

Chesnara

Full Year Results 2024

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Transcript



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Steve Murray: Right. Good morning, everyone. Just gone half past eight, so we will kick off with our full-year results. Welcome to the Chesnara FY24 results presentation. I'm Steve Murray, Group Chief Executive, and with me today is Tom Howard, our Group Chief Financial Officer.

Tom and I are hosting the presentation today in London from RBC's offices where we have a good crowd with us in person. And we also have people dialling in from across the world including Chesnara colleagues from the Netherlands, Sweden and the UK. Thanks for joining us today.

So, what will we cover today? I'll start by recapping our areas of strategic focus, looking at our headline results and covering some of the key activities we have undertaken over the past year or so.

Tom will cover those results in more detail, and I'll then finish looking at some of our future areas of focus including M&A.

And we'll have plenty of time for questions at the end of our presentation.

For those of you that are watching online, you can submit questions during the presentation itself. And for those of you in the room we'll come to you directly with microphones.

Our strategy remains fully focussed on the three areas set out on this slide - managing the books of business we have efficiently, looking to execute value accretive M&A and writing profitable new business. And embedded across these strategic priorities is our aspiration to become a sustainable Chesnara.

This focus helps ensure we have strong line of sight to future sources of value growth and long-term cash generation which in turn supports our long standing progressive dividend policy. And I am pleased to report it's been another successful period of financial and operational delivery.

Looking at our financial results. We delivered strong cash generation of £60m which represents a significant increase vs 2023. Our solvency ratio at 203% remains well above our operating range providing significant headroom to support further M&A. We saw an increase in EcV per share supported by material economic value earnings growth up on last year. The contribution from new business was stable at £9m. And off the back of our strong cash generation and robust solvency position, we have yet again announced a 3% increase in our final dividend.

Our consistent dividend growth track record is the best across UK and European listed insurance companies. And it continues to provide our investors with a great yield at a growth rate that has consistently beaten inflation over the longer term.

And Tom will highlight the line of sight we have to future sources of cash generation and how this will further support our long standing progressive dividend approach going forwards. Our teams have continued to deliver right the way across the Group.

Some of you may have spotted that we don't take an early festive holiday here at Chesnara with the announcement on 23 December of our fifth acquisition in the last 3 years. A second portfolio acquisition in the UK from Canada Life. And we are already working hard on further potential opportunities in 2025.

The formal legal transfer of UK individual protection policies from Canada Life into our UK insurance entity completed in Q1 of this year. This book was also successfully migrated onto our new strategic platform with SS&C, the first of a number we expect to complete across 2025 and early 2026. This platform will enable us to support customers with newer technology, simplify our own UK operation and provides a positive commercial incentive for both SS&C and ourselves to bring on further UK books of business in the future.

We have also taken some of the initial steps required to merge our two Dutch insurance businesses. This included some initial restructuring activity and cost reduction in Scildon in Q4. The merger presents us with opportunities to drive further value upside in the future as well as creating a larger more sustainable business.

In Sweden, Movestic has continued to expand its distribution partnerships with inflows at their highest levels for several years.

We extended the Group's FX hedge and implemented further mass lapse reinsurance in the UK. We have also taken the opportunity to make some small changes to the asset mix in Waard which provides us with further cash generation upside potential.

And finally on sustainability, we are on track to deliver the 50% reduction in carbon emissions we had previously highlighted to the market. And we have improved some of the external sustainability ratings we have with third parties. You can find our Annual Sustainability Report on our website.

Our second deal with Canada Life again shows that large insurers are comfortable trusting Chesnara to support their customers. And for

shareholders, the expected additional cash generation and economic value uplift of £11m from £2m of consideration continues to show there is material upside from smaller portfolio deals. This £11m Economic Value uplift is also higher than the initial £8m we announced in December. And I will discuss the outlook for future M&A activity in later in our presentation. So with that, let me hand over to Tom to take you through these strong results in more detail.

Tom Howard:

Thanks Steve, and good morning, everyone. It's great to see you here today. I've now been with Chesnara for almost a year, and I've been hugely impressed by the commitment of our colleagues right across the Group. As Steve outlined just now, we've seen another year of delivery against our key priorities. And this has allowed us to report a strong set of financial results to you this morning. Before going into the detail, a reminder that we'll again focus today on the three key areas I outlined at our interim results.

Firstly Cash. The Group's Cash Generation has increased by 14% to £60m, with significant coverage of 1.6 times against the shareholder dividend.

Secondly, looking at our capital position, our Solvency Coverage Ratio of 203% remains comfortably above our operating range of 140 - 160%, and it gives us ongoing flexibility to support M&A and other investments into our business. And the Group's leverage position remains broadly unchanged. Thirdly, we continue to have strong sources of future value from our in-force business. Our Assets under Administration grew significantly over 2024, providing us with a larger base for future revenues from our investment business. The store of future value from insurance business benefited from an increase in the IFRS Contractual Services Margin. And we also grew the overall Economic Value of the Group after allowing for the payment of the shareholder dividend. I'm pleased to say that these results have supported the Board's decision to increase the final dividend by 3% to 24.7 pence per share.

Our operating divisions delivered a total of £74m in Cash Generation over 2024. Our UK business continues to be a significant contributor to the Group result. The UK results benefited primarily from positive equity market growth over 2024 and a reduction in Solvency II capital requirements through the extension of existing mass lapse reinsurance coverage.

Our Swedish division had strong year-on-year growth, also driven by positive macroeconomic conditions as well as higher new business performance and focused cost management.

And as Steve mentioned earlier, we've taken initial steps to simplify our business in the Netherlands. We're already seeing the early benefits of this work in our 2024 results. As we progress the merger of Scildon and Waard, we expect that further operating efficiencies will drive ongoing

improvements to both the level and sustainability of future Cash Generation from the Netherlands.

We saw a Day 1 reduction in Cash Generation from the Canada Life portfolio transfer that we announced in December 2024. We expect this impact to fully reverse over the course of 2025 as the capital benefits of the deal earn through. After allowing for central items the group's Cash Generation of £60m is 14% higher than the prior-year, and at 1.6x, provides strong coverage against the full-year shareholder dividend.

Turning to the balance sheet. Over the year, operating activities generated 16ppts in solvency surplus, comfortably covering the 12ppt impact of the dividend. Management actions contributed a further 4ppts in solvency surplus, mainly from the extension of existing mass lapse reinsurance coverage in our UK business. And, as I mentioned earlier, we also recognised an up-front solvency charge in relation to the acquisition of the Canada Life portfolio. This is a temporary impact, and we expect that this 3ppt charge will reverse out over 2025.

After factoring in technical Solvency II adjustments and the dividend, the Group's Solvency Coverage Ratio of 203% remains comfortably above our operating range of 140-160%. It's also worth noting that the Group FX hedging arrangements fully protected the Group's Cash Generation and Solvency II Surplus from the strengthening of Sterling relative to the Euro and Swedish Kroner over 2024. This strong and resilient capitalisation continues to give us significant financial flexibility to deploy resources to M&A and to other investment opportunities as they arise.

At £109m, our Group Centre Liquidity sits comfortably above our risk appetite levels. This provides significant coverage for payment of the shareholder dividend, servicing the Group's debt costs, and other central expenditure. It also provides us with an excess buffer to deploy on M&A and other growth opportunities. After allowing for planned net Cash Remittances, we expect Centre Liquidity to increase further to £130m by the half-year.

By way of reminder, we use Economic Value to measure the assets we hold today, along with a prudent, risk-free projection of the future cash flows we expect to generate from the in-force book. The Group's Economic Value grew in each of its key value areas: Economic earnings benefited from generally favourable market conditions in each of our operating divisions. Operating earnings were supported by cost management actions across the Group. And new business activity in each of our divisions was a further source of incremental value. Finally, the Canada Life acquisition generated £11m in Day 1 Economic Value for the Group. Overall, the Group's Economic Value Earnings grew by 17% to £69m.

Moving to IFRS. The Contractual Services Margin grew to £176m over 2024, reflecting positive impacts from new business and the impact of assumption changes, primarily from cost efficiencies in the Netherlands. This continued growth in CSM increases the store of future value available from our insurance business. Profits before tax also increased.

