

Chesnara plc – Interim Results 2022

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Transcript

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Steve Murray: Good morning, and welcome to the Chesnara interim results presentation. I'm Steve Murray, group chief executive, and with me today is Dave Rimmington, our group CFO. I'm delighted to say we've got a busy room with us today in London so great to see lots of you in person for the first time in a little while.

So what will we cover this morning? I'll start by looking at the main areas of delivery across Chesnara. Dave will then cover the financial results in more detail, and I'll then finish looking at some of our future areas of focus.

We'll then have plenty of time for questions at the end of our presentation, as part of a managed Q&A. For those of you that are watching online, you can submit questions during the presentation and in the room we'll come to you directly with microphones at the end.

Let's look at some of the key activities we've undertaken in the first half of 2022. I've now completed my first full year at Chesnara. First six months of that was as CEO designate and about six months as a fully approved group chief executive. Overall, I'm really pleased with the progress that we've made. We've taken steps to revitalize our strategy, with a much greater focus on growing the business through acquisition, to deliver long-term growth and support our dividend strategy.

Now, as we all know, the recent economic environment has been extremely volatile. Against this backdrop, I'm happy to say that Chesnara continues to have good line of sight to the actions that'll deliver sustainable cash generation over the long term. Our solvency position remains strong and has again demonstrated the real resilience to the market volatility that we have at Chesnara. And we remain focused on evaluating further management actions that can help us deliver improved returns in the future.

We've got a good track record of successful M&A at Chesnara, and the last period has been a busy one on the M&A front. Two acquisitions completed,

and a further one announced, and we continue to see a positive pipeline of future acquisition opportunities over the coming years.

And as you'll see from the results, when we get to them, we have readily available financial resources that we can deploy to take advantage of these opportunities. And finally, we've further strengthened the senior management team since our four-year results, bringing in Amanda Wright as our group general counsel, with Alastair Lonie, our CoSec, moving to a new chief of staff role. This will give us further capacity to pursue the strategic opportunities that we continue to see.

Let's turn now to the business highlights for the first half of the year. Overall, it's been a good start to the year in terms of delivery. On M&A we've completed the two acquisitions that we announced last year, and we're now firmly in the integration phase. We've also recently announced the acquisition of the insurance portfolio of Conservatrix, our third deal over the past 12 months. If you take these all together, the acquisitions should add around £32 million to the economic value of the group, and around £10 million to the annual steady state cash generation of the group.

Turning now to the financial results. We've said before that Chesnara has a great track record of delivering in a wide variety of market conditions. And we've seen that delivery again over the first half of the year, with our divisions generating commercial cash of £18.6 million. Now, as a reminder, that cash number removes the positive impact on cash that the symmetric adjustment has had over the period. Dave will talk you through the cash result particularly, in more detail shortly.

Our solvency has increased to 195%, helped by the raising of our tier 2 debt back in February. This is well above our operating range and provides significant capacity to deploy this surplus against future acquisitions. And as a reminder, we also now have an investment grade rating from Fitch. The group's economic value has been impacted by some of the sharp falls in

equities that we've seen. And this impact is very much in line with the sensitivities that we published at the year end and we continue to believe that over the longer term, the group's exposure to equity markets will deliver upside value for our investors. Commercial new business profits remain steady and continue to add long-term value to the group. Finally, we've again announced a 3% increase in our interim dividend. That continues our 18-year track record of dividend growth.

I mentioned the first acquisition that we've announced in this calendar year earlier, and this slide sets out in a little more detail, the associated financials. Most importantly, the acquisition provides security for both Conservatrix policy holders and their staff, after a long period of uncertainty that resulted from the bankruptcy of Conservatrix back in 2020. They'll now be part of a well-capitalised group focused on delivering good customer service.

The transaction itself transforms the scale of Waard, our Dutch closed book operation, doubling the expected steady state future cash generation from the business, and also increases our day one ECV by around £18 million. The acquisition utilises part of the proceeds of our recent Tier 2 bond issue, as well as some of the excess capital that we held in Waard to support M&A.

In addition to that day one uplift to economic value, we do see further upside potential, not least from improved investment returns and the runoff of the risk margin. Overall, we believe the deal provides good value for investors and is a great demonstration of our M&A credentials. With that, I'll hand over to Dave who'll talk through the financial results in a lot more detail. Over to you, Dave.

