

Sagikor Financial Company Ltd.

Investor Call

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CONFERENCE CALL PARTICIPANTS

Meny Grauman

Scotiabank — Analyst

Darko Mihelic

RBC Research — Analyst

PRESENTATION

Operator:

Good afternoon ladies and gentlemen. My name is Sergio and I will be your conference operator for today. At this time, I would like to welcome everyone to Sagicor Financial Company's Investor Call.

This meeting is being recorded on August 25, 2022.

Mr. George Sipsis, SVP, Corporate Development and Capital Markets, you may begin your conference.

George Sipsis:

Great. Thank you, and hello, everyone. Thank you for joining today's call.

A copy of the presentation and a link to the live webcast is available on our website under the Investor Relations tab on our website at sagicor.com.

I would like to begin by referring you to the cautionary language and disclaimers in our materials relating to this transaction, as well as the public filings regarding the use of forward-looking statements and the use of the non-IFRS financial measures and ratios which may be mentioned as part of our remarks today.

In today's remarks, there will be dollar references in both Canadian and U.S. dollars. Also, certain figures are presented on a year-end as at December 31st basis for comparability and pro forma purposes. Current and actual figures in the forecast or statements may and will change in the future.

Joining me today is our Group President and CEO, Dodridge Miller, Andre Mousseau, our Group COO and CFO, and Anthony Chandler, our Chief Controller. We'll begin with remarks by Dodridge and Andre, followed by a Q&A session.

With that, let me pass the call to our Group President and CEO, Dodridge Miller.

Dodridge Miller:

Thank you, George, and thank you to everyone for taking the time to us join us today to discuss this exciting new stage of Sagicor's journey.

Sagicor has reached an agreement to acquire ivari, a leading middle market life insurer in Canada. We would like to begin by extending a warm welcome to ivari's employees, management, distribution partners and policyholders. We're thrilled to have you join the Sagicor family and we look forward to sharing the next stage of our journey with you.

Today, we have taken a new step in shaping Sagicor's future. The acquisition of ivari transforms Sagicor into a leading North American insurer, serving the middle market in addition to our market leadership in the Caribbean. We are excited about ivari's leading position in the Canadian market. It is a scaled business primed for growth with \$13.9 billion in well-managed assets as of year end 2021 and a dedicated and focused management team. Through this acquisition, Sagicor will double the size of its balance sheet and deliver its over 180 years of experience in the individual life business to the Canadian market.

We have gotten to know the ivari team well over the past few months and we know they are focused on putting their customers front and center, strengthened by their deep relationships with their distribution partners. Ivari's values fit well with both our vision and values.

And while Canada is a new market for us, the ties between the English speaking Caribbean and Canada are very strong. Many of our executives and employees in the Caribbean started their careers or were educated in Canada. We operate under similar regulatory frameworks, which, in the Caribbean, have

tended to look to OSFI for guidance on best practices. We share actuarial and accounting standards and in fact our appointed actuary is based in Toronto. And there are many Caribbean citizens living in Canada who will understand the power of the Sagicor brand.

Lastly, the transaction is financially attractive and delivers immediate value to our shareholders.

With those brief remarks, I will pass the presentation over to our Group COO and CFO, Andre Mousseau. Thank you.

Andre Mousseau:

Thank you, Dodridge, and good afternoon, everybody.

Today really is an exciting day for us at Sagicor. This acquisition provides us with another outlet for growth alongside our strong presence in the Caribbean and our expanding presence in the United States.

I'm going to speak to the first few pages of an investor presentation which we've posted on the Investor Relations page of our website.

Starting on Page 3 of that presentation, you can see a transaction summary. We are acquiring ivari for approximately CAD\$325 million. What this mechanically is – is a purchase price of CAD\$125 million, plus to the extent the transaction is likely to close in 2023, we're agreeing to pay back the seller for capital it needs to inject into the Company to meet its targeted minimum equity target under IFRS 17 and LICAT 23. Because of these standards, the business is deemed to need additional capital under those standards and that's what's driving the capital injection and our current estimate of that is CAD\$200 million. We may choose to inject further capital into the business to support higher capital levels for growth.

Dodridge has talked a bit already about the strategic fit. It provides us with a fourth major operating subsidiary in a new market with a lot in common with our operations in both the Caribbean and

the U.S. And fundamentally, it positions a larger proportion of our balance sheet in investment grade jurisdictions which has positive implications for our capital structure and for our cost of capital.

The transaction itself is very attractive. We're purchasing the company at a low multiple of historical profitability and a meaningful discount to book value. Using 2021 profitability, we would be buying the business at about 4.5x on a price to earnings basis and approximately a CAD\$700 million discount to book value once you take into account change of control accounting.

