

Chesnara plc - 2022 Full Year Results

Thursday 30th March



Transcript

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Steve Murray: Good morning and welcome to the Chesnara Full Year 2022 results presentation. I'm Steve Murray, Group Chief Executive, and with me today is Dave Rimmington, our Group Finance Director. It's great to see a number of people with us today in a very sunny London. We also have a great many more people dialing in from across the world, including Chesnara colleagues in Sweden, the Netherlands, Bristol, and of course Preston. Thank you all for joining. So what will we cover this morning? Well, I'll start by looking at how we've been delivering against our renewed strategy. Dave will then cover the financial results in more detail, and I'll then finish looking at some of our future areas of focus, including M&A. We'll have lots of time for questions at the end of our presentation as part of a managed Q&A. If you're watching online, you can submit questions as we go through the presentation. If you're with us here in London, we'll get a microphone to you if you want to ask a question at the end.

So let me start by looking at what we see as the four key areas that are at the heart of what we do here at Chesnara. So firstly, we have strong line of sight to future sources of value growth and long-term cash generation, and this supports how we allocate capital across the group, including our progressive dividend policy. And in 2022, we've again demonstrated that the Chesnara model continues to deliver cash and investor returns in a wide variety of market conditions. This is supported by our strong Solvency II balance sheet, and that's shown itself yet again to be highly resilient to another year of extreme market volatility. Thirdly, we believe we've got a good track record of delivering acquisitions and this provides our investors with a further opportunity for growth. And there's been a renewed focus and energy in this area with three acquisitions completed over the last 12 months. And finally, we have a management team and board that are highly focused on creating sustainable shareholder value, and we've strengthened both the executive team and the board over the period.

So let's look further at the key highlights from 2022. We've already seen the benefits of our renewed focus on M&A. We completed the acquisitions of Sanlam Life & Pensions and Robein Leven during 2022, with the integration of Robein very largely complete. And having announced the acquisition of Conservatrix over the summer, we completed that acquisition on the 1st of January. And Dave will remind you of what we expect the proforma impacts of that deal to be when he covers the results in more detail shortly. Looking then at the financial results, we've said before that Chesnara has a great track record of delivering cash generation, and we've seen that delivery again in 2022, with group Base cash generation of £83 million and Commercial cash generation of £47 million.

Now, just as a quick reminder, that commercial cash number removes the positive impact on cash that items such as our symmetric adjustment have had over the period. And Dave will chat you through the cash result in more detail shortly. Our solvency has increased to 197%, which is helped by the raising of our tier two debt back in February last year, and that's well above our normal operating range of 140% to 160%. And that gives us significant headroom to support future acquisitions. And as with others in the sector, our economic value has been material impacted by some of the sharp falls in asset values that we've seen this year. This impact is very much in line with the group sensitivities that we regularly publish alongside our results. And we continue to believe that over the longer term, the group's exposure to equity markets will deliver further upside value for our investors.

We delivered commercial new business profits of £9.5 million. And finally, given the resilience and cash generative nature of our business, we've announced another 3% increase in our final dividend. That continues our 18 year track record of dividend growth, which is unrivaled in our UK listed sector. We've also been more proactive in 2022 when it comes to management actions. We raised £200 million of tier two debt in February last year and we've deployed over half the proceeds, predominantly on M&A. We also took the opportunity to reduce the group's exposure to FX volatility this

year, executing a hedge in December, and that's also benefited our cash generation.

And on sustainability, we are setting out our first ever targets for the group, and this includes a target to achieve net zero by 2028, from operational emissions that we control, and also to be net zero for our financed emissions by 2050. Now given the significant increase in M&A activity this year, I wanted to give you an update on how our integration programs are progressing. On Sanlam, integration planning is progressing well and we expect the Part VII transfer into Countrywide to complete in and around the end of this year. Now that's an important milestone for us as it enables us to access some additional capital synergies and we remain very much on target to deliver the £5 million per annum steady state cash generation number that we'd previously announced.

The Robein Leven integration is very much complete. Our EcV gain at year end from the acquisition is now £6 million and that's £5 million higher than we estimated at the half year results. And finally, Conservatrix completed in January this year and we've already completed the migration of all those policies onto our target Waard systems. The current estimate of the day one ECc gain from Conservatrix is £21 million and that's around £3 million higher than we estimated at the half year. So overall we expect the £110 million of capital resources that we've deployed against M&A to generate around £42 million of day one EcV gains and about £10 million of steady state cash generation going forward. And we also start 2023 with a positive M&A pipeline, and we retain significant resources to deploy on future acquisitions. So with that, I'll hand it over to Dave. He'll talk you through the numbers in more detail. Over to you Dave.

David Rimmington: Thank you, Steve. Morning everyone. As Steve says it's been a very busy year with two acquisitions completed, one announced since the year end, the tier two debt raise, and the FX hedge. All this activity naturally makes the results relatively complex, so I'll spend a little bit of time taking you through

them. Also, as most of you know, our results are very sensitive to economic market conditions. So before I get into our results in more detail, I've got a slide where I'll just give you a reminder of what was happening in the markets, not that I suspect many of you need reminding, and then a slide just to show what the big picture impacts of those conditions are on our results. So what happened in 2022, starting with equities?

Well, firstly, why is equity movements important? Chesnara don't actually have much direct exposure to equity investments, but our unit linked funds, from which we earn most of our fees, are invested in equities largely. So when equity markets fall, the fee income we expect to earn in the future is seen to be lower. Now, what's important to note here, there's kind of a mark to market dynamic. So we don't assume any sort of market recovery. So the low market positions at the end of the year get baked into our reckoning of economic value. In reality, we would expect as markets recover some of that economic value loss to come back, and that cyclical profile has been a feature of our results for many years.

So what happened to equities in the year? Well, actually if you're looking at the FTSE All Share, there was a pretty strong recovery in Q4. So actually it was only down 3%. So probably you could say not a lot to see here, but unfortunately when we look across some of our other territories, you can see that wasn't the case in Sweden and the Netherlands, and actually equity markets were down hugely in those territories. So not surprisingly, given the dynamic, when we get to our results, you'll be seeing a large negative result from equity market movements. Interest rates, as we all know, have been up sharply across all territories. Credit spreads have widened. FX is slightly more complicated because we've got two different movements. The pound strengthened against the Swedish krona but weakened against the euro. So we've got an offsetting dynamic there. And finally, inflation, as we all too painfully know, inflation's been up, significantly up, across all of our territories.

So moving on to the next slide. So what have those movements done in terms of the big impacts? Well, what jumps off the page is the £67 million pound economic value loss as a result of the equity markets. The dynamic on cash from equities is a little bit more complicated. So what you can see is without the symmetric adjustment, the cash impact has been negative. With the symmetric adjustment, it's positive. And I do apologise at this point, but I'll just spend one minute explaining the symmetric adjustment. This is a feature of Solvency II whereby when markets fall sharply, we're able to release some of our capital requirements so you get a temporary reprieve from that market shock.

So that's the symmetrical adjustment, and therefore you can see it's actually helping our cash result in the year. Moving to bond yields, generally good news on both metrics, really good news for cash generation, more modest on economic value. Credit spreads conversely is bad on both metrics. FX, because of the offsetting movements between the sector and the euro, not much to report. And then finally inflation, actually given the high levels of inflation, I think £6 million pounds is a relatively modest impact. So we're we're not unduly concerned about that. And it demonstrates that we're actually not hugely sensitive to inflationary pressure.

So now moving on to our financial scorecard in a little bit more detail. Firstly, Steve mentioned the cash results are particularly good, the base cash results. And I note the £61.9 million of divisional cash. The solvency, again, Steve mentioned how strong an end to the year, you can see it's increased from 152% to 197%. So a strong improvement. And that's important. That's not because we need to operate at 197%. Our normal operating range is between 140% and 160%, but what it does mean is we've got lots of headroom to do future deals. But we've consistently told the market, as do most life companies, that the IFRS results are pretty meaningless, but given we're looking at a loss of £147 million, I feel I ought to spend a minute or two just explaining why they're so meaningless. And without being too technical, the reserving methodologies under IFRS means that although in reality we

match our assets to our liabilities, the IFRS modeling, when you get asset movements, you don't report the liability movement. So there's a mismatch between your assets and liabilities.

So quite frankly, that number is... I don't like to be too dismissive of a statutory metric, but it's actually pretty pointless and it's not commercially relevant, but I did think I ought to mention it because it was so large. Looking at assets under management, great to report that despite the market challenges, we've still increased our assets under management from £9.1 billion to £11 billion after the last deal. And then finally the leverage ratio, those IFRS losses I've just mentioned naturally have had an impact on our net equity, which has pushed the leverage ratio up. Because we understand that dynamic and what's caused it, we are not so concerned that it's crept up a little bit beyond our long-term target of 30%. And importantly, we hope that when we move to IFRS 17, it will come back down. And that reminds me, you've got the pleasure of IFRS 17 later in the presentation.

So moving on to cash generation in a little bit more detail, we have two cash metrics. One we call Base cash and one Commercial. Base cash is simply the movement in Solvency II surplus, and because of that, it actually naturally includes some of these more technical aspects of Solvency II, like the symmetric adjustment. And therefore we strip out those technical components to create a secondary metric called Commercial cash, which is probably a bit more meaningful of the underlying performance of the business. So the two numbers I'm going to refer to here is the £61.9m base cash resources at a divisional level. That's really important because that's the number which dictates how much dividend our divisions can pay to the parent company. And on the back of that result, we're expecting £73 million of dividends to be paid to us in this Q2 2023. So that flow of money from divisions to group is uniquely strong.

And the other number to focus on is maybe the £46.6m total commercial cash result, which more than covers the dividend of about £34 million. And

this is the number which has benefited from the FX hedge Steve referred to earlier. So within that £46.6m, there's a £36 million credit directly as a result of that management action.

Moving on to probably a slightly more simple view of cash, which is basically the bank balance. And at the end of this slide, I'll summarise all of this slide with one quote from Abid, which he put in his headline, in his analyst note. But what you can see here, probably not surprising given we raised £200 million of debt, the cash balance has increased significantly during the year from £46m to £108m.

We actually have deployed a fair proportion of that £200 million. We've got a nice balance between the dividend payments and the dividend receipts in the middle of that waterfall. So we end the year at £108m. Just looking forward short term, we do expect £73 million to come in from our divisions anytime soon. We are hoping to pay you, or we will be paying you guys a dividend or the investors a dividend. So that's the £22.8 million outflow, and we have to pay the coupon on the tier two debt. So we do actually expect that closing balance to increase quite significantly over the next six months. Now that £148m is important because that's the number which gives us confidence that we've got about £100 million of excess cash to fund future deals.

