

# Chesnara

## Interim Results 2023 | Video Webcast

### 21<sup>st</sup> September 2023

### Transcript



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Steve Murray:

So good morning and welcome to the Chesnara 2023 Interim Results presentation. I'm Steve Murray, Group Chief Executive, and with me today is Dave Rimmington, our Group Finance Director. We've a number of people with us in the room today at RBC's London offices and a great many more dialing in from across the world. And I wanted to give a special welcome to my Chesnara colleagues dialing in from the Netherlands, Sweden, and from across the UK.

So what will we cover today? Well, I'll start by looking at how we've been continuing to execute our renewed strategy. Dave will then cover the financial results in more detail, including IFRS 17. And I'll then finish by looking at some of our future areas of focus, including M&A. We'll have plenty of time for questions at the end of the presentation, but those of you in the room with us today, we'll come to you with microphones at the end. And if you're dialing in online, you'll be able to ask questions right the way through the presentation.

So those of you who've been following Chesnara for some time now will have heard me talk about these four areas before that are up on the slide. They're at the heart of what we do at Chesnara. Firstly, we've strong line of sight to future areas of value growth and long-term cash generation, and that supports our progressive dividend policy. And the start of 2023 has showed both improved value growth and continued positive cash generation. And this is supported by our Solvency II balance sheet, which includes our conservatively managed asset portfolio and the group's balance sheet continues to be strong and robust and resilient to market volatility.

Thirdly, we believe we have a good track record of delivering acquisitions, and this provides our investors with a further opportunity for growth. And we've continued momentum here with two deals executed in the first half of the year. And we also have a management team and board that's highly focused on creating sustainable shareholder value, and in the first half with further strengthened the wider leadership team here again.

So, let's look now at some of the key highlights from the first half of the year. Following on from the completion of the acquisitions of Sanlam Life & Pensions and Robein Leven in 2022, the acquisition of Conservatrix insurance portfolio was completed on the 1st of January this year. And in May, we also announced another UK acquisition, a protection portfolio from Canada Life with a reinsurance agreement that supports that deal also now in place. Looking at the financial results, we said before that Chesnara has a great track record of delivering cash generation, and we've seen that delivery again in the first half with group commercial cash generation of £22 million. And Dave will talk us through the cash result in more detail shortly.

Our solvency continues to be strong at 205%, and that's substantially above our normal operating range of 140% to 160%. And that's important because it provides significant headroom to support future acquisitions. In contrast to 2022, our economic value has increased in the first half with acquisitions and some modest equity market growth being the main drivers here. We also delivered improved commercial new business profits of £6 million and that includes a contribution from the UK for the first time. We're now reporting under IFRS 17, and here we generated profits before tax of £16 million for the period with an additional increase in the CSM of £54 million over the first half, and that was predominantly driven by the acquisitions that we executed. And finally, given the resilience and cash generative nature of our business, we've yet again announced a 3% increase to the interim dividend and that continues our 19-year track record of uninterrupted dividend growth.

Turning now to operational delivery, and it's been a busy start to the year here as well. In May, we announced a long-term strategic partnership for our UK business with SS&C, and that gives us access to a more modern platform and wider capability from this global technology player. Around 80 Chesnara colleagues have now transferred to SS&C under that partnership. Our teams across Chesnara have been working hard to implement IFRS 17, and Dave will show you these results shortly. The transition and integration activity that we've been undertaken in the UK remains on track and the Conservatrix integration in the Netherlands is now complete.

On the people side, Pauline Derkman has started as our new Chief Executive at Scildon and brings with a great experience from places like a.s.r., Aegon and PwC. And Jackie Ronson, who's in the room with us here today, has also started as UK CEO designate, bringing over 25 years of experience from across a range of financial services organizations and other industries. In August, we also announced that Linnéa, Chief Executive of Movestic was leaving us and that Sara Lindberg was stepping up as the interim CEO. And our market search for a replacement is well underway. And I did want to take the opportunity to thank Linnéa, Ken, and Gert Jan for everything they've done for Chesnara during their tenure. And finally, having set out our first ever sustainability targets for the group earlier on in the year, we're making good progress on our 2023 objectives.

Now, given the increase in acquisition activity that we've seen here at Chesnara, I wanted to provide you with an update of how our integration programmes are progressing. On Sanlam, we continue to expect the Part VII transfer into Countrywide to complete around the year end this year. And as a reminder, this should enable us to access additional capital synergies in addition to the £5 million per annum steady state cash generation that we've previously announced. The Robein Leven and Conservatrix integrations are complete, and we expect that combined Waard group to deliver around £8

million of steady state cash generation in the future. And we announced the Canada Life protection deal in May, and as a reminder, that had a day one ECV gain of £7 million and we expect around £3 million of steady state cash generation from that business in the future, and that's against a consideration paid of £9 million.

So that means £120 million of capital resources that we've deployed against M&A over the last two years has generated £50 million of incremental ECV and should also deliver £13 million of annual steady state cash generation going forward. We're also continuing to see a positive M&A pipeline, and we've retained significant resources to deploy on future acquisitions. So with that, I'll hand over to Dave and he'll take us through the financial results in more detail. Over to you, Dave.

David Rimmington:

Morning, all. Thank you, Steve. So I'm going to go through the financial results in some detail, but before I do so, just a reminder that our results can be quite heavily influenced by external market conditions, so probably worth a quick recap on what we saw in the first half of the year. Equity markets across all our territories performed well, noting in particular in Sweden, the 8% growth, bearing in mind, that's where a lot of our unit linked portfolio is, that's really encouraging. Interest rates continuing to increase, particularly in the UK, but also modestly in Sweden, flat-lining somewhat in the Netherlands.

Given that two thirds of our business is overseas, the FX rates are clearly quite important. You're probably all aware of the strengthening of sterling against the euro, probably less aware of the fact that the pound strengthened quite significantly against the Swedish krona. So that graph is illustrating that and not surprisingly will have an impact on our results. And finally, credit spreads kind of relatively constant during the period. So that's the backdrop. So, what's that done to our results?

In line with our sensitivities, you can see that the equity market growth is driving material and very positive and very encouraging growth in economic value of £20 million. The impact of equity growth on cash generation is slightly more complex, and this brings into play a concept called the symmetric adjustment. This is a factor from the Solvency II rules, which means when equities rise, we have to hold a little bit more capital. So, including that dynamic, the cash generation impact on equities is £2 million. Looking through the symmetric adjustment, which is a temporary issue, you see £13 million of additional cash as a result of equity market growth.

Bond yields have a great positive impact on both cash generation and economic value, credit spreads because there was not much movement have had minimal impact. And then, FX is quite interesting because you can see some quite material impact on economic value. As I say, because a lot of our

assets are overseas, the strengthening of the pound against the krona has had a negative impact on the economic value. That £20 million is net of a £7 million gain on the hedge, which we put in place last year. And you might be thinking with the hedge in place, why have we still had that impact? Well, the hedge was really designed to protect us against extreme movements in currency, and there's a wide range at which we're still exposed. So this is very much in line with our expectations.

Now, from a cash point of view, because cash is inherently less sensitive to FX in the first place, the hedge has actually been able to completely offset the inherent negative impact, so we've got this full hedge from a cash perspective. And then finally, looking at inflation, although inflation has continued to be high, we built that into our opening valuation, so therefore the impact in our resource is minimal. So those economic conditions will feature in all the results as I go through them.

So, moving on to our results and looking at our scorecard, a very busy scorecard. At this point, I'll just focus on three of the headlines and then go through the metrics in some detail. So, starting with cash generation, you see four cash generation metrics, all of which are linked to Solvency II, they all in very simple terms reflect the movement in Solvency II surplus. And at this point, I'll just note the group commercial result, which includes the FX hedge, but looks through the symmetric adjustment. And at £21.8 million, it's a really strong six months result. And for context, that represents 120% coverage of our 2022 dividend.

Moving to IFRS, I'll come onto that later as well, but at this point, just point out one of the consequences of moving to IFRS 17 has been an increase in our net equity of about £50 million, plus we've created a CSM, which is a store of future profits of £157 million. And one of the consequences of that is our gearing ratio has reduced from 37% as reported at the year-end to 29.5%. So, in general, the transition to IFRS 17 has been very positive for us from a leverage point of view. And then finally, we're really pleased to report a growth in post dividend economic value. That's despite the foreign exchange strain and the fact we paid a sizable year-end dividend. So, the headline number hasn't grown that much, but that's a real positive movement in a period where lots of people have struggled to deliver economic value growth. So there, putting the main highlights.

So, moving through into the KPIs in more detail, starting with cash generation. I mentioned there were four cash metrics, which might seem somewhat indulgent. It's quite simple, really. We have a base cash result, which is really the movement in Solvency II surplus, and then we exclude from that some of the more technical aspects of Solvency II to create a commercial cash result, which is probably a better reflection of the underlying performance of the business.

So, you can see here that the base result was negatively impacted by £11 million from the symmetric adjustment. So, looking at the commercial figures, they're healthier. And at a divisional level, excluding FX impacts, we generated £20 million of total commercial cash. And it's really pleasing to see as the donut shows that all divisions, even the open ones, have made positive cash contributions, so there's nice diversification there. And at a group level, you come back to the £21.8 million I mentioned earlier, so a really strong total group commercial cash result. It's just worth pointing out at this point, the cash result does often benefit from capital management actions, and I'm just noting that we haven't initiated any in these results, so this is a relatively clean set of numbers. We still have plenty of actions we can take and we will be investigating whether we do so in the second half of the year.

Moving on to a slightly simpler lens on cash, this is really just about the bank balance, and it's really great to see the Chesnara parent company bank balance increase from £108m to £127m. In very simple terms, the dividends we've received from our divisions have been greater than the outflows at group, and we've still got £15 million of proposed 2022 year-end dividends to receive, and that will come in the second half of the year. So the outlook for that cash balance is strong. This is the strongest evidence of our view that we've got over £100 million of very liquid, very available deal firepower.

So next on cash, a forward-looking view. And this slide illustrates where we see source of future cash and it's drawn over a five-year period, but it would be similar if we went over a longer period. And what it shows is we've got a very clear line of sight of cash from three key sources, risk margin and SCR release. So as the business runs off, we get capital release. We expect on a steady state to get returns above risk-free. And we can take management actions as I referred to earlier. This is broadly drawn to scale and what it is therefore saying is, A, those sources of cash are relatively equal, and B, the sum of them is greater than our expected outflows over the next five years.

And then you've got acquisitions that's not drawn to scale because of course it's difficult to know exactly what acquisitions will happen. But by way of illustration, the four acquisitions we've done over the last couple of years have added about £13 million per annum of incremental cash flows. So you can see the existing business itself is quite sufficient to support the outflows and we expect them benefits from acquisitions on top of that. So the whole cash picture looks very solid and very sustainable.

Moving to solvency, as Steve mentioned, we closed the half year with a very strong solvency rate of 205%. This is significantly higher than our normal operating range. And that's important because that gives us the headroom to accommodate the potential short-term negative impact that acquisitions can have on solvency. So, how's it moved in the period, but importantly, the first

blocks on the waterfall or the business as usual components. And the key message there from a business usual point of view, the ratio has remained remarkably stable. And that's kind of a key feature of the Chesnara financial model that whatever conditions we seem to be in the headline solvency ratio remains very stable and that's one of the reasons we've been able to sustain the dividend so securely over the period.

And then you see two exceptional items, you can see the deal impact of minus 8%. And as I said, sometimes deals, even though they're good for long-term value, can have a short-term capital strain. And that's what's happening there. And actually, that's slightly better than we expected when we did the deal assessment. So that's good news. And then finally, a slightly technical matter. We have revalued our Tier 2 debt, moving from a book value basis to a fair value basis. And that's had a positive impact on our headline solvency ratio.

Now moving on to look at growth. As I mentioned in the highlights, it's really great to see an overall growth in economic value. And you can see here that actually the earnings are very strong at £61 million, and it's been more than sufficient to offset the temporary, well, hopefully the temporary impact of FX movements and the dividend outflow. And if you look at the nature of the earnings, you've got great real-world returns, which ties back to the sensitivity I referred to earlier of equity markets. And you've got a really positive contribution from acquisitions of £28.4 million. So, a really positive value story coming through here.

And another lens on value. We introduced the Chesnara fan a couple of years ago to try to illustrate where we are aware that the economic value doesn't include all profits. Although it's a forward-looking metric, it doesn't include all aspects of future growth. And we are very clear that there are five sources of future growth. And having introduced a fan, we think it's quite sensible on a period-on-period basis to assess how the actual performance is compared against those sources of value. Now, over time, on an average basis, all aspects of growth have been positive, but it's not necessarily the case in every short-term period. So we're really pleased to report in this period that all aspects of the fan are positive. That's important for two reasons. One, it explains why we've got the great earnings of £61 million, but also, I think, it's really good evidence of the state of health of our growth model.

One of the sources of growth is new business. Steve mentioned earlier that that's been good in the period, but we're really pleased to report a quite material growth in new business profitability and the new contribution from the UK. Just for clarity, we've not changed our strategy and we're not going big time into new business in the UK, but what we have done on the back of the Sanlam acquisition, we've kept one of our onshore bonds open to new business. It's sold through a third party and it's actually a quite welcome

source of economic value growth. I think it's more of a reflection of our flexibility, if we buy a business which does have some modest new business in it and it's not too onerous, we will continue to take that. Markets have been difficult in Scildon and Movestic and against that backdrop that growth in value is really encouraging.

Finally, last but not least, brace yourselves, IFRS 17. I've even lost my pages. Okay, looking firstly from a balance sheet perspective before I go into the numbers, just two points of context. First, I think it's important to understand only 42% of our portfolio is actually insurance business. So, when we, for example, report a CSM, the future profit potential, that's only covering 42% of our balance sheet. So, there are other sources of future profit, for example, in the form of investment contract VIF of about £100 million.

And secondly, just a reminder, although we recognise IFRS numbers are important, probably increasingly relevant post IFRS 17, it hasn't changed the fundamentals of the business. It hasn't changed our solvency ratio, it doesn't change economic value and most importantly, it hasn't changed the dividend outlook. That said the IFRS numbers are important. So let me talk you through what's happened over the period.

As at the end of 2022, you can see that sizable increase in net equity, which is helpful for the gearing ratio as I said earlier. And you can also see we closed the half year with £157 million of CSM, which is evidence that our insurance portfolio is profitable and will release the P&L over time. And just to reiterate, the consequence of those two things is a reduction in our headline leverage ratio.

Looking at it from a P&L point of view. Firstly, just to point out we believe that you need to look at the IFRS P&L account in conjunction with the movement in the CSM. They're inherently linked. Just as an example, if we post a £20 million IFRS profit, but over that period the CSM has gone down by £20 million, it's a very different overall performance than if we post a 20 million profit over a period where the CSM has gone up by £20 million. So I think we believe you've got to look at them in both and we will be doing that in our information going forward.

So, what is this? This is the new look P&L account for IFRS 17. I think it's quite helpful. There are three key components now. You've got the net insurance result, which nicely isolates the profits you get from insurance business. You've then got an investment market result which is ring-fenced, and you can isolate from other parts of the profit. And then you're left with a group of P&L items, which are really a simple fees less expense. So that's the fees from investment business, less the expenses relating to that investment business and other head office costs. So, I think it's a more intuitive P&L account.



What is it showing in terms of the actual numbers? Well, it's great to report a sizable insurance profit, which is consistent with the fact we've got a positive CSM. The investment result, not surprisingly, is quite volatile and you can see that clearly. Last year, a big investment loss. This year, a nice investment profit. And then the fee and cost lines, which come at the bottom of the P&L account, have all increased mainly because of the direct impact of the acquisitions we've done in the period, resulting in a total pre-tax IFRS profit of £16 million in the period.

So, what's happened to the CSM over that same period? Well, it's really encouraging to see it's increased by over £50 million, and you can see from the waterfall that predominantly the impact of the additional future profit we've brought into the business on the back of the Conservatrix acquisition. Now I will hand back to Steve.

Steve Murray:

Thanks, Dave.

So looking now at the areas of future focus, I want to take the opportunity to remind you all of the three things that we do here at Chesnara. So firstly, we maximise the value from our in-force books of business. We now have over one million customers who rely on us for their life cover, pensions, savings, funeral plans, and other products. In the books of business, we have continued to generate cash and we also see plenty of opportunities to take further management actions in the future, such as the FX hedge that we put in place last December.

Secondly, we seek to execute value-adding acquisitions of portfolios and businesses. And our activity over the last two years demonstrates that the M&A part of our strategy has been revitalised and we continue to see positive opportunities for M&A in the future, and we have the financing readily available to execute on these opportunities.

And thirdly, we write focused new business where we have a good deal of confidence that we can make a profit and we've seen an increase in the commercial new business result in the first half, and that includes a contribution for the UK for the first time. And we're continuing to see profitable growth opportunities here as well. And our overall commitment to becoming a sustainable group continues to be embedded in everything that we do.

So let's turn now to M&A. We're continuing to see large asset pools available for consolidation across the UK and the Netherlands, and we've also been actively assessing the Swedish market as well. As we highlighted at our full-year results, we're seeing a further move away from the sale of entire legacy books to portfolio transfers and reinsurance type structures. And this

expands the potential size of our available market as insurers can offload smaller parts of large in-force books to us.

On the left-hand side of the slide, you can see what some of the main drivers are 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 key drivers tend to be companies looking to simplify their operations and technology platforms, trying to release capital from the disposal of non-core products to reinvest elsewhere, or simply refocusing on specific geographies.

On the right-hand side of the slide, we set out some examples of the deals that have been executed recently across Europe where we've continued to see good levels of activity. And the majority of these have been portfolio transactions where there are a smaller number of counterparties competing for these because you need an existing operating platform and regulatory license to take advantage of these opportunities. This is where we have a good level of experience, and we will of course continue to maintain our disciplined approach in assessing M&A in the future.

Now, as you can see on this side, we continue to have a number of key strengths that will enable us to compete successfully in M&A. These include our strong customer service, our ability to manage a very broad range of products, and also our longstanding regulatory relationships. And at the bottom of the chart here, this shows that we've got the flexibility and available financing options to execute a very wide range of deals, both in terms of their structure and their size, and that's supported by our investment-grade rating. So overall, we're seeing the current market backdrop is helpful for us and we remain well positioned to execute further transactions.

Now, as I highlighted upfront, earlier this year we committed to our first ever set of sustainability targets, which we show again on this slide. Our plans are progressing well with some of the actions that we've already taken, including the selection of an ESG data provider for across the Chesnara group. We've been beginning the process to move some of our group's investments into more positive solutions and we also started our first ever intern programme in the UK.

So as Dave and I have highlighted, Chesnara has continued to deliver both operationally and financially. We've seen good cash generation and strong ECV growth with all areas of the Chesnara fan positively contributing over the period. And our group solvency ratio has also remained strong and resilient. Our integration of transition activities are progressing well and we remain optimistic about the prospect of delivering value adding acquisitions in the future. We're looking at ways to further enhance value in a sustainable

manner following the raising of the tier two debt and the execution of a de-risking FX hedge last year. And we've yet again increased our interim dividend for the 19th consecutive year.

Now at the start of the presentation, I welcomed Chesnara colleagues joining online from both the Netherlands, Sweden, and also from across the UK. And I wanted to finish by thanking them for all their efforts delivering these results. And following our first half of strong delivery, I continue to believe there's a lot to look forward to here at Chesnara. So with that, thanks for listening. I suggest that we open up for questions and we'll start within the room. I have no idea whose hand went up first, but I know that Al's going to deliver a mic. I suggest that... Mandeep's jumped in and grabbed it. So Mandeep, first question from you.

Mandeep Jagpal:

Hey, morning everyone. Mandeep Jagpal, RBC Capital Markets. Thank you for the presentation and taking my questions. Three from me, please. The first one's on management actions. You mentioned at the full year, that you have around a £100 million line of sight on potential management actions, and also mentioned today, that you're potentially looking to implement some in H2. Are these main actions still the ones you were looking at before? So mass lapse reinsurance and further FX hedging, and what are the circumstances under which you'll decide to take these actions?

Second question is on M&A. The current trend amongst life insurers is to promote the growth in their capital light areas versus capital heavy. Do you think that this creates opportunities for Chesnara to acquire more capital heavy books at attractive multiples in particular given your balance sheet is already predominantly capital light.

And then the final one is on cash generation and dividend. On slide 15, you show that you think your cash generation will comfortably cover your dividend for the next five years, and that's before the recent acquisitions are taken into account. Given that you're capable and keen to do more deals, what does this mean in terms of DPS growth rate being sustainable at a higher level if deals close?

Steve Murray:

Great questions, thank you. Shall I start the management actions just in terms of how we think about them and Dave can maybe step through the details? I'll take M&A and then Dave, you can maybe just talk about views on cash generation. So we stepped back in when we talked to you at the full year about the FX hedge, what we said there was we were going to be more proactively looking at actions like this, but we had the benefit of doing that from a real position of strength, so we didn't have to put that hedge in place. As you can see from the results, again this time round, the solvency balance sheet's very strong, the cash generation's good, but what we saw is a difference from when the last time we'd looked at instruments like that was

actually there was no cost to investors around that, and we found an attractive structure that took some of the volatility out, released some capital without there being a material cost to shareholders and broader investors.

So when we think about management actions, we'll tend to use that sort of framework going forward. So some of the things you've talked about, we don't need to execute those, but we are seeing attractive pricing in the market and the opportunities potentially to be more proactive on some of those things. Do you want to maybe pick up some of the detail, Dave?

David Rimmington: Yeah, I think you're right. The two which are probably work in progress at the moment would be to extend our FX currency programme and to look at mass lapse. I think the question about when we trigger them, I think the important point is we're in control of that and we don't need to do it. And to some extent, these actions are just accelerating future value recognition. So we could well do some in the second half of the year, we'd be able to, and there'd be benefits in doing so, especially if we need the capital it creates to then fund the acquisition model. Equally, the business is perfectly well positioned if we don't take those actions. So I quite like the fact we've got that optionality, but over time I think we will be dripping through a steady flow of positive actions to release that capital into earlier years. I guess you might expect some in the second half the year, but I wouldn't be concerned if they didn't happen either.

Steve Murray: Do you want to pick up cash gen because it probably connects a little bit to that point as well in terms of that five year view?

David Rimmington: Yeah. And I think your question is more about the linkage between the cash gen and the dividend expectation. And our view on dividends is that we're very conscious the dividend needs to remain competitive and there's an inflationary impact to that, and what the chart you're referring to shows that we've probably got capacity to increase dividend by more than 3% if it plays out as suggested. And I think it's important that it means that we've got that capacity to do that. And I think if inflation remains stubbornly high for longer than we hope it does, we would be able to make sure our dividend remains competitive and move from the 3%.

Equally, we are very confident that we can use that cash generation to deploy for M&A, although we've got the existing cash to support M&A, any cash we generated also can go into that pot. So we're probably not inclined to overpay on the dividend. We want to make sure it's competitive and we've got the capacity to increase the dividend if we need to and we've got an open mind to that, but I don't think we'd be inclined to say any surplus above the current dividend instantly drops into the dividend pot.

Steve Murray: We're not trying to match the dividend policy half to half, but I think if you look historically and obviously a number of people have owned the shares for a long time, we very clearly have delivered a dividend far out with an inflationary growth rate. When we also look at the curves, I suppose the last week they've come back in a little bit as well. You're seeing a 10, 20, 30 year, that coming back down towards 3% as well, and we're mindful of that. I suppose we're in the fortunate position that we can continue to pay an increased dividend for the 19th consecutive year and also talk to you about the material resources we've got to deliver on M&A as well. And the returns we think we've delivered to investors from the £120 million of capital that we've deployed with that increase in ECV of £50 million and the £13 million of steady state cash generation, we hope that investors see that as a very responsible use and a good use of the capital that we've deployed.

On M&A, I think you're absolutely right. I think there are opportunities as people reshape their books, I think people are tending to look at portfolios, as you say Mandeep, that tend to be maybe more capital heavy. I think when we look at these books of business, we're not put off by somebody saying that a book's capital heavy. We look at the return dynamic and if there's a business there that takes a bit more capital, we clearly have lots of headroom for that. And if it creates a good return for our investors, we're very happy to look at that. And as I said in my presentation, we can manage a very broad range of products as well. So we'll continue to look at those opportunities. They sometimes bring with them a degree of diversification as well on the balance sheet, which could be quite helpful. But overall, we're continuing to see good levels of activity in the M&A space, which is why you can probably see we're striking a pretty positive tone about that this morning.

David Rimmington: I think the point is as long as our deal pricing adequately recognises the capital strain a slightly more capital heavy portfolio would bring in, it's fine. It's baked into the price and as Steve says, the reason we're operating at 205% with the tier two is to give us the capacity to play in all the different acquisition spaces, including slightly more capital heavy ones.

Steve Murray: Abid?

Abid Hussain: Morning, all. It's Abid Hussain from Panmure Gordon. Two questions. I think the dividend one has already been answered. So firstly on M&A capacity, can you give some more colour on the firepower for M&A, and how this might look for a typical deal? So there's a couple of numbers floating around in the slides. In one of the slides, I think it says over a £100 million and elsewhere, it says over £200 million, and I suspect it's different depending on the deal on the table. So any more colour around that would be really helpful.

And the second question is linked to that, it's new business and M&A, I guess the new business value is a nice earner for you. It covers around a third of your dividend, I think. Is it worth prioritising future deals that perhaps come with an open book or come with the optionality of taking top-ups from the existing customers like you've done in the recent acquisition and then therefore enhance the future new business capability that you have?

David Rimmington: Can I do the capacity one?

Steve Murray: Yeah, you do the capacity one and I'll maybe touch on the new business piece.

David Rimmington: I think the challenge with putting a single figure on our M&A funding capacity is actually, there are probably three different potential constraints. You've got leverage, you've got solvency, and you've got liquidity. So when we are referring to the £100 million, that's probably just a quite simplistic view of saying if we were wanting to do a deal with hard cash, just paying with cash, that bank balance of £127 million would enable us to do about a £100 million deal. Importantly, the solvency headroom would enable us to do something much bigger than that. And that's probably where you start to get deals of about £200m, but you would need to use some debt or some other funding source to do that. But we've got the capacity from a solvency point of view to do more.

And then finally, from a leverage point of view, because of the reduction in the headline leverage ratio, which we've reported earlier, we've probably got more opportunity to use some of our revolving credit facility in a deal without moving to a leverage position we'd be uncomfortable with. So I think it's almost impossible to triangulate those three and say there's a single deal value, but I think it's more about there's a range from a £100 million for a hard cash deal to £200m plus if we were looking at cash and debt, and maybe higher than that if you're looking at more creative things like partnerships and equity.

Steve Murray: I think a great example, as Dave's alluded to there, if you look at the two deals that we're executing in the period, and we'd obviously already announced those, so you have the Canada Life deal, a protection portfolio, which actually added to the surplus of the group. Now, that's quite unusual. I think if every deal did that, we'd be very, very delighted about that. But obviously the financing around that is quite different than from maybe a more typical deal that requires short-term capital to be put against that like Conservatrix, albeit actually what we found once we'd flowed through the numbers was this obvious impact was far less than we'd modelled.

We'd maybe been a little bit prudent there, but as Dave says, we've got cash at PLC available, we have an RCF facility of up to £150 million that's

immediately available. If the target balance sheet is unleveraged, you potentially have the opportunity to raise debt on that balance sheet. And we've seen examples in the market recently. One of them we called out there, the Aegon-ASR deal where the vendor has taken an equity stake in ASR as part of that, so that you could see those sorts of partnerships in deals as well. But overall, we're very, very comfortable that we've got a number of financing levers there available to us, but I think having that cash available is a real strength of the Chesnara story at the moment.

In terms of prioritising new business, it's a great question. I think probably what you've seen from us is certainly moving away from a position that we're saying we won't consider keeping open new business franchises and we will really look at that from a return on capital and a shareholder value perspective. And if there's new business apparatus that comes from M&A opportunities, we don't just slavishly shut that down, we'll absolutely look at the merits of that, keeping it open. I suppose Sanlam's a small example of that where whilst we did close a large part of that business and new business, we thought it'd make sense to keep that onshore bond capability open that sold through investment platforms, and that's been some nice upside that's been coming through.

If we look at the return on Movestic from that business when we bought it in 2009, clearly that has a broader new business franchise as does Scildon and that's again created a good return. I'm not sure we'd necessarily prioritise new business over back book. I think we'll just look at those opportunities purely from that return on capital perspective. But we're certainly not frightened at looking at a new business capability. Barrie?

Barrie Cornes: Morning, Barrie Cornes at Panmure Gordon. I've got three questions. Actually, I've got two. Sorry, apologies. The first question, I guess coming back to M&A again, could you give us your views on open versus closed books, geographical locations, either in your three existing areas or whether not you'd be open-minded to outside those existing three? That's the first question. Second question, I think, Steve, you alluded to it at the outset of your presentations. It's been quite a bit of management change at the divisional level, and I just wondered if you could give us some background on that, and whether or not that would mean a change in emphasis or strategy going forward? Thank you.

Steve Murray: Thanks Barry. Great having you with us this morning. Yeah, so I think we've just touched on, we're more open-minded about open books if we see there being value for our investors from that. So if we are looking at the deal pipeline that sits today, there's a mix of opportunities there that we are looking at and they're certainly not all closed to new business. I think looking across geographies, the lion's share of the focus that we have here today are on the existing territories. I think we're seeing good pipeline, good

opportunities. Some of the drivers that we talked about the full year we're really seeing come to pass. A very large number of organisations have got these large transformation programmes, want to redeploy capital, for example, onto BPA opportunities, and therefore I think we're seeing more portfolios potentially becoming available and into the market.

So that's pleasing because we thought that would be a continuing and increasing trend, and I think we're seeing that coming through. We are having a closer look at Sweden, we've got a good business there, a good operating platform, and actually some further scale for that business would be helpful and time will tell whether there are meaningful opportunities there. But Sam and his team are certainly spending a little bit more time on the ground there and we're seeing some initial encouraging signs that might be some things for us to do there. We won't rule out other territories, Barry. If it's products that we've got the capability to manage, and again the economics make sense, then we certainly won't turn away from those. I just think in terms of what we're seeing, as we are really seeing good opportunities in our core markets, so the majority of time is being spent on those.

Management change was your other question. So yeah, there has been. We've made a number of changes within the business units, different reasons for those changes. What we've been looking for though in terms of the talent that we're bringing in, and Jackie joins us in the room today, welcome Jackie almost a week done so far with us, is people that understand the ambition of the group, understand the sort of transition integration, transformative activity that we're undertaking and will help us drive forward and grow and grow the business. So we've been fortunate to have already found two really talented people in terms of Pauline and Jackie. We're out in the market at the moment in Sweden. Sara, who has stepped up into the interim role has made a great start. So we're feeling good about the talent that we've been able to bring at the organisation and support that broad ambition and growth that we have. Thanks.

Ming Zhu:

Hi, good morning. Just one comment, three questions please. You're the last one reporting and you're the only one grew the ECV, so well done, and save the best to the last. That leads to my first question in the ECV walkthrough, you have a negative FX, that is after you took out the hedging. If you did not take out the hedging, how much that negative would be and is there any more you could do on the FX side going forward? My second question is on the M&A. Your last three M&A was every three months apart, and I got a little bit spoiled with that. I do wonder how much of that is due to maybe the change on the supply side as a result of rising interest rate and the rising inflation. If interest rate and inflation in the medium to long-term would start coming down or calm down, would that change on the supply side?



My third question is, personally I felt the stock has been undervalued and underappreciated with lack of liquidity for a long period of time. If you do agree with me, would you or have you ever thought about taking the company private?

Steve Murray: Great questions. Do you want to start with ECV and FX?

David Rimmington: Okay, so yeah, so the unhedged impact on economic value was the £27 million we reported, and the hedge had a positive impact of £7 million, so that's the level of offset. So it's a welcome offset. As I think I mentioned, the hedge was never designed to fully hedge the economic value exposure. There's a relatively wide range of FX movements where we remain exposed. It was designed more to protect us against extreme FX volatility, primarily so we could reduce capital rather than trying to smooth the economic value. So it's doing what we expected it to do and it's a bonus that we've got a partial offset, but we're not concerned about the fact there was still a £20 million... Odd though it sounds we're not concerned about the economic value hit of £20 million.

Steve Murray: In terms of M&A, so I think the macro has been a factor, but I don't think it's the driving factor. I think the things that we talked about in the presentation, certainly in terms of the pipeline as we see it, have had a bigger impact in terms of opportunities coming to the market. I think interest rates coming up has been helpful because I think it's probably meant that people have felt they might get a slightly more attractive price for a business. When you had base rates very, very low and the actuaries and insurance companies, assuming those would come back over time, it was maybe a bit harder to convince buyers to pay for some of that. So I think the fact that interest rates have come back has probably been helpful. But we're seeing certainly that transformation agenda being a bigger driver. We have seen big multinationals trying to reduce the number of flags that they've planted over the last 20 years and maybe focusing on core territories.

We do see that feature of people trying to recycle capital. I think shareholders have been a bit more demanding on management teams to make sure that they are making best use of capital, and maybe underperforming books and underperforming divisions have had a greater level of focus. So I think if we see inflation coming back down and interest rate coming back down, I think we don't expect that to be very disruptive for the pipeline. In terms of your question on the shares, so thank you for pointing out that the shares are undervalued. I think we would strongly agree with you on that. What we've been focused on doing is making sure that the Chesnara story is as digestible for as many people as possible. We brought Sam in, he's been helping us have an even greater focus on investor relations and getting in front of people and we are focused on driving the value of the business as a UK listed company.

We think there are some other things that could be done to make UK equity more attractive and we'll clearly engage with policymakers and other bodies on that. But I'm the Chief Executive of a UK listed company and have very much enjoyed my first couple of years in role and determined to make sure that the full value of Chesnara is recognising the share price.

If there's no more hands in the room, should we maybe go to questions that have come in online. So Danielle, one of any questions coming in?

Moderator: Yes, thank you. There have been a couple come through on dividends and M&A, which have been answered in the room, but there are a couple here. Are there any M&A constraints from a management bandwidth perspective and would you consider entering the bulk purchase annuity space?

Steve Murray: So in terms of constraints, one of the benefits of the model that we have is we have three operating platforms which are very largely independent. So you've probably heard us talk previously about doing the Canada Life deal and the Conservatrix buying deals in parallel. There was no operational bandwidth constraint around that because it was two separate management teams working on that. Clearly it meant the group teams that were working on those were split across and maybe working a little bit harder. But in terms of the operation and transition activity, there was no constraint. When we look at further M&A, because of the strong progress that we've made across both the Sanlam transition, which we expect that Part VII to complete at the end of the year, and also the integrations of Robein Leven and Conservatrix, we're very much open for business and have got the capacity to bring other books of business into the organisation.

That's one of the reasons that we are having a closer look at Sweden because that's a business that's got a very good track record of delivering operational change, and that could be quite interesting for us if we can find portfolios coming in. So yeah, when Dave and I spoke to the board yesterday, we were certainly talking about the capacity that we have to do M&A, not just from a financing perspective but also from an operational perspective as well. In terms of bulks, it's clearly a huge theme, not just in the UK market, but a strong emerging theme in the Netherlands as well. When we look at that space, you need an awful lot of capital to play successfully there. So at the moment we don't see that as a space that we would enter organically.

Maybe just connecting back to some of the questions in the room, if there was an acquisition opportunity that had some of that componentry and capability, maybe we would look at that again or operating in partnership. But we like the strategy, we like the focus on M&A, we like the returns that we've been able to deliver for investors. So I wouldn't be expecting us to move into that space on our own, organically, in the near term.

Moderator: Thank you. Another one from the webcast, could you provide any update on the impact from the Solvency 2 reforms?

Steve Murray: Do you want to cover that Dave?

David Rimmington: Yeah, so firstly I think there's a growing confidence that the elements of the reforms will be enacted in 2023. The main item which affects us is the risk margin reduction. We've guided in the past actually that we believe there'd be kind of about a £10 million reduction in our risk margin. That was before the more recent acquisitions. So, including the impact of that on Sanlam and... Well actually it should just be Sanlam because it's UK, it's probably slightly upwards of £10 million would be our estimated positive impact, and current estimate is it could well be enacted this year. That would be our working assumption.

Steve Murray: Yeah, and just as a reminder, we don't have an offset because there's no transitionals in our model. So that would be a net impact as well as a gross impact. We aren't then seeing, at the moment, policymakers in Europe moving immediately to kind of match what the UK is doing. There is a bit of conversation around that and clearly if there were further moves there to make sure that there was parity between the two regimes, we'd see some further benefits coming through across the European businesses as well.

Moderator: Great, thank you. That's everything from the webcast. So, Steve, I'll hand back to you for closing remarks.

Steve Murray: Okay, well thank you again for listening to the presentation. We believe there's a lot to look forward to at Chesnara. Hopefully you've seen from the results that the organisation is in strong financial health with good future growth prospects. With that, we'll end the presentation, and we wish you a good rest of the day. So, thanks again for listening.