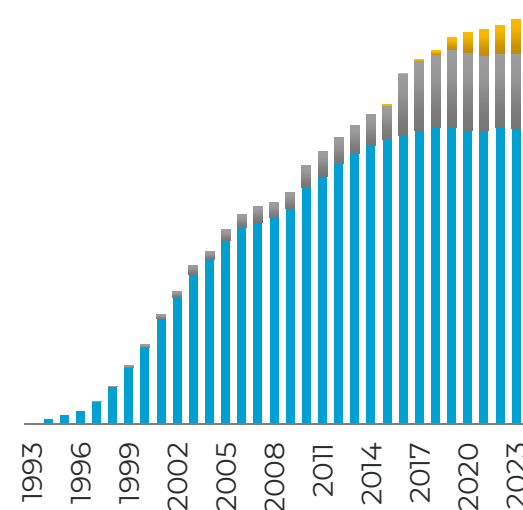
## New business

**+26%**  
to R11 069m\*



## Membership

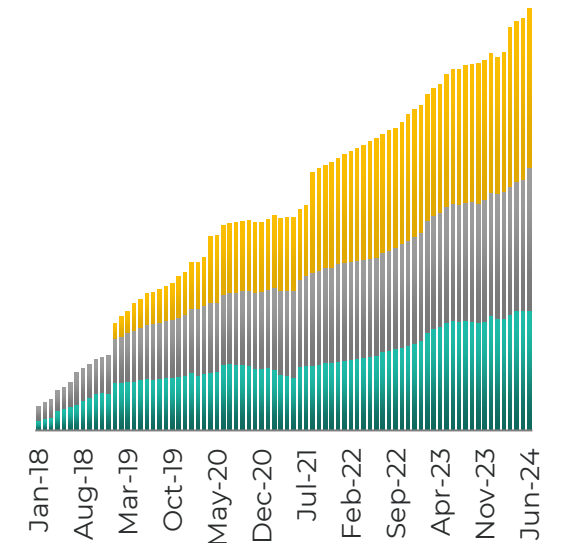
**>3.9m**  
Lives under administration



- Non Scheme Products
- Restricted Schemes
- DHMS

## Non-scheme growth

**+16%**  
>370k lives



- Flexicare
- Gap Cover
- Healthy Company

\*Sasolmed contributed R2 510m to new business for FY2024

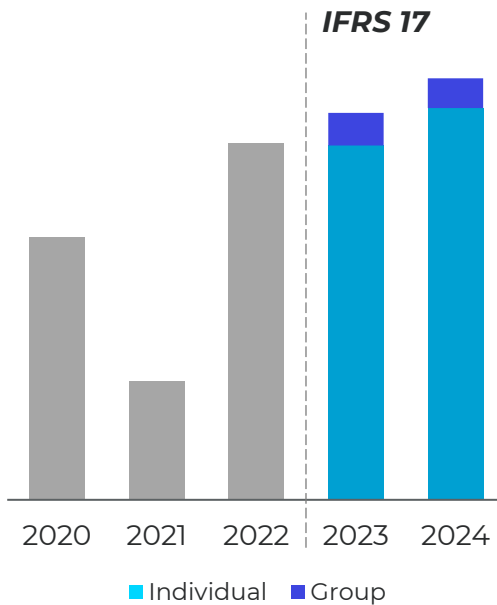


## Normalised operating profit

**+9%**

to R4 765m

Individual life:  
**+11%**

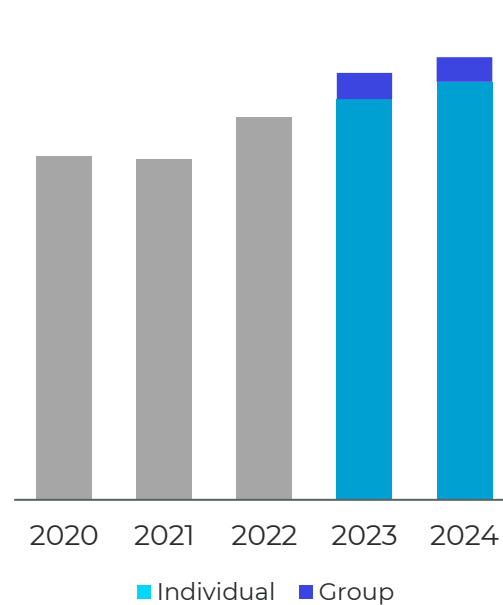


## New business

**+4%**

to R2 942m

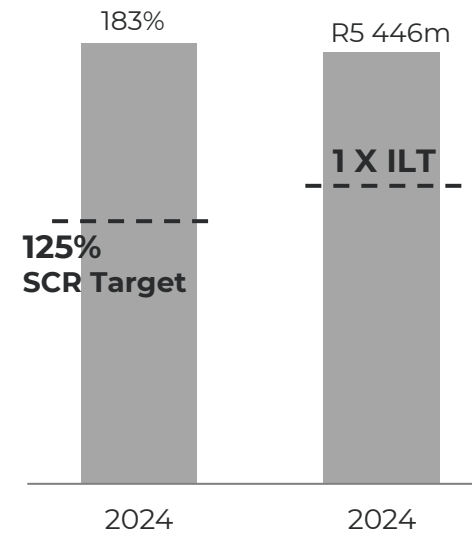
Individual life:  
**+4%**



## Strong capital and liquidity

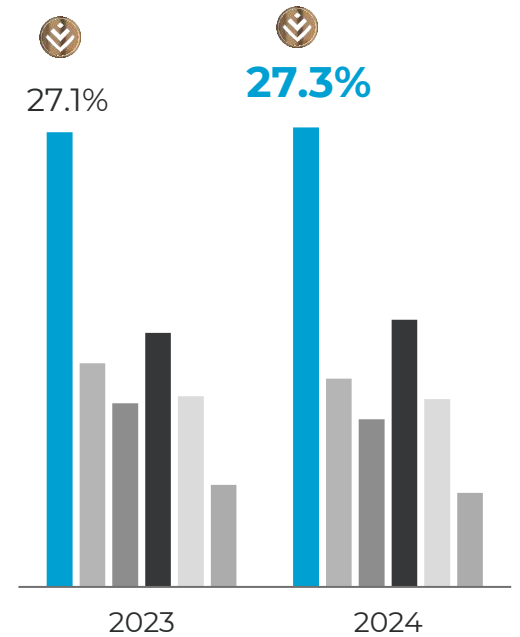
SCR coverage

Liquidity coverage



## Maintained leading market share

12 months to June 2024



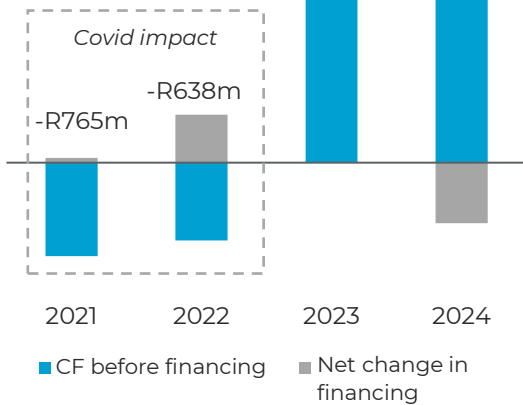
# Strong EV growth and improvement in VNB margin