The result would be a meaningful accretion to both earnings per share and book value per share. Now, we have thought about this transaction through an economic lens, through the lens of projected cash flows and embedded value and, in particular, through the lens of IFRS 17 earnings as we expect this transaction to close right around the time that IFRS 17 comes into place.

On an IFRS 17 basis, we would expect the business to have run rate profitability pretty similar to the CAD\$74 million that we saw in 2021, which is a combination of slightly lower base profitability due to the change in accounting standard, offset by additional earnings from the additional assets backing capital from the capital injection.

So, we would still anticipate that we're paying a mid single-digit price to earnings multiple for run rate earnings under IFRS 17.

Under the current accounting framework for 2021, the transaction would have been about 25% accretive to our earnings per share. Under IFRS 17, we expect that number to be at least that high, and we will share further details of that when we finalize our own projections under IFRS 17 later this fall.

We are also financing this transaction on an attractive basis, primarily through a new issuance of debt. We have secured a commitment for a term loan from our partners at J.P. Morgan, RBC and National

Bank for US\$320 million. Because we are buying ivari at a meaningful discount to book value, we can draw down on this debt while leaving our debt to capital ratios approximately unchanged.

As part of our capital management strategy, we may opt to replace or refinance this term loan with additional bonds issued in the debt capital markets or other financing sources in whole or in part if and when appropriate.

From an MCCR point of view, we would expect this transaction to be moderately accretive as well.

The transaction is subject to regulatory approval and we would target to close it in the next 6 to 12 months. So, again, into 2023.

The next page, Page 4 talks a little bit more about ivari itself. Founded in 1927, ivari was formerly Transamerica Canada until it rebranded and changed hands a number of years ago. It has about CAD\$1 billion of gross premiums a year, about three quarters of which is universal life. UL is ivari's niche and they're number two in the market, which is about a quarter of the market in Canada.

So, they're very relevant in the niche in which they operate. You see here, it's sold across Canada roughly proportionate to population and over indexing a bit in Alberta.

In terms of their invested assets, because of the pass-through investment portfolios in UL policies, there's a fair amount of equities. Their invested assets were 29% equities at year-end 2021. Of this, only about a quarter of that were backing policyholder liabilities where ivari held the risk, and that's no longer going to be attractive under the conversion to IFRS 17 and so we expect that the equity exposure by the time we own it would be substantially passthrough. So, the rest of the portfolio are substantially all investment grade bonds.

On Page 5, you see here it diversifies and it increases our net income. It adds a very relevant insurer in a new market for us. It moves our proportion of investment grade assets from 69% to 83%, and results in meaningful EPS and book value accretion.

On the point of investment grade assets, we believe that this can remove the cap or the ceiling on our credit rating. Our credit rating is currently capped by the weighted average sovereign credit on our consolidated balance sheet. So, for example, when you run our numbers through an S&P capital model, mechanically, we would come out in the range of A to A+ but we get notched down because of our holdings in non-investment grade jurisdictions. We believe that this transaction should remove that—should move the cap to the point where it will not be a constraint on our rating once the transaction closes. So we see ourselves as having a clear path to investment grade ourselves.

Further we believe there are significant additional synergies that we may be able to garner from the transaction including on the investment side, synergies through the distribution partners, as well as our continuous investment in technology.

There's more detail further in the presentation, and certainly, there will be lots of transaction documents filed over the coming weeks, and we're very enthusiastic about our reengaging with the equity markets to talk about this. We believe this creates an incredibly compelling opportunity when you look at our market position in the Caribbean, combined with the strong unit economics and growth we're currently able to drive in our U.S. business, and now this transaction, which adds to our growth trajectory, and that we think we're buying and financing on very attractive terms.

We're very excited for the prospects for our Company and our investors going forward.

With that, I would hand it back to you, George.

George Sipsis:

Great. Thank you, Andre. With that, we are now ready for the Q&A session. Operator, may you please open the lines for the analysts for their questions?

Operator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Your first question comes from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman:

Hi, good afternoon. First question, just in terms of the purchase price, CAD\$325 million, and then if I look on Slide 9, it references CAD\$365 in total considerations. I'm just wondering what the difference there is related to.

Andre Mousseau:

Fees and expenses, which is a combination of diligence fees and advisors and then the capital raising fees on the debt.

Meny Grauman:

Okay. And then in terms of how its funded, at 80% debt, 20% cash, I guess the first question is just you've been running with quite a large amount of excess capital. I think we've been talking about US\$250 million, I don't know if that's changed materially since we last discussed it, but just wondering why you're

not using more of that excess capital to fund this? What's the consideration there in terms of that particular 80/20 mix?

