
EXTRACT OF THE UNAUDITED INTERIM RESULTS AND CASH DIVIDEND DECLARATION FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

Highlights

- Operating income from continuing operations up 8% year on year at R1 686 million
- The group achieved new business of R86 million in annualised revenue, across our core businesses:
 - R5.2 billion in new business flows within the individual consulting segment
 - R2.4 billion in new business into AFRIS, our flagship default solution
 - Two notable admin mandates that will further expand our member base by over 37 000 members
 - R6.4 billion (including R5 billion in platform assets) in new institutional assets in our investments business, with an additional R2.5 billion pending regulatory approvals
- Profit from operations (before non-trading and capital items) down 9% year on year to R354 million owing to lower-than-expected market performance and higher operating expenses
- Headline earnings per share from continuing operations down 15% year on year to 16.1 cents owing to the decrease in profit from operations and an increase in non-trading and capital items
- Headline earnings per share from total operations up 11% year on year to 14.1 cents due to the improved financial performance of the discontinued operations
- Our capital position remains robust with a surplus of own funds over regulatory capital of R1 206 million. The group cover ratio of 1.9 times is well above our policy solvency cover ratio of 1.2 times
- Interim dividend declared of 15 cents per share, up 25% year on year, in line with our dividend policy
- Total closing assets¹ of R412 billion down 5% from 31 March 2022 impacted by market performance during the period
- Average assets up 3% year on year to R425 billion

Dawie de Villiers, Chief executive officer, commented: *'This is a credible performance by our business in the face of volatile markets and demonstrates the stability of our core businesses. I am pleased to note the positive impact of new business on our top line and expect further contributions from our organic and inorganic growth plans. I have full confidence that our investment portfolios are well positioned despite the short-term challenges experienced across the market over the past six months. We are committed to our strategy and have made meaningful strides towards becoming the most impactful provider of financial advice to individuals and institutions.'*

¹ Total assets include assets under administration and assets under management

Financial highlights

In millions of South African rands (Rm)	Unaudited six months ended 30 September			
	2022/2021 % change	2022	2021	2020
Continuing operations				
Operating income ¹	8	1 686	1 565	1 475
Profit from operations (before non-trading and capital items)	(9)	354	389	371
Cost-to-income ratio ² (percentage)	5	79.0	75.1	74.8
Profit for the period	(15)	204	240	243
Cash generated from operations	(8)	273	298	324
Basic earnings per share (cents)	(14)	16.1	18.8	17.8
Headline earnings per share (cents)	(15)	16.1	18.9	18.2
Closing total assets ³ (in billions of South African rands)	(3)	412	423	353
Total members under administration and advised ⁴ (000)	5	1 338	1 280	1 284
Discontinued operations				
Operating income ¹	>100	42	7	133
(Loss)/profit from operations (before non-trading and capital items)	73	(23)	(84)	28
Total group				
Basic earnings per share (cents)	12	14.1	12.6	14.1
Headline earnings per share (cents)	11	14.1	12.7	14.5
Normalised headline earnings per share (cents)	27	15.5	12.2	13.9
Interim dividend per share (cents)	25	15.0	12.0	13.0

1. Operating income represents revenue net of direct expenses

2. Cost-to-income ratio is calculated as a percentage of operating expenses (before non-trading and capital items) and adjusted for other income, over operating income

3. Total assets include assets under administration and assets under management

4. Includes total number of active members across standalone and umbrella funds, medical scheme membership and individual consulting clients

Executive summary

Alexforbes reports financial results for the six months ended 30 September 2022 (the period or current period), with operating income up 8% benefiting from new business, client retention across its core business lines and higher average assets.

Our performance over this period occurred within the context of challenging trading conditions and general negative market performance. Investment markets performed below expectations, the JSE all-share index produced a negative 13.7% return for the six months to September 2022 coupled with increased volatility due to global geopolitics and local electricity supply disruptions. The cumulative blended market return across our portfolios was negative 4.1% over the same period. While we anticipate these headwinds to persist for the remainder of the financial year, we also expect to benefit when markets normalise.