## Strong cashflow generation

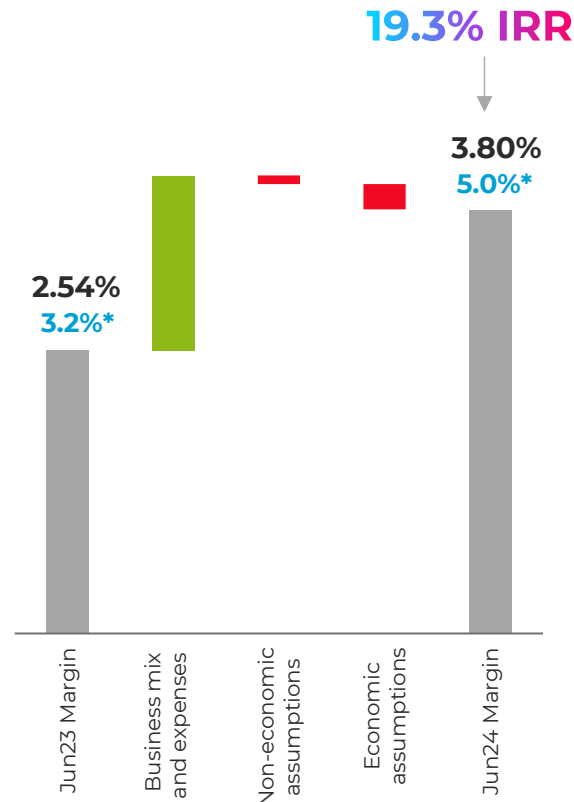
Life and Invest cashflow **in excess of 35%** of net of tax normalised earnings

Cashflows before financing



## Improvement in VNB margin

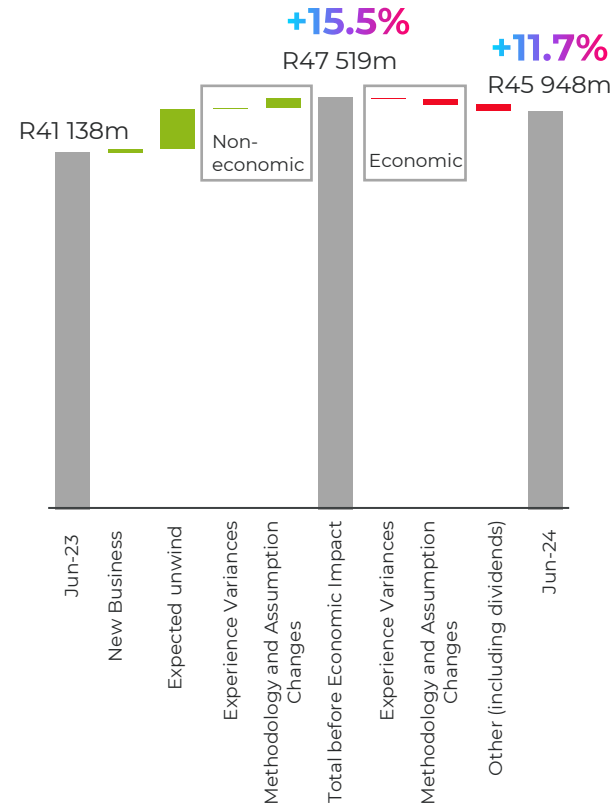
VNB margin (%)



\*Individual Life

## Strong EV growth

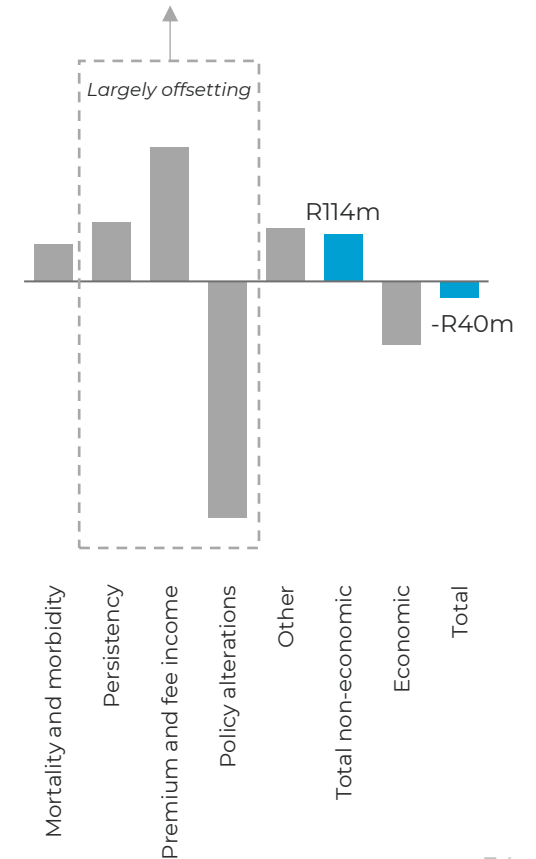
**+14.3%** RoEV



## Operating variances

Discovery Life Ltd variances, Rm

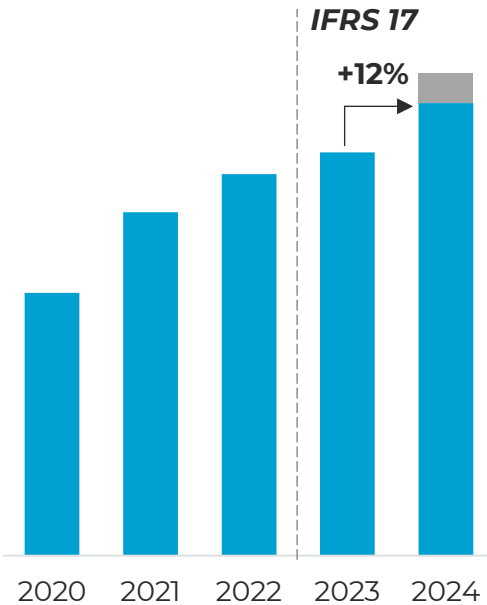
**Impact of basis change: R1.2bn on EV, R2.8bn on balance sheet**