Andre Mousseau:

I think that we are seeing such excellent return on capital from the growth that we're seeing in the U.S. that by borrowing and keeping our debt to capital ratio constant we don't have to pick and choose between making this transaction, which we think is a good initial transaction and a fantastic long-term fit – we don't have to pick and choose between that and continuing to rapidly grow our U.S. business.

Meny Grauman:

And then what would the pro forma excess capital number be?

Andre Mousseau:

I think it depends on where we come out with the ultimate capital injection. So, I think it would be a number that would be smaller than the one that you referenced but still meaningful.

Meny Grauman:

Okay. And then just a few more for me. One is just in terms of—you talked about the earnings, the 2021 earnings that you've already delivered, but I'm just wondering about the ROE. If I look at the regulatory filings, I get to around an ROE in the 5% range. We're just wondering if that matches what you have sort of historically or at least for 2021 for ivari, and then the outlook for ROE. I know a big part of the

U.S. strategy was to expand that ROE over time. I'm just wondering the outlook on ROE, what it is now for the existing business and where you expect to take it.

Andre Mousseau:

Right. So, when we run through the purchase accounting, we mark-to-market certain of the assets and especially the liabilities to a different level. So, because of that, we would still be buying at a discount to a book value, but the equity level would be about \$400 million or \$500 million less. So, mechanically, the ROE goes up a bit. Under IFRS 17, we would be looking for this to be EPS accretive, book value accretive and under IFRS 17 about ROE neutral but on a higher base, and then we would be looking at a bunch of the initiatives, some of which that we have pulled in the U.S. to increase the return on equity in Canada and grow the business over time.

Meny Grauman:

Are there any closed blocks of business that you're buying with this transaction?

Andre Mousseau:

Well, it has been around for a long time, and so we are buying all of the blocks of business. ivari has pared down its focus since its changed hands, and so there are blocks of business where new business is not being written. We've had a chance to do pretty extensive diligence on the book. We've been working on this for a while.

Operator:

Your next question comes from the line of Darko Mihelic from RBC Research. Please go ahead.

Darko Mihelic:

Hi. Thank you. I have a number of questions. Maybe I'll just start with the mad scramble to get data. When I look at OFSI's website and I look at year-to-date net income, they've lost money. So maybe you can talk a little bit about their experience in 2022 and just describe kind of what it was that caused them to have a loss year-to-date.

Andre Mousseau:

Sure. It's all about the asset price and interest rate volatility that we've seen year-to-date. So, we've been able to, through the diligence work that we've done, do some internal core earnings analysis to look through and see the run rate core earnings, which are consistent with the numbers that we've put forward. So it's really about the market volatility.

Darko Mihelic:

Okay. I see fairly big basis changes as well in the results. Is there any color you can provide on that? Or changes to liability? I mean, it's hard to read these things sometimes without having a source of earnings, but it does seem as though there were some changes in assumptions. Am I right in viewing it that way?

Andre Mousseau:

It's around the change of interest rates.

Darko Mihelic:

Okay.

Andre Mousseau:

It's around the change of interest rates. It's hard to look at this and look at what's on OFSI on the year-to-date because it doesn't have the source of earnings on it. So, we'll be providing that disclosure as we put together our pro formas.

Darko Mihelic:

Okay. And then when I look at the OFSI website and I look at the LICAT, there's a few questions that I have around—first of all, so just looking at the number generally at 122%, is that the level that they are targeting? Is that the level that you are targeting?

Andre Mousseau:

They have a target level lower. I think the dynamic is they have been injecting capital in anticipation of the change to IFRS 17 and LICAT 23. So, they have a target level that is below where the public companies would be, and I think these metrics are at a 108. So, we're going to take a look at that. And obviously, the public companies run a little bit higher than that for their target ranges, and that's going back to the comment I made during the prepared remarks that we may choose to capitalize the business higher than that.

Darko Mihelic:

Okay. And then the next question is related to what caused them to sell, right, which is obvious there's and IFRS 17 switch over and there's a drop in shareholders equity. Is the drop in shareholders equity completely explained away by simply the establishment of the contractual service margin, or is there something else at play here with respect to their balance sheet?

Andre Mousseau:

That is much of it, but not all of it. So, =there are certain liabilities that are being mark-to-market that don't go directly into CSM. I think more broadly in terms of why they're selling, our sense is that ivari was a great business and a good investment for the current owners if you look at the history of dividends that they've been able to enjoy from the company during their ownership period, which goes to the profitability of the business. But, it's a bit of an unnatural fit in terms of =their current owner is predominantly a consolidator of legacy blocks, doesn't have similar primary businesses—or it has one but it's American and under different accounting standards. This is the only piece of their book that is going through the brain damage of IFRS 17, etc.