Very briefly whilst we're on the tier two debt, I should mention that one thing Steve didn't mention was we got it away at a coupon of about 4.7%, which is looking increasingly attractive based on what's happened since then. So moving on to the final cash slide, taking a longer term view of cash, the gray block showed, the £239m, shows what we expect our total cash outflows to be over the next five years in the form of dividends and coupon payments. And we've got three sources of cash, the purple blocks, which more than cover that outflow. First year, we get risk margin and capital requirement runoff. Despite the economic conditions in the year, we still expect over time

to get real world equity returns and that's the second source of cash. And those first two in their own right virtually cover the outflows.

Then on top of that, we can take management actions to boost the cash, as we did do with the FX hedge in the year. So the outlook for that cash looks great. Finally on this slide, acquisitions. That's harder to draw to scale because it naturally depends on what acquisitions you do, but as Steve mentioned by way of illustration, the deals we've done in the last 12 months have added £10 million a year of recurring cash. So acquisitions do play a positive part, not only on economic value, but also in terms of cash emergence. Okay, moving on to solvency. Okay, you can see it clearly on the left here, that's sharp increase in the solvency ratio. A quick waterfall. We've covered most of these items, but you can see the positive impact of the tier two, then being offset in part by the acquisitions. The BAU item being remarkably small is important because that shows the inherent stability of our solvency, without the exceptional items and that's been a feature of Chesnara for many years. And then pro-forma, you can see that the Conservatrix's deal, which we completed since the year-end, will be reducing that solvency ratio by about 15%. So moving on to growth... Steve's already referred to and I have too, the large economic losses on this, which do clearly dominate the movement. The pie chart illustrates that it's mainly equities, but the spread impact was not immaterial as well, the yield impact is a lot smaller. Looking at the operating losses of £24m in the first half of the year and £10m in the second, despite there being an operating loss, we are really pleased to report that that number is significantly lower than the run rate over recent years. There's been a challenge with transfers in Movestic we've reported in the past when we were losing some business off the books because of a competitor's pricing, and we're pleased to report that issue seems to be resolved, and we are now down to our long-term assumed rate.

So we would expect that component of the operating loss to stop. Also within that number, there are actually some positive items, so where we

invest money in M&A or the money we invested in the tier two debt or IFRS 17. So this type of project, future looking investments still come through as operating losses. So to some extent there will always be, if things are going well, we would still expect there to be a negative item in there. I think what's a bit of a shame is because of the scale of this chart and the dominance of the economic items, the positive impacts of the acquisitions and the new business get somewhat lost. But as Steve mentioned it, the acquisitions together with the new business have created over £50 million worth of incremental value in the year, which we'd be more than pleased to repeat that on a yearly basis and have ambitions to do so.

Economic value long-term. We introduced the Chesnara Fan last year. This is here to demonstrate that the economic value we report doesn't capture all sources of value. The five items we report here all create potential for value growth, and just for completeness, I've shown in the year, how have we done against these sources of growth? Well, actually four of them have been very positive with material impacts. Not surprisingly, the real world return component has been negative, but that doesn't mean we've not still got the confidence that over time that remains a source of growth. It just isn't a smooth ride, you get volatility, but all in all, we are very confident that the growth potential remains material. Briefly moving on to new business. Our new business profits have stabilised about £10 million a year. It's an important part of a strategy and we do believe £10 million, which covers about a third of our dividend, is very worthwhile. There are some positive signs, the Movestic transfers in. So the new business side of that equation are looking good and there's some positive trends, and the Scildon market share is high.

Finally, from me, just as I mentioned IFRS 17. I was thinking about the slide. I don't know if I was encouraged or slightly disheartened that six years of work can be summarised on one page. And actually to make matters worse, the page basically, there's nothing to see here, but never mind. It's kept us busy. But genuinely, we don't see a big commercial consequence of the transition

to IFRS 17. There are no impacts on the metrics by which we manage the business. In terms of timeline, we've issued a fuller IFRS 17 report to the market this morning, which I know some of you analysts can't wait to read.

The impact on the actual opening balance sheet, which you see on the chart at the top, as at the 1st of January, we are estimating a modest reduction in the IFRS net equity, but we will be sitting on a CSM, which is a future profit source of £124 million gross of tax. So adding those two together, which is what we think we'll do for leverage ratios going forward, we would expect an improvement in our leverage ratio. So finally, just looking at the roll forward on this, because the losses I've reported in IFRS in the year won't emerge under IFRS 17, we expect the IFRS 17 transition to look better at the end of 2022 than it does at the start of 2022. So generally we think the IFRS transition is in good shape operationally and the impacts will be neutral to positive. And that's it from me.

Steve Murray:

Thanks, Dave. So let me talk about some of the future areas of focus that we have at Chesnara. So Dave's just highlighted, we've seen extreme market volatility across 2022 and this has impacted asset values and our economic value. But against this backdrop, Chesnara has yet again shown strong cash generation and remains in a robust financial position, and I'm happy to report that our renewed acquisition strategy is delivering. So as you can see in the slide, we do three things here at Chesnara. Firstly, we maximise the value from the in-force books of business that we manage. We now have over 1 million customers who rely on us to provide their life cover, pension, savings, funeral plans and other products. We've been able to execute a number of positive management actions such as de-risking, FX volatility via a hedge, and we see plenty of opportunities to take further actions in the future.

Secondly, we seek to execute value adding acquisitions of portfolios and businesses. Our activity over the last year demonstrates that the M&A part of the strategy has been revitalised, and we're starting 2023 with a positive M&A pipeline. And finally, as Dave has just mentioned, we write focused

new business where we have a good level of confidence we can make a profit, and pleasingly the Swedish transfer out rates have returned to normal levels and we've seen a faster start to sales in 2023 that we did in 2022, where there are early signs that we're benefiting from some of the legislative changes that came into force in Sweden in July. And our commitment to becoming a sustainable group is being further embedded across everything that we do. So turning now to M&A, we've previously talked to you all about the large asset pools available for consolidation across the UK, Netherlands and beyond.