## Normalised operating profit

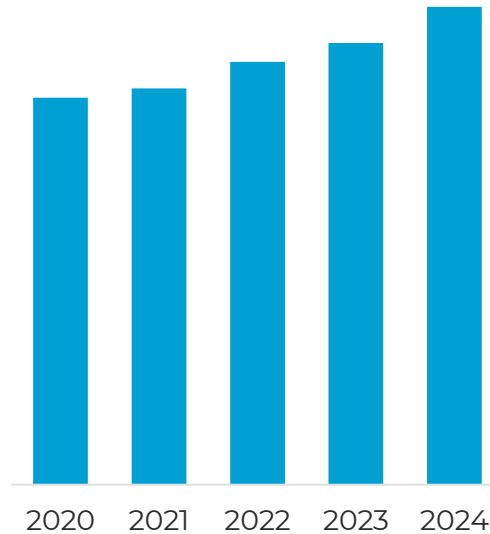
**+20%**  
to R1 522m



■ Rebased profit release profile (guaranteed bonds)

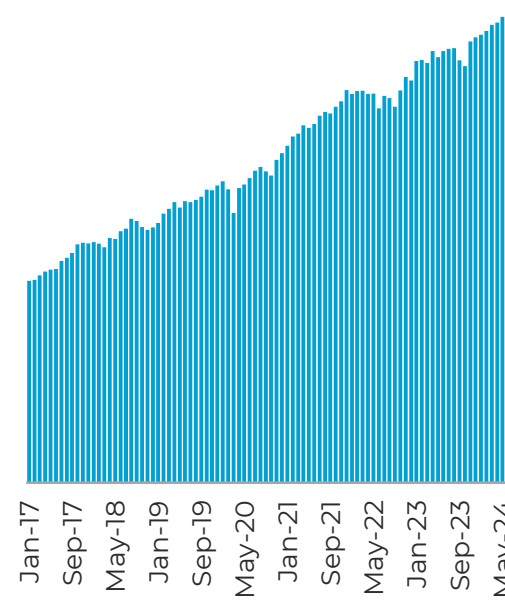
## New business

**+8%**  
to R3 300m



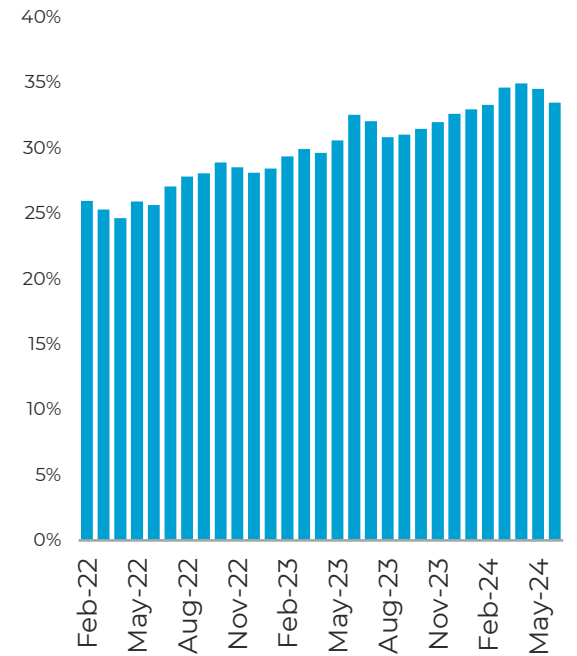
## Assets under administration

**+11%**  
to R155bn



## Positive shift in product mix

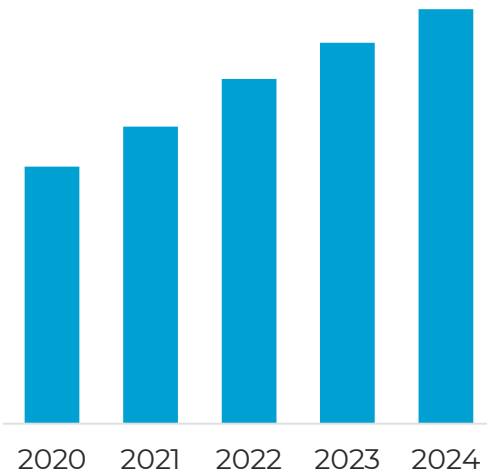
% AuM in offshore funds





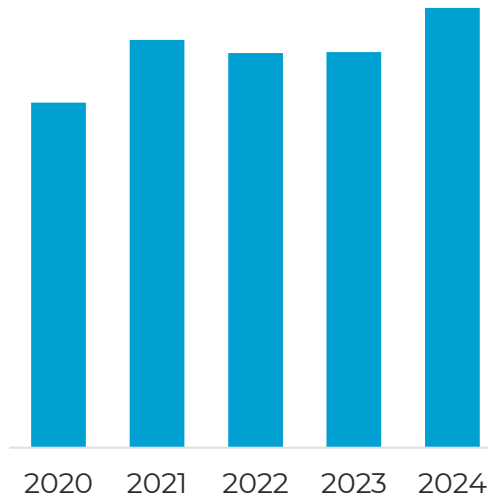
## Gross written premium

**+9%**  
to R5 726m



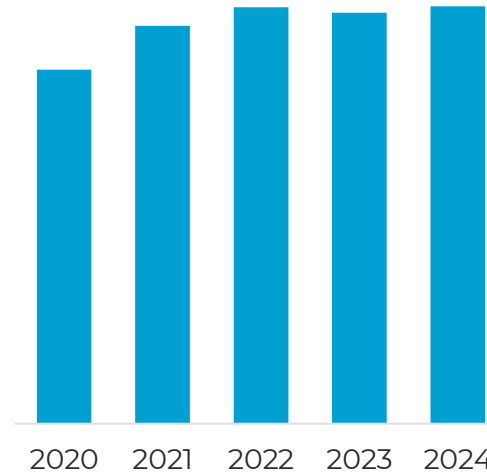
## Gross new business

**+11%**  
to R1 388m



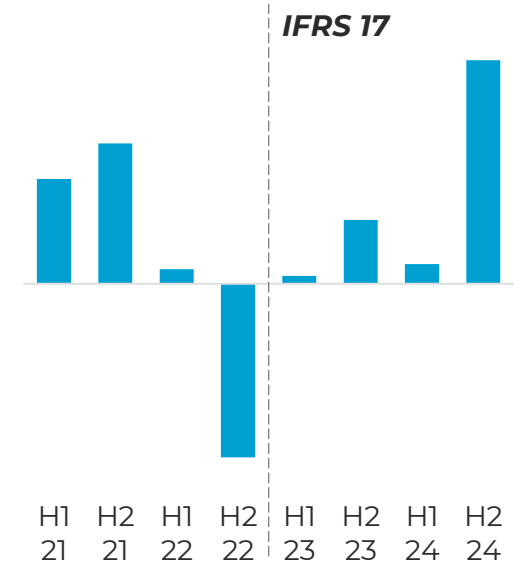
## Vehicles insured<sup>1</sup>

**+2%**  
to 288 120



## Normalised operating profit

**+240%**  
to R248m



<sup>1</sup> Prior years have been restated to exclude vehicles that remain on Discovery Insure's books without cover during the Gap in Cover period



