

Chesnara

Interim Results

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Transcript



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Steve Murray:

Good morning and welcome to the Chesnara half-year 2024 results presentation. I'm Steve Murray, Group CEO. With me today for the first time at a Chesnara results presentation is Tom Howard, our group CFO. Tom and I are hosting the presentation today in London from RBC's offices, and, as well as those of you in the room with us here today, we've got a great many people dialling in from across the world, including Chesnara colleagues from the UK, the Netherlands, and Sweden. Thanks for joining us today. So what will we cover this morning? Well, I'll start by looking at our headline financial results and some of the key activity we've undertaken so far this year. Tom will then cover those results in more detail, and then 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 our presentation. For those of you online, you can submit your questions during the presentation and for those of you with us in the room, come to you directly with microphones.

Now, the four key areas that we set out on this slide remain at the heart of what Chesnara is all about. Firstly, we have a strong line of sight to future sources of value growth and long-term cash generation, which in turn supports our longstanding progressive dividend policy. And the first six months has shown organic economic value growth and continued strong cash generation. Our Solvency II balance sheet remains robust and continues to be highly resilient to market volatility, and that provides significant headroom for strategic activity. Thirdly, with a great track record of delivering acquisitions, and this provides our investors with a further opportunity for growth. We've worked on a number of opportunities during the first part of the year, and we continue to see a positive acquisition pipeline in 2024 and beyond. And finally, we've a management team and board that are highly focused on creating sustainable shareholder value.

So let's look at our financial headlines, and it's been another successful period for the group. We've delivered strong cash generation again, with group commercial cash generation of 29 million, providing great support for our progressive dividend policy. Our solvency ratio remains robust at 201%, substantially above our operating range of 140 to 160%, and that provides significant headroom to support acquisitions. We've seen economic value earnings growth of 20 million despite no acquisitions landing in the period. We also delivered commercial new business profits of five million with an improved contribution from Movestic in the period. And off the back of our strong cash generation and robust solvency position, we've yet again announced a 3% increase in our interim dividend.

Now that 3% increase means that we've now grown the dividend each and every year since we listed over 20 years ago. That consistent delivery is

unrivalled across UK and European listed peers. And based on some research that we asked RBC to do for us, we believe that we're one of only seven companies across the main European indices that has a 20-year track record of uninterrupted dividend growth. This overall growth has been well above inflation over this period, and our 3% increase in the interim dividend is also above both current short-term and medium term investment rates. We continue to have a good line of sight to future areas of cash generation that will support our progressive dividend policy in the future, as Tom will highlight shortly. Our teams across Chesnara have also continued to be busy on operational delivery. In the UK, the formal legal transfer of UK individual protection policies from Canada Life into our UK insurance carrier Countrywide remains on track, and we expect this to complete in Q1 2025.

The work to transfer the majority of our existing UK books of business also continues at pace, and we're targeting the end of 2025 for its completion. And like many others in our industry, there was extensive work conducted to meet the initial UK consumer duty deadline of the 31st July for closed books. And further work is now underway to execute the fully funded plan that we have in place. And this will include us removing any remaining exit charges. There continues to be no material commercial impact in the group at this stage from this program of work. In Sweden, Movestic has expanded its distribution partnerships for our custodian business alongside further work in automation, customer experience, and connectivity with brokers. And whilst we haven't announced any further M&A in the period, our teams have been very active on a number of material M&A processes, and we continue to have readily available firepower of around £200 million to support acquisitions.

And I'll talk about M&A a little later in our presentation. On sustainability, we've started the work in our transition plans and have joined a number of leading organisations and associations in this space, and this will enable us to tap into their expertise and also support a positive sustainability rating for Chesnara. And last but not least, we welcomed Tom to the group in April, and we're already seeing the benefit from his skills and experience across a number of areas. And I'll now hand over to him to take you through the numbers in more detail. Over to you, Tom.

Tom Howard:

Thank you, Steve, and good morning, everyone. Look, it's great to be here with you today and to be presenting these results to you for the first time. Before I get into the numbers, I do want to say that one of my priorities as CFO is to simplify our financial metrics and to make our investment story easier to understand for a broader audience. This is something we'll be focusing on pretty heavily ahead of the year-end, but I hope you see we've also taken some steps in that area in the presentation today as well. So, today I'm going to run through the key results for the first half, focusing on three areas. Firstly, our cash results; secondly, the capital position, and thirdly, our outlook for future value generation. So, starting with the cash results, our cash generation of £29.2 million in the period is significantly higher than the prior year.

This has been helped in part by positive economics but also by robust performance in each of our business divisions. At 201%, our Solvency II coverage ratio sits comfortably above our operating range of 140 to 160%, and it's also resilient, having remained in excess of 200% over the last 12 months. Our leverage ratio is in line with our long-term target of 30% or less, and the quality of our book remains strong. And finally, whilst our EcV and IFRS balance sheets didn't benefit from the M&A activity in the first half, we are reporting positive EcV and IFRS earnings for the period, and we continue to have a clear line of sight on reliable recurring sources of future cash generation, as I'll illustrate later. So putting all of this together, this combination of strong cash generation, balance sheet strength, and confidence in future value generation supports a 3% increase in the interim dividends to 8.61p per share. And as Steve pointed out earlier, this is the 20th consecutive year that Chesnara has increased returns to shareholders.

Our operating divisions returned a total of £30.4 million in commercial cash generation over the first half of the year. Now, as a reminder, commercial cash generation is a surplus emerging from our business units adjusted for cyclical Solvency II factors. After allowing for foreign exchange impacts and central adjustments, this equated to a commercial cash result of £29.2 million for the group. This is significantly ahead of the prior year result of £21.8 million and more than covers group centre costs over the first half and the upcoming interim dividends. At a divisional level, all business units had positive commercial cash generation over the half year. The UK was the most significant contributor and reported strong year-on-year growth driven mainly by the impact of positive markets. The Netherlands also reported higher year-on-year cash generation, with benefits coming from favourable operating variances and positive market conditions. And finally, our Swedish division reported positive cash generation, albeit lower year-on-year, mainly from the impact of adverse short-term persistency experience.