Now, across our markets, we are seeing a further move away from the sale of entire legacy books and legal entities to portfolio transfers and reinsurance type structures. Now, this expands the potential size of our available market as larger insurers can offload smaller parts of large inforce books. And the chart on the bottom left here that we've borrowed from Fitch shows that smaller deals of £5 billion liabilities and below, now make up two thirds of executed transactions. Now, for portfolio transfers, there are a far smaller number of counterparties competing for these opportunities as an existing operating platform and regulatory license tend to be prerequisites here, and this is clearly an area that we have good experience. Now, on the right-hand side of this slide, we've tried to set out what we are seeing as some of the main drivers for insurers continuing to reshape their books.

And if you look at the recent deals that have been completed and also the deal pipeline as we see it, the top three trends tend to be companies focusing on specific geographies, simplifying their operational and technology platforms, or a desire to release capital from the disposal of non-core products to invest elsewhere. Now, on the left-hand side of the next slide, we've highlighted some of the key strengths that Chesnara has, such as our regulatory relationships and our ability to manage a wide range of products. And on the right, this shows we have the flexibility and available financing options to execute a wide range of deals in terms of our structure

and their size. So overall, we see the current market backdrop as very helpful for us and we remain well positioned to execute further transactions.

Now, on Sustainability. I highlighted upfront that we're publicly committing to our first set of sustainability targets, which we've tried to show on this slide. These targets will support our ambition to become a sustainable group. Now, this remains a fast moving area and these targets will be regularly reviewed to ensure they remain appropriate, and we will supplement them with further interim targets during 2023. More information is available on our wider approach in our first ever group annual sustainability report that's now available on our website. So to summarise, Chesnara has continued to deliver. Whilst economic value has been impacted by the extraordinary market conditions we've seen in 2022, our divisional and group cash generation has remained strong, as has our solvency. And importantly, our balance sheet metrics have performed in line with the sensitivities that we set out alongside our results and that demonstrates the resilience of our business model.

The integration of Sanlam is well underway. Robein Leven is now fully integrated into Waard, and all Conservatrix's policies have now been migrated to our Waard policy admin systems. We remain optimistic about the prospect of delivering value, adding acquisitions in the future, and we start 2023 with a positive M&A pipeline, and we're continuing to look at ways to enhance value in a sustainable manner, building on the actions that we've already taken this year, including the raising of the tier two debt and our recent de-risking FX hedge. And we have yet again increased our full year dividend by 3% for the 18th consecutive year.

Now, at the start of the presentation, I referenced Chesnara colleagues joining us this morning from Sweden, the Netherlands, and across the UK. And I wanted to finish by thanking them for their efforts delivering these results and for their support throughout 2022, and I know that they share my view that there's a lot to look forward to here at Chesnara. So thank you for

listening. What we're now going to do is we'll open up for questions. I suggest that we start in the room here in London that will allow people to type their questions online. We'll start to get a microphone out. So Mandeep just beat you with his hand up, sorry. So we'll get you first, Mandeep, and then come back to you.

Mandeep Jagpal: Morning, everyone. Mandeep Jagpal, RBC Capital Markets. Thanks for the presentation and taking my questions. Three from me please. The first one is on M&A. With the amount of available capital that you have available for M&A, would you be able to convert this into AuA terms? So how much AuA could you add? The second is on FX hedge. What specifically was hedged with this hedge in December, is it the overseas balance sheets or the expected future cash flows? And is there potential for further capital release from more FX hedging down the line? And then finally on the dividend, 3% DPS growth for a number of years now, I think you mentioned 18, and what kind of scenario could we see a deviation from this either upwards or downwards?

Steve Murray: Okay. Thank you for those. Shall I take the first, Dave? You, maybe the second and we'll do a combination on the third. So I suppose using an assets under administration metric is slightly difficult, I think because of the range of opportunities that we look at. So for a unit linked book, it's probably is a relevant metric, but if you look at term business and funeral plans, it's less relevant. And similarly, when we look at the liability number that I talked about as well, that's relevant for some books.

Look, overall, I think you're right to point to the significant resources that we have. We are really pleased with the tier two debt raise that we did in February. It's given us really great flexibility. I think what we are seeing is off the back of the three deals that we've done in the market conditions that we're seeing an awful lot more people seeing Chesnara as a great option for their books of business. So we tend not to use one metric in particular to give that sort of guidance, but we're certainly confident in our ability to go

and execute M&A. Dave, do you want to talk about the FX hedge and how that works?

David Rimmington: Yeah. It's a good question. So how does it work? I won't get into detailed derivative conversations here, but I think the point is you are right. We're only hedging at this point, or we've only hedged at this point, the exposure the group has to our overseas investments. We've not hedged the current exposure within those divisions. So what that means is, actually there's still quite a lot of potential to drive more capital synergies, and I think what we've learned from the hedging we have done is there's a way to hedge without there being a big premium, which is one of the things which put us off in the past, so it's a very well-designed hedge.

"It's free," in inverted commas. It's just that, of course, there's a collateral posting consequence which is capped actually because it's important, we didn't want to be uncapped on that. So having learned from that, we're now quite confident actually that we will look into the options and merits of rolling out that hedge further into the business and there's plenty more potential. So when I talk about those future management actions to generate cash doing more on the currency hedging is definitely one of them.