## Normalised operating profit<sup>1</sup>

**-52%** to £18.5m  
**-47%** to R435m

## Earned premiums

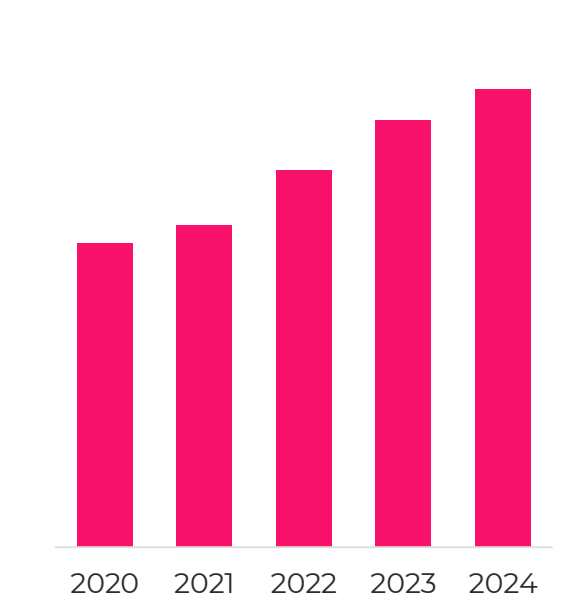
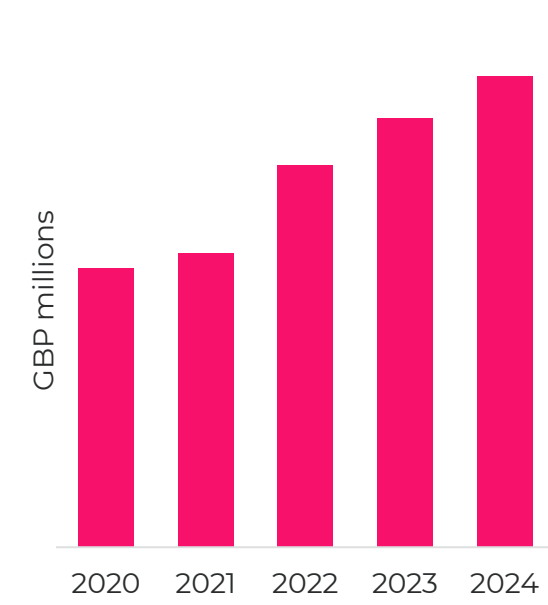
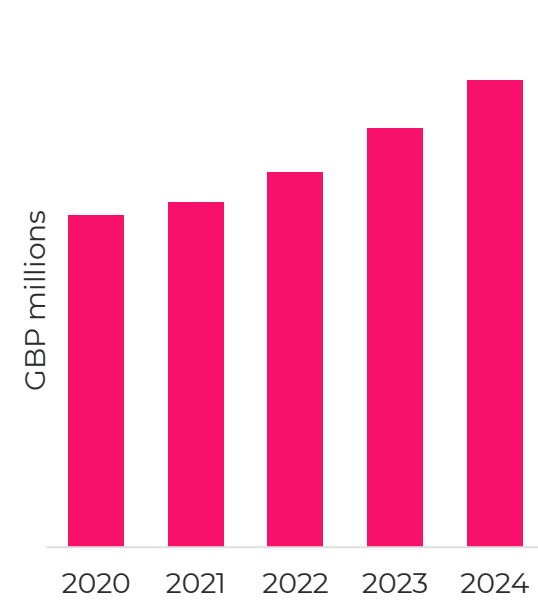
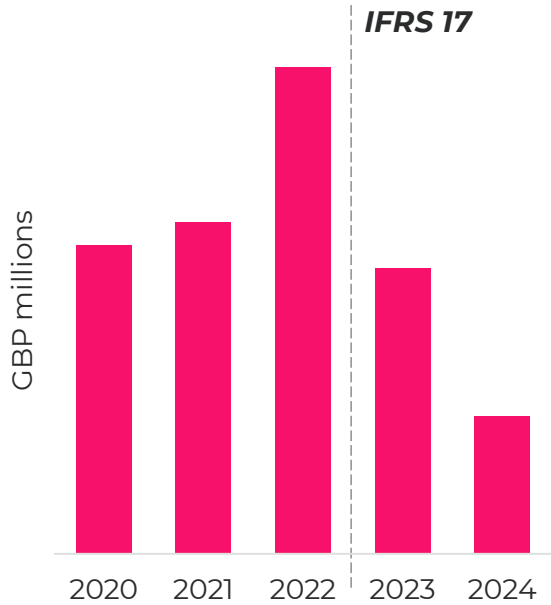
**+12%** to £699.3m  
**+23%** to R16.5bn

## New business

**+10%** to £105.7m  
**+21%** to R2.5bn

## Lives covered

**+7%** to 1m



<sup>1</sup> Excludes VitalityCar write-down in prior year

## Normalised operating profit

**-27%** to £15.9m  
**-20%** to R375m

## Earned premiums

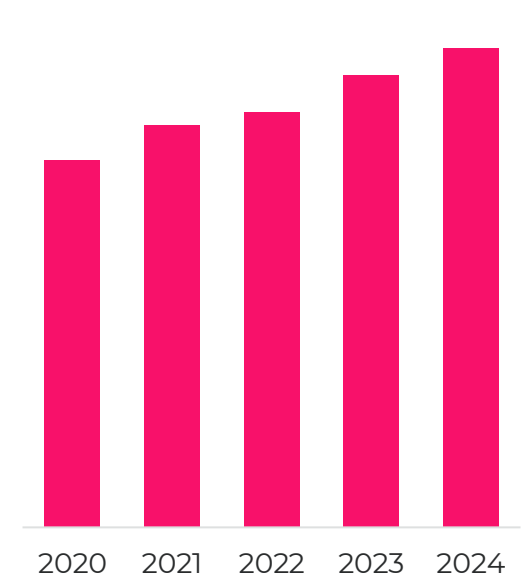
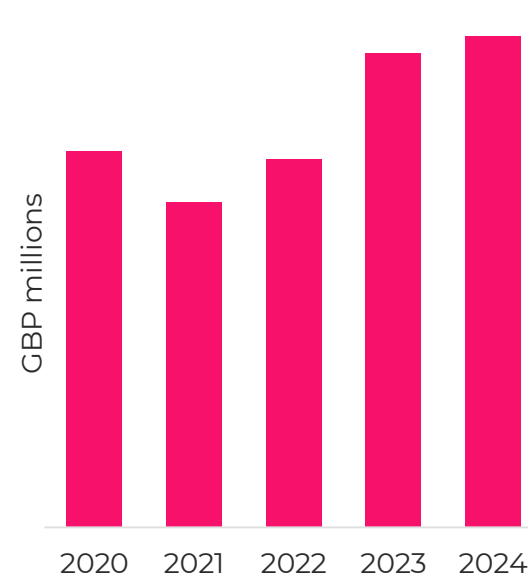
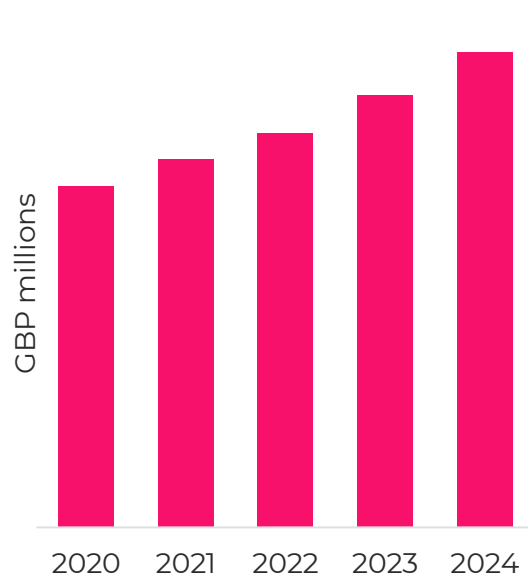
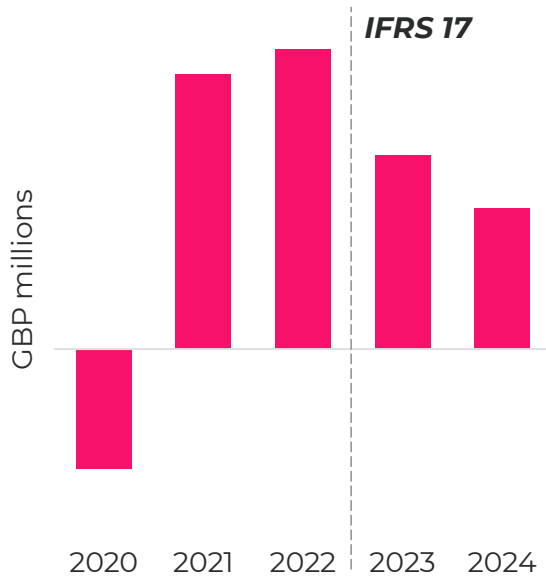
**+10%** to £401.9m  
**+21%** to R9.5bn

## New business

**+4%** to £83.1m  
**+14%** to R2.0bn

## Lives covered

**+6%** to 810k

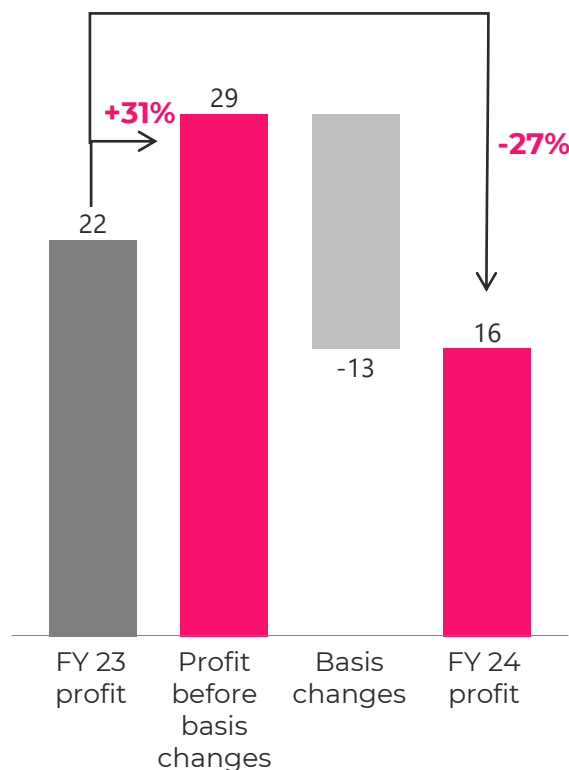


# Robust underlying performance, with further action taken to manage PAC book



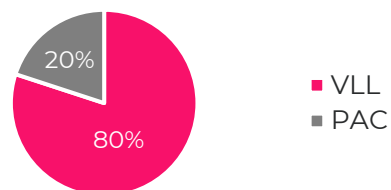
## Strong operating results before basis change

Operating profit, £m

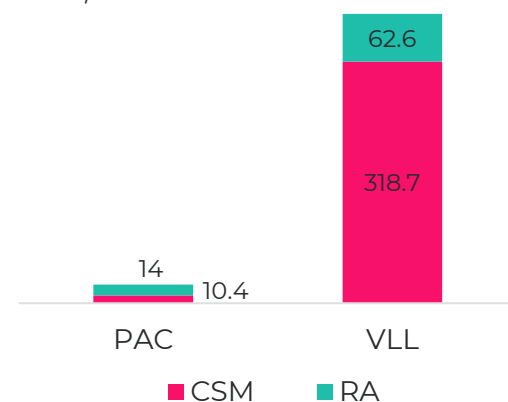


## Low margins on the PAC book

Policy count split between VLL and PAC (%)

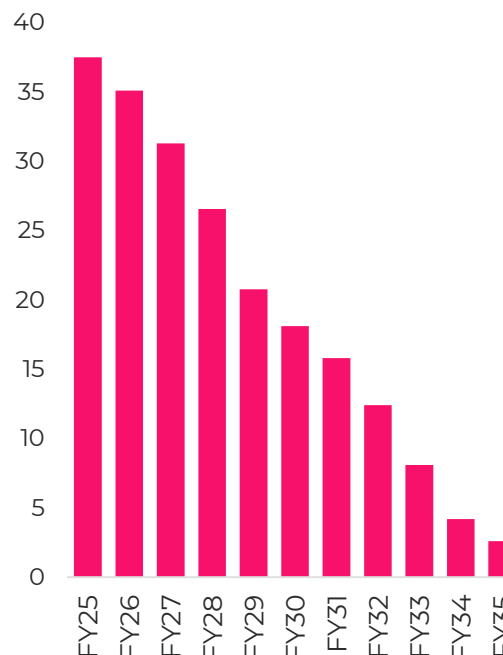


Margin balances in VLL and PAC, £m



## PAC book generates substantial cash

PAC book net cashflow before reserving requirements, £m



## Actions to position PAC book for stability

**2022** Deferred Part VII transfer

**2023** Reconfigured hedging strategy to align with IFRS 17

Significant strengthening of basis for level-premium WOL business

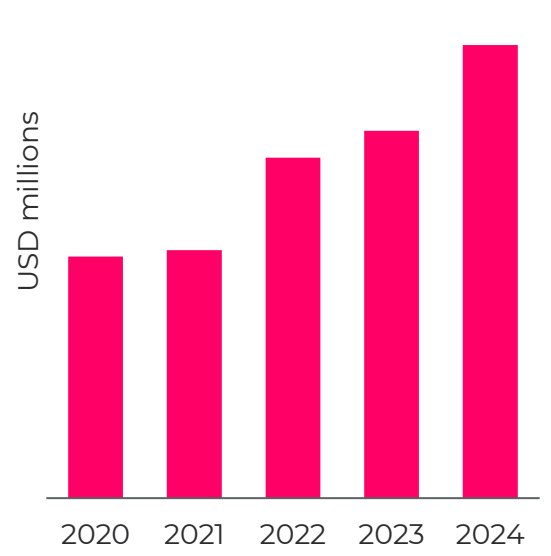
**2024** Changes to accounting policy to correctly reflect nature of PAC book, which will result in lower period on period volatility