Moving next to centre liquidity. Our holding company cash position remains strong, allowing for the receipt of our divisional remittances. The group holding company balance increased from £124 million to £137 million. This really increases after the payment of the 2023 final dividend, as well as debt servicing and other group centre costs incurred over the first half of this year. This illustrates that we have a strong source of operating cash generation to meet our ongoing cash flow requirements without impacting our existing Solvency II coverage ratio.

Turning now to the balance sheet and to Solvency II. So, after allowing for the impact of dividend payments and measurement adjustments to our Tier 2 assets, the group held surplus assets of £330 million over minimum requirements at the half year. This coverage ratio of 201% is significantly above our operating range of 140 to 160% and has remained above 200% over the last year. This illustrates the resilience of the balance sheet to changing market conditions and the ongoing effectiveness of our foreign exchange hedging arrangements. This strong capital position gives us significant flexibility to

support future M&A activity and to invest in our businesses over time. And it's also worth reiterating that no significant capital management actions were applied across the group over the first half of the year. A range of actions remain available to us to further support the solvency position and the cash position of the group going forwards.

Moving now to value. So, one of the measures we use to assess the value of our in-force portfolio is economic value. This is an assessment of the assets we have on hand plus a prudent projection of the future cash flows from the in-force book. The main area of prudence in the projections is within the estimate of future investment returns. Here, lower risk-free returns are assumed rather than estimates of higher real-world returns. The group generated economic value earnings of £20 million in the period, driven mainly by positive market conditions, partially offset by group centre costs and the impact of assumption changes. After adjusting for foreign exchange and dividends, economic value reduced by 3% from £525 million to £508 million.

Turning to IFRS. So, by way of reminder, the IFRS capital base is made up of the IFRS net equity position of both our insurance and investment classified business. To this, we add the contractual services margin, which is the estimated stock of future profits from our insurance business only. It's worth noting that around 60% of our in-force portfolio is classified as investment under IFRS. So, while the IFRS capital base includes the net equity associated with these investment portfolios, it excludes any measure of future profits from this part of our business. So looking at the numbers, on a pre-tax basis, we're reporting IFRS profits of £13.4 million. In our insurance business, the CSM increased with positive contributions from new business and experience variances more than offsetting the amortization of the CSM over the period. Taken an aggregate, these led to an increase in the IFRS capital base to £493 million at the half year, before adjustments for foreign exchange and the interim dividend.

The stability in the CSM means that we have a clear line of sight on the future value associated with our insurance portfolio, and we also expect that the total IFRS capital base will benefit from future M&A and other management actions. Our ability to generate reliable sources of cash generation over the long term has been key to our dividend track record over the last 20 years. Here I want to show that we're well positioned to continue to do so into the future. Initially focusing on the items that recur from year to year.

So moving from left to right, firstly, as the in-force book runs off, we release both the solvency capital requirements and the risk margin we're required to hold against the portfolio. Secondly, the excess returns we generate on our assets over and above the risk-free rates assumed in our projections emerges as a significant source of additional value. And thirdly, as I mentioned earlier, we have a range of actions available on both the asset and liability side of the balance sheet to optimise the capital position, and we monitor those on an ongoing basis. Taken together, we expect that these three sources of recurring

value will comfortably cover our debt servicing costs and our shareholder dividends into the longer term. And then finally, and importantly, continued delivery of our disciplined M&A strategy will generate new sources of reliable long-term value from capital and cost synergies as we integrate new portfolios into the group.

And so, to conclude, we've seen another period of strong cash generation for the group, providing ongoing support for our long track record of dividend growth. The group has generated organic economic value growth despite no acquisitions completing in the period, and we have a range of management actions available to generate new sources of future value. And finally, we've got a robust and resilient balance sheet with significant headroom to capitalize on future M&A opportunities. So with that, I'll pass back to Steve.

Steve Murray:

Thanks, Tom. So I want to remind people about the strong foundations we have here at Chesnara and the opportunities they provide us as we move forward with our three strategic areas of focus, namely maximizing the value from our in-force books of business, delivering value-adding acquisitions of portfolios and businesses, and writing focus new business where we have a good level of confidence that we can make a profit. Now we already have good scale as a business looking after nearly one million customers, who rely on us for their life cover, pensions, savings, and other products. We further opportunities to drive synergies and take further management actions in the future that will enhance value or accelerate cash generation, such as reinsurance, hedging, or internal restructuring. On M&A, we've clearly reinvigorated the M&A machine here, and we see no material barriers to us doing M&A in the future. We've been active in this period, and we remain confident in our ability to execute. We also believe this period demonstrates that we will remain disciplined in our approach to M&A.

On new business, we've seen stronger sales momentum in Movestic, both through their occupational pension unit linked business and the custodian offering. And whilst we've continued to see some outflows in our occupational pension business, our overall net client cash flows remain positive. The UK new business contribution in the period has been helpful, particularly offsetting lower life insurance sales in the Netherlands. And in the medium term, there may well be opportunities for us to increase the volume of new business, albeit we expect the main growth in Chesnara to continue to come from M&A. And finally, we remain committed to becoming a sustainable Chesnara, and work continues on the planning and implementation of our net-zero transition. We continue to believe that it's crucial for all businesses and society to become sustainable, and we'll continue to make our decisions based on the needs of all our stakeholders.

Let's turn now to M&A. As I said earlier, there's been lots and lots of activity across multiple deal processes this first half of the year, and that included as progressing to detailed due diligence and legal negotiations. And when we look at both the short- and medium-term pipeline, it remains positive against a very

large UK and European M&A market. At our full-year results presentation, I flagged that we're seeing pipeline opportunities ranging from single-digit millions of consideration to around the £150 million plus mark. And that remains the case today. And against that backdrop, we believe it's important to retain material firepower to ensure that we can access these value-enhancing opportunities for our investors.