So, it's our sense that it's just not a natural fit.

Darko Mihelic:

Okay. And so when I think of trying to model, you can imagine how difficult this is. I don't even know how IFRS 17 is going to affect your Company. I certainly can't figure it out for ivari. So, we're going to make a lot of guesses here. A bit of a shot in the dark here, I suppose. But I guess, one of the things you

guided towards is sort of the CAD\$75ish or CAD\$74 million-ish of earnings. So, when I think of it that way, is it predominantly, it sounds like there's a lot of contractual service margin, it'll have a fairly big one and so you sound fairly confident in that. Is there any extra costs that you need to build in now that you're buying this for oversight or anything else? It's just surprising that it would come on with no extra costs. So I want to understand the backbone of what it is you're buying here that somehow doesn't require some spending on your part.

Andre Mousseau:

Right. So, in terms of the modeling, you should look at that earnings number that you referenced and then net it against taking on, drawing down on some meaningful proportion of that debt. You'll see the financing documents when they get filed, but if you use approximately 8% you would be in the right zip code.

So in terms of incremental costs, I think we're talking de minimis in terms of we may ask a couple of head office extra bodies for oversight and for transition. But I'm not sure it'd be anything that would hit materiality in your models. ivari, the business that we're buying, is a standalone entity, again, in terms of the fit with the current owner because they were unique both in terms of where they were geographically but also being a primary operating business. Their earnings numbers that we have include technology costs and all the SG&A.

Our initial posture would be that the SG&A's going to look quite similar to what it does today. We anticipate retaining all ivari employees and executives, and then get to work in terms of whether there are best practices that we can share or cost synergies on the purchasing side, on the technology side where we can leverage the scale.

Darko Mihelic:

Okay. Okay, thank you for that. And so I guess my next question is more of a strategic one. Maybe it's for Dodridge. In thinking of coverage of your Company I'd always assumed that the real strategic push was the U.S. organic growth there and potentially some rollups in the Caribbean. Now this is obviously opportunistic, this acquisition. I'm pretty sure you would have never dreamed of playing Canadian lifeco when you first came to list in the TSX. But it's working out. It looks like it's very accretive. But does this now maybe potentially slow other parts of the strategy? Does it perhaps maybe cause you to slow down the rollup activity or any other possible deals in the Caribbean? I'm pretty sure it shouldn't and won't crimp the U.S., but the first thing that comes to mind is it might accelerate some reinsurance agreements in the U.S. or something. Can you talk about capital allocation now that this is about to occur?

Dodridge Miller:

Darko thank you. I would broadly touch on some questions you raised. We have grown significantly by acquisition for a number of years. I think when we first met we shared that part of our strategy with you. We view North America as a wide market that includes the U.S. and Canada, and at the time we had an operation in the U.S. which we thought that we would grow to scale and that is an ongoing process for us. The Caribbean itself is still a core market for us, but we also mentioned that we wanted to increase the proportion of our balance sheet that's in investment grade assets, and that is certainly looking at North American opportunities. We think this is a unique opportunity which fits very well with our strategy and we think that it will advance our strategy as we move forward.

In terms of the capital allocation, I think Andre touched on that. In the earnings call we had earlier this month we mentioned aspects of reinsurance transactions that we're also looking at to fit with our capital structure.

Darko Mihelic:

Okay.

Dodridge Miller:

I hope that helps.

Darko Mihelic:

Yes, it does. The question is, I guess, are you stealing a little bit of earnings from the U.S...

Dodridge Miller:

Darko, you keep asking us that question. From the first day we met you wanted me to prove that we can do what we're doing. I think we keep showing you that and you keep moving the question. So, at some point you're going to have to jump on board Darko.

Darko Mihelic:

I hear you. No, it's been fluid, so I appreciate that. I guess just the last question with regards to all of this is, when I look at the pro forma I want to point you to Slide—yes. So when I look at the pro forma investment portfolio and sort of the debt securities, 100% investment grade in Canada and U.S. bond

portfolio. Now, when I think of that move, does that—and again, this is an IFRS 17 sort of question, does that—Andre, does that kind of make it so that—I guess where I'm going to with this is the discount rate that you'll be using under IFRS 17 for the liability side and the discount rate on the asset side, what I think I'm sensing here is that you still will have potentially volatile earnings because you still have a significant part of noninvestment grade and this book will certainly or should move more than the discount rate on the liability side. Am I thinking about that correctly? Is that something that you would be signaling to us, or is there something else at play that I'm missing?