David Rimmington: Morning, all. Thank you, Steve. As Steve has mentioned, it's been a particularly busy six months, two acquisitions, the Tier 2 debt raise, and very volatile market conditions. I'm going to take you through the results, focusing on cash generation, solvency and economic value. Before I do that, given

the volatility of the market conditions, I thought it'd be useful just to summarise the factors which have been at play during the period

In particular, you can see on the top, left-hand side, equity markets have fallen significantly during the period. Our economic value in particular is very sensitive to equity markets. And this is because future cash flows from our unit linked portfolio are assumed to be lower if the opening equity markets are lower. Of course in time, we would expect equity markets to recover. So to some extent, economic value reductions are seen to be temporary. But in the results, it's a key factor.

Notably the division most exposed to equity markets is our Swedish division, Movestic. And you can see here, they experienced a 29% fall in the main Swedish index. It's probably not surprising in that context that we've had a relatively significant drop in economic value.

Moving to credit spreads. They also have a negative impact. They have a negative impact on both economic value and cash. On a more positive note, interest rate increases are really good. They're great for cash, with minimal impact on economic value.

And then finally, inflation. We're all too aware of the inflationary pressures across all of our territories. We have strengthened our long-term inflation assumptions. For example, we're now assuming over 4.5% in the UK.

Clearly, current rates of inflation are higher than that. But as things stand, our actual cost base has not been particularly impacted by these inflationary pressures. And we think we are relatively well protected from it in the near term, although there might be some modest overruns.

Moving on. Before I go into the results in some more detail, just some of the financial highlights here. Firstly, as Steve mentioned, some really good, strong cash results, notably the £60.1 million of base divisional cash, which I'll come onto. The solvency position is strong, closing at 195%, a huge

increase over the period. And that represents £314 million of absolute solvency surplus.

The Tier 2 debt raise has naturally increased the gearing position of the group. We've historically had a very low-gearing ratio. We're very comfortable with that figure of 35%, and it was an expected and natural consequence of raising the Tier 2 debt.

We've consistently taken the view that the IFRS results are of a very little commercial relevance, and we retain that view. But just for completeness, I should note the £104 million IFRS loss. Two points. We're not the only company who is relatively dismissive of the IFRS result. I think it's generally accepted across the life sector that the IFRS reporting regime is flawed, hence the advent of IFRS 17.

But what's happening there quite simply is, as interest rates have increased in the period, that's caused a relatively large drop in asset values. There's also in reality, a reduction in our liabilities, but the IFRS results don't recognise that. So, you've got a fundamental mismatch, and that's why we just dismiss these and move on. Finally, assets under management have increased significantly in the period, raising from £9.1 to £11.2 billion. That's a direct consequence of the deal Steve talked about and is a good indication of the growth in the Chesnara group.

Moving on to cash generation. We have four different cash metrics. We look at the results on the left-hand side here, at the base cash result. I'll come back to explain what these are. We have a commercial cash result. And then we look at both of those on both a divisional level and a group level.

Why the different bases? The base cash results are, in essence, just the movement in Solvency 2 surplus. As such, they include quite a lot of technical issues relating to Solvency 2, not least the symmetric adjustment. The symmetric adjustment is a feature of Solvency 2, which means when equity markets fall or rise sharply, we can hold less or more capital.

What's happened in the period is, as equity markets have fallen, we've released a lot of capital, and that's enhanced the base cash results. To some extent, this technicality is not reflective of the true underlying commercial performance of the business, so we have a second set of cash results called commercial cash, which simply strips out some of these technical features.

Which are the most important results? If you're looking at dividend potential, we would probably look at the base results. And therefore, it's hugely positive to see that divisions have increased their surplus by £60.1 million, which bodes well for future dividends from the divisions to the parent company towards the end of the year or early next year.

If you're looking at how the businesses effectively generated cash from their day-to-day operations, you're probably better to look at the commercial results. We're pleased here to report the £18.6 million. Which is more muted than the headline, but it's still more than adequate to cover the dividend and the Tier 2 coupon payment.

I should note the £7.1 million loss in Movestic on a commercial basis and this is fundamentally a feature of the equity market falls in the period, the 29% I talked to earlier. Again, as and when equity markets recover, we would expect that to reverse back out.

Moving to the group view of cash. You do see a group commercial loss of £3 million. The difference between the divisional result and the group result is central cost, primarily. Over half of those central costs in the period are deemed to be of a one-off or exceptional nature, including things like the cost of the Tier 2 debt raise. Under more standard conditions, we would expect that commercial cash result to be a positive.

Moving on from cash, to cash reserves. This is a more simple view of cash. This is really, the money we've got in the bank at the parent company. And you can see a very healthy closing balance of £155 million. Probably not surprising, given we've raised £200 million of debt in the period. We've used

about half of that debt in the form of repaying an existing revolving credit facility and funding the acquisition of Sanlam.

What's really important from this graph is the fact that the dividend receipts during the period, which relate to last year's performance, more than cover the annual dividend payments. We're still in this situation where dividend flows to the parent company are more than funding the dividend outflows to shareholders. Moving on to slide 13.