On the left-hand side of the slide, we've again set out what we continue to see as the main drivers for insurers reshaping their books. And these are the simplification of product sets, operational and technology platform simplification, a desire to release capital from the disposal of non-core products to reinvest elsewhere, for example, into BPA. And we also see people refocusing on specific geographies. We're also seeing a large number of the available deals in our market being portfolio transactions, where there are a smaller number of counterparties competing for these opportunities as an existing operating platform and regulatory license are required. This is an area that we've got great experience alongside the other strengths that we set out on the right-hand side of this slide, and we'll of course continue to maintain our disciplined approach in assessing future M&A, as you've seen from us again in this period.

We also continue to have the flexibility and available financing options to deliver a wide range of deals in terms of their product set, structure, and size. And we will continue to ensure that any deals result in us firstly operating within or above a steady-state solvency ratio range of 140 to 160%. Secondly, maintaining our investment grade rating from Fitch. And thirdly, also ensuring we maintain appropriate levels of cash reserves, including consideration of capacity for further M&A. On the bottom left-hand side of this slide, you can see the main actions that we've taken during the period to both solidify and enhance our financing options. These are the renegotiation of our RCF facility, getting shareholder approval to allow the potential issuance of our RT1 debt up to around £120 million, and the receipt of dividends from our divisions that's well in excess of the tier-two debt coupon and final dividend payment. So overall, we continue to feel very positive about our ability to find and execute value-enhancing M&A opportunities.

And before we finish the presentation, I wanted to take a moment to remind investors of some of the actions that we've been taking, what's happened as a result of us taking those actions, and what investors can expect from Chesnara in the coming months and years. We've already taken some steps to simplify the investor story and improve our disclosures around future sources of cash generation, including within the presentation today. As I just highlighted, we've significantly enhanced the financial firepower available to support the group's M&A strategy, and we've invested more time, energy, and resource in M&A discussions and processes. We've also taken action to ensure the UK operating platform is modernised and can support our growth ambitions. We've strengthened the senior leadership team across the group, and that new senior leadership team has been far more proactive when looking at potential management actions that can enhance value or accelerate cash generation.

And the results from this work have been pleasing. Four deals executed, adding over £50 million of economic value already to the group, as well as additional cash generation. We've immediately available firepower to support M&A of around £200 million and options to supplement that further through our RT1 debt or equity. And our investment grade rating from Fitch has been an important external benchmark for us. We've continued to see strong cash generation as a group, delivering 20 years of uninterrupted dividend growth that is unrivalled in the UK and European listed insurance sector, and our increased activity and focus on M&A has supported a more positive M&A pipeline than we've certainly seen in previous years.

So, what can investors expect from us next? Well, firstly, more value-enhancing M&A with a focus on ensuring we drive further value from the M&A executed to date, as well as bringing in further acquisitions. And we'll clearly maintain our disciplined approach here. Secondly, we'll further focus on more proactively allocating capital and enhancing the investment returns that are available to us. Thirdly, we're also going to ensure that we drive more value from the constituent parts of the group. And finally, as Tom highlighted earlier, we're looking to simplify and likely reduce the number of financial metrics we have, making our investor story easier to understand for a wider range of investors.

So in summary, we've seen strong cash generation, a robust solvency position, organic EcV growth, and the 20th consecutive year of dividend increases. We continue to see a positive M&A pipeline, both short and medium term, and we remain optimistic about the prospect of delivering value-adding acquisitions in the future. Our teams have also continued to deliver some of the required operational changes that we need to be fit for the future. And I wanted to say thank you again to them for their efforts already this year. And as we look towards the remaining part of 2024 and beyond, I know they believe as I do that there continues to be a lot to look forward to here at Chesnara. Thank you for listening at the presentation. What we'll now do is open up for questions. I suggest that we start here in the room. Roddy, I think you are going to be microphone man for us today, and that'll also allow people online to type questions into their computers. So Abid, you were incredibly fast up there, just beating Michael, so we'll start with you, Abid.

Abid Hussain:

Good morning all, and thanks for taking my questions. I've got three questions if I can, please. Two on M&A. First one is on the M&A firepower. You've stated that you've got over £200 million standalone capacity for M&A. Just wondering what does the £200 million constitute of? Where is it sitting at the moment? Is it readily available? How readily available is it? And what sort of additional capacity do you have on top of that? You touched upon the RT1. Just wondered how much additional capacity do you have in total above the £200m. And then secondly, again on the M&A, but this on the deal pipeline, just wondering what sort of deals did you walk away from, what didn't work? And then going forward, what sort of deals would hit the sweet spot? What sort of deals are in your line of sight, without giving away anything that you shouldn't?

And then the final question is on the FX hedges. I noticed there was quite a bit of FX movement through some of the numbers. Just could you remind us, you put a hedge on in place last year, which balance sheet were you trying to protect? Was it the IFRS, the EcV, or the Solvency II balance sheet? And why? Which one and why?

Steve Murray:

Thank you. Shall I have a go at the M&A questions and then you can pick up the FX one, Tom? And thanks for your note this morning, Abid. I've enjoyed the headline as always. So in terms of that M&A firepower, we put a slide in the deck just to try and give a little bit more colour around where some of those potential sources are. But I think if we look at what's immediately available, you'll see we've got very material amounts of cash at bank at the half-year over £130 million. When we look at then, what we like to hold at PLC, we tend to say we like to hold a year's worth of dividends, a year's worth of central working capital, and then enough to pay the debt coupon. That gets you to 50, 55, 60 million, that sort of number. So we've got a lot of cash at bank that we can utilise.

And we also have an RCF facility in place, which is immediately available to us that we can draw down up to £150 million. There are other pockets of capital around the group that we could draw upon as well. So when we talk about that 200, it's probably slightly on the conservative side, but we're confident that we have that immediately available. You're right to say we can supplement that with other things. I think one of the obvious items is something like an RT1. We're one of the only UK peers in our space that hasn't raised debt in that sort of space. We've seen the pricing for that come back in, and we took the step at our AGM to get shareholder approval to ensure that we could issue that. You'll probably know, but others might, that doesn't impact the leverage ratio. And actually if anything, it would bring it slightly down because it counts as equity. So that could be interesting for us.