Andre Mousseau:

Well, there's another factor to that which is that our local currency noninvestment grade sovereign bonds are predominantly not mark-to-market. So, the volatility question is actually a very complicated one and we're still going through that analysis and we're in the process right now of running this year's Q2 under IFRS 17 to come out with real worked answers to questions like that in a period that was very volatile. I think that what we're trying to show on this slide is less about quarter to quarter accounting volatility and more about fundamental credit in terms of the stability and resilience of the balance sheet as well as pointing to an improved cost of capital when we ourselves can get to investment grade and raise our debt at better rates.

Darko Mihelic:

Okay. Okay, I understand that. And just real quickly, last question. Six to twelve months for closing. What would cause it to take a full 12 months?

Andre Mousseau:

It would be the OFSI and Ministry of Finance approvals processes. We filed a business plan and then we engaged with OFSI and then there's a chain of command to go all the way up to the top for a regulated institution like this. So, everyone's incented to close quickly, but we're just trying to be realistic with the guidance.

Darko Mihelic:

So, in the interim will they be drawing on your capital, or how does that work? Will they be able to sell policies? I'm just curious how does that work if on the switchover to IFRS 17, if the deal hasn't closed and they haven't injected more capital, are they in a position where they continue to sell or?

Andre Mousseau:

Yes, ivari will very much continue to be a going concern. The current owner has agreed to inject the capital, and if we haven't closed by the time that injection needs to go in, the mechanic in the purchase agreement is they pay it in and then we pay it to them.

Darko Mihelic:

I see. I get it. Okay, that totally makes sense, yes. Great. Thanks very much.

Andre Mousseau:

Thank you.

Operator:

Thank you. Your next question comes from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman:

Hi there. Thanks for taking a second round. Just one question that I was wondering about was the benefit to your credit rating sounds significant. I'm just wondering if you could somehow quantify that value, how to think about it in terms of what does that give you and over what timeframe.

Andre Mousseau:

The timeframe would be after closing and we would push it to be as soon after closing as possible, but the ratings agencies take their time and see balance sheets settle. The quantity or the quantum of the benefit could be quite significant. If you look at—there's cost of capital in terms of just bonds at any given point in time, less yield on it, being investment grade also opens up doors to other financing structures that are tougher to access for non-investment grade companies.

So, order of magnitude, if you looked at our balance sheet having US\$550 million of debt right now and then pro forma of this transaction, something in the US\$800 million to US\$850 million range, if you applied 200 basis points improvement to that, just to pick a number, you're talking about incrementally double-digit millions that flows directly to the bottom line. Because if you look at where we've raised capital the last couple of times, we still got meaningful improvement last time we refinanced the bonds and brought them down from 8 7/8 down to 5.3%, but even at 5.3%, it was a very different world a year ago, we were still at a spread to what a North American BB issuer would have paid.

And so, the opportunity for the improved cost of capital could be in that range of up into the 200 basis points if we can transition to an investor base that's on the debt side that's not only investment grade but also looked at us as a Company that's predominantly North American and we don't get an international discount.

Meny Grauman:

And then maybe just, if I can sneak one more in, just in terms of—I think Darko touched on it, but just this idea that you're going into another geography with another regulator, like the capacity of the Company to manage across all these geographies and all these regulators, what's the pushback on that concern that this is just additional complication here and sort of takes the focus off what has been kind of the core business here?

Andre Mousseau:

Well, it won't take the focus off any of the three operating entities. The way we work we have full management teams and regulatory interfaces at each of Jamaica, Sagicor Life and the U.S. So, really what we're talking about is some additional capacity and horsepower up at the top company level, and so I do expect that as we bring this through integration and to closing we'll probably add a couple more people. I'm just saying in the context of the overall size of our income statement, it's not going to be material.

Dodridge Miller:

Andre, we could possibly add that the Canadian regulatory environment is more aligned with what we've been implementing in the Caribbean for a number of years. So, it's not that different for us.

Meny Grauman:

That's a good point. Appreciate the time. Thank you.

Andre Mousseau:

Thank you.

Operator:

Ladies and gentlemen, there are no further questions at this time. Please proceed, gentlemen.

George Sipsis:

Great. Thank you, Operator, and thank you for everyone joining today's call. It's a very exciting day for us here at Sagikor and we're happy to share the news with you all.

A replay of this event and call will be available for one month on our website and a transcript will be posted as soon as its available. If you have any additional questions, please do not hesitate to reach out to any one of us.

With that, thanks again for your participation and interest today. Have a great day. Thank you.

Operator:

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.