We introduced this slide at the year end, it takes a longer-term, forward-looking view of cash.

David Rimmington: It's here to illustrate why we're confident that we've got a line of sight to three sources of cash, more than sufficient to cover our expected outflows. The gray block on this chart, the £230 million is an estimate of the total dividend payments and the debt coupon payments over the next five years.

It's broadly drawn to scale. So you can see cash in the form of risk margin and SCR runoff, the capital requirement runoff, which just happens as being partially a closed book, covers a good proportion of that £230 million. That's a relatively predictable and reliable source of cash.

You've then got real world returns. Despite what's happened in the period, over the long term, we would expect equities to give a return above risk free, and that creates a source of future value. And that's the second block. And those two sources alone virtually cover the whole outflow.

We then have a list of management actions we can take to enhance cash generation, things like reinsurance or hedging. We've done none of those in the period. So they still remain available to enhance the cash results in the future, if and when the need arises.

Finally looking at acquisitions, it's difficult to draw the acquisition block to scale, because it depends on what acquisitions we do. But by way of

illustration, the deals we've done in the year, including the one we expect to complete in the second half of the year would add circa £10 million of recurring cash generation to the model. So you can see from that, that acquisitions are another part of this forward looking view of cash. So in summary, we're very confident that there's plenty of sources of cash to sustain the dividend strategy for the years to come.

Moving to solvency. As we've mentioned, the closing solvency position is uniquely high. It's significantly higher than our target range. That's almost solely due to the tier two debt raise. Importantly what it does, it gives capacity for us to do future deals without compromising the group's solvency position. We would ultimately expect to revert back to our target range as a direct consequence of doing deals.

Looking at the movement in the period, whilst obviously the largest component is the tier two debt, you can see the symmetric adjustment having a positive impact, as I mentioned before. But quite importantly, although the number is small, the 2% green on the actual impact of the underlying business is quite important. Because it shows that without these exceptional items, the underlying business is still creating, improving solvency, even in difficult economic conditions.

Moving on to economic value. As I said before, with Movestic in particular being so exposed to the impact of equity movement, it's not surprising given our 29% reduction in equity markets in the Swedish market that we've got a large economic loss. This is totally in line with our sensitivities. We would expect in time, it to reverse out.

By way of illustration, since the half year period, we would expect about £10 to £20 million of that loss to have already been recovered, based on some relatively modest market recoveries since that time. The operating loss of £24.3m includes a bundle of items. It includes some exceptional costs. For

example, the cost of the tier two debt raise, some costs associated with the IFRS 17 project. And we wouldn't expect those to recur obviously.

It also includes a loss in Sweden relating to transfers out. Now you might recall, some of us, you've been following us for a while, that over the recent years, we've had some challenges with losing business from the Movestic portfolio, transfers out. And there's been some quite sizable losses. So although there's a loss in this period, the fact that it's drastically reduced, and is that at what we expected, we said at the year end, we saw the level of transfers out starting to run off.

And it's really pleasing to report that by the end of the period, the transfer out rates are in line with our long-term expectations, which hasn't been the case for some time. There is a small hangover in these half year numbers, but we would expect there to be no corresponding loss in the second half of the year.

So, finally on value. We've looked at what's happened to value in the period. We introduced this Chesnara fan. I called it a fan the other day. I got it right that time. This Chesnara fan illustrates where the economic value essentially undervalues the company, in terms of where we see future value sources.

We see five sources of value, which this illustrates. Future acquisitions that Steve talked about, new business, synergies, real world returns and risk margin. And whilst this isn't drawn to scale, the cumulative impact of those future sources of value would create quite a material uplift, if you're looking at the commercial value of the group versus the reported economic value.

Having introduced the fan at the year end, although it might be quite useful to actually see what's happened in the period against those components, and what you can see here, four out of five have been positive. So running down these, the risk margin runoff, as I said, that's a relatively predictable source of value. But notable, in a six month period, £14.6 million of benefit from that source.

Obviously, real world returns have been hugely negative in the period. Importantly, that doesn't change our view that over time as an equity portfolio, you would expect to get real world returns above risk free. If we didn't believe that, none of us would invest in equities, which I suspect we all do.

Moving to synergies. The two deals we've completed have both been deals where we're integrating those operations into our existing businesses, creating up to £10 million worth of expense synergies. New business has been solid at £4.6m and we expect that to increase somewhat in the second half of the year, relatively modestly. But we do know conditions have been tough in the first half of the year, especially selling equity-based products in Sweden, when the equity markets have been so volatile. It's just not been an easy time to sell them. We would expect some recovery there.