And there are some management actions that we can take, so reinsurance can help to free up capital resources as well. And then ultimately, we could ask shareholders for equity. When we think about the £200m, that's around half the market cap today, so that does allow us to do some pretty material things, but that's not a ceiling. If there are bigger opportunities that are right for shareholders, we can extend before that, so that's how we think about that financing position.

On pipeline and what do we walk away from and the sort of things we've been looking at, so as you say, I'll try and walk the tightrope here of giving a little bit more disclosure without falling off the tightrope and telling you things that I shouldn't. So what I would say upfront is we've looked at multiple files, been involved in multiple processes, most of those bilateral, so these are things that we've been going out and working with other insurance companies on as opposed to necessarily being a process run by a corporate finance advisor and a bank, so trying to find solutions together. There's been nothing within those

processes that we've turned around and said, "Goodness me, we've now got a problem with the model. We don't think we can execute."

One of the opportunities, ultimately, the counterparty's priorities changed so it didn't make sense for them. We'd all put quite a lot of work in. Those things happen sometimes. Another opportunity, as we progressed through diligence, it was very clear there was going to be a valuation gap that emerged that couldn't be closed and we weren't prepared to move our pricing to meet that valuation gap, to give you a sense of some of the things that have been coming through. In the UK opportunities, one of the things that's been a little bit easier as we start to look at UK opportunities this year is the fact that this closed book deadlines landed in July, because everybody now has done a full assessment of their books. They've got a plan in place to address any challenges. And obviously we've done UK M&A before, but I think that does give a slightly more solid basis to move forward on and assess those sorts of risks as well.

So when we've taken the number of things we've involved in, we're seeing the things that might be coming to market, our overall firepower, bringing Tom in. He has some additional expertise in this space. He's got a bunch of contacts that enhance what we do as a group. That's why we're talking positively about the pipeline, not just in 2024 and beyond. Do you want to pick up the FX?

Tom Howard:

Yeah, so the FX is on the Solvency II balance sheet. So I think if you step back and think about actually how we run the business, the primary metric for us is the Solvency II balance sheet cash generation. Now, it's almost impossible to hedge every single basis, so we have IFRS and other bases as well, so we don't even try, frankly. But actually, where we see the best value from the hedging strategy is it's on the Solvency II balance sheet. What it does is it significantly reduces the solvency capital requirements that we need to hold in a stressed FX situation. That's effectively what it does. And actually, to give you some context around this, at the half-year, the SCR benefited to the tune of £37, £38 million as a result of putting that hedge on. And the impact that hedge increased slightly over the half year as well, so the cash result that we announced today of £29.2m, there's element of the FX benefit within that cash number as well.

Steve Murray:

You also asked just about what might be in the sweet spot for us as well. I think I said in the presentation, we can look at a very broad range of opportunities, not least because the operating platforms we have across our territories can deal with a wide range of product sets, so that's probably one of the first things that we look at is say, do we have the operational capability and the skills within the businesses that we have to run these books of business? And we certainly have. And the SS&C outsourcing deal that we've talked you about before sort of enhances that platform capability in the UK quite helpfully.

Some of the deals that we've done recently, there's been a very fast recycling of cash round. So whilst we've deployed over a hundred million of the tier two that we've raised, you can obviously see most of that being replenished. You can see PLC cash at bank is looking very strong. And we like those deals, but I think that

gives us the opportunity as well to look at deals that supplement the dividend profile and the cash payment profile a little bit longer out as well. So actually having the ability to look at longer-tail liabilities as well is something that we're quite interested in so that we can continue this unrivalled track record of dividend growth that you see from us.

So I suppose what we're seeing is we'll look at a wide variety of things. What we're not proposing at this stage on an organic basis is going into things like BPA. I think you've heard from that before. We think that's a really interesting market. Other people are already there. There's about 12 major insurance companies now in the UK, with a 13th probably about to join as well. We think we're seeing better returns for us from M&A. That's not to say that that isn't a good market opportunity for us. Michael?

Michael Huttner: Could you possibly give us a feeling for the total value of the management action pool that you have, just to get a feel for it? The other one, this was what my sales were asking this morning, is who are your competitors? They want to hear that you have no competitors, but maybe that's a little bit optimistic. And then for me, I had two more, but I'm not sure if I'm overstaying my welcome. One is, the feeling I have is you have a clear line of sight for your dividend growth of five years, but I wonder if you can maybe give some outline of that if I'm right. I don't know. Then the final one is on Sweden. My feeling is that was one of your really early, early, early deals, so maybe you didn't quite... But maybe give a feel for is there likely to be progress to stop the early lapses a little bit? Thank you.

Steve Murray: Why don't I pick up M&A in Sweden. I'll make one comment on the five-year piece and then hand over to you and maybe you can deal with management actions as well. Does that work? And firstly, Michael, thanks for the initiation from Berenberg. It was great to see that. I don't know if this is your first Chesnara presentation, but certainly your first since I've been here, so we're delighted you here. We would love to say there's no competitors as well. That wouldn't quite be true. But I think when we look at the overall competitive environment, we certainly feel like the competition has lessened. If I think about three years ago when I first joined Chesnara, before then becoming CEO, I think you were seeing a lot of private markets, private equity money in UK insurance and European insurance as well. And we've probably seen that die away a little bit, I think in part because of what's happened in Italy with Eurovita and what have you as well.

Not to say that there still isn't money, but I think what we're seeing is probably some of that money looking to partner with trade players like ourselves or others looking at those opportunities. And then we've perhaps seen in the UK some organisations that have been very keen on M&A finding other opportunities to deploy their capital as well. So if anything, I think when we're looking at files, we're probably feeling a little bit less competition. We've said before, I think, at this presentation that we've always felt the smaller deals is a lot less competition, because it really is just ourselves, possibly some of the

smaller mutuals. For the bigger deals, less competition at that billion plus size because fewer people can afford them. So the real competitive landscape is in the £150m through to £750m type range. And we're probably feeling, if anything, that competition has lessened a little bit, in part because some people have done M&A, in part because you're not seeing private equity. And in part because I think others will be more opportunistic perhaps, rather than being proactive.

And then if we look at the Netherlands, it really is some of the other trade buyers. ASR are a very, very fierce competitor in that market. But the reality is they've done this huge transformational deal with Aegon. So I think then doing the smaller deals that we're probably known for perhaps isn't going to be in their sweet spot. And then you may see some of the other life insurance providers. So overall, we think the competitive dynamic is good. We actually like the fact that there are other people there as well, because we think that leads to a more buoyant M&A market. That might sound a bit strange. But I think actually having a bit of competition there works for everybody. And what we're certainly not seeing is any sort of lessening in the larger insurance companies being more focused with their strategy. And I think I've talked about this misnomer in our market, that there's this closed book opportunity that ultimately gets consumed because everything is consolidated.

If you look at some of the deals that have happened more recently, these are quite recent books. The Canada Life deal that we did was a book that's been written in the last 5 or 10 years. So I would look at the opportunity as books that are core and non-core to their insurers rather than thinking about it as a sort of a legacy back book opportunity only. On Sweden, I want to say up front, I mean Sweden's been a fantastic investment for us. So if you look at the return on value that's been created for shareholders, it's over 600% from that initial investment. We should probably do a better job of continuing to remind people around that. I think what's been pleasing in the first half is the top line sales momentum that the team there have delivered under Sara's leadership. You might remember that we changed CEO last year, and I think Sara's done a terrific job of driving that sales momentum and broadening some of the distribution partnerships.

But as Tom talked about and I alluded to, we are still seeing more outflows in that sort of occupational pension business than we'd like. It's a market feature we're seeing. I think when we talked about this a few years ago, we felt that we were probably being impacted more than others. I think if we look at that now, it's a higher level of churn that brokers are creating in that market that's impacting everybody. Now, we don't like that. Ultimately we'd like that to reduce where we're engaging with both brokers and other parties in the market to see what we can do. But I'd be more concerned if the top line growth wasn't as strong as it has been in the first part of the year, and the team are taking a number of actions to help with retention activity and things like that.

Tom can maybe talk about the five-year growth in a bit more detail. What I was going to say is, when I joined, one of the questions that I was getting from analysts and shareholders was, you've got this great dividend track record, so it has to stop, doesn't it? Because it always does. So we introduced a little bit more disclosure to explain to people why we felt more confident. And that five-year timeline happens to tie in with our business planning process rather than us saying it has to be five years, because year six gives us a problem. But maybe Tom, you can just talk to that in a bit more detail.

Tom Howard:

Yeah, I mean it's tied into your question about management actions as well, Michael. I'm going to immediately disappoint you by not giving you a number or guidance today. But actually, and there's a reason for that, which is, look, Steve mentioned earlier that one of the things we're doing as a management team is becoming a little bit more, I think you use the term front-footed on management actions. And actually one of the great things about the balance sheet we have is that actually we have probably been, I would say, underweight in past management actions, which means there is more to go at. And look, you'll know the types of things that we'll be thinking about. On the asset side, we have re-risking options via review of the investment strategy. That's something we're looking at. On the liability side, we've got ample opportunity to just re-evaluate some of the reinsurance structures we have across the group in each of our business divisions, and we're looking at that.

And then on the capital side, in other words, the SCR side, I talked about the FX hedge earlier. We've done things like mass lapse in the past, but there's a huge amount of scope to do, actually more of that across the group as well. So the two reasons I'm not giving you a number is A, you probably get a sense that we're looking at those things. The second reason actually is that we haven't had, I guess, pull the trigger on a lot of these things recently, we've been quite judicious about where we've started to look at these things. Because if you look at the strength of the balance sheet right now and the sort of firepower it gives us to fund M&A and that 200 million plus ticket, we actually don't really feel the need to be really actively out there right now sort of chasing down a lot of these management actions.

But without setting too many expectations, I expect we will come back and talk about these things in a little bit more detail over time. I mean, it does tie into the dividend point completely. So what I was showing earlier without the numbers mostly was that sort of perspective around how we see the growth developing relative to how we see the dividend and debt costs rolling out over the next five years. And on a prudent basis, which is what I feel we've presented, you can see that there's quite a cushion actually over that five year period. And that's before M&A. So I almost think of that visual almost like a conveyor belt. So when you do M&A on the right-hand side, it basically makes all of the bars bigger. So as we do more M&A, it brings that into the existing business. The existing business starts to throw off excess returns. It gives us the ability to do more management actions.

So you can see that that basically increases that headroom over and above the five-year dividend and debt cost projection. So right now on the basis of where we're comfortable we can meet those projections., Management actions are opportunities on top, and we have quite a few to look at.

Steve Murray: Just as a reminder of some of the things that we've done to give you a sense of the scale of these things. So the FX hedge that we did a little while ago now, there was an SCR benefit of around £30 million from that sort of action. So these can be pretty meaningful when you're looking at those opportunities, reinsurance and other things. The other thing that we do with that list of management actions is actually it's a formal part of our business planning process. So the slide that you see up on here, we use within our business plan as well. We sort of like to have that inbuilt verification of some of these things. And as you might imagine, the Board is pretty interested in what we're able to do. And as we do M&A, of course the list of management actions that's available can change quite fundamentally as well.

But we've got a high degree of confidence, and I think I've said this before, I'm delighted if people are asking me about what happens in year six. I think we've done a good job of talking then about the cash generation that's happening rather than, goodness me, I'm worried that there might be a problem next year. So thanks. We'll go Mandeep and then Barrie, if that's okay.