Operating income increased 8% year on year, comprising 11% growth from the retirements business and 17% from healthcare consulting. The performance of the investments business (up 4% year on year) is in line with higher average assets. The growth in operating income was underpinned by the benefits of new business from the prior financial year fully materialising in the top line, higher average assets over the period, client retention and protection of margin.

Management efforts to win new business and improve top-line growth continue to be effective. The group achieved new business of R86 million in annualised revenue during the period.

Profit from operations (before non-trading and capital items) of R354 million decreased 9% year on year attributable to lower-than-expected investment market performance and higher operating expenses during the period.

Operating expenses of R1 358 million increased 14% year on year. The increase in operating expenses is in line with our plan for the period and reflects both the growth in capacity and inflationary pressure prevalent in the current market environment. The increase in personnel costs aligns with approved vacancies being filled and the earlier inflationary increase. In addition, technology costs were higher year on year owing to unfavourable exchange rates, increased depreciation on software deployed and increased development costs in line with our investment in re-engineering.

The growth in operating expenses for continuing operations over the last three years compounds to 7% including the absorbed stranded costs². Excluding the impact of stranded costs, growth in operating expenses compounds to 5% over the same period. We remain committed to our target for organic growth in expenses over the medium to long term to between 6% and 8% per year.

Significant progress was made on our largest lease contract for the Sandton head office, which has two years remaining. The impact of a smaller footprint together with lower market-related rental rates is expected to reduce our premises costs from the current level by approximately R150 million and should translate to a 350 bps reduction in our cost-to-income ratio. The full effect of this cost reduction will materialise in financial year 2026.

Profit for the period from continuing operations of R204 million is 15% lower year on year. The year-on-year decrease includes the performance of the insurance cell-captive facility that reported a loss of R33 million (2021: R19 million profit) and an increase in costs relating to corporate transactions. The results of the insurance cell-captive facility are excluded when calculating the group's normalised earnings.

Attributable earnings from total operations for the period improved 11% year on year to R179 million. The discontinued operations reported a reduced loss for the period of R25 million (2021: R79 million loss) due to the:

- reduction in the loss for the period from the group risk business in runoff to R45 million (2021: R85 million loss)
- improved profit for the period from the AFICA business to R20 million (2021: R6 million)

We are pleased to report progress made on the corporate transactions currently under way:

- We completed the acquisition of EBS International Proprietary Limited (EBS) and the transaction took effect on 10 June 2022.
- We concluded the acquisition of the large standalone retirement fund administration business operations from Sanlam Life Limited (Sanlam Life) and the transaction took effect on 1 November 2022.
- We completed the acquisition of Bidvest Wealth and Employee Benefits and the transaction took effect on 1 December 2022.
- The sale of the AFICA group to Glacier by Sanlam, a wholly owned subsidiary of Sanlam Life, is well advanced. We anticipate closing this transaction in the final quarter of this financial year.

² Costs that would previously be absorbed by the discontinued operations but will remain following disposal (these costs include allocations of central shared costs, premises costs and IT costs)

The group balance sheet remains financially robust, supported by the sustained cash flow generated from continuing operations, with a strong regulatory surplus position of R1 206 million and available cash of R589 million. To further optimise the balance sheet the group entered into a loan facility agreement with The Standard Bank of South Africa Limited to finance acquisitions. The total funding available under this facility is R600 million. In June 2022, R108 million was drawn down to finance the purchase of EBS. The repayments over the five-year term of the loan comprise interest, while the principal is payable at maturity.

An interim dividend of 15 cents per share has been declared, up 25% year on year. The interim dividend is in line with the group's dividend policy.

The results for the period reflect the progress made in our stated strategy and growth trajectory. Despite the market impact on our operating income and cost pressure both management and the board remain confident in the prospects of the company.