And then finally acquisitions, the results in the period include £13.9 million of gains. Steve mentioned already the deal we've announced would create another £18 million on that line in the second half of the year. So, a good outlook for future cash value generation. I'm now going to hand back to Steve.

Steve Murray:

So as Dave has very clearly signaled, the recent market volatility has provided some additional complexity for us to manage during the period. Now, against this backdrop, we remain in a strong financial position and we have strong fundamentals on which to build on. As a reminder, as you can see on the slide, we do three things here at Chesnara. So firstly, we maximise the value from our in force books of business. And post our most recently announced acquisition, we'll have over 1 million customers across the group for the first time in our history.

We see real benefits from this additional scale, and we have the expertise to deliver further value through cost and capital management actions. We also

remain focused on evaluating further actions, including the updating of our investment strategy.

Secondly, we seek to execute value-adding acquisitions of portfolios and businesses, and our strong financial position allows us to continue to fund small to medium sized opportunities from our own resources. And the recent activity that I highlighted earlier demonstrates that the M&A part of our strategy has been revitalised.

And finally, as Dave has just mentioned, we write focused new business, where we see we have a high degree of confidence we can make a profit. And it's been pleasing to see the Swedish transfer out rates returning close to normal levels. And some of the legislative changes now enforced in Sweden since July, provide us with some further opportunities to improve the value of new business going forward.

Turning now to M&A, I wanted to provide an update on how we see the M&A market. You'll have seen this chart before on the left-hand side, which gives you a sense of the size of the back book market that's available to us across both the UK and the Netherlands. We're continuing to see large international groups actively reshape their portfolios across Europe, but also in the UK. We also continue to see opportunities in our core markets and we remain active in discussions with potential vendors, potential partners and corporate finance advisors across a wide variety of territories.

Now as a listed company with long-term capital and a track record of looking after customers, we believe we're an attractive counterparty for vendors and also for local regulators. We therefore remain optimistic about our ability to continue to participate successfully in acquisitions going forward. We don't see the recent market volatility materially dampening our optimism here.

Now, given the inbound engagement that we've had with a number of investors this year, we know that sustainability is rightly an area of focus for a great many of you. It's a key part of our group strategy, and we have a

group wide program underway, building on the work already done across our divisions. Activities include the work that we're doing in the UK with our asset management partner, Schroders. We're looking at further ways to improve the net zero position we already have from our direct operations, offering sustainable fund options such as the first biodiversity focused fund to be available in Sweden, work on exclusions and the wider exclusions policy that we already have in Scildon, and the wider engagement our group team has had with external bodies, such as MSCI and Moody's, which has already improved our positioning in their respective lists.

Our further actions will be focused on understanding in even greater detail the ESG impact from our operations and the investments that we hold on both our business and our key stakeholders. This will then provide the basis for us finalising our net zero targets, and most importantly, the transition plans to deliver them. And we'll cover these targets as part of our full year results presentation.

So in summary, Chesnara has had a good start to the year in terms of delivery. Our divisional cash generation has remained strong, as has our solvency. Our cash and balance sheet metrics have performed in line with the sensitivities that we set out in our full year results, providing us with confidence in the understanding of the books that we manage, and again demonstrating the resilience of our business model.

The integrations of Sanlam and Robein Leven are well underway. We expect to complete Conservatrix in the autumn, and remain optimistic about the prospect of delivering value-adding acquisitions in the future. We continue to look for ways to further enhance value in a sustainable manner.

Now, before I finish, I want to say thank you to our people across Chesnara for all of their hard work that's enabled us to deliver in difficult market conditions. Our presentation is just over a year since I joined the group and I

continue to very much believe that there's a lot to look forward to here at Chesnara.

Thank you for listening. What we'll now do is we'll open up for questions. I suggest that we start here in the room in London, not least to allow people the chance to type their questions into their computers online. Izzy is going to help us ensure that a microphone finds its way to people that might want to ask a question.

Ben, you were first up with your hand. Well done to you. I like the jacket that Barrie had there. We'll start with you, Ben.

Ben Cohen: Thanks very much. Ben Cohen at Investec. I wanted to ask on two topics, firstly, on management actions and maybe also hedging. Just what you see in terms of what's realistic to deliver on, in terms of management actions. And has your view on the benefits of hedging or otherwise changed, given the volatility that we've seen? And the second thing I wanted to ask about was about the inflation assumption changes. Was there a negative financial impact in the half year from that move?

And also in terms of the assumptions that you've made, I think you mentioned 4.5%. I think Bank of England, what, their target is to keep it round about 2%. So are you taking a much more aggressive view? Is there something else that's going on there? And in that context you mentioned, near term overruns, what size could they be? Thanks.