Steve Murray: Do you just want to talk about the collateral part of the hedge as well?

David Rimmington: Yeah. So the maximum collateral exposure is £18 million, so we think that's within risk appetite.

Steve Murray: So when we looked at the business case for that, we felt it was a very, very sensible thing for us to do. And as Dave says, there's further opportunities to do that. On dividends, so you've rightly pointed to the fantastic track record of 18 years growth on the dividend. We know when we go and speak to investors, that's a very important feature of the Chesnara story, both for institutional investors, but particularly for retail investors as well that have made up a far bigger proportion of our register over the last few years.

I suppose when we think about the dividend philosophy, longer term we've tried to set a rate that broadly beats inflation, but we've tended not to react to short term movements of inflation. But the process that we go through ourselves as a management team, the board, we give the number a very hard kick every time that we look at this. 3% isn't the magic number that the answer has to be every time, but I think when we looked at volatility in markets, also the opportunity for us to deploy capital on M&A, we still felt that that was the right balance in this sort of situation. Is there anything else that you'd add?

David Rimmington: To be honest, that pretty much sums it up, and I think in short we take a long term view and we really value the sustainability of that dividend. So we resist the temptation to react to short-term temptations to give investors particularly large increases just because inflation's high in the short term.

Abid Hussain: Morning. It's Abid Hussain from Panmure. Two questions I think, possibly a third. So first question is on M&A, a slightly different angle from Mandeep. So look, you clearly have the financial power of doing another three deals of similar size to the three that you've done recently. So I won't ask the question on the financial side, but what about operationally the bandwidth? Do you have the bandwidth to do another one, two, three transactions this year or the next 12, 18 months, given that you're still integrating I think at least one of the recent acquisitions? So that's the first question.

And the second question is on lapses. Good to see that the lapse trend in Movestic is trending back to the long term assumptions. Just could you give us a little bit more colour in terms of why that is and the forward-looking, why you're confident on that going forward?

And then the third one I'll ask, is the dividend, similar question to Mandeep, but I guess really, given the cash balance is so strong and there is that temptation to pay a higher dividend, I'm sure some investors will be asking the cash balance is so strong, why not give a little bit more than the 3%? So

it sounds like you're really looking to pay a long term dividend through the cycle at a base of 3%. But is there any scenario that you might do a special dividend, for example?

Steve Murray: I'll take M&A. So in terms of capacity, we certainly, as you say, we've got the financing power. We also do have other options outside of the available resources that Dave talked about earlier on.

So while we've pointed to around £100 million of available resources, that doesn't mean that that's the limitation of what we can look at. There are clearly other ways that we can raise further finances. And actually depending on the shape of some of the books, for example, we could raise debt off potentially some of the portfolio balance sheets that are coming in. But we think that kind a hundred million plus number is a very certain set of finances that we can point to.

On operations in the Netherlands and Waard, I think you heard me mention that a large part of the migration of that Conservatrix book has already happened. So as you'll all know, M&A tends to take a little bit of time to come through. So we believe we're in a position that we can be actively looking in the market and in the UK, because we're able to use the support of our outsourcing partners, that kind creates a bit more operational bandwidth than you ordinarily might think. So we certainly believe in the two markets where we've been more active, we can do that.

We'd also be open to look at opportunities in Sweden as well. We've got a good team and a good operating platform there. And that's one of the things that Sam has certainly been considering in his role over the last year in terms of whether there is a pipeline. So we're very much open to business on M&A and as you've probably heard me repeat during my presentation, we see a good number of opportunities at the start of this year that we'll see where we get to over the next 12, 18, 24 months.

Let's do dividend, and then Dave and I are both on the Movestic board, so maybe Dave can talk through what we've been talking about in Movestic. So part of what we look at when we set that dividend policy is where we might want to also use the capital that's available. So at the moment when we are looking at the opportunities to deploy capital on M&A, we don't think for our shareholders it makes sense for us to do something like a special or a buyback because there's just much better returns elsewhere.

And if you look at the £85 million of PLC resources that we've deployed on M&A, that should generate over £40 million of day one economic value. Dave's talked about the Chesnara Fan and those other sources of growth that might come through and £10 million of cash generation. So I think just when we look at that and further opportunities, we just see that as a really great area of growth that we can give our investors value from.

If there was a future point we felt that wasn't there and there was excess cash, of course you would look at other things that you might do to deploy the capital. But at the moment, I think we feel the right thing to do is look for those M&A and strategic opportunities as a better way of generating returns.

Do you want to talk about lapses?

David Rimmington: Yeah, lapses. So the lapse out, sorry, the transfer outflow was a direct consequence of a large mutual insurer in Sweden, triggered to some extent by COVID we believe, going really aggressive on what they were offering for people to transfer pension balances to them. It was nothing to do with Movestic itself and actually this flow of business to that mutual was happening across most other companies. So it was quite a concentrated issue.

And quite simply, that pricing position has not been sustainable. We knew it wouldn't be sustainable. To some extent, we just had to ride it out and they removed that offer now, and as soon as they removed it, subject to a bit of a runoff tail, things have returned to normal and we've landed back with a

transfer ratio pretty much exactly in line with what we've always assumed in the long term.

Steve Murray: I think the other dynamic that both Dave and I talked about is there were some legislative changes back in July, which meant that there were other parts of the market that were opened up to transfers that hadn't been accessible before.

