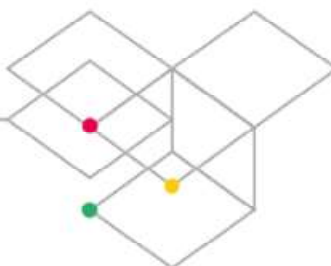




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Investor Day  
2019 INTERIM RESULTS



Unaudited 2019 Interim Results  
and Dividend Declaration  
FOR THE 6 MONTHS ENDED 31 DECEMBER 2018

**Dr. Anna  
Mokgokong**  
Group Chairperson



**AfroCentric**  
GROUP



Incoming CEO:  
**Ahmed  
Banderker**

## Sanlam track record

CE of Sanlam Strategic Business Development since 2011

Non-executive Director of AfroCentric since 2015

Non-Executive Director of Medscheme

## Growth focus

Recent acquisitions

- Maximise value through Group integration

Enhancing AfroCentric growth prospects

- Value Chain Optimisation – from strategy to reality
- Positioning the group for success in NHI environment

## Appointed 1 April 2019

Antoine van Buuren stays on until end May 2019

**Antoine van  
Buuren**  
Group CEO



Delivering on focus areas  
Lowering the cost of healthcare

## Delivering on focus areas



### Artificial Intelligence (AI)

AI and neural networks for real-time identification of high risk hospital cases and outliers requiring intervention

### Digital Service Delivery

**FICO** Decisions  
AWARDS 2018

Expansion of Robotic Process Automation

Innovative new benefit design implemented 2019  
Seamless financial services integration for members