Steve Murray: Shall I take hedging philosophy? And then Dave, you can deal with actions and then we'll cover the inflation points.

Steve Murray: So I don't think we've fundamentally changed our view on hedging. I think what we have changed, though, is looking more proactively and on a much more regular basis at what options might be available to us. And I think when I joined the group, we were probably a little bit more reactive, and Dave and the team have done a lot of work looking at what some of the

potential options might be and those benefits. Not necessarily to immediately execute, so that we've got some of those things up and ready as and when we might need them, particularly from an acquisition context, they could be helpful around that.

You've probably heard both from Dave and I from an equity market perspective, we've got a natural hedge within the Solvency 2 balance sheet through that symmetric adjustment. We like our exposure to equities and the exposure our policyholders have. We clearly would have liked markets to have grown in the first half of the year, but we continue to believe that that'll be a good source of return over the medium and long term. So I don't think our philosophy around equities will be we changing, certainly any time soon.

Do you want to talk about some of the actions we've been considering in a wee bit more detail and then deal with inflation?

David Rimmington: Yeah. So we've done a bit more work to identify a shortlist of management actions. Now I think what's interesting is, certain management actions have different impacts on different components of our financial model. So some will help with liquidity, some will help with headline solvency. So to some extent, when the solvency ratio is as high as it is, taking an action to make it higher, and often that action can come at a cost, we won't necessarily do so. If we don't take any of these actions in the second half of the year, it's because we don't feel the cost-reward balance is working.

But the type of things we're looking at is currency hedging. We do have a significant level of exposure to currency risk, because two thirds of our balance sheet is non-Sterling. We're looking at things like taking a slightly more sophisticated view on reinsurance in the Netherlands, particularly reinsuring the new business more, so we reduce a little bit of the new business capital strain. We're looking at more radical things in Sweden, like potentially reinsuring the VIF, which is a tried and tested model. And in the UK, you're looking at things like mass lapse reinsurance. So we've got quite

a clear view. We are building up the detail behind each of those actions, to... awful Boris Johnson phrase...but to get them over ready, but whether we actually decide to trigger them will depend on circumstances and needs.

Inflation? Was that okay? Yeah. I think the reason we've got a slightly higher long term inflation assumption is because some of our costs aren't linked to the base rate. So for example, our outsource arrangements are linked to RPI plus. So we've tried to model something which we think is more appropriate for the reality of our cost base, but I think we feel, as a long term average assumption, I don't think we think it's prudent, but we think it's pretty well... We're covering that risk quite well. I think there is a risk in the short term. Just as a very simple example, our total group salary base is about £40 million. So if, let's say, for one year we were to offer pay rises 3% higher than that average base rate, so if for example we offered 7%, you can see that would have about a million pound impact on the cost base. So it's quite significant, but nothing which is going to fundamentally change the dynamics of the group. Now, if you were giving 7% every year for the next ten years, of course, what business wouldn't be impacted? But we just don't see that as an outcome.

So we think we've got this potential modest impact in the second half of the year, but we think having strength... Now, the reason you don't see it in the results is we strengthen those long term assumptions at the end of the year. So if you remember, we had a £10 million plus hit in the 2021 results. And actually in the UK, the long term assumption actually moved in the other direction slightly, oddly.

Steve Murray:

And as always, you can see in the appendices of the presentation, we've laid out those sensitivities, including a 1% forever increase in the inflationary assumptions that we've got in the balance sheet as well, so you can see what the longer term impact is. Barrie, I think you were second and then Ming, we'll come to you.

Barrie Cornes: Thank you. Barrie Cornes, Panmure Gordon. I've got three questions, if I may. First of all, Dave, you mentioned about policy outflows at Movestic slowing down. Can you just give us some background as to the reasons behind that? The second question I had is in respect of M&A, and just wondered if it was in part your relationship with the Dutch regulator which has helped you get the latest acquisition over the line. And also linked into M&A, could you just comment on your ability to do future acquisitions, while still having just completed two, and have another one on the go? And the last question I had, as Ben mentioned inflation, I'll change tack. Can I go down the IFRS route, and just ask how you see IFRS impacting the company, particularly reporting, and whether not EcV would still be the metric or an alternative? Thank you.

David Rimmington: Shall we take them in order?

Steve Murray: Yeah, let's do them in order. Do you want to take Sweden?

David Rimmington: Yeah. So there was a particular trigger for the policy outflows in Sweden. So a relatively large local mutual, I won't try to pronounce it... And whether it was a reaction to COVID or not, we'll not know, but timing-wise, as COVID restrictions started to kick in and brokers came off the road, they aggressively targeted transfers. So they put a really unsustainable pricing model into the market, where they were giving very high bonuses for people to transfer from existing providers to them. And there was a massive outflow across the whole... So we weren't targeted specifically, nearly every player in the market was losing quite a lot of assets to this mutual. We always thought it was unsustainable. We held our discipline and to some extent resisted the temptation to start matching the offer, because we thought that ultimately in the long term would have caused more damage. And quite simply that offer was not sustainable from the other party, I think normal business has resumed, and that's gone.

So to some extent, it's been the direct consequence of that. We've also done a lot of really good work on... I think we've learned from this experience that we needed to work harder at actively retaining policies, so we've now got a more active retention policy. We've got people dedicated on retention. So I think an element of the market has just found some normality, and we've done some good things as well.

Steve Murray:

The other thing to flag as well was, our business is relatively modern, so virtually all of that book was accessible to those transfers versus others. And I mentioned changes that came in in July. Actually, Dave and I were in... We had the Swedish boards last week. So there's been a change in legislation there that has opened up some further books and made them available for transfer. Now, we've been fully exposed to that risk right the way through this period. Other people are going to now have to deal with that as well. And I think the early signs that we're seeing from brokers is that they're continuing to target some of those books. So we've been working hard to make sure we've been ready for those changes coming through, so that gives us a little bit of optimism as well that we may see some improvement in the VNB result, albeit you tend to see that come through a little bit slowly over time.

On M&A, certainly the local teams have positive relationships with the regulator, and it's a very, very important factor, particularly in the Netherlands, to have those relationships, the transparent relationships that you have with the regulator to complete M&A. I think you can see from our track record there and the number of deals that we've done that we believe that relationship is a good one. And as you might imagine with an incredibly complicated situation that we had with Conservatrix, working with regulators, with the trustees, with the courts and things, you need to have some pretty good relationships there. We felt that they were an important factor. The fact that we were UK listed actually played quite an important role as well. I think people saw the standards of corporate governance that are required, and then they were able to look at the balance sheet as well

and saw that there was a strong counterparty there that would look after these customers well in the future.

So I think the regulator relationships, Barrie, were certainly a factor, but along with some other things, and we're really pleased to have put an end to a long period of uncertainty for those policyholders and staff. And the early signs certainly from the engagement we had with staff have been really good. They seem to be delighted that Chesnara is the counterparty here, and we're looking forward to working with them going forward.

Our ability to do future M&A, we're still looking for M&A business, very much so. We'll obviously need to be thoughtful about the operational integration and the timing against the things that we have in track, but the local teams are continuing to work through those integrations, but we don't see that as a barrier to us doing further acquisitions, both in the existing territories that we have, and we're still open minded about other territories, albeit they'd have a higher hurdle given that we don't have the infrastructure and necessarily those relationships. But we're certainly not saying to everybody, "Let's take a pause." We'll continue to have conversations, and we see some interesting opportunities already. IFRS 17, I think you were going to...

David Rimmington: IFRS 17, yes. My personal view, Barrie, is that even when we move into IFRS 17, we will still focus more on the solvency metrics and economic value. I still think they'll be more commercially relevant. IFRS 17, I think, will help, but you will still find that the IFRS results will still be a combination of investment accounting and insurance accounting, so it's still going to be a real mess. There's still going to be two different accounting standards, consolidating a set of results. There's a huge amount of subjectivity in IFRS 17. It's not as market consistent as Solvency II or economic value. So I'd be amazed if we're not still talking about the same KPIs this time next year, just with a little bit more chat about IFRS 17.

Steve Murray: I think part of the reason that we like looking at economic value internally, I suspect it might be why you do as well, is if we think about the fall that we've had in the first half of the year, you then look at the nature of what's happened there. And for us very clearly that's been... We've got broadly the same number of units, they've gone down in value, but it could have been caused by something else. It could have been caused by us selling those units, or trying to pull that up to the group company and distribute. So I think it's a helpful metric, certainly for us to look at, to say what's happening to the totality of the value of the underlying business, and what's happened over the period? And how that's then pulled up into surplus. So that's why we like that metric, because we think in combination with cash, those two things together are quite important.

Barrie Cornes: Just very quick follow-up. And in terms of timescale, what are we looking at? Is it H1 next year in respect of the first sight?

David Rimmington: Yeah. There'll probably be some disclosure at the year end, but the first live results under IFRS 17 will be the interims next year.

Barrie Cornes: Thank you.

Steve Murray: I think Ming's got a question. Yeah.