So I suppose if you look at the spread of activity, you've seen brokers looking now at some of those books and potentially looking to move those. So we think we're seeing a net benefit from that ultimately, with gross sales coming in looking a bit better than they were in 2023, and as Dave says, the kind of stabilisation of that rate. So it's those sorts of things that are giving us that confidence in the transfer rate and the momentum of that business. That's helpful. Great title in your report this morning, by the way.

David Rimmington: Oh yes. I forgot to mention that in my presentation. We could have just not done the presentation and gone “despite the crash, there's plenty of cash”, which was his headline.

Ben Cohen: Thanks very much. Ben Cohen. I had two questions. Firstly, on the M&A side, how far have you progressed any sort of partnership discussions in terms of looking at bigger deals, bringing in other capital or presumably PE or whatever, how would that really be structured?

And the second question was on the expense assumption strengthening in the UK. Did that relate to, was that an inflationary element? And maybe as part of that, could you just talk through the detail in terms of how you've changed your inflation assumptions and how you see, presumably you're still assuming inflation normalises considerably, differently to where we are now? Thanks.

David Rimmington: I'll start with that one.

Steve Murray: Start with inflation.

David Rimmington: Yeah. So it's exactly that, Ben. In our closing reserves, we've obviously recognised the pay rises we gave at the start of this year. So we've captured last year's inflationary pressure. And we've also assumed one further year of high inflation. So that combined impact was driving most of the £6 million I quoted earlier.

We then do assume in our valuation that there's a return to more normal inflation levels. And so fundamentally for every year that inflation remains high, to the extent we give corresponding pay rises, you would get something like that £6 million. And whilst we're not kind of flippant about £6 million, I think for that to be our exposure to inflation compared to most businesses' exposure to inflation, we feel we're in a relatively comfortable place.

Steve Murray: I think obviously some of the M&A opportunities that we've executed also give us opportunities to drive some operational synergies, which can be a useful offset for some of that short term inflation pressure as well, Ben.

David Rimmington: That's a good point. Because in the Chesnara, I said fan last year, I nearly said it again. The Chesnara Fan, one of the sources of value is synergies and we reported over £10 million and that's exactly that synergy. So we've had synergies on the merger of CA and SLP and synergies as a result from Robein Leven into the Waard Group. So that part of the business model is working well.

Steve Murray: On partnerships, you've rightly picked up from one of the slides that one of the things that we would certainly contemplate is working in partnership with other organisations on M&A. Part of the additional resource that we've brought in through Sam and Amanda and others during the year gives us a bit more capacity to look at what those might look like.

So that could be looking at larger books of business, us taking a portfolio and somebody else taking a portfolio. Or it could be working with a private capital provider that provides a bit more firepower alongside ourselves and we could manage some of the operational pieces. And we have looked at both of those things across the year.

Obviously these are commercially sensitive, but we think we're a good organisation for businesses to deal with us directly in terms of portfolio sales, but also a good organisation to partner with. In a number of our markets, we don't tend to be big competitors with some of the bigger players. We've got some flexibility in terms of the way that we manage our assets as well.

So we'll continue to explore whether those sorts of partnerships make sense for our investors, but we can clearly do plenty of stuff on our own. So we don't need a partnership to execute the strategy, but we think it's the right thing to have a broad set of opportunities.

I think Christian had a question.

Christian De Monte: Thank you very much. Christian De Monte from Morgan Stanley Capital Markets. Thanks for your presentation. Two follow up question for me. One, if you could elaborate a bit further around the M&A opportunities that you see, perhaps more also in nature of the portfolios that you see as potential opportunities and also the geographies where you're focused on your three main core markets or what do you see opportunities elsewhere?

And the second question, around the leverage and the gearing, obviously lots of moving parts with IFRS 17, but if you could perhaps sort of clarify what the key metrics should be going forward, whether you had conversations with Fitch around how they are looking at the gearing ratio given in your accounting standards?

Steve Murray: Thanks. Do you want to pick up leverage first?

David Rimmington: Yeah. I mean firstly I think we don't quite know exactly how Fitch are going to reassess gearing and what's acceptable and what the new targets are in a post IFRS 17 world. Our market intel seems to be suggesting that leverage ratios will be based on the IFRS 17 net equity plus the contractual service margin. So given credit for that. And that's where we're of the view, based on our estimated numbers, if that proves to be the case, our leverage ratio will be a lot lower.

What we don't know is whether Fitch will effectively say, "Well, under this new regime, your target is no longer 30%, it needs to be 20%." So it's difficult at the moment to know exactly where this is going to play out. I think all we do know is that, on a direct basis, and even more so including the contractual service margin, our number will be lower than 37%. We are also confident that if the deals are at the right price, future M&A has a positive impact on the net equity. So as we deploy that capital, we should have a positive impact on the gearing ratio.

And finally, whilst we have a long-term target of 30%, as long as we are confident that we can fund the coupon payments and the cash generation and the cash balances give us a huge amount of confidence around that, we're probably slightly less concerned about it than maybe in other sectors where there's more short term working capital constraints where you see the pressure of the higher gearing actually having real immediate working capital risk. It doesn't create any form of working capital or coupon payment risk for us.

So that's why we are not dismissive of the fact the ratio's gone up and we need to make sure we are maintaining that conversation with Fitch, but we generally don't see any real commercial consequences of that.

Steve Murray: I think a lot of people in the room will have dealt with Fitch, they're smart people, they understand what's happened to asset values during the year. I

don't think we are the only ones that have seen a bit of inflation in the leverage. Dave talked about that mismatch between liabilities and assets.