The Insurance component of the result benefited from the release of the higher CSM and positive operating variances. The Investment result was supported by the growth in Assets under Administration over the year. And finally, lower Group Centre costs contributed to the growth in PBT to £21m for the year, compared to £2m in the prior-period. The year-on-year growth in CSM and Profits increased the Group's IFRS capital base by 10% to £528m before foreign exchange, tax and the shareholder dividend.

We continue to have a clear line of sight to future sources of long term, sustainable Cash Generation. And today's results demonstrate that we continue to deliver against each of these. Firstly, the run-off of the capital requirements and risk margin held against our in-force portfolio continues to be a predictable, sustainable source of future Cash Generation.

Secondly, investment returns on Assets under Administration have been higher than the prudent risk-free rates assumed in our projections. We expect this to be a recurring, reliable source of future surplus, albeit with some volatility from year-to-year depending on market conditions.

Thirdly, we've implemented management actions to further-optimize our capital position. It's worth noting that we didn't exercise any new management actions in 2024 - rather, these were an extension of actions already in place. And we have a wide range of management actions available to us into the longer term.

And finally - we've written new business in each of our territories, have maintained M&A momentum with the Canada Life deal, and have generated early-stage synergies from the planned merger of our Dutch divisions.

And so, to conclude. It's been another period of strong Cash Generation for the Group and we're confident in our outlook for future growth. We continue to have multiple levers at our disposal including management actions and M&A, to generate new sources of future Cash Generation. Finally, we've got a well-capitalised and resilient balance sheet with significant resources available to deploy on M&A and other investment opportunities as they arise. With that, I'll pass back to Steve.

Steve Murray:

Thanks Tom. So, I wanted to highlight where we see further opportunities for action across our three strategic areas of focus. At the start of our presentation, I highlighted some of the activity underway to ensure we have operating platforms that are fit for the future.

Looking forward, we expect the majority of our UK in force book to be migrated onto our new platform by the early part of 2026 which should provide us with a more efficient platform and more consistent, digitally enabled customer experience. And if we can secure further books of business via acquisitions this can help further improve our UK operating leverage.

In the Netherlands, our recent acquisitions are now fully integrated and we are pushing ahead with the combination of our Dutch businesses with the legal merger targeted for the start of H2 this year. This should create a larger, more sustainable business and provides us with opportunities for further cost synergies and capital management actions including on our investment portfolio. We are also taking the opportunity to review and likely simplify our product set.

We have identified a wider set of management actions that we can take in the future which will provide strong support to the cash generation potential of the group in the short, medium and long term.

On M&A, I'll discuss our thoughts on the potential for future activity very shortly.

And on new business, the strong flows into Movestic we saw in 2024 have continued into 2025. And we have opportunities to further extend our distribution partnerships and utilize the recent IT developments we have made around our Life and Health offering.

In the UK, there are opportunities for us to extend the platform partnerships we have for our onshore bond. In the Netherlands, we're seeing some early signs of improvement in Term insurance new business flows and the merger and associated cost savings could support an increase in our new business margin. While there are opportunities to incrementally increase the value of new business we write, we continue to expect the main growth for Chesnara to come from M&A.

And finally on sustainability we expect to publish our first transition plan in H2. We continue to believe that it's crucial for all businesses and society to

become sustainable and we will continue to make decisions that consider the needs of all our stakeholders.

We enter 2025 following a period of more intense work on M&A in 2024 where there was a lot of activity across multiple deal processes. This included us progressing to detailed due diligence and legal negotiations on some more material acquisitions opportunities.

Looking forward, we continue to see the key drivers for M&A activity being those highlighted at the top of this slide. And whilst there will often be competition for acquisitions, particularly larger ones, we believe the market environment is one that we can successfully compete in based on our market intel and experience over the last few years. And we have already been working hard on a number of opportunities in the early part of this year, some of which are more material in size than our recent acquisitions.

Looking at our pipeline which we map out over a 3 year time horizon, we continue to expect a healthy set of opportunities to evaluate in the UK and wider Benelux including the Netherlands in both the short and medium term. In Sweden, there is the prospect of one or two portfolios coming to market over the next 12-24 months, albeit with less immediate opportunity for acquisitions in the near term. Overall, we are having to be more focussed in how we deploy our resources given the positive pipeline we are seeing. And that's a good problem for us to have. With that backdrop, we believe it remains important that we retain material firepower to ensure we can access these value enhancing opportunities for our investors.

We continue to have a broad range of financing options that can support us in delivering a wide range of deals in terms of their product set, structure and size. And we will continue to ensure that any deals meet the financial framework set out on the top left of this slide.

We also have a large degree of financing flexibility including the ability to utilise our RCF facility and the potential issuance of RT1 debt up to c£130m. And the material divisional remittances up to group over the period have ensured we continue to retain immediately available cash resources of around £200m. So with a high degree of financial flexibility and a strong pipeline, we continue to feel very positive about our ability to find and deliver value enhancing M&A opportunities.

I thought our investors would find this slide a useful reminder of the step up in acquisition and broader activity we've been undertaking over the last few years. Our people have been pushing hard to bring in acquisitions which have added over £60m of additional economic value to the group. There has been lots of work to improve the operating platforms we have so they are fit for the future. And we've set out clear targets to reduce our carbon emissions.

We've taken thoughtful steps to ensure we can efficiently and effectively finance strategic opportunities as well as improving our approach to assessing and taking management actions. And we've also strengthened the senior leadership team meaning we now have far stronger foundations to support us taking the actions I highlighted earlier which will increase cash generation and grow the value of the Group in the future.

So in 2024, we've seen strong cash generation of £60m, a continued robust solvency position, an increase in the Group's store of future value, and a 3% increase in our full year dividend.

We've seen continued momentum on M&A with the delivery of our second deal with Canada Life and we are working hard on other potential opportunities. And we remain optimistic about the prospect of delivering value-adding acquisitions in the future. I continue to be impressed and inspired by the efforts our people right across the group are making everyday to support our customers and to drive our strategy forward. I want to thank all our colleagues for everything they are delivering. We've achieved a lot and we still have plenty more to do - but there continues to be a lot to look forward to here at Chesnara.

Steve Murray: So thanks for listening. What we're going to do now is open up for questions. I suggest we start here in the room in London to allow people online the chance to type into their devices. And I think, AI, you're going to find people with a microphone. Tom's going to decide who got their hand up first for the first question. Abid - a great title in your note this morning.

Abid Hussain: Thank you. Thanks for taking my questions and I'm glad that you like the title as well. It was a team effort. I've got three questions. The first one is actually in two parts. The first one is on Canada Life. Just wondering what was driving the uplift in the EcV on that acquisition that you did. So you've got it to £11 million on the EcV uplift, which was more than what we had booked and what you had previously said. So just any colour on that. And then the second part is just sticking with Canada Life.

You clearly have a very strong relationship with the team at Canada Life and I'm just wondering what's the opportunity set going further to do additional transactions there? Sorry, that's two questions wrapped in one. The second question is on the management actions, can you explain what you've done in terms of extending the FX hedge and the mass lapse hedge? And then more broadly, what other opportunities do you have for further management actions? And then if I can squeeze in the third question on the Dutch merger, any colour on the timeline and the sense of the quantum from the merger and the quantum on the synergies please. Thank you.

Steve Murray: Sure. That was definitely four questions, just to be clear. So I'm going to take the first part of Canada Life and Tom can give the explanation around the £11 million. Yeah, look, we're pleased to have done a second deal and the team, our UK CEO, Jackie Ronson, is in the room with us and I think her and her team have developed a really good relationship with Canada Life. That's certainly been played back to us again off the back of the second acquisition. Whenever we'll engage with them, we'll make it clear that if there are other books of business that are attractive and actually can help them drive their strategy forward and help us drive value for our shareholders, we'd be delighted to look at those. It's a very large important insurance company in the UK so I'm sure there'll be opportunities to have further conversations in the future. Do you want to pick up the £11 million?

Tom Howard: Yeah, I mean it really is a function of taking the deal formally through our year-end valuation process. So basically when we have full-sight, I think we now see on 23rd of December, which was just before our year-end cutoff. So as we were going through the year-end process and we had access to the information we needed and our actuaries could form a view on the reserving and so on. They formed a view which was just basically slightly better than what we had anticipated we would get when we struck the deal. Mainly to do with our ability to service that book a little bit more cheaply than perhaps we had assumed even actually at the pricing stage, which goes back to some of the benefits that we're already seeing from the SS&C platform in the UK.