Digital transformation

- UX focused redesign of digital self service

# Delivering on focus areas



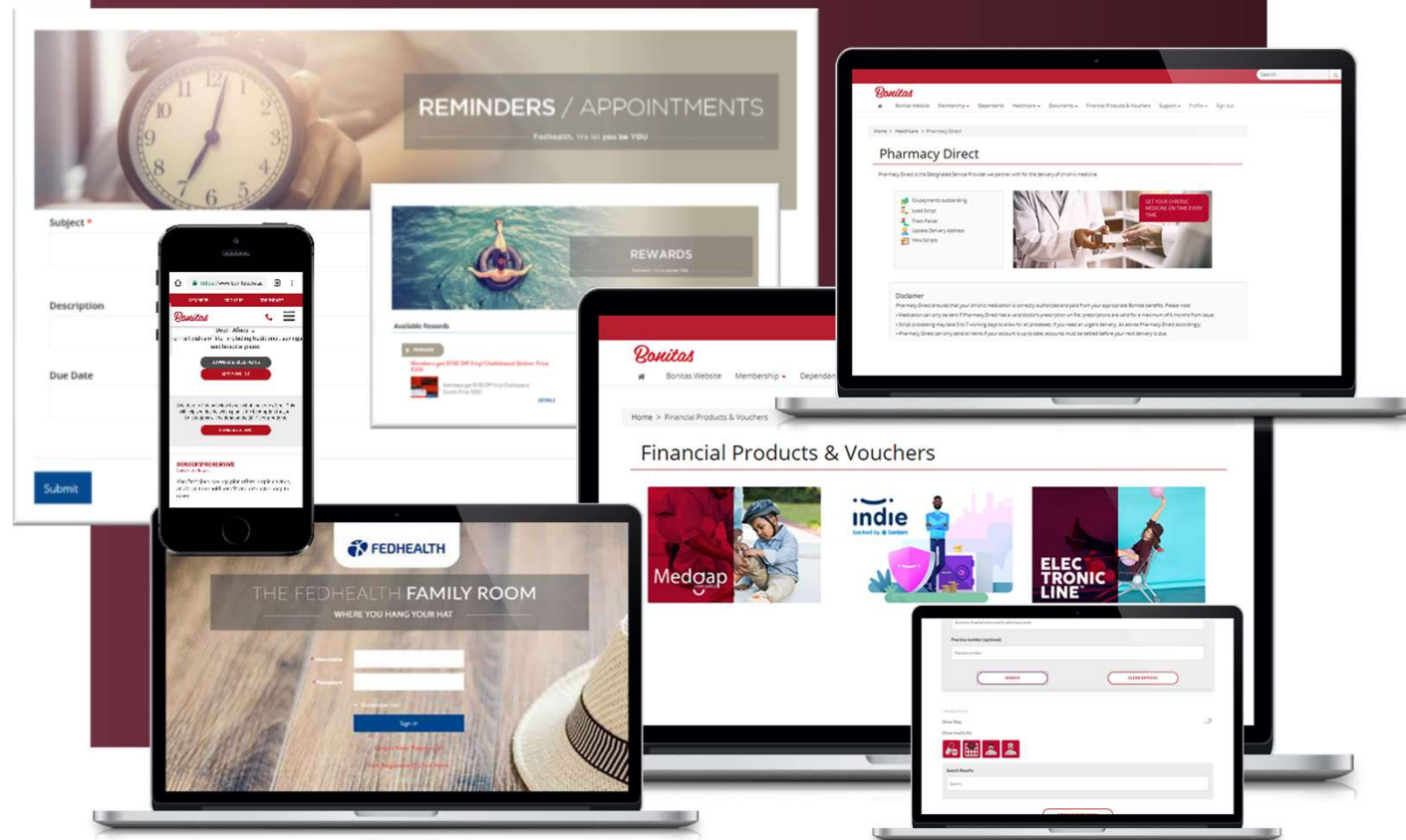
## Digital Service Delivery Examples

### Robotic Process Automation (RPA) More time to talk to patients

Items processed by RPA nearing 1m

- Claims
- Authorisations
- Underwriting
- Applications

## Easy access to a variety of AfroCentric services



# Delivering on focus areas



**Beyond traditional programmes**

**Beyond utilization management**

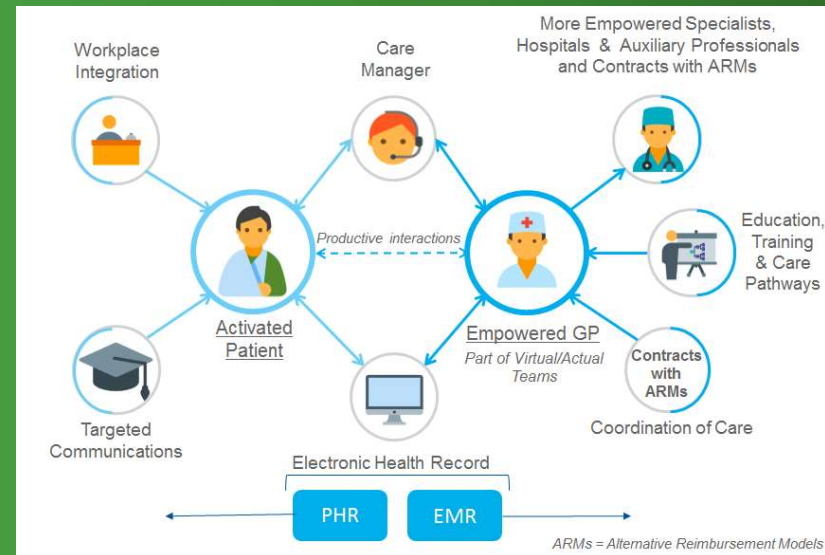
**Multi-disciplinary clinical teams**

**Developed and developing models for**

- Integrated Chronic Care
- Healthcare outcomes
- Value linked reimbursement

**Pilot success**

- ↑ clinical outcomes
- ↓ hospital admissions
- ↓ costly complications





# Delivering on focus areas

## Beyond traditional programmes

### Examples

## Integrated Chronic Care (ICC)

High risk beneficiaries with multiple co-morbidities

Hospital admissions per 1 000 lives

- ↓ 39% for Ischaemic Heart Disease
- ↓ 32% Asthma
- ↓ 38% Mental Health
- ↓ 24% Diabetes



*Phase 1 impact of ICC programme which includes prolonged GP consultations*

## Mental health programme

### Reducing costs

 Inpatient admission cost	↓ R1002.21 (€62.37) saving plpm
 Ambulatory costs	↑ R32.10 (€2) increase plpm
 Chronic medicine costs	↑ R157.64 (€ 9.81) increase plpm
 Total cost	↓ R812.47 (€50.56) saving plpm

## Improving clinical outcomes

- ↓ 21% in mean AUDIT (alcohol)
- ↓ 43% in GAD-7 (anxiety)
- ↓ 45% in PHQ-9 (depression)
- ↓ 36% in PC-PTSD





## Delivering on focus areas



### Driving growth targets



#### **Acquisitions - Integration and growth**

**PHA (incl. FastPulse) acquisition 1 Oct 18**

**Sanlam Health acquisition 1 Mar 19**

#### **MMed (devices, consumables and surgicals)**

**Client contracts grown to 6 hospitals and clinics**

**Sales grew from R600k pm to R71m between Oct 18-Jan 19**

#### **Scriptpharm - chronic and oncology medication**

**Chronic medicine solution from 51 000 to 552 370 lives covered**

**Oncology medicine and consumable management launched**

**Acute medicine management capability established**

#### **Pharmacy Direct - new NDoH tender expansion**

**More than 1.4m public sector patients registered**

**Almost 1m public sector scripts dispensed a month**

**3 x 4-ton courier trucks leave every day (5 x 4-ton trucks in total)**

**An additional 1.4 ton delivered by PD vehicles per day (4.6 total)**

# Health-focused revenue streams

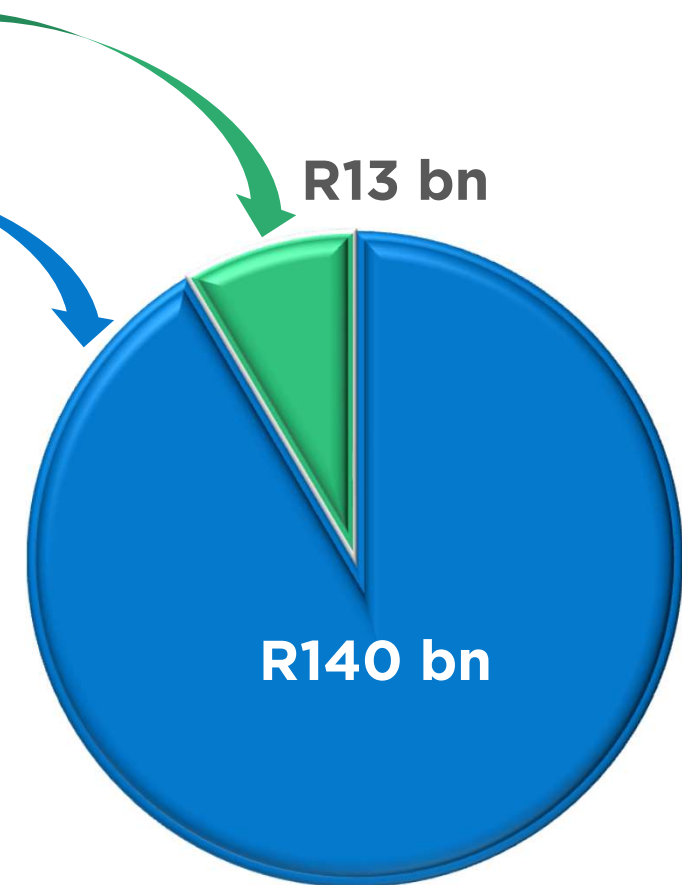
## Reducing healthcare costs



We are currently making a living here

We aim to make an impact here

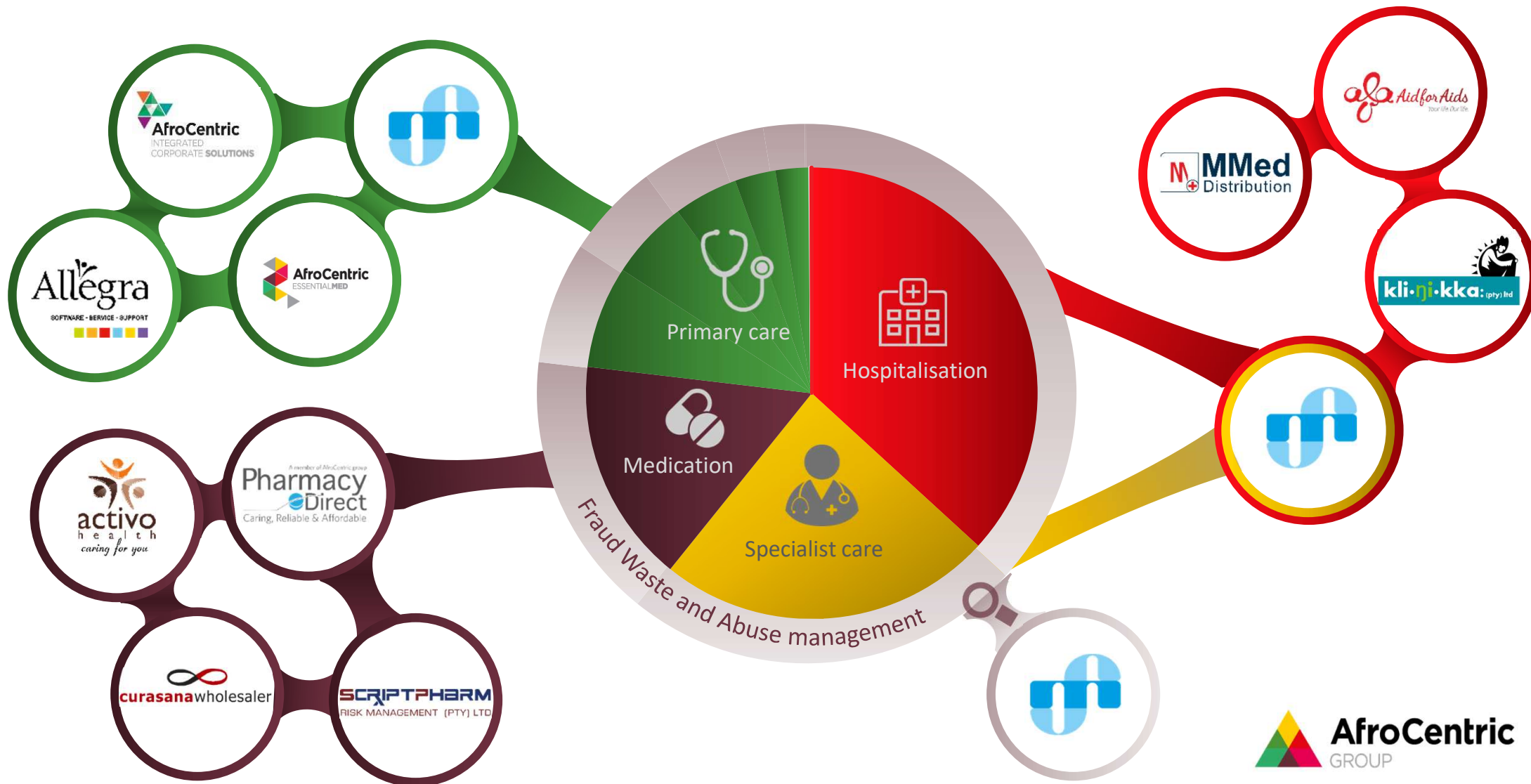
Saving money for our medical scheme members  
by reducing inefficiencies  
and strategic purchasing  
throughout the healthcare value chain



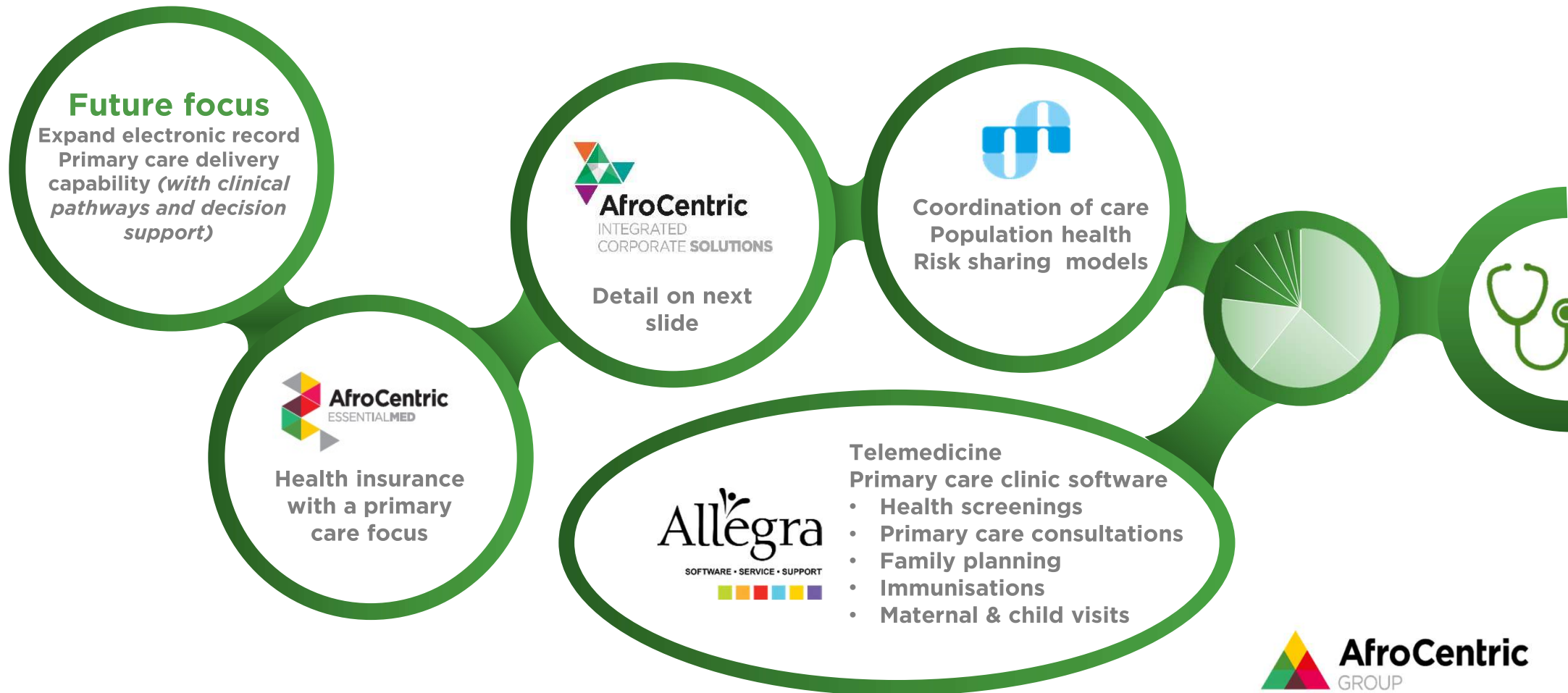
*Data source: CMS Annual Report 2017-8*

- Healthcare expenditure
- Admin and managed care

# The Healthcare Rand

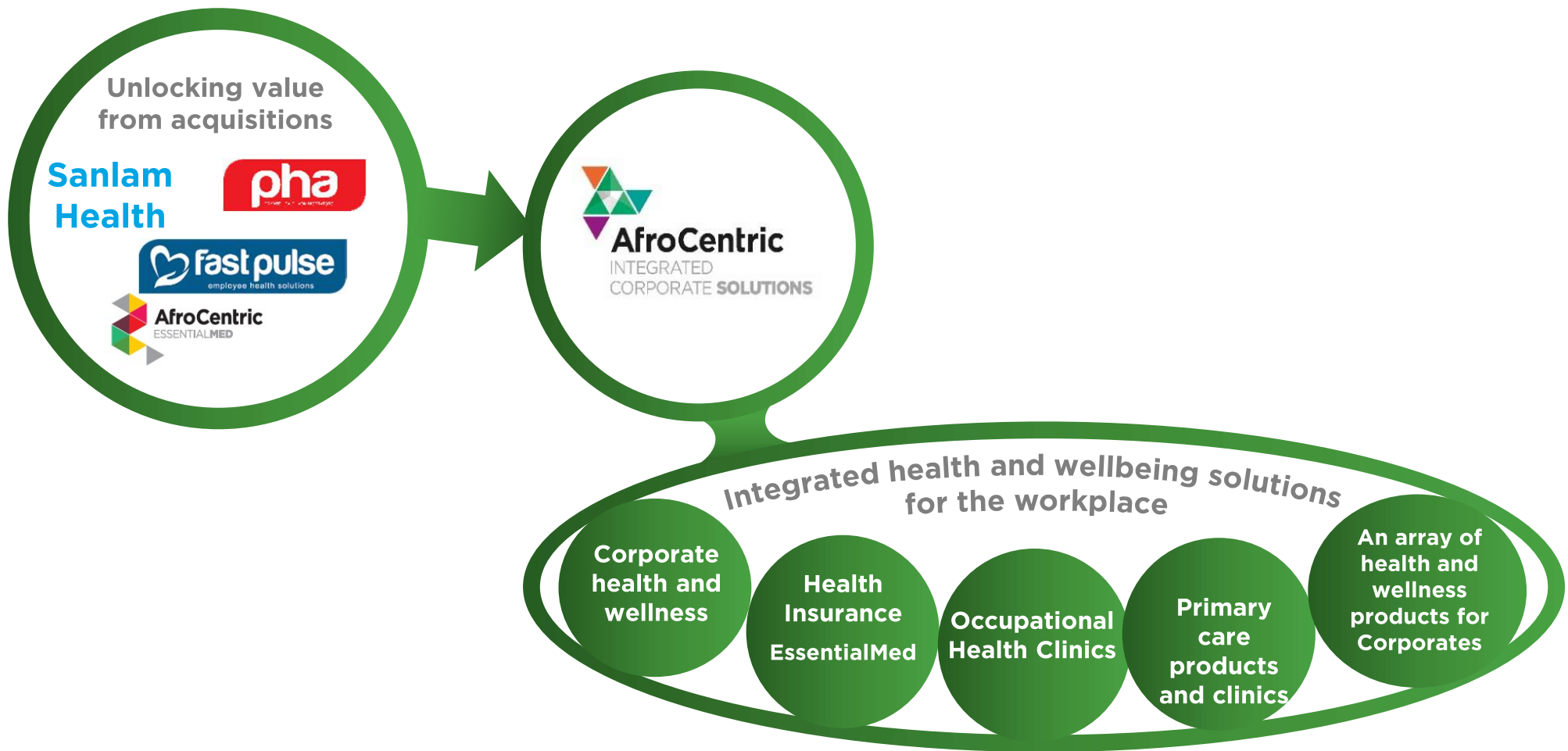


# Reducing primary care costs



# Reducing primary care costs

## Integrated Corporate Solutions



# Reducing pharmaceutical costs



# Reducing specialist & hospital costs



**Distribution of affordable**

- Medical products
- Surgical consumables, devices, surgery packs

**Distribution to**

- Hospital & theatre
- Retail pharmacy
- HomeCare

Reducing the need for back and neck surgery through conservative treatment

↑ range of movement  
↓ back and neck pain  
↓ admission rates



**AfA Clinical guidelines still the industry standard after 20 years**

**Exceptional viral load suppression**

↓ hospital admissions

## Future focus

Unregulated hospital pricing components  
Hospital care alternatives  
Hospital service model

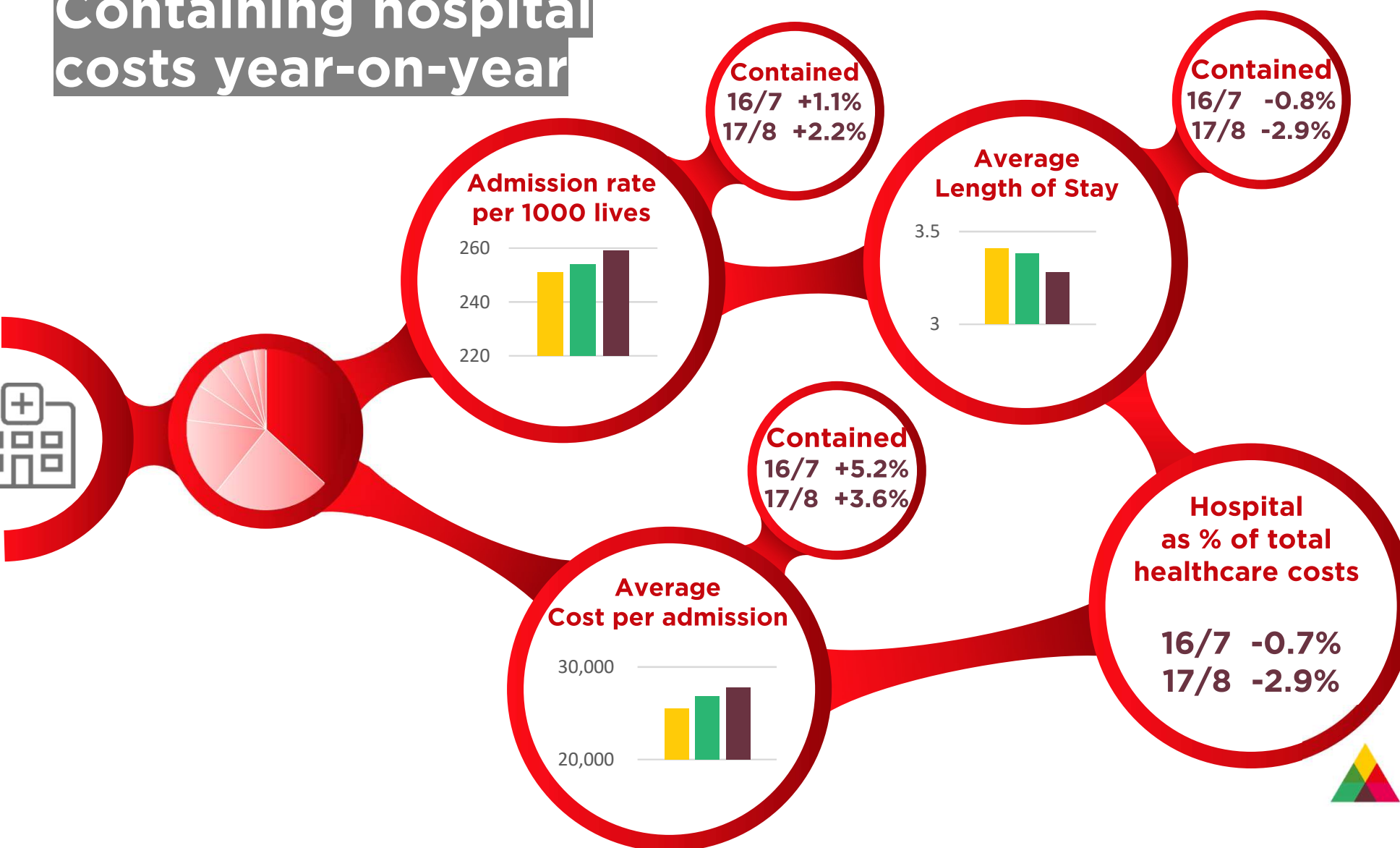
## Hospital visits to improve quality



- Risk-based targeted interventions
- Global fee arrangements
- Formulary management
- Strategic purchasing
- Home Based Care
- Clinical pathways
- Networks



# Containing hospital costs year-on-year



# Fraud Waste & Abuse

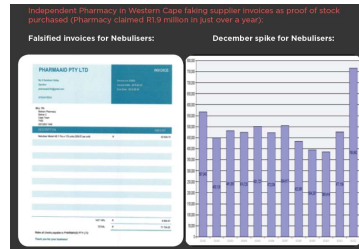


**2016-8**

R790m quantified  
R538m claims reduction  
R283m recovered

**Fraud**

**Nebuliser sales  
spike in  
December?**



**Pharmacy gives  
cash to patients for  
fake medicine  
claims**

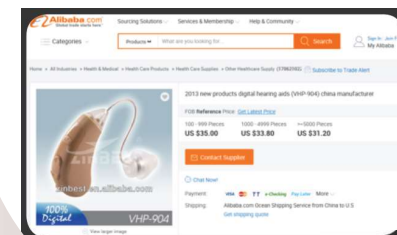
Depository

101. Ndabulula F	= R1200 = R650	✓
01. Duma AS	= R340 = R420	✓
01. Kemene HR	= R1800 = R420	✓
01. Muelu HB	= R1500 = R750	✓
01. Sella Kadla VB	= R1200 = R650	✓
01. Mthabane Jm	= R900 = R450	✓
01. Martins AS	= R1700 = R850	✓
01. Mshile MT	= R1200 = R600	✓
01. Ntuna S	= R800 = R400	✓
01. Mthabane S	= R1400 = R700	✓
01. Kweni EME	= R2200 = R1100	✓
01. Chauke P	= R1700 = R850	✓
01. Mthabane SS	= R2800 = R1400	✓
01. Mthabane C	= R1000 = R500	✓
01. Mthabane S	= R1100 = R550	✓

**Waste &  
Abuse**

**Improving  
billing patterns  
and behaviour**

**\$31.20 hearing aids  
sold for R12 500**



# AfroCentric Financial Services

Launched end January 2019

**950**

**Already  
Sold!**

**Discounted  
financial  
services**



**With  
Sanlam**



**Vouchers  
Premium,  
free & win**



**AfroCentric**  
FINANCIAL SERVICES



**AfroCentric**  
GROUP

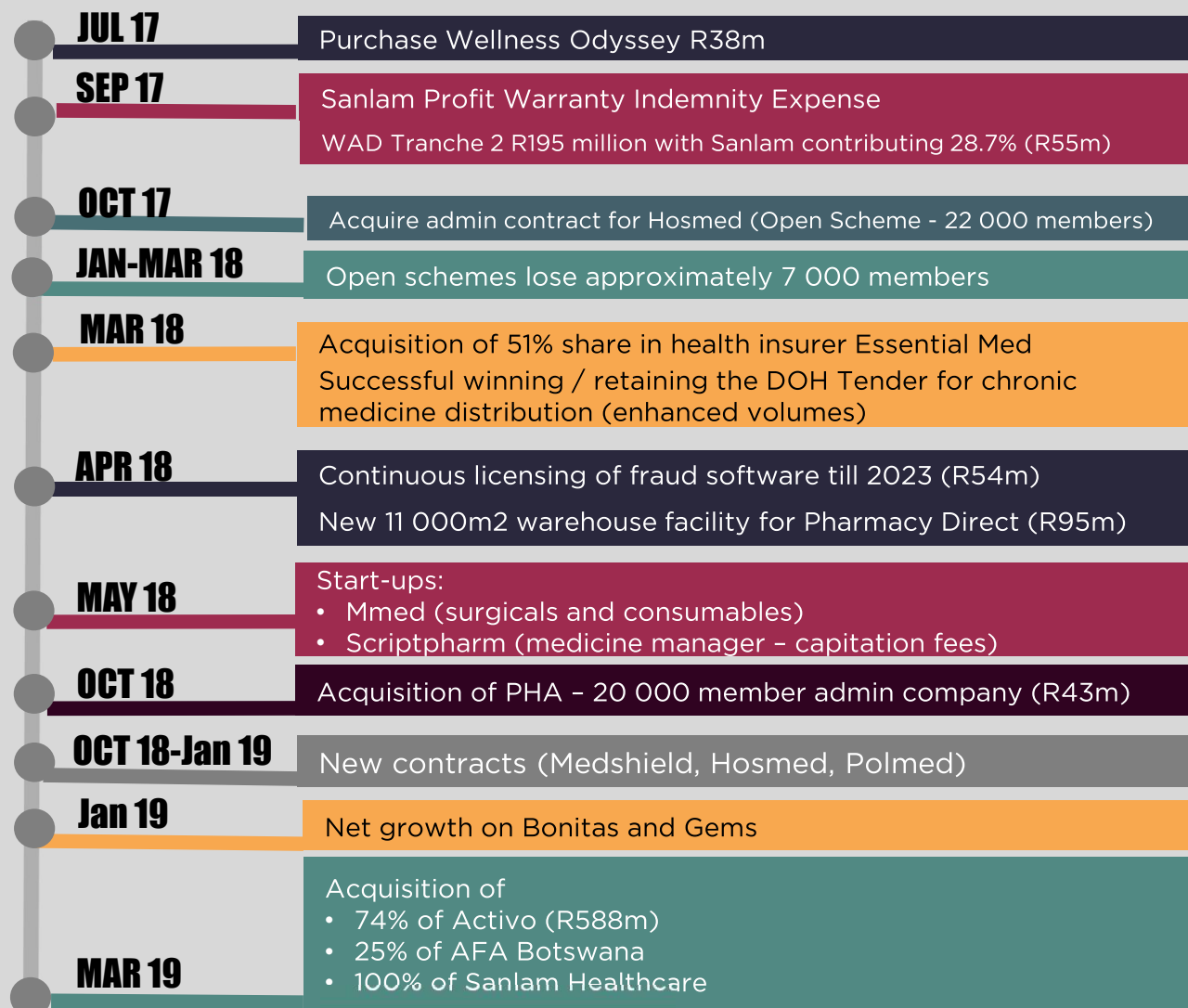
**Hannes**  
**Boonzaaier**  
Group CFO



**AfroCentric**  
GROUP



IMPACT ON  
NUMBERS  
2018/19  
Financial  
Year

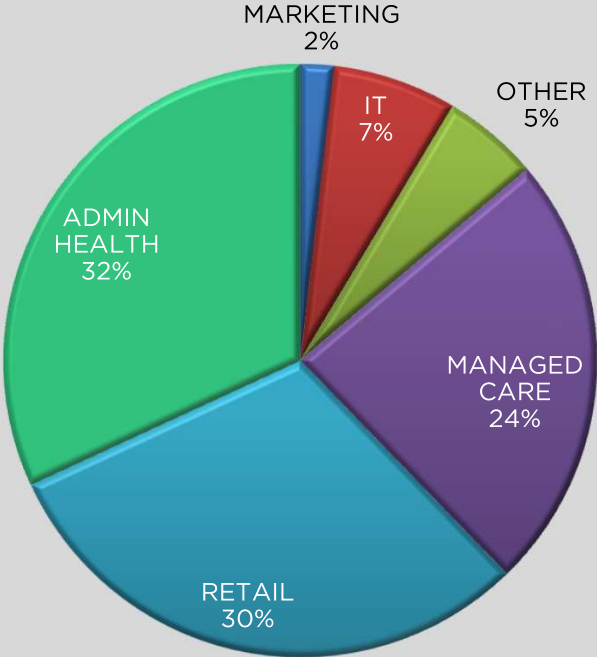




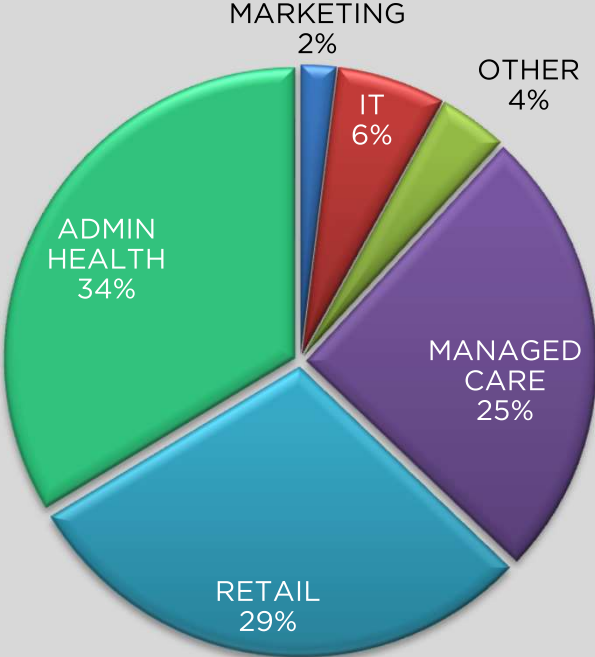


# Per member per month fees versus other revenue sources

AFROCENTRIC REVENUE 2018



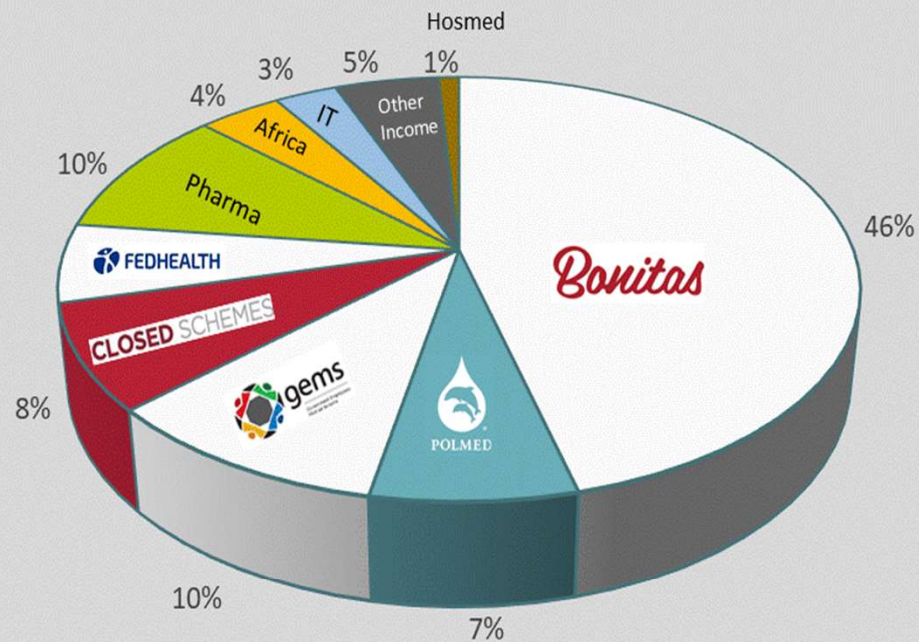
AFROCENTRIC REVENUE 2017



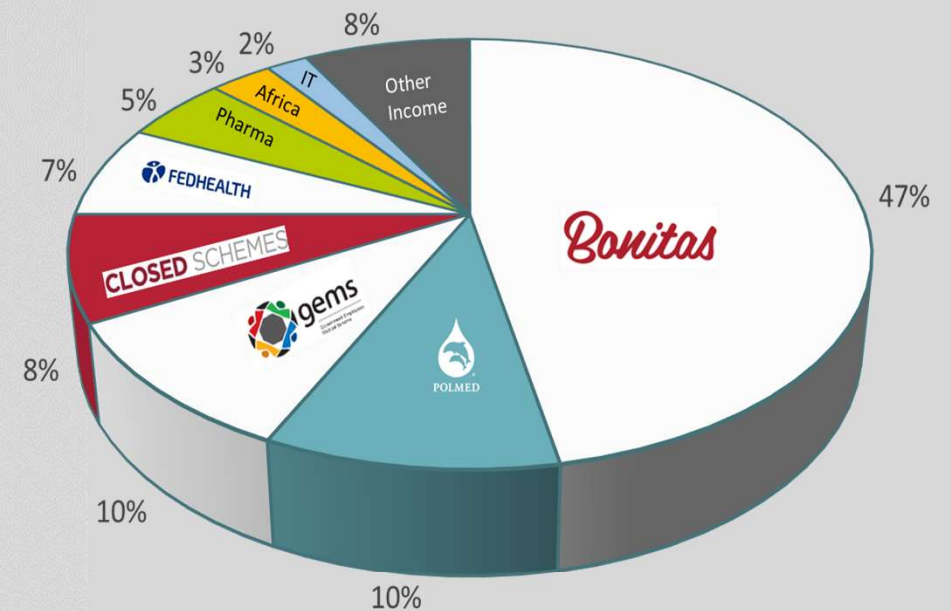


## Client revenue mix across all services

December 2018

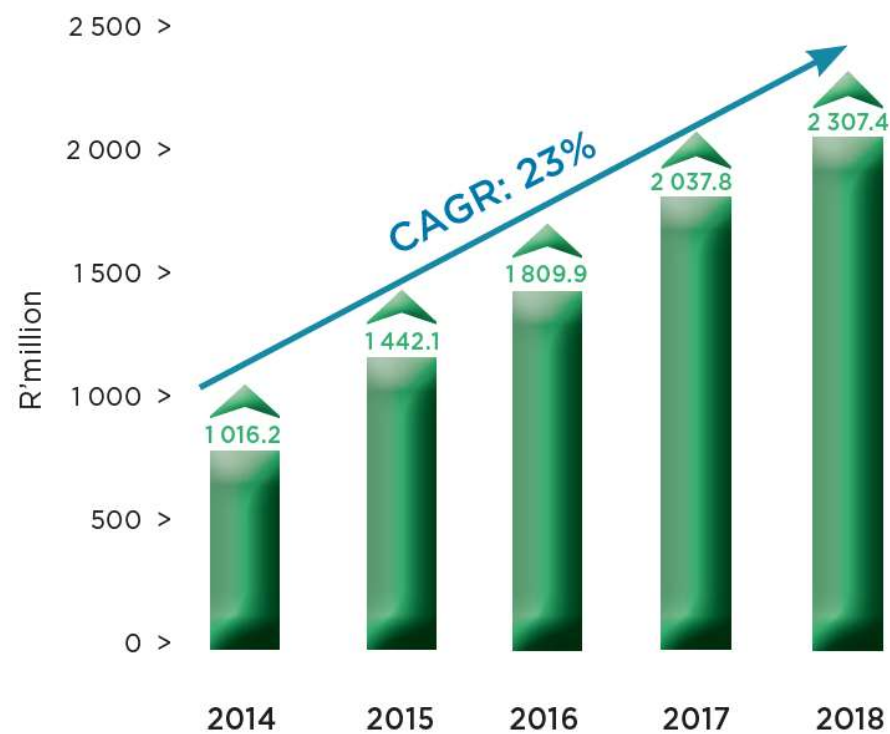


December 2017

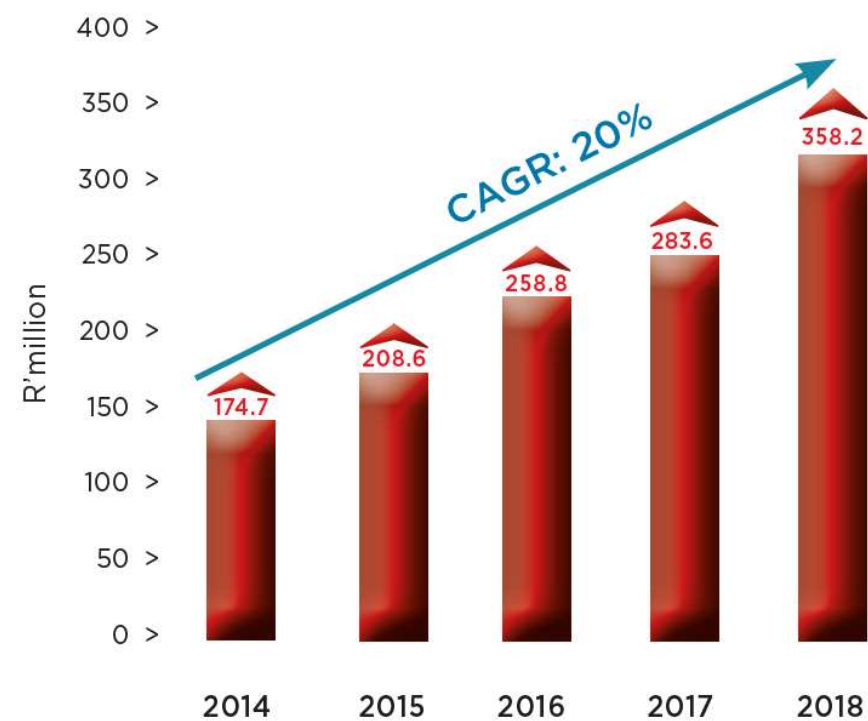


## Operational trends

### Total revenue



### Operating profit



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Why is earnings growth less than 7%?

**Pharmacy Direct**

- Volumes (average)
  - Dec 2017: 480K per month
  - Dec 2018: 825K per month
- Take on of new scripts costly due to pharmacist input and delivery optimisation
- R9 million more costs than 2017

**Startup Businesses**

- Mmed
- R2.8 million
- Scriptpharm
- R2.7 million
- Essentialmed
- R2.5 million
- R8.0 million**

**Investment Income**

Group cash balances

- June 2017 (R805 million)
- December 2017 (R451 million)
- June 2018 (R429 million)
- December 2018 (R275 million)

Most significant outflows

- TRANCHE 2 (R152 million) (Sept 2017)
- IFM (R54 million) (April 2018)
- PHA (R45 million) (Oct 2018)
- Annual dividends (R180 million) (Nov & May)
- Fusion (R60 million)
- MMed (R52m) (Oct to Dec 2018)

**Key message:**  
**FOCUS is on second 6 months and 2019 beyond!**

Growth initiatives

- Acquisitions
- New contracts



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## Divisional Operating Profit Growth

	% Change	2018 R'm	2017 R'm
Healthcare Services	7%	260.3	243.3
Healthcare Retail	(15%)	34.4	40.4
<b>Healthcare Retail Gross Profit</b>		<b>181.9</b>	<b>153.3</b>
<b>Healthcare Retail Operating Costs</b>		<b>(147.5)</b>	<b>(112.9)</b>



Decline due to non-recurring early take up costs of DOH contract with big volumes R9 million. Mmed and Scriptpharm startups amounting to R5.5 million.



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Operating Profit Trend	31 Dec 18 R'm	31 Dec 17 R'm	31 Dec 16 R'm	31 Dec 15 R'm	Growth 2018 %	Growth 2017 %	Growth 2016 %
Healthcare Service Revenue	1 607	1 4421	1 300	1 122	11%	11%	16%
Healthcare Service Operating Costs	(1 347)	(1 198)	(1 069)	(913)	12%	12%	17%
Healthcare Service Operating Profit	260	243	231	208	7%	5%	11%
Operating Lease Reversal (adoption of IFRS16)	64						
Healthcare Retail Revenue	700	596	510	320	17%	17%	59%
Healthcare Retail Cost of Sales	(518)	(443)	(410)	(251)	17%	8%	63%
Healthcare Retail Gross Profit	182	153	100	69	19%	54%	44%
Healthcare Operating Costs	(147)	(113)	(72)	(69)	31%	57%	4%
TOTAL OPERATING PROFIT	358	284	259	209	26%	10%	24%
IFRS16 Reversal	(64)						
ADJUSTED OPERATING PROFIT	295	284	259	209	4%	10%	24%
Operating Profit Margin	12.77%	13.92%	14.30%	14.46%			





## Summarised Consolidated Statement of Comprehensive Income

R 'million	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
Revenue	2 307	2 038	1 810	1 442
Operating Profit	358	284	259	209
Net Finance & Investment Income	-4	21	13	11
Earnings from Associates	11	12	10	2
Profit Before Tax	240	249	220	151
Taxation	-65	-71	-67	-41
<b>Profit for period</b>	<b>177</b>	<b>173</b>	<b>150</b>	<b>115</b>

### 2017 to 2018 change

+ Inflationary increase in healthcare service revenue (R93m)  
 + Increase in retail private sales & DOH contract dispensing fees (R37m)  
 + Revenue from start-up companies, MMed (R56.9m) and Scriptpharm (R10m)  
 + Acquisition of new entities: Essential Group (R13.1m) and PHA (R20.9m)

+ Inflationary increase in costs (R95m)  
 + Costs relating to new acquisitions, Essential Group (R13.9m) and PHA (R18.8m)  
 + Increase in costs incurred by the new start-up companies, Mmed (R58.4m) and Scriptpharm (R9.5m)  
 + Increase in costs associated with the on-boarding of the KZN DOH Contract: personnel costs (R16.2m), delivery costs (R12.5m) and premises costs (R3.6m)  
 + Increase in costs has been diluted by the reversal of the operating lease expense (R63m) – impact of the adoption of IFRS 16.

+ Lower interest earned due to lower cash balances following the WAD tranche 2 payments (R194m), acquisition of PHA (R43m), dividend payment (R88m) and investment in the Mmed stock funding (R40m)  
 + The lower interest has been diluted by the interest cost recognized on the lease liability – impact of the adoption of IFRS 16

## Summarised Statement of Financial Position

R 'million	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
<b>Assets</b>				
Intangible assets	1 864	1 571	1 440	1 418
Other non-current assets	1 004	570	681	740
Current assets	812	871	868	838
<b>Total assets</b>	<b>3 679</b>	<b>3 012</b>	<b>2 989</b>	<b>2 996</b>
<b>Equity and liabilities</b>				
Total shareholders' equity	2 702	2 527	1 631	1 666
Non current liabilities	595	154	1 004	1 032
Current liabilities	382	331	353	298
<b>Total equity and liabilities</b>	<b>3 679</b>	<b>3 012</b>	<b>2 989</b>	<b>2 996</b>

### 2017 to 2018 change

- + Capitalisation of the Nexus/ Gexus systems (R88m) / (amortisation: R8.5m)
- + Increase in PPA attributed to the customer relationships on the acquisition of PHA: R24.8m / (amortisation: R14.9m)
- + Fusion programme costs (R44m)
- + Increase in goodwill attributed to the acquisition of Essential Group (R11m), PHA(R36m)
- + Computer software for fraud services (R5m)
- + Digital CRM capitalisation (R38,) and other software (R42.6m) / (amortization:R3.3m)

- + Purchase of computer equipment (R14m), purchase of furniture and fittings (R61m) – refurbishment of the Curasana warehouse purchased to accommodate the increased volumes on the KZN DOH contract
- + Recognition of the Right of use of asset (R410m) – adoption of IFRS 16
- + Increase in other assets has been offset by the reduction in the following assets:
- + Sale of the listed investment: R26.5m in June 2018 (pursuant to the sharp decline of the share price of Jasco Investments Limited).

- + Recognition of Lease Liability: R416m – adoption of IFRS 16
- + Increase in deferred tax income liabilities: R27.1m mainly attributable to the PPA intangible assets, capital allowances, prepayments and investment property

- + Increase in trade and payable (R60m) for MMed ramp-up
- + Offset by the reduction in temporary borrowings relating to the loan procured for the acquisition of the Namibia office building (R23m)m that was recognised in December 17 – loan was paid off by June 18

## Key notes at interim stage

1. Group have early adopted IFRS16 for lease contracts (impacts noted)
2. Property and equipment increase due to new Pharmacy Direct warehouse purchased in April 2018
3. Intangible assets
  - Goodwill increase due to PHA acquisition
  - Nexus - R80 million
  - Digital - R38 million
  - Fusion - R44 million
  - Fraud software - R54 million
4. Cash resources declining and being used for expansion/growth
5. Trade receivables increase
  - Outstanding funds from DOH of R55 million fully recovered in February
  - Mmed sales for new contract dated 1 November 2018
6. Trade payable
  - Mmed creditors for stock purchases from 1 November 2018 start date

INVESTOR DASHBOARD	31 Dec 18 R'm	31 Dec 17 R'm	31 Dec 16 R'm	31 Dec 15 R'm	4 Year CAGR
Total Revenue (R'million)	2 307	2 038	1 810	1 442	17.0%
Operating Profit (R'million)	358	284	259	209	19.8%
Comprehensive Headline Earnings (R'm)	178	177	176	110	15.5%
Normalised Headline Earnings (R'million)	124	120	124	95	7.5%
Non-Controlling Interest (R'million)	54	57	52	16	
Normalised HEPS (cents)	22	22	18	17	12.9% (2016-2018)
Membership (Lives Managed) ('000)	3 711	3 625	3 709	3 684	0%
Scripts dispensed ('000)	4 402	2 939	1 436	910	75.1% (2016-2018)
Dividends (cents)	17	16	14	12	12.3%
Share Price (31 Dec 18)	4.86	6.40	6.09	5.42	-3.5%
Annualised Dividend Yield (5)	7%	5%	4.6%	4.44%	
Annualised Return on Equity	13.09%	13.71%*	18.4%	13.78%	

## Prospects and Growth Areas



- Medical Scheme consolidation within large open schemes
- Additional managed care contracts
- Fraud, waste and abuse services on the increase



Stabilisation of DOH volumes and profitability



Significant contributor to operating profit

More efficient IT platform after Fusion implementation



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Thank you