Mandeep Jagpal: Good morning, Mandeep Jagpal, RBC Capital Markets. Three questions from me please. First one on ECV earnings. Operating variances and assumption changes within the ECV earnings were negative in the period, and there were also some negative non-operating variances. Could you provide any colour on what's included in these few lines and what the outlook is? On the operating side at least could we see results that are closer to zero or even positive in the future? And then on capital optionality, you talk about equity capital as an option to provide M&A firepower. So for a large deal, how would you think about an equity raise in relation to the current share price? The dividend yield is well above the historic average, and the shares are also trading at a discount to ECV. And then finally, Tom, you mentioned that one of your priorities is to simplify the financial metrics. And I know we'll have to wait until the full year to see the outcome of this. But what can you say at this stage about what you intend to look at to make the metrics easier to understand?

Steve Murray: Do you want to start with metrics and do ECV?

Tom Howard: Yeah.

Steve Murray: And then I can maybe pick up the financing piece.

Tom Howard: Yeah. Look, I think there's two steps I think to the metrics. The first is actually determining which are the most appropriate metrics to use to talk about the performance of the business. So I think what we've had in the past, like many

other insurers that have gone ahead of us, is we've had a preponderance of metrics across the economic balance sheet, IFRS balance sheet, and so on. And so step one almost is actually looking at those and saying, "Well, okay, which ones really tell the story the underlying story of the business?" And as I said in my piece, I think we've taken an initial step to sift through those and really focus on the ones that we feel matter. And of course, all the other KPIs are readily available to anyone who wants to use them for modelling purposes. So that's step one, which I think we've actually pretty much worked through I think.

And obviously we need to do the work and come back and really talk about this in some more. But I think more of an emphasis on operating metrics is important. So actually really looking through the performance of the business and really being able to understand, look, to what extent has this been driven by economic variances? To what extent has it been driven by true operating performance? And again, some of our metrics are not far off. The commercial cash metric for example, it sort of gets us almost there. But actually I think the scope for us to maybe refine metrics like that a little bit more. And actually from a comparability perspective, then I think it allows people like you to sort of assess our performance a little bit more easily against some of the other listed insurers, particularly in the UK. So that's the thought process, but work to do ahead of the year-end. I mean, I'm happy to pick up the ECV point now as well.

Steve Murray:

Yeah.

Tom Howard:

Yeah, okay. So I mean, you're right. So we did have negative ECV variances in the first half. Look, no sort of systemic one issue rolling across on an ECV basis that we're concerned about. A smattering of things. Steve made mention of the Swedish persistency experience. So we had two impacts there. The first was we had actual negative variances coming through the first half. We also took the opportunity to strengthen the longer term assumptions in there as well. And I think that's just good financial management. We've looked at the trends, and we've made a slight adjustment to the near term persistency expectation from Sweden. Otherwise, we had some mortality strengthening elsewhere. Again, it was, I would say a smattering rather than a systemic adjustment across the piece.

And thirdly, I mean I talked about the fact that we didn't do material management actions in the first half. We did some up-risking in the Netherlands. And the nature of that action is that it can have an upfront ECV negative, but basically it earns through on a real world basis. So if you remember when I spoke earlier, I talked about the ECV being a very prudent basis. So basically one takes the capital impact through, which you can't actually recognise the expected additional return you're going to get from the new asset strategy within the numbers. So the numbers reflect that upfront capital hit, if you like, but they don't reflect the additional return that we expect to come from those assets. We would expect to see those emerge as positive investment variances from the second half onward. So that's a bit of a temporary effect, I would say.

Steve Murray:

So I think you asked, I suppose, equity capital, when might we use it? Can we raise it ultimately at this valuation? So I suppose the way that we think about this is we look at the available cash that we have, other levers that we can pull, including equity. And I think we would see it as part of, rather than the total solution for something that was more transformational. It would clearly need to be an attractive transaction that meets the hurdles and things that we do. But we don't see a bit of an equity issue as a supplement to the other sources being a barrier at the current share price. Because actually I think if we see some of the opportunities that we've worked on, we would've seen a very attractive return for our shareholders coming through.

And we think it's our responsibility to take those opportunities to shareholders and say, "Look, we need a little bit of support for this. We're using the cash off balance sheet, we're using some of the debt resources that we have, but to actually attract this very attractive deal for you, we need your support as well." So we'd be happy to look at that. Albeit we are absolutely cognisant of where the share price is. As a shareholder myself, I would like the share price to be better than it is as we would like to do across the sector, but we don't see that as a complete barrier to us to potentially supplementing the financing options that we have with equity. And then in terms of how that might work, I mean it just depends on the opportunity and the nature of what we might be doing as well. It'll depend on the long-term nature of liabilities, the sort of how fast cash comes back, all those sorts of things.

I suppose the other way that we might use equity and depend on the opportunities, we've talked before about entering partnerships. And if we look at some of the deals that have happened in the market, I mentioned the ASR, Aegon one. That involved Aegon ultimately retaining quite a material stake in ASR. I think that gives them sort of future upside as values created, gives them a nice dividend stream, but clearly help the overall financing package. So that's something that we would clearly be open to. And when you're dealing with large international groups, could be quite attractive for them as well. So when we talk about equity, it wouldn't necessarily just be speaking to existing shareholders. It might be us considering some of those more strategic options as well.

On the simplification, just one of the other things that Tom and I have been talking about is some of the metrics we've used. If you think about ECV, that's now moved far, far closer to own funds. When we first had that metric, it was designed to show where some of the upside value was, almost create a bridge between this disjoin around the way that risk margin was treated. Now that you've seen the risk margin changes coming through in the UK, EIOPA are potentially talking about risk margin changes coming through as well. We'll look at all these things. But that's clearly one of the things that we need to consider is if we've got two metrics that sort of do now almost exactly the same thing, does it really make sense for us to continue with those things? But Tom will be back to tell you more, certainly if not before the full year results on that. Barrie?

Barrie Cornes: Morning, Barrie Cornes from Panmure Liberum. Just got a couple of questions really. We've asked you, and you've talked about firepower for transformational acquisitions. Just wondered, do you have to think about integration issues? Be it culturally or the actual physical integration, would that be a hurdle that would preclude you from actually doing an acquisition? And secondly, Tom, you've been Chesnara almost six months I think, and just wondered what surprised you. Obviously you've talked of simplifying the investment case for us and investors. Just what else do you think is a priority on your to-do list? Thank you.