**Taken action to address key issues with the PAC and VLL books, and expect a smoother and stronger emergence of profits each year going forward**



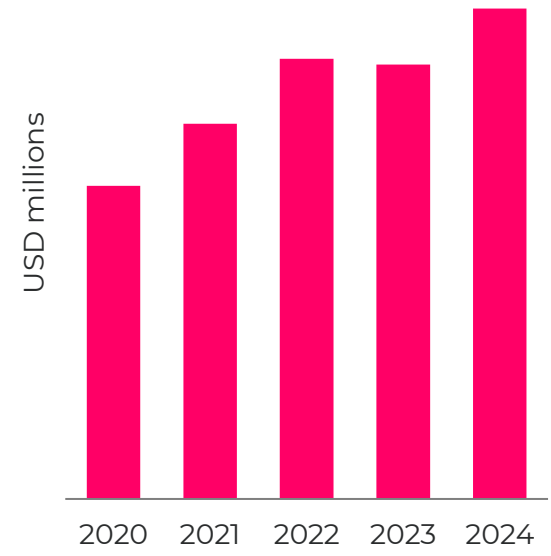
## Operating profit

**+23%** to \$28.5m  
**+30%** to R533m



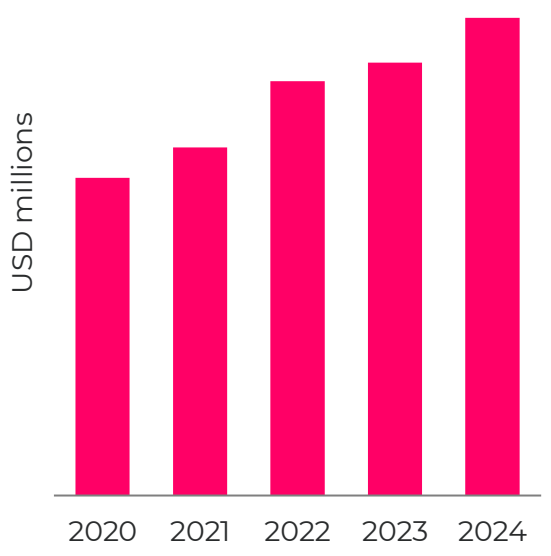
## Integrated API by insurance partners

**+11%** to \$1 575.1m  
**+18%** to R29.7bn



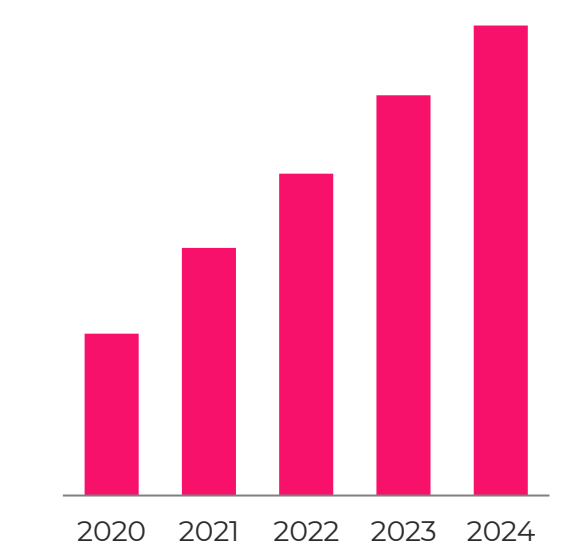
## Revenue

**+10%** to \$101.3m  
**+16%** to R1.9bn



## Insurance partners membership

**+17%** to 5.3m

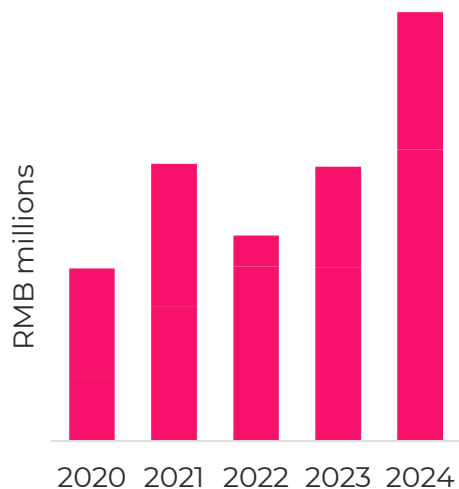


# Ping An Health Insurance



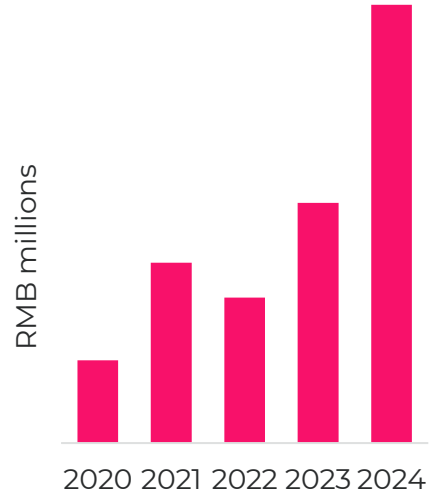
## PAHI's operating results pre-tax

**+56%** to RMB2.1bn (RMB 0.5bn DSY's share)  
**+59%** to R5.4bn (R1.4bn DSY's share)



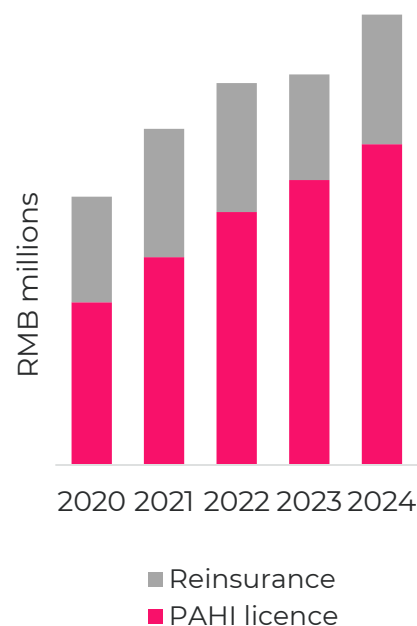
## Discovery's operating result after tax