Ming: Thank you for taking my questions. It's actually one comment plus three questions. My comment is, well done on the slides. They're so much more well readable, and thank you very much for that. And my first question is:

Ming: In terms of your new business market share for Movestic in Sweden, do you still target the 6-10% new business market share? And my second question is in terms of M&A. I can see that on the donut chart on slide 22, the fund under management back book is much smaller in the Netherlands than in the UK. However, you seem to have done more deals in the Netherlands than the UK. How does the competition landscape look like in the Netherlands versus the UK? And my third question is a follow up on M&A.

There's a comment here. You said "Likely to correspond to transaction value of £500 million and below." Why did you choose £500 million? Is that because that's the size of the LV book? And, what's stopping you doing the LV book?

Steve Murray:

David, why don't we start with new business? We might do a bit of a double team on that. So, yeah. So, if we look in the medium term, we still think there's opportunities to improve the market share. I think historically when we've talked about market share, it's been very much focused on looking at the unit linked business that we have. And we talked at the full year about some of the success that we'd had in the custodian market as well. So I think when we look at those two parts together, we're actually well above 10% market share for the custodian business already. I think we've seen a positive start to the year in terms of overall sales on unit linked. So, we would hope to see that trend back towards that sort of level. But as Dave says, we're going to keep our discipline on pricing. So, we're not just going to chase market share for the sake of it.

As I talked about in the slides, making sure that we are comfortable writing profitable new business clearly continues to be important. Just a word on Scildon then as well. Because there's been an interesting dynamic in the market. We've taken a big chunk of that market, where we're getting close to 20% in that core term market, but the overall market has dropped. So you've seen the mortgage market reduce in Scildon and there's been a direct read across in terms of term business. So, actually overall we've seen the new business performance be pretty good in the first part of the year from Scildon.

In terms of M&A and, I suppose, the dynamics in those two markets. I suppose the competition is similar when we buy... What we were trying to do with that M&A chart is, as opposed to saying, "Look, there's just a big block of assets and therefore there's a big opportunity." We're conscious of our size and scale and we think we've got a particular target market that's

towards the lower end. And we see that in both markets. I think one of the dynamics we're starting to see in the Netherlands is more portfolio deals potentially coming through as bigger insurance groups start to look at what's core to their strategy. If they're trying to free up capital to deploy in what they would see as higher margin areas. We think we'll see some more of those.

In terms of the people that have done the most deals. You've seen ASR has done a lot of the M&A in that market. But I think there's opportunities in our space that actually just wouldn't be worth larger organizations' while. So we don't see lots and lots of competition maybe in that smaller space. And that's similar in the UK. And I should also say, we talk about smaller deals, but Conservatrix, when you look at the uplift to EcV, it's a relatively material deal for us. So if we can find other deals like that, that would be interesting.

In terms of the £500 million, no, that wasn't pegged to the LV business. I clearly have an understanding of that from my time at Royal London. What that was simply saying is if you look at our market cap, we think at the moment that's a natural boundary for the size of deal that we could do. And it was art, not science, in terms of defining that sort of boundary. But what we were trying to show there is, traditionally, I think, people have assumed Chesnara can only do small deals. We believe that there are larger deals available to us. And actually the fact we've done three deals in the last year, we think, has been useful for us. We've used that as a bit of a sales tool to go out and talk to people about the credentials that we have. We've got resources available for those small to medium term deals. Obviously the bigger ones, we need to think more broadly about the financing of that, but we've certainly got appetite to look at larger things if they're in the market.

Abed:

Hi. Morning its Abid from Panmure Gordon. Just one question from me, please. Just back on the M&A topic, does the current market environment make deals, future deals, more likely or less likely? So for example, could you potentially secure a deal below EcV? Are sellers more willing in this

environment? Or, could you just talk through the dynamics given the current market conditions?

Steve Murray:

Yeah. So I think if you step back and say what happened at the start of the pandemic, because I think that's quite a useful reference point. I think what you tend to have in that situation is a few people pause for breath and kind of say, "So, what's this going to mean? How is the landscape going to develop?" And then what we actually saw was a very healthy pipeline of things coming through. Actually the virtual environment, in many ways, made it easier to do some deals, because you could do them remotely. Nobody saw you turning up in London with lots of lawyers and all that sort of stuff.

So, I think we'll probably see a similar dynamic at the moment where you see some really sharp economic volatility. People take a pause for breath, think about what the impact is, but actually a number of people have already decided strategically that portfolios aren't core to them. So we would still expect those conversations to continue. What you may also see as well is, a business that was probably borderline in terms of being retained by a group suddenly, with the current environment, looks less attractive. So you might actually see some things coming to market or Boards certainly challenging management teams on why they continue to retain these portfolios.

And probably the final dynamic that we're seeing, and we certainly understand this from our executive roles, is a number of groups are undertaking large transformation programs, trying to modernize systems. And the kind of value cost of doing that for some of these smaller books that might be a wee bit more niggly in terms of the product features etc, potentially the payback just doesn't work on those. So as organizations get further through those programs, it probably makes sense for them to look at disposal or transfer rather than upgrading those onto systems.

So as well as the market environment, those are probably some of the other dynamics that we're seeing on the ground. And it might sound like things like transformation are a point of detail, but it really is quite important. If you're a CEO, you are looking at the bandwidth that you have in an organization and thinking, "Why am I investing senior management time, development spend, on a book that's not core to me when there's quite an attractive market at the moment?" There's plenty of buyers including ourselves, other businesses, so why not test that and see what value you can get for those books? I don't know if you'd add to that.

David Rimmington: Yeah. No, interestingly, that was pretty much the rationale when we bought the Direct Line term book six or seven years ago. It was out of that dynamic, a complication in a wider transformation program. So yeah, I think that will be a source of opportunity.

Abed: Sorry, just a follow up comment really. So, I can imagine a situation where the per policy costs, given the current inflation environment, are rising rapidly for some of these holders of these non-core books. So, yeah, they'd probably be looking more towards you and others to offload those books.

Steve Murray: Yeah. What we're trying to do is make sure that we're getting out as broadly as we can across the market. People understand what we're interested in as Chesnara, what we can do. We used the tier two raise back in February. That was a helpful thing for us to be able to say, "Look, we're getting ourselves ready to make sure that when you engage with Chesnara, you can be certain that ultimately we'll see this through." I think the three deals that we've done demonstrate that that's absolutely what we do. And those deals had a degree of complexity associated with them.

And as you say, people might look at inflation or other factors as a reason to engage and we'll certainly be making that case anyway when we speak to people. The other thing on inflation is, clearly having these deals gives us further opportunities to take the edge off inflation rises if we can drive down

the unit costs as a result of those acquisitions. So for us, actually, we see those incoming books as a helpful offset against some of the inflationary pressure that Dave talked about. I'll just check if there's any more hands in the room. If not, I think we'll ask Tracy, who's operating the online system for us, if we've got any questions online that we want to go to?

Call Operator: Thank you, sir. If you would like to ask an audio question, please signal by pressing star one on your telephone keypad. Using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. I'll pause for just a moment to allow everyone an opportunity to signal. There appears to be no telephone questions at this time.

Steve Murray: Okay.

Call Operator: I'm going to turn it over for the webcast questions.

Steve Murray: Thank you.

Call Operator: Thank you.

Steve Murray: So Jack, I think we'll go to you for webcast questions?

Jack - BRR Media: Thank you, Steve. We've had a couple come through for over the webcast. The first of which is, given the possible changes to the solvency 2 regulations, what could be the impact on Chesnara? And a following question, how are you thinking about financing larger transactions over a £100 million?

Steve Murray: Okay. Do you want to pick up solvency 2 and risk margin?

David Rimmington: Yeah. So I think it's becoming clearer what the new rules are going to do, but we're not quite there yet. I think the main component which we think will impact us will be the changes on risk margin. And I think what we are confident about is that it will be a net positive impact, but we're not quite

sure what the quantum will be. It will be kind of material but not transformational, I think, is how I would describe it.

Steve Murray: On financing larger deals. So, we've got a variety of options. So, you might remember we retained the RCF facility that Dave and the team had put in place before we raised the tier two. So we could draw down on that in the short term, that's a £100 million facility with a £50 million accordion. We'd obviously need to keep an eye on the leverage ratio there but in terms of short term financing, that remains readily available to us. We do have further space in the capital stack if we felt that was the right thing to do. Quite often, acquisitions that we're looking at are coming debt free. So, there'd be an opportunity to look at utilizing the target balance sheet. And then clearly our shareholders, a number have invested in Chesnara because they like the M&A story, they're expecting us to do deals. And for bigger things, we'd be happy to speak to shareholders about those if we thought it was the right deal for them. So, that's how we'd look at doing things on our own.

I think the other dynamic that we are certainly seeing, is for some of the opportunities that might be out there, partnering with other people may well be an option. So one of the other things that we are trying to make sure is that we know we've got a good understanding of how the landscape works. And we think we'd make a very good partner for people, not least given we're not a direct competitor around things like new business in the UK and all those sorts of things. And that's why when we talked about the range of things that are available, we feel confident that if there were some bigger things there, we'd certainly be able to finance those through some or all of those mechanisms that are available to us.

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

Steve Murray: Okay. Well, thanks everybody for attending the presentation. As I said earlier, we believe that Chesnara's had a good start to the year in terms of

delivery. And we remain optimistic about the opportunities that are available for us. And with that, I'd like to close the presentation and wish you a happy Wednesday.