Steve Murray: Do you want to start on surprises?

Tom Howard: Ask Steve to answer that question.

Steve Murray: And then I'll step out of the room possibly.

Tom Howard: I mean, look, I clearly can't take too much credit for the last 20 years of dividend growth. But I think, look, the priority... Actually, we've covered a couple of priorities. I mean, I think there's a big opportunity for us to simplify the investors' story. I think that's a really important priority. I mean, I think we have at its core actually quite a simple business model, a business that generates cash in quite a reliable, predictable, simple way. But I guess many in our industry have contrived perhaps to over complicate the story in the past. So I think that's a huge opportunity. I think the second thing is around just the, I come back to the topic of capital management. It's so core to what we do, effective management of the balance sheet. Now Barrie mentioned I'm in six months, it's actually five months.

But actually one of the things I've been massively impressed by genuinely, has just been the core capabilities of our people when it comes to capital management. So there's sort of actuarial firepower and so on. We have a lot of people who do this as well, if not better than many people I've come across in the industry. So that sets us up hugely. But as I said earlier, I think we've probably been just a little bit quiet in that space. So I think there's a huge opportunity for us to do that. And I think the third thing is, look, a major reason frankly for me coming here was the M&A opportunity, the opportunity to grow the business, make the business better. I've spent a bit of time, as Steve said earlier, in M&A and I know what a good pipeline looks like. It's slightly frustrating. It's the one thing we can't talk to you guys about openly, but it is there. When you're as a CFO coming into a business which is really well capitalised, the technical capabilities are there, we've got enough firepower to really start punching, I would say a little bit above our previous weight, if you like. That's quite an exciting proposition.

Steve Murray: Yeah. I suppose on other things that might be constraints, Barrie, I think is your point and integration. It could be, I mean we do think carefully about that and there's a slight difference actually between I suppose the way things work in the UK and overseas. In the UK actually, one of the things that we look at is the available landing slots as it were for these Part VII transfers. Those of you that

might not be quite as au fait with the UK market, so if you are transferring insurance policies from one insurance carrier to another, you need to speak to the regulator. But there's a formal court process that you have to go through and complete with an independent expert to satisfy the court and ultimately the regulator as well that the policyholders interests are being upheld and supported. And that is quite a long process.

I mean in the UK at the moment, that is taking somewhere between 12 to 18 months at times. When we're thinking about deals, we're thinking about the landing slots we have, but also trying to look further out the pipeline and ensuring that we don't have a deal that we do now that might take up a slot. Then we say later, "Goodness me, I wish we hadn't consumed a slot," in 24 months time. There's a little bit more complexity probably just in terms of without doing this analogy to death, managing the planes that are circling and landing.

On the integration side in the UK as well it's a little bit different because we're clearly working with our outsourcing partners on that side of things. Part of the reason that we do that is they should have a bigger pipe than ordinarily we would be able to afford and run ourselves if we were a standalone business. We don't see material constraints there. We've been really pleased with the work that SS&C have been doing alongside Jackie's team when we've looked at M&A opportunities. I think having them up front, being able to map that into our existing plans is really important.

And the Netherlands, as I say, is slightly different. Most of the work that we've done is to move portfolios into the Waard operating platform. That's an in-house team. The constraint there tends to be the available opportunities rather than that integration challenge. But we're always mindful, particularly if these books come with people. A number of the deals we've done haven't, the Canada Life deal didn't come with any people. But being cognisant of the cultural issues that you face and manage that carefully has got to be important.

And in Waard actually, we had three business coming into one 18 months ago with the Robein Leven transaction and Conservatrix and there was a relatively even portion of people that came together. That really is now a new team and new target operating model and we've learned quite a lot from those teams coming together. But I don't see that as a biting constraint for us. I think we've got to be careful around how we stage these things, but it's a first class problem to have if we're worried about those landing slots barriers. I'll talk to that. Scott, should we just check in case there's questions online?

Moderator:

I have a couple of questions on the webcast. Marcus Rivaldi from Jefferies, "Your comments on M&A activity in H1 '24, have those processes concluded without a transaction being agreed or are the ongoing? Any colour you can provide on areas of M&A focus, i.e. by geography, liability type. And would successful M&A help with removal of Fitch's negative outlook on your rating?" Thanks.

Steve Murray:

On processes, as I talked about a number of the things that we've been doing. And thanks for the question, Marcus, thanks for dialling in to the results. A number of those processes have been bilateral. Ultimately if we're not talking about them, they haven't concluded because a number of them haven't been run by investment banks. They can sometimes come back. It might be people's priorities can change again or things can happen in the fullness of time. But certainly the things that we were, most of the things that were working on the first part of the year, we not expecting them to conclude or certainly not with us.

In terms of other things that are ongoing, I can't really comment on that for obvious reasons. What I can say is that we're not expecting Sam and the team to be quiet in the second half of the year. You should assume that we'll be active and we're doing our best to make sure he has even more grey hair than has emerged since his time at Chesnara already.

On areas of focus, I talked a little bit about that in the presentation. I suppose if we had all of our dreams that came together, it would be useful I think if we looked at the range of deals to have some deals that were adding cash in the 10, 15, 20-year time horizon. If you had that perfect tapestry, having some of the deals we've had that have had that fast recycling is great, but I think actually we're at the stage in our development that actually bringing in some longer-term liabilities as well would be useful. If we have the ability to choose, we'd have a bit of a balance in the portfolio that looks like that.

But our main focus ultimately is the total value opportunity that's available, how that supports the dividend, our ability to integrate those things successfully. And quite often you are not really having to make a dynamic choice, being candid between opportunities. Not least because we've seen that we can do things in the Netherlands at exactly the same time as the UK, exactly the same time in Sweden. The three-pronged operating model that we have actually very often means that we're not being forced to choose between opportunities. We can do those at the same time.