We don't give other leverage ratios, but I suppose if we were going to, if you looked at a ratio that was based on the EcV, it would be down at 25%, 27%, something like that. I think a lot of other people show a Solvency II sort of ratio on Own Funds. But I think if you look at the strength of the cash generation, I'd hope our debt holders had a huge degree of confidence that their coupon's very safe with Chesnara, that's for sure.

On M&A, so what we've talked about historically is kind of being more focused on our core markets because we clearly have the operating platforms, the regulatory relationships that we can drive synergies from, but we're open-minded about other territories as well. I suppose if we look at the activity over the last 12 months, it's tended to be a bit more focused on where we are already. To be honest, that is just because of the nature of opportunities that we're seeing and I suppose maybe some of the success of the engagement that we've been having with organisations. But we'd certainly look at other territories, but we're not being forced to do that because of a lack of opportunities in terms of where we are.

In the Netherlands, we've seen some good activity. Waard, Lorens and the team are continue to do a great job there hunting out portfolio opportunities. We've seen a mega deal in that market with Aegon and ASR, which hopefully then means for us that might mean there's broader opportunities in the market where there's a little less competition in the short term.

In the UK, we're seeing a kind of mix of things. So I think all the big insurers are undertaking some sort of transformation program at the moment to try and upgrade legacy systems, probably being a little bit more focused on some of the core portfolios that they have. So we're seeing a different mix of opportunities across both unit linked and term. And we are very happy to look across the spectrum of opportunities.

So obviously we can't give details on exactly when things might happen. I've got too much gray hair and been around the block too much to give a prediction around when these things land. But I think the ingredients are there for us to have some confidence that we can continue to do M&A over the medium term, that's for sure. Thanks.

Are there other questions in the room? We should go online.

BRR Facilitator: We have a number of questions that have been received from the online audience. The first few come from Barrie Cornes at Panmure. The dividend payout ratio using group based cash is less than 50%. Given that and the cash reserves, why is 3% the right number for the increase?

Steve Murray: Okay, Dave?

David Rimmington: I'll pick up the point of looking at it from a ratio point of view, and this is where it gets quite complicated because it comes back to the slide where you've actually got four different cash results for the year. Now the higher figures, which include the benefits and things like symmetric adjustments, the ratio would be a lot lower. But if you look at the commercial cash gen group, it was £46m and the dividend payment on the back of that £46m feels slightly more realistic. So I don't think there's a massive underpayment compared to the cash result in the year. Looking back to the general point, it's what Steve mentioned before, that long term we believe 3% has ensured that it's kept up with inflation over that cumulative period. We're just relatively resistant to start reacting very short term because of short term inflation pressure. It's back to that point, we think there's a premium and we think our investors value the predictability of our dividend and the sustainability of it.

So, it's not 3% every year by rule, but every time we look at it, we are struggling to find a reason to move from 3%, so I think that's how I would summarise it. There might one day be a compelling argument that it isn't 3%, but we do challenge ourselves every year. We did that again this year,

looking at all the cash results, looking at the prospects for M&A, and our general conclusion was why not 3%?

Steve Murray: It's great you're joining us online, Barrie. I think the other thing that's pleasing for me is that when I first joined Chesnara, I think some people thought, is the dividend cliff coming in the next three years? So the fact that there's a huge amount of focus on whether we should pay a much larger dividend, I think shows that hopefully people understand the strong cash generation from the models. I think it's great that people are kind of challenging us on whether we might be paying a bit more. As Dave says, we're managing that cash position, not just on a kind of one year view. We're looking at three and five, the other things that we can potentially deploy capital around, and that's why we're delighted to announce a further rise in the dividend this morning at the level that we're at.

BRR Facilitator: Thank you. The next couple of questions from Barrie. What has been the impact on the Solvency II coverage ratio in Q1 2023, given the market volatility? And have you found any positive or negative surprises from the completion of Conservatrix?

Steve Murray: I'll deal with Conservatrix. I was in the Netherlands in early January and we brought together under Loren's leadership, the team from Conservatrix, the team from Robein Leven and the existing team from Waard because we really are bringing a broader population together, almost as part of a new business as we go forward. I was just really pleased with the level of engagement. They were delighted that we'd managed to secure a transaction there after a long period of uncertainty for them and also their policyholders. So I think we're finding some really good people that seem to be very pleased to be part of the Waard family and the Chesnara group.

It's obviously early days in terms of the completion that only happened on the 1st of January, but I think the fact that the team... What we were very hopeful around is we thought there was a great match between the policies

in Conservatrix and our target systems. That's what we found. The fact that we've been able to transition those policies in the first quarter of the year is a very impressive result from the team. But I think it's verified what we saw in the due diligence that we'd be able to do that. I don't think there's anything else I would add on that. Do you want to talk about what we've seen in Q1? I suppose, we can talk, pre and post Silicon Valley Bank and Credit Suisse.

David Rimmington: Yeah, so just a reminder, I mentioned earlier that the Conservatrix deal will have reduced the solvency ratio by about 15 percentage points. Over and above that, and I don't think I'm sharing something which you couldn't calculate yourselves from the sensitivities, but you won't be surprised that when this turmoil was happening we are kind of constantly doing almost weekly solvency estimates and they show very little movement in that underlying solvency ratio. I've said before, that's one of the key features of Chesnara. I've been here for far too long to be honest, and we've been through lots of financial cycles. The one thing which is constant is that underlying solvency. Barrie, that's very much the case as we sit here today. If we reported tomorrow, you wouldn't see a big movement in the solvency ratio. We have no direct exposure to the banks which have been under pressure and we're slightly underweight in terms of our overall exposure to the banking sector.