Interim dividend declaration

Alexforbes's dividend policy is set at a target range of 1.0 to 1.5 times earnings cover. The dividend is set with reference to normalised headline earnings.

An interim dividend declaration has been considered by the board, taking into account the group's current and projected regulatory position, the available cash in the group, as well as the group's high cash generation.

The board has declared an interim gross cash dividend of 15 cents (12 cents net of dividend withholding tax) per ordinary share for the six months ended 30 September 2022 (2021: 12 cents per ordinary share).

The interim dividend has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt from the dividend withholding tax.

The issued number of shares at the date of declaration is 1 327 582 154.

The directors have satisfied the solvency and liquidity test as required in terms of section 4(1) of the Companies Act 71 of 2008.

The salient dates for the dividend will be as follows:

Declaration date	Monday 5 December 2022
Last day of trade to receive a dividend	Tuesday 3 January 2023
Shares commence trading 'ex' dividend	Wednesday 4 January 2023
Record date	Friday 6 January 2023
Payment date	Monday 9 January 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 January 2023 and Friday, 6 January 2023, both days inclusive.

Prospects

Management continues to focus on the implementation of the corporate transactions with a view to ensuring a smooth transition experience for clients in the short term and to unlock the value of increased scale into the future.

The business model has been distilled and we will consider further acquisition opportunities to expand our core businesses of consulting, administration and investments. We will look to raise capital-efficient funding as part of any anticipated acquisition.

Opportunities for acquisitions will be considered where they:

- increase membership of administered funds
- increase consulting footprint or scale up retail advice business
- add advisory or advisory support capabilities
- supplement revenue across core lines

The business is making significant progress towards becoming a member-oriented financial services company by creating the necessary focus and alignment across the enterprise to pivot towards the retail market. Alexforbes's stated intention is to double the size of the retail investments book within the next five years by leveraging regulatory change, digital transformation, its foothold at institutional clients and scaling up its retail advice. We anticipate that a number of key developments will be implemented during the remainder of the year moving us towards this vision.

We expect an operationally stable year where profit growth may be hampered by persistent market headwinds. In addition, we will continue to invest in our capacity for growth. Building skills, innovating and ensuring value is delivered in all service and advice requires that we invest in our employees. We will balance our need to invest with affordability constraints over time.

Management remains resolute in its efforts to continue the journey towards becoming a highly automated, digitised and simplified business geared towards the future needs of our clients.

Sustainability is a key focus area across the business, which has mobilised to act as a force for good through our actions as a corporate citizen, allocator of assets and, ultimately, as a trusted adviser to clients.

Change in directorate

The following changes to the board were announced through the period: Ms Marinda Dippenaar and Messrs Pavan Dhamija and Gary Herbert were appointed as non-executive directors effective 26 August 2022. Mr Herbert was also appointed to the remuneration, nomination and mergers and acquisitions committees.

For further information

This short form announcement is the responsibility of the directors of the group. Shareholders are advised that this short form announcement represents a summary of the information contained in the full announcement and does not contain full details.

The full announcement is published and is available at:

<https://senspdf.jse.co.za/documents/2022/JSE/ISSE/AFH/AFHDec2022.pdf>

The full announcement is also available on the Alexforbes website:

<https://investors.alexforbes.com/financial-results>

Electronic copies of the full announcement may be requested by emailing:

InvestorRelations@alexforbes.com

Any investment decisions by investors and/or shareholders should be based on a consideration of the full announcement as a whole and investors and/or shareholders are encouraged to review the full announcement, which is available as set out above. Any reference to future financial performance or any forecast financial information included in this announcement has not been separately reviewed, audited or reported on by the group's external auditors. Additionally, the interim results have not been audited, reviewed or reported on by the group's external auditors.

On behalf of the board of directors

AD Mminele
Chair

DJ de Villiers
Chief executive officer

5 December 2022
Sandton

Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)