In terms of the Fitch outlook that you talked about, we don't see that as having any impact on the M&A process. We're very focused on ensuring that they can see the progress of the group. We think the performance again at the half year has been strong and we will continue to engage with them as we always do. We don't see that having any material impact on the activity that we are undertaking at the moment.

Moderator:

Wonderful. Thank you for that. Brian Moretta from Hardman & Co, "You mentioned the possibility of improving new business generation. What options do you see?"

Steve Murray:

Thanks, Brian. Thanks for joining online. I'm assuming from Edinburgh. If we look at the territories that we're... If I start with Sweden, so we've already actually changed some the business mix. Until recently we were almost entirely

a workplace pensions provider. When I talk about occupational unit linked pension, which is a very long phrase, that's a workplace pension really for those of you in the UK. We've broadened some of the offering that we have with this custodian offering, which is being distributed predominantly through private banks. That's been very successful already. We're seeing a lot of volume coming through there. And we do have some ambition as well to see if we can re-enter the risk side of the market. We've actually got a pretty good product there. It's just something that we haven't been focused on historically. I don't think that's going to mean that you're going to see a doubling or tripling of the new business volume, but that could be a nice supplement and help with the progression that we've seen in Movestic.

In the Netherlands, you've seen that term volumes have been down a bit. That's both at a market level and we have seen some pretty keen pricing in that market. I've been pleased that Pauline and the team have kept their discipline and been focused on margin. There are opportunities. We've got a reasonable annuity product in that market. We've got a pretty good wealth product as well, so there are potentially opportunities for us to supplement what has been largely a term insurance business with those things as well. Again, I don't think you'll see doubling and tripling in business from us, but there are some supplementals.

And then in the UK we acquired Sanlam Life and Pensions a couple of years ago now, and we kept the onshore bond that came with that business open. That's connected to platforms such as Nucleus and the like. And we've seen some quite interesting commercial new business coming in for us. Last year that was about a million pounds worth of VNB. We've had quite a lot of inbound enquiries from some of the other platforms asking if we could put that on their platform. That might be something that we consider over time.

That doesn't mean we'll be building a big sales force or anything like that. There's probably a little bit more support that we need to give IFAs, but we're certainly seeing that as a product that IFAs are quite interested in. Those are some of the things that we'll be considering when we go forward. And obviously right in that new business have some other benefits. You get to spread costs. That should turn into cash in the future as well. And we certainly feel there's enough within the new business at the moment that it makes sense for us to continue to write new business, albeit in a focused manner.

Moderator: Thank you. I have no further questions at the moment, so Steve, back to you for any closing remarks.

Steve Murray: We've just got one more question from Ming.

Ming Zhu: Hi, and thank you for taking my questions. Since I'm not a broker anymore, I'm going to ask something slightly more harsh than usual. And I only care about M&A. You've always said you see positive pipeline in the near to midterm. I

think that's what everyone says when they say about M&A. And the macro environment for the past five, six years have changed.

I've always believed market volatility creates opportunity. However, in terms of the M&A you've delivered, they seem to be quite smaller end of the deal size that I'm thinking given where the interest rate is heading. And I'm thinking is that's it? And how confident are you now versus you will say three years ago. And from the comments I've just heard you indicating and say Sam's going to be busier in second half of the year. And am I right to think, are you actually more close to a slightly larger deal than what you've done before or am I a bit ahead of myself?

Steve Murray:

Yeah. Probably since the last time we saw each other, Ming, you can see I have even more grey hair than I did last time. And with that grey hair, I think it's hard for us and not right for us to try and predict when things will land. And again, we're aware that probably everybody says, "Yes, there's the positive pipeline." I think the thing that gives us our confidence. And but one, we've got a new CFO that's coming in and given us some external verification, which is great. And Tom's done a number of good things, but actually it's useful for somebody to come in and say, "Hey, guys, actually I'm really quite impressed with a number of things and the number of conversations that you are having."

The quality of conversations has definitely improved from if we look at those, I suppose that from and to from three years ago to now, Ming, I think that people recognize us even more as a very credible counterparty. Maybe we've been telling everybody we are. But I think because of some of the transactions that we've done, some of the work that we've done, we can be quite flexible in our approach. I don't think quite rightly, people don't see as a direct competitor. If you are thinking about removing a portfolio in the UK, do you want to give that to a direct competitor to fund capital in their strategy or might we be a better option? And the SS&C capability that we have now is different. We're not on the same outsourcing platforms that others are. Perhaps that gives us a bit more capacity.

We try and look at this through a data lens. We look at the number of opportunities that are coming in through the top, the activity that we're working through. And I think what we've done a better job of since three years ago is trying to map the pipeline out over the next three years. We are starting to get a far greater sense of when action might be taken in other organizations, having those conversations early and making sure that we're trying to position ourselves with those sort of things in mind.

As you know, these things are never done until they're done. And lots of things can come up as you say. I think volatility can sometimes create opportunity, but it can also mean that organisation's priorities change as well. But what you shouldn't doubt from us is we're going to work incredibly hard on this. We're going to be very active, we'll maintain our discipline. I'm happy that we haven't

done a deal because one of the opportunities we had in the first half of the year would not have been right for our shareholders.

And I'd far rather stand here and talk to the pipeline rather than saying, "Hey, aren't we clever? We've done a deal that wasn't right for us and wasn't right for our shareholders." It's those sorts of things that give us that level of confidence. And actually having Tom's set of connections and his experiences again just adds a little bit more to the capability that we have within the team and the investment that we've already made. Hopefully that answers your question.

Well, if there's no more questions from the floor, I think we'll call time. We're just over 10:30 Greenwich Mean Time. I just want to say thank you again for joining the presentation. As I said up front, we believe that there's a huge amount to look forward to here at Chesnara. I promise I won't mention the 20 years of uninterrupted dividend growth again or certainly not for the next 25 minutes. And we hope you enjoy the rest of your day. Thanks for listening.

Tom Howard:

Thank you.