**+82%** to RMB434m  
**+85%** to R1124m



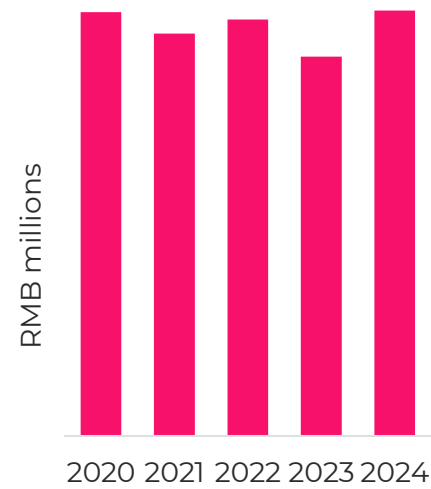
## Written premium<sup>1</sup>

**+15%** to RMB22.6bn  
**+17%** to R58.6bn



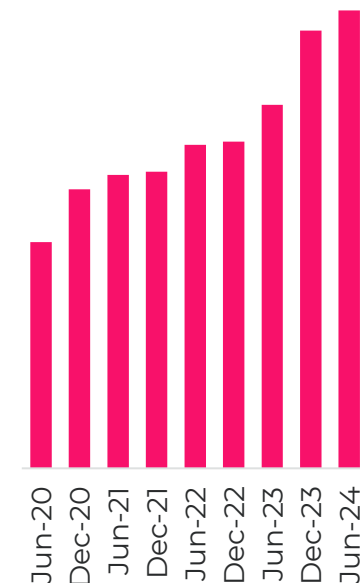
## PAHI licence new business<sup>1</sup>

