



**Sagicor Financial Company Ltd.**

**First Quarter 2024 Earnings Conference Call**

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## **CORPORATE PARTICIPANTS**

**Andre Mousseau**

*Sagikor Financial Company Ltd. — President & Chief Executive Officer*

**Kathryn Jenkins**

*Sagikor Financial Company Ltd. — Chief Financial Officer*

**Anthony Chandler**

*Sagikor Financial Company Ltd. — Chief Financial Controller*

**George Sipsis**

*Sagikor Financial Company Ltd. — Executive Vice President, Corporate Development & Capital Markets*

## **CONFERENCE CALL PARTICIPANTS**

**Meny Grauman**

*Scotiabank — Analyst*

**Gabriel Dechaine**

*National Bank Financial — Analyst*

**Darko Mihelic**

*RBC Capital Markets — Analyst*

## PRESENTATION

### Operator

Good afternoon. My name is Joelle and I will be your conference operator today. At this time I would like to welcome everyone to Sagicor Financial Company's First Quarter 2024 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then the number two.

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

**George Sipsis** — Executive Vice President, Corporate Development & Capital Markets, Sagicor Financial Company Ltd.

Great. Thank you, operator, and hello, everyone, and thank you for joining us today to discuss Sagicor's first quarter 2024 results. Our documents and financial results are available under the Investor Relations tab on our website at [sagicor.com](http://sagicor.com), which includes the financial statements, the MD&A, along with the press release and the link to our live webcast.

This conference call is open to the financial community, investors, the media, and the public, with a reminder that the Q&A period is reserved for the financial research analysts. I will begin by referring you to the cautionary language and disclaimers in our materials and public filings regarding the use of forward-

looking statements and the use of non-IFRS financial measures and ratios, which may be mentioned as part of our remarks today. I would also like to remind the audience that the actual results regarding forward-looking information could differ materially and please note that a detailed discussion of Sagicor's risk factors is provided in our MD&A, which is available on SEDAR+ and on our website. Unless otherwise noted, