

## **DSY - Discovery Holdings Limited - Acquisition by Discovery of Standard Life**

### **Healthcare (UK) and Withdrawal of Cautionary**

#### **DISCOVERY HOLDINGS LIMITED**

(Registration number 1999/007789/06)

(Incorporated in the Republic of South Africa)

JSE share code: DSY & ISIN: ZAE00022331

("Discovery" or "the Company")

### **ACQUISITION BY DISCOVERY OF STANDARD LIFE HEALTHCARE (UK) AND WITHDRAWAL OF CAUTIONARY**

#### **1. Introduction**

Discovery shareholders are hereby advised that Discovery has entered into an agreement dated 11th May 2010 to acquire the entire share capital of Standard Life Healthcare, a wholly-owned subsidiary of the Standard Life Group, for R1.56bn (GBP138m) ("the transaction").

The transaction is strategically consistent with Discovery's ambition to increase its scale and relevance in the UK, as well as to acquire a majority shareholding in Prudential Health Holdings Ltd, the holding company of PruHealth and PruProtect, the joint ventures between Discovery and Prudential Assurance Company ("Prudential") of the United Kingdom.

Discovery anticipates effecting the transaction by funding the entire purchase consideration, and contributing Standard Life Healthcare to PruHealth as a capital investment. This will result in Discovery increasing its interest in both PruHealth and PruProtect from 50 per cent, to 75 per cent.

The effective date of the transaction is expected to be 31 July 2010.

#### **2. Overview of Standard Life Healthcare**

Standard Life Healthcare is the UK's fourth-largest private medical insurer, with a market share of approximately 8 per cent\* and 490,000 members.

Standard Life Healthcare had net assets of R1.1bn (GBP97.1m), as at 31 December 2009. On acquisition, Standard Life Healthcare will have a minimum of R848m (GBP75m) in tangible net asset value.

In addition, Standard Life Healthcare has a strong track record of profitability, with IFRS underlying profit before tax of R106m (GBP9.4m) for the year ended 31 December 2009.

#### **3. Rationale**

Since the launch of PruHealth in 2004, the UK has been a key focus in Discovery's international strategy. The UK has a large, well-developed financial services market which is receptive to the consumer-driven product philosophy that Discovery has brought to both the health insurance and protection industries.



The continued trend towards wellness and consumerism, as well as the increased financial pressure that the National Health Service ("NHS") is expected to face as a result of tighter public spending, creates significant growth opportunities for Discovery's innovative, integrated model.

Discovery's joint venture with Prudential has created a strong foothold in both the health insurance and protection markets in the UK; the acquisition of Standard Life Healthcare is likely to accelerate the attainment of both PruHealth and PruProtect's UK strategies. In health insurance, where scale is important, the transaction creates a new competitor covering approximately 700,000 lives and attracting annual premiums of R4.1bn (GBP370m). In addition, the acquisition will provide PruHealth with opportunities to sell Vitality into Standard Life Healthcare's existing client base. In the protection market, Standard Life Healthcare's large, high-quality client base provides growth opportunities for PruProtect, and enhances Discovery's ability to implement its integrated model in the UK.

#### **4. Consideration**

Discovery will pay the entire purchase consideration of R1.56bn (GBP138 million) using its own internal resources. As part of its capital management plan, Discovery will use a limited amount of debt to fund the future growth of its existing South African businesses, as required.

#### **5. Relationship with Prudential**

Discovery will fund the purchase of the Standard Life Healthcare transaction, and intends to contribute Standard Life Healthcare to PruHealth as a capital investment. Once completed, this will result in Discovery's shareholding in both PruHealth and PruProtect increasing from the current level of 50 per cent, to 75 per cent. As well as Prudential providing operational expertise in key areas, the joint venture will continue to benefit from using the Prudential brand.

As a result of its increased shareholding, Discovery will amend the articles of association of PruHealth and PruProtect in conformance with the JSE Limited Listings Requirements.

#### **6. Appointment of new CEO of PruHealth**

Discovery and Prudential previously announced management changes to their UK joint ventures that sought to more closely align the strategic direction of PruHealth and PruProtect. As part of this process, Herschel Mayers was appointed as interim CEO of both PruHealth and PruProtect.

Given PruHealth's enhanced scale and growth potential following the acquisition of Standard Life Healthcare, it was thought prudent to appoint a dedicated health insurance CEO in the UK. As a result, Neville Koopowitz, currently CEO of Discovery Health, will take over as CEO of PruHealth and will be relocating to the UK. Dr Jonathan Broomberg, currently Deputy CEO of Discovery Health, will replace Neville Koopowitz as CEO of Discovery Health on his departure. Herschel Mayers will retain his position as CEO of PruProtect.

#### **7. Conditions precedent**

The transaction is subject to obtaining the necessary regulatory approvals from the:

- Financial Services Authority (UK); and
- South African Reserve Bank.

## 8. Financial effects

The table below sets out the unaudited pro forma financial effects of the transaction on earnings per share ("EPS"), headline EPS, net asset value ("NAV") and net tangible asset value ("NTAV") per share based on the unaudited results of the Company for the six months ended 31 December 2009.

The unaudited pro forma financial effects are the responsibility of the directors and have been prepared for illustrative purposes only to provide information about how the transaction may impact shareholders on the relevant reporting date. Because of its nature, these effects may not give a fair reflection of the Company's financial position, changes in equity, results of operations or cashflows after implementation of the transaction, or of the Company's future earnings.

	Before the transaction (cents) (1)	After the transaction (cents)	Change (per cent)
<b>EPS</b>	149.6	235.2	57.2
<b>Headline EPS</b>	136.4	112.1	17.8
<b>NAV per share</b>	1319.0	1427.5	8.2
<b>TNAV per share</b>	1253.6	1161.3	7.4
<b>Number of shares In issue</b>	591 953 180	591 953 180	
<b>Weighted average number of shares in issue</b>	553 795 798	553 795 798	

Source: Laing and Buisson, 2008.

### Notes:

1. Extracted from the published unaudited results of the Company for the six months ended 31 December 2009
2. Adjustments to the EPS and headline EPS have been made on the assumption that:
  - a. the transaction was effective on 1 July 2009;
  - b. the cash consideration of R1 574 million (GBP138 million at an exchange rate of R11.403:GBP on 1 July 2009) was funded from internal resources and reduced Discovery's average cash balance; and
  - c. a company tax rate of 28 per cent.
3. Adjustments to NAV and TNAV per share have been made on the assumption that:
  - a. the transaction was effective on 31 December 2009; and
  - b. the cash consideration of R1 642 million (GBP138 million at an exchange rate of R11.897:GBP on 31 December 2009) was funded from internal resources and reduced Discovery's average cash balance.

## **9 Withdrawal of cautionary**

Further to the above, shareholders are advised that they no longer need to exercise caution when dealing in their Discovery securities.

### **Sandton**

11 May 2010

Merchant bank and sponsor

**RAND MERCHANT BANK**

(A division of FirstRand Bank Limited)

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