Steve Murray: I think what we might have seen before the latest turmoil was there was good equity market growth in the first part of Q1. I think we would've expected the EcV to have grown. Clearly given what happened over the last few weeks that'll have come back down a little bit. As Dave says, the solvency position is very, very strong. It's very robust. We've shown that over the last 10 years for a whole variety of market conditions. And helpfully I think you've seen that again this morning, that the cash generation in the business remains strong as well. Nothing that we've seen over the first quarter changes any of that.

BRR Facilitator: Thank you. The next couple of questions come from Ming Zhu. Your recent three deals have been done at a 20% to 30% discount to EcV. Has the pricing environment and the competition landscape changed much in the last 12 months given all the global market turmoil?

Steve Murray: So I think the difficult answer to that is it depends. So I think if you look at the broader transactions that have happened in the marketplace, they certainly haven't all been done at a discount to EcV. I think particularly we've seen deals in the kind of £200 to £300, £400 million sort of space where there's been a much narrower discount, I think to the Own Funds position or the EcV. I suspect that's because some of the larger players have been a bit more interested. That's where maybe some of the bigger PE firms have been interested as well. And I think the discount to EcV is kind of a helpful metric in terms of looking at M&A, but it's clearly not the only one that we should be considering. So we absolutely look at the day one EcV, but we are looking at the elements of the Chesnara Fan and the future commercial value that we can generate over the longer term.

I think it's helpful to look at the discount, but ultimately it's about the value that you create from these opportunities over the next 5 to 10 years. We're quite happy with the pricing of the deals that Ming's highlighted. But as part of those, it was useful to be able to see that we were purchasing at a discount to the EcV. But if it had been at par and we saw lots of upside potential through the commercial value as well, that would still have been the right sort of deals for us to look at as well. So hopefully that gives a bit of a sense of what we're seeing.

David Rimmington: Yeah, I think there's always a slight challenge. It depends whether you're looking at the discount versus the vendor's calculation of economic value or what we think the economic value will be on our book, including synergies. So the same deal can have two different discounts to economic value depending on how you're looking at it, which I always find just makes life a little bit more interesting.

BRR Facilitator: A quick follow up from Ming, there was a comment on Scildon's lapse and mortality experience, strengthening of assumptions. These seem to pop up from time to time. Can you please provide a bit of more colour on these and how comfortable and confident are you going forward?

David Rimmington: Okay, yeah, thanks Ming. Process-wise, in Netherlands we take our mortality assumptions from centrally produced actuarial tables and to some extent, therefore, if there have been general demographic changes and mortality changes, the impact is out of our control. Ming is right, over the last couple of years in general when we've changed our assumptions we've seen a negative impact. What's important is our year-end balance sheet is always based on the latest view of mortality. So we don't know of any reasons why it would worsen or improve, so the starting point is secure. But in reality if there are kind of mortality changes in the real world, we will be exposed to those both positively and negatively.

Steve Murray: Yeah, I think we looked in a little bit more detail along with the rest of the market on mortality and there seems to have been a dynamic where there's a higher number of deaths in younger lives, so the 45 to 55 year old cohorts. Some people are suggesting that's because there was some really vicious flu going around in the Netherlands for a period of time. Maybe post-Covid, people's immune systems weren't quite as high. So that could be a one-off thing that we're seeing through the tables. But as Dave says, ultimately it's the central actuarial communities that look at that data going forward. On lapses, I think quite often when you see a negative lapse assumption, you assume that you're losing policies - it's the reverse in Scildon, so there's actually less people lapsing their policies than we expected. Some of that may be, again, a Covid impact where people are looking at life insurance in a different way. I think we've seen some UK insurers saying the same, that maybe people have kept coverage or increased coverage having seen the benefits of that potential protection through there as well. So just in case people are hearing that slight adjustment as people leaving, it's actually the reverse when you look at term insurance business.

BRR Facilitator: The final question comes from Brian Moretta, at Hardman & Co. Could you explain any expected impacts from Solvency II reform on the risk margin? What is the impact on capital and future cash releases?

Steve Murray: Do you want to take that?

David Rimmington: Yeah. Based on our current understanding of the Solvency II reforms, which are still obviously not finalised, we do expect our risk margin to reduce and relatively materially so. Probably not quite as much as other parts of the sector where there's a larger annuity exposure. But our understanding it's upwards of £10 million potential risk margin reduction and that would effectively flow through to our cash generation results at almost at a pound for pound equivalent level, at the point we recognize that.

Steve Murray: It's important maybe to remind people we don't have transitionals in the model, so there's no offsetting impact. At the same time, we don't have a matching adjustment portfolio. So maybe some of the other Solvency II changes that might benefit some of the big BPA writers, we are not in that space. But overall, yeah, we expect that to be a net positive. Then it's unclear how European regulators will respond as to whether they'll want to equalise that benefit or not. But, I think, it's too early to say whether we'll see a corresponding benefit in European markets as well.

BRR Facilitator: Thank you. As there are no further questions from the online audience, I'd like to hand back for any additional or closing remarks.

Steve Murray: Okay, so I'm not seeing any more hands shoot up in the room here. So thank you very much for joining us for the presentation. It's been great to see you here today. As you can hopefully hear from us, we're delighted by the strong cash generation of the business, the future prospects that we have, and there's a lot to look forward to here at Chesnara. So I hope you enjoy the rest of your day. Thanks very much.