**+12%** to RMB3.8bn  
**+14%** to R9.9bn



## Lives

**+26%** to 27.4m PAHI licence lives





# Appendix

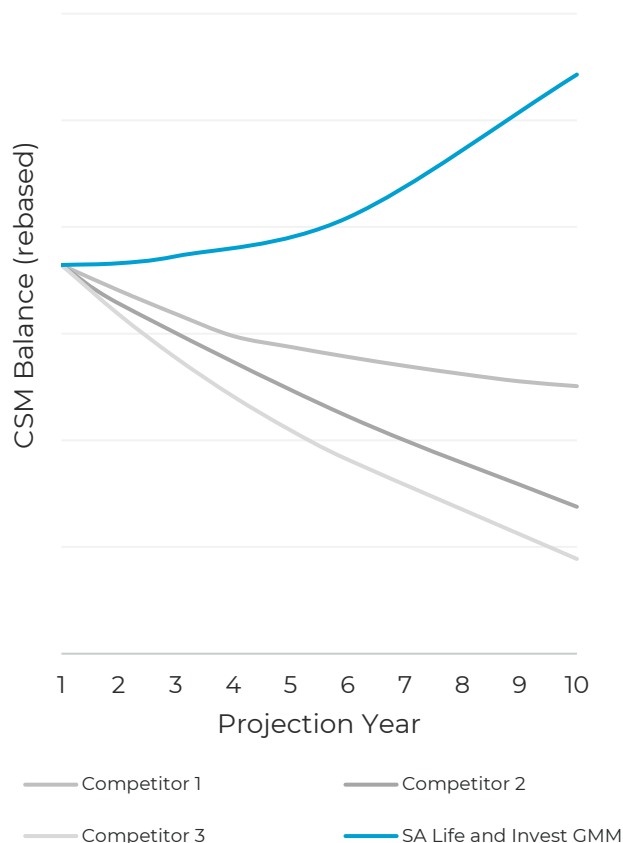
## IFRS 17

# Discovery Life - Actual value generation of business under IFRS 17



## Positive margin dynamics

Comparative non-economic margin<sup>1</sup> runoff excl new business

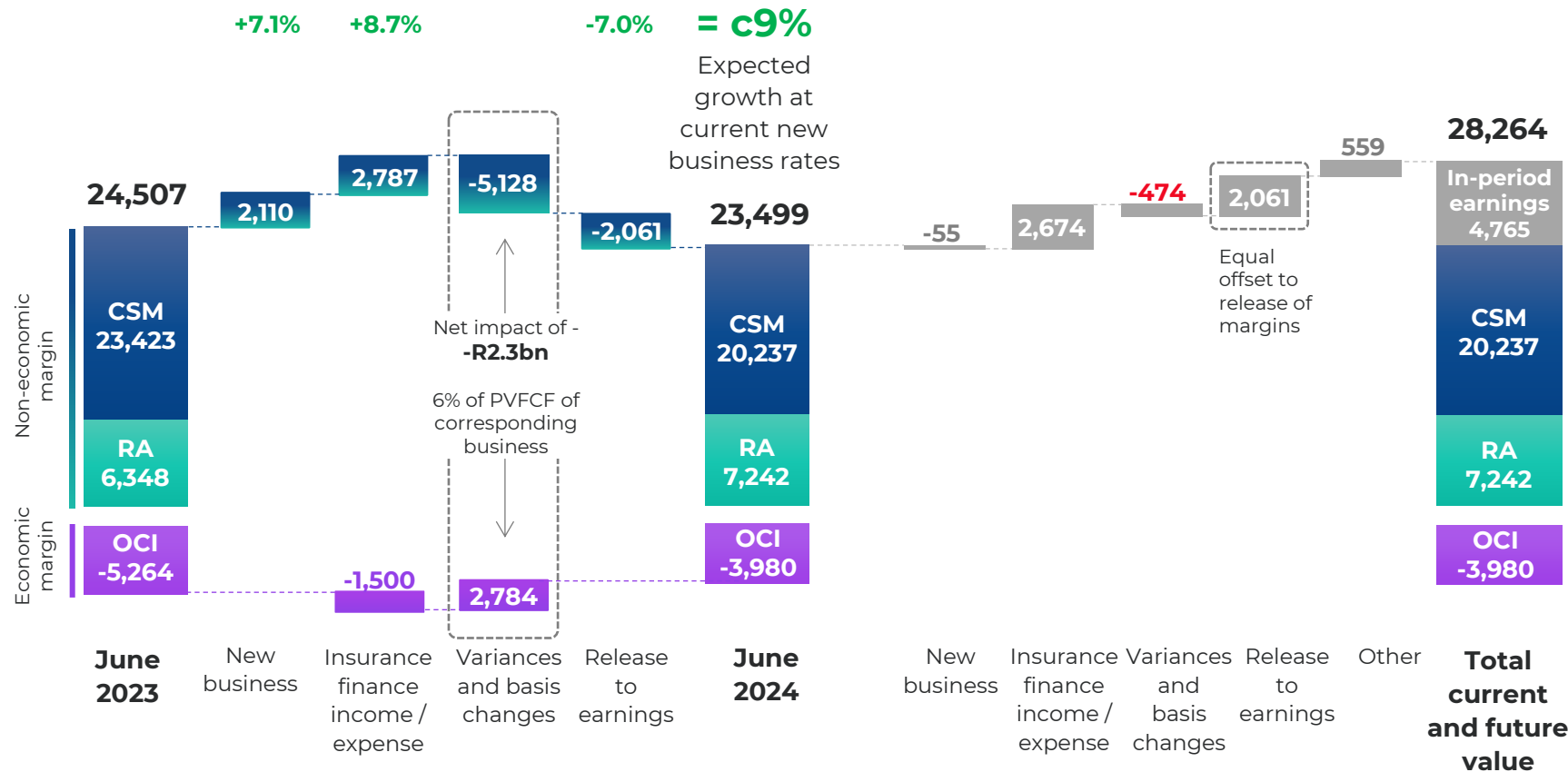


## Store of value at start of period plays out as earnings during the period plus store of value at end of period (Rm)

IFRS 17 stored margin absorbs basis change<sup>2</sup>

Stable earnings growth<sup>3</sup>

% Growth



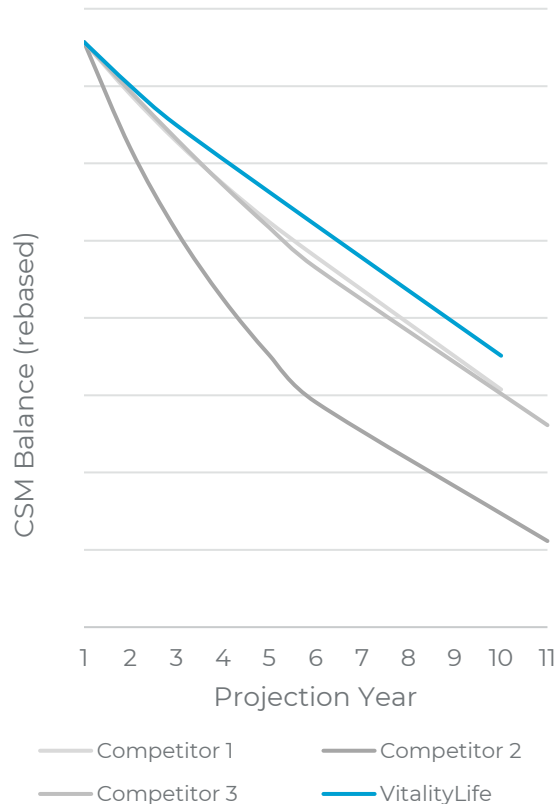
<sup>1</sup> Represented by DSY and competitor CSM balances rebased to the same starting level for comparative purposes; <sup>2</sup> SA Life and Invest (risk) portfolio; <sup>3</sup> SA Life Segment

# VitalityLife - Actual value generation of business under IFRS 17



## Positive margin dynamics

Comparative non-economic margin<sup>1</sup> runoff excl new business

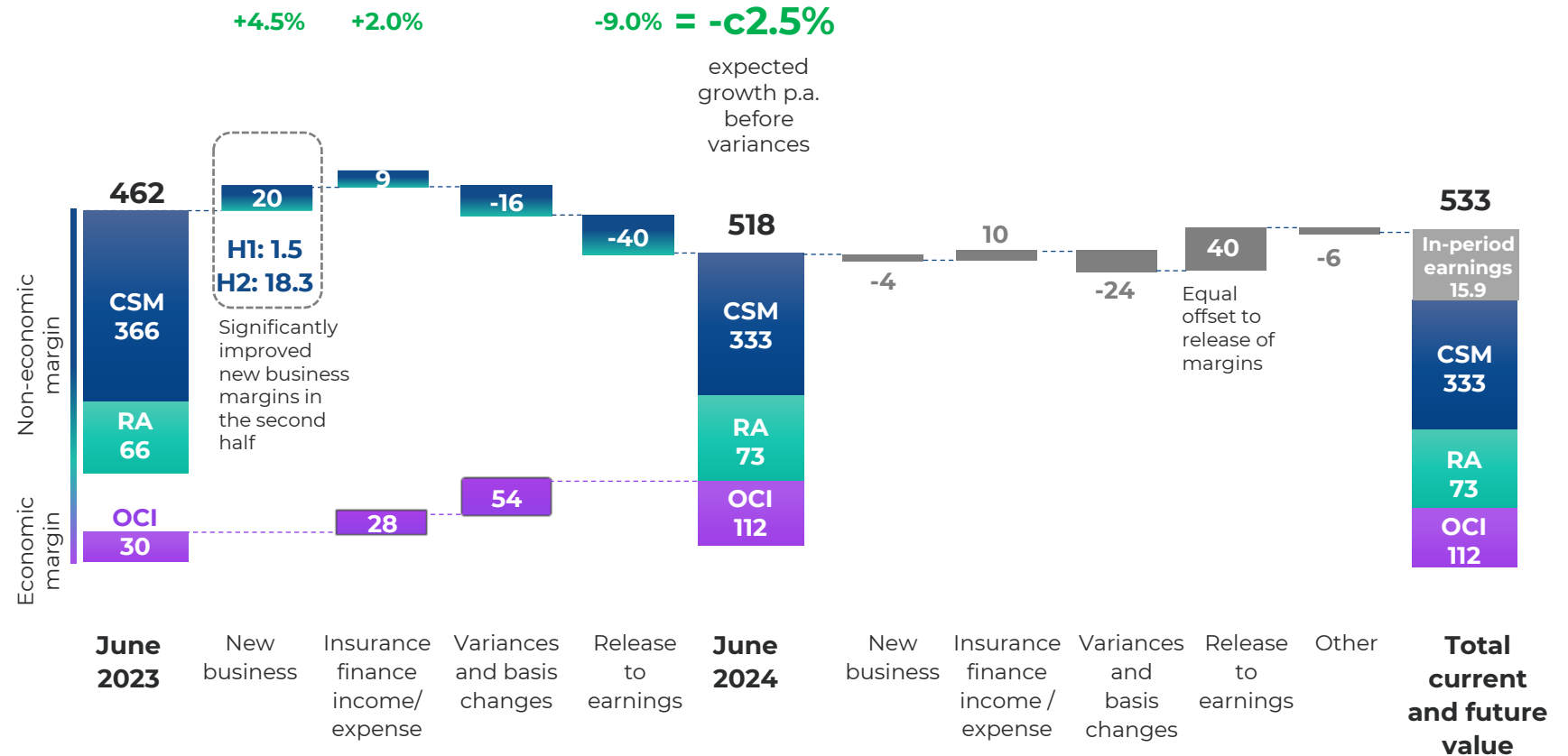


## Store of value at start of period plays out as earnings during the period plus store of value at end of period (GBPm)

IFRS 17 stored margin absorbs basis change

Stable earnings growth

% Growth



<sup>1</sup> Represented by Vitality and competitor CSM balances rebased to the same starting level for comparative purposes