Steve Murray: Do you want to pick up management actions next?

Tom Howard: Yeah, you've pointed to the group FX hedge and mass lapse. So group FX hedge we renewed in November and just by way of reminder, the primary purpose of the hedge is to hedge us against movements in the solvency II surplus position. We actually renewed on slightly better terms than the existing hedge. So it was a renewal with a slight uplift. So we had a slight solvency benefit from that because we had a slightly higher SCR release than we had under the previous hedging arrangements. On mass lapse, that was an extension of arrangements that we have in place. So Jackie and the team in the UK have mass lapse reinsurance treaties on part of the book. We took the opportunity to bring more of the inforce book into that treaty and that gave us more SCR relief for that extreme lapse event.

Steve Murray: Do you want to take the third question as well?

Tom Howard: Just remind me about the third. Sorry. How would you-

Steve Murray: I'll maybe do timing and maybe you can do quantum.

Tom Howard: Yeah.

Steve Murray: So we've made the required regulatory submissions that we need to do in that market when you bring insurance companies together. I think I said in the presentation we expect the legal merger to happen at the midpoint of the year. So we're well on track to doing that. The teams are working hard towards that deadline. And then in terms of when we may be able to realize synergies, we would expect some of those to come through in the second half of 2025 with further opportunities in 2026. We haven't given a sort of quantum in terms of those numbers, not least we're still working through the regulatory process, but it may be worth us sizing some of the cost savings we made in Scildon to give you an idea of the size and scale that these might be at.

Tom Howard: Yeah, so as Steve said, we took the opportunity to simplify one of the existing business units in Scildon ahead of the merger. So that piece of work generated run rate savings of about a million per annum, that gets capitalised through to about 10 million as a positive in own funds.

Steve Murray: Thanks. Mandeep.

Mandeep Jagpal: Hey, good morning, Mandeep Jagpal, RBC Capital Markets, three from me please. First one is I appreciate you've delivered on a number of smaller deals, but why are the bigger deals not getting done if there are sellers in the market that want to free up capital and reduce operational complexity. And you have very capable buyers in the market such as yourself, why is there such a sticking point in getting the deals done? Is it valuation, risk of execution or something else? And the second one is on the underlying commercial cash generation from here. So in a scenario where markets are flat, there's no M&A or management actions, would the commercial cash generation trend down evenly or are there any kind of step-downs or cliff edges as certain cohorts of policies run off? And then just the final one on management actions, a follow-up. How do you think about the balance between the cost of enacting this reinsurance and hedging versus the benefit to smoothing the cash generation?

Steve Murray: Do you want to take the second two? Shall I deal with M&A first?

Tom Howard: Yeah.

Steve Murray: So it's a great question. I think where I'd start actually is some of these deals, whilst they're very material for us, they're actually not particularly large deals for the sellers if you think about the size of the organizations that we're dealing with. So part of the challenge can be these remaining an important enough strategic priority for the seller. So if we look at some of the things that we worked on last year, I would say one of the examples of a deal that we got a long way through and very close to doing, there was a change in strategic priority. And that didn't remain as something that the insurance

company wanted to do. Maybe they'll look at that this year or the next year. So it's not as if that's gone somewhere else. So you can see some things like that sort of interfering. When it's a portfolio transaction, the separation can be quite complicated.

And again, you can see from the seller's perspective some competing demands sometimes against other operational programs as well. But I suppose what I'm reflecting in my positive outlook. If I think about when I joined Chesnara three years ago and I look at the amount that's in the pipeline, the quality of opportunities, and again the sort of weighted average, all of that has improved. And I think the overall competition in the market has lessened slightly from where I was. So it's not that these things are sort of easy to do, but ultimately that's part of the DNA and the things that we deliver at Chesnara. So I think we'll have good opportunities to continue to assess and push forward with those opportunities. Before somebody asks me the question, I've got too much grey hair to predict exactly when they'll land, but we're doing everything that we can to simply evaluate and push forward with those.

Tom Howard:

Yeah, so on the cash gen question, I mean the first thing to say is the runoff profile of the inforce is actually pretty linear. I mean there are a number of reasons for that. One of the key reasons, the simplest reason is that, I mean the bulk of our business is investment-based business. So we don't run big portfolios where we have fixed cutoff dates, fixed maturity dates, and we're exposed to that cliff edge risk. And this is actually something we model very actively through internal processes like our business planning and ORSA and so on. I mean in situations where market returns are volatile, we do have the ability to flex between the management actions and the market piece of the value equation to deliver cash generation.

And actually I think 2024 was a really good example of that where we saw returns which were materially in excess of our risk-free assumptions and we didn't actually have to put any new management actions on the table. We dialled up a little bit on mass lapse as I said earlier, and we had a slightly beneficial outcome on group hedging. So that's a good example of where we didn't have to do a huge amount there. I think as well, Mandeep, you talked about the trade-off then between sort of the hedging instrument cost and the benefit we get. So we absolutely want to hedge the solvency II surplus position because ultimately that's the main determinant of things like dividend cover and our ability to support that increase in cash generation profile.

Obviously not at any cost, but that we have a very, very competitive hedging arrangement in place and it does that actually at minimal cost and we get a very significant SCR benefit. We could go further in theory. So for example, we could hedge market risk. We don't want to do that. And the reason for

that twofold really. I think we quite like the alignment with our policyholder outcomes because we have mainly unit-linked investment contracts within the portfolio. And number two in my view is that frankly it just introduces too much volatility into the IFRS accounting as well. So if we are running market hedge positions, for example, elsewhere in the balance sheet, it makes the IFRS outcome extremely unpredictable when the markets are moving around.

Steve Murray: Okay. Barrie.

Barrie Cornes: Good morning, it's Barrie Cornes from Panmure Liberum and congratulations on a very good set of figures again. I've got three questions. First of all, in terms of the war chest, obviously it's increasing in size. At what point would you consider that you can't do a larger acquisition and maybe start thinking about returning the capital? Is there a point at which you would consider that? Secondly, on slide 19, there's a box in there which talks about potential new strategic partners. I just wondered if you could put some colour around that and what you mean by it, please. And last of all, again coming back to the M&A question, if a large deal doesn't land, would you consider looking at slightly different strategic direction? And I suppose what I'm thinking of is something like ramping up new business sales in one of the areas or something slightly different. Thank you.

Steve Murray: Yeah, so I'll maybe take that together with the question about the sort of capital resources. So I think I've maybe said this before, Barry, but I'm delighted that people are asking what we might do with the excess capital rather than whether the dividend can continue. So I think hopefully we've done a good job of showing the strong sort of sources of cash generation. It's been another strong period of cash. I think what we've consistently said, and we've said this directly to investors, is the market that we're seeing, the pipeline that we're seeing is very strong. So retaining those resources we think is important. So what would change that? I think if we started to see a highly competitive market where we were seeing sort of valuations in a place that we didn't think we could make the right returns for shareholders. You could see I suppose a change in regulatory dynamics that perhaps people weren't encouraging consolidation or we just saw far less pipeline coming through.

And I think we've become slightly more sophisticated in the way that we're mapping out the group's pipeline. So I mentioned that we're sort of trying to take a three-year view, it's probably a three to five year view working and sort of understanding where companies might be across UK and wider Europe. If we sat engaging with the board and looking at that opportunity set and saying we didn't think it was there, we'd be very transparent and come back and clearly then we'd need to consider whether we would return that capital in what form. Or to your second point, are there other strategic

opportunities perhaps that could be available that we could deploy sort of capital onto? I suppose we're sat here today in the fortunate position that we can say very strongly that we've got a good pipeline and we think there are great opportunities for us to deploy that capital. If that didn't happen, we'd absolutely have to look at what we then did with that war chest. Great, thank you. Sorry, your third-

Barrie Cornes: The other one was on new strategic partners.

Steve Murray: Yeah, so we've looked at this on some deals. So there's some different ways that this could manifest itself. And actually if you look at, there was a recent deal in Germany, Viridium, there was a sort of broad consortium of people that came together to acquire a consolidation platform in that market. And I think what that's done is its sort of brought together some different skills and capabilities from different people and looks like a very good way to have done that transaction with hallmark names like Allianz and Generali part of that, the asset management capability of BlackRock, you have a major reinsurer as part of that consortium, plus a Japanese strategic investor as well. So when we look at some opportunities in the market, it may make sense for us to partner with asset managers, private capital providers.

It might be actually the seller becomes a partner depending on the size of that, if they took an equity stake or maybe there was an exchange of books and capabilities. So when we're sort of calling out that new strategic partnership, we think there's quite a broad range of things that we can consider and we think we'd make a great partner. And not least because we don't tend to be a big competitor in the new business space with lots of insurers. So the idea of partnering with us I think is quite straightforward perhaps versus other people. And I think it again just plays to the broad range of flexibility that we have when we're thinking about these opportunities and hopefully plays again to the strong sense here, hopefully getting from us that we're positive about the pipeline and ability to execute M&A.

Barrie Cornes: Thank you.

Steve Murray: Other questions in the room? Ming, great to see you.

Ming Zhu: Thank you. Great set of numbers. So I'm going to keep my questions easy and at half year I think I asked you this question, your tone on M&A outlook was stronger than you were at full year last year. And you were honest, you did deliver the Canada Life just before Christmas, however the size was very small.

Steve Murray: It was.

Ming: And so my question now I'm going to ask is your M&A tone outlook is the same as strong as you were at half year or stronger in both opportunities as well as deal size? And my second question is really a follow-up of a comment you've just made that with bigger deal size, it's more complexity. But another angle to look at this is say you do a £200 million deal, yes it's complex, but isn't that more efficient or easier in some sense rather than you do 10 £20 million size deal?

Steve Murray: Yeah, I think that's a fair comment. One of the things that we are absolutely assessing the whole time, Ming, is that trade off between I suppose the sort of value accretion that you can get from some of the smaller deals that you've seen. So if you look at the recent deals that we've done, so we take the last one, there's £2 million of consideration. There's an economic value uplift of £11 million. I think it's pretty straightforward to demonstrate that's an attractive return. And actually you can sometimes find with larger deals that they're actually less complicated than some of the smaller ones because the smaller ones invariably are sort of portfolio carve outs.

So there's separation activity and migration activity that you have to do. But we're actively, I suppose, looking at those trade-offs and particularly thinking about the physical resources we have at Chesnara, is it better deploying those on sort of one larger opportunity or a series of smaller ones. And we're just optimizing that every day. There's not an immediate answer for what that looks like. What I would say is in terms of the sort of commentary from the half year, I think the pipeline's stronger, the weighted average size, I think it said it moved up. I'd say it probably is remaining in the same sort of space. The couple of sort of larger deals that we got very close with last year, I think were sort of helpful fire drills as it were.

So I think that's given us confidence that when we think about things that might be a little bit larger than certainly some of the things we've done over the last few years, there shouldn't be any challenges with us sort of thinking about the financing of those and particularly taking those on operationally. Yeah, we're conscious. I think people probably thought we were warming them up to something a little bit larger last year. What we're trying to be is transparent about what we're seeing in the market and what we're working on and yeah, we were happy to do that deal in the second half of the year and we're happy that we've got good opportunities to work on already in 2025. Other questions in the room? Should we maybe go to any questions that we've had online if there's no hands shooting up?

Moderator: So the first question online comes from Michael Huttner at Berenberg who asks, please could we have more on deals? I.e. how full is the pipeline and what is the annual capacity in terms of deals? Also, how far are you from the level where operational leverage would seriously crystallise particularly in

the UK? And finally, in terms of risk reward, is there a deal size where you would consider pausing or resetting the dividend?

Steve Murray:

Thanks Michael, and I think you're in the States, so thank you for getting up early to dial into the presentation. I think in terms of the risk reward, again, I think we can only look at what's in front of us. We don't see a tension at the moment between the opportunities that we're looking at in the pipeline and the dividend policy and we're in a fortunate position in that regard. That's in part helped by the strong solvency position that Tom talked about, the strong cash generation that's coming from the business. I think if that tension ever became more acute, it would be incumbent on us to speak to investors about that. But based on what we're seeing at the moment, I don't think we see any tension between those two things and that's a mixture of the nature of the books that we're seeing, the cash generative nature and some other things that we think we can do there.

I think I've given a little bit of colour on sort of pipeline and the sort of size and scale of things that we're looking at. And I'll repeat what I said, it's a good pipeline that we have. Some of what we think that we're seeing across the various markets that we're operating in is parts of the conversations that we've been having now for the last two or three years with management teams and organizations so that they understand what Chesnara can do. We've got early sight of potentially books that no longer fit well strategically for large insurance companies and when they might look to execute those. So I think we're quite happy with the sort of relationships that we have, that pipeline and certainly that outlook of pipeline over the next three years. Anything that you'd want to add to that?

Tom Howard:

No, I think there was a point on operating leverage as well, wasn't there? So I think actually we're not really sitting here waiting to generate operational leverage. So it's basically not sort of a situation where we're flatlining and then all of a sudden once we hit a critical scale, we start seeing this benefit come through. I mean a good example actually is I mentioned a moment ago that one of the reasons we recorded a higher day one EcV contribution from the Canada Life deal is actually part of that was because once we had full line of sight on what we were bringing in and also we had the full discussions with SS&C, we were actually able to administer that more cheaply than perhaps we had expected as we were going through the deal negotiation process. You're actually seeing the benefits of leverage come through, both in terms of our ability to execute M&A, but also to an extent on the in-force book as well. So it's more linear than something we're waiting to generate, I would say.

Steve Murray:

And I think part of the work that we've been doing, if you think about some of the drivers bringing the two Dutch insurance businesses together, you automatically get some further operating leverage. If we can then find

further M&A opportunities, you can increase that as well. So you can see a lot of the activity that we've been doing is to sort of simplify some of the operating model, but give us the potential to further improve that operating leverage in the future. Thanks Michael.

Moderator: The next question comes from Marcus Rivaldi at Jefferies. Please could you provide a view on how the FY24 results address the factors Fitch highlighted that could drive a potential ratings downgrade?

Steve Murray: Thanks Marcus. Do you want to take that?

Tom Howard: Yeah, so look, I think the areas that Fitch pointed to were focused around our focus on delivering transformation in the UK. So we've talked about where we are on the SS&C migration, that is progressing to plan, on budget. So I think we've demonstrated operationally that we are ticking that box. I think the second point was around M&A momentum. So we've done the Canada Life deal, we want to do more deals. I think that's really clear, but we have done a deal, there's a level of momentum there. And another was just more broadly around the cost management within the group and actually within our 24 results, if you look at the three operating divisions in group centre, we've actually had expense efficiencies in group centre, our Swedish division and the Netherlands because that's been a core area of focus for us as a group over 2024. So I guess sitting here and looking at how we've performed in 2024 against the areas of focus that Fitch highlighted in their rating reports, I would say that we've done pretty well against those three areas.

Moderator: The next question comes from Brian Moretta at Hardman & Co. Lapses in Sweden are still higher than long-term assumptions. Any signs of improvement?

Steve Murray: Yeah, so I think if you look at the overall rate, it's come down from where we were certainly around 18 months ago. We have sort of an additional provision held against increases above that long-term rate of assumption. What we're seeing in the market at the moment is a lot more focus on that sort of transfer activity from unit-linked books. I think I've spoken before that there's regulatory surveys going on and what have you. So I think there are signs that people understand that sort of having those rates going down to a more normalized level, albeit our long-term assumption doesn't assume that transfers go back to pre-COVID rates.

We assume they'll stay higher actually, as you saw in the UK post-RDR as well. I think look, one of the key sort of mitigants against that is making sure that we've got strong sales performance. And I think the team have done a great job in 2024. I talked about inflows being sort of the highest point that they have been at for a number of years. That's a result of distribution partnerships that we've expanded the quality of the offer, the work of the

sales teams there as well. And then against actually an operating platform there that's got good operational leverage. The team have done a good job of sort of managing costs at a lower level at which the sort of volumes have been increasing as well.

Moderator: That concludes questions from the webcast. I'll hand back to Steve for closing remarks.

Steve Murray: Okay, well thanks everybody for joining us today. Hopefully you can see from the results, it's been another strong year of performance for Chesnara with strong cash generation. We've seen a stable solvency position, we've grown the future store of value of the business and yet another 3% dividend increase for another 20 years. And hopefully you've also felt from us that we're positive about the outlook for M&A. So thanks again for listening and hope the rest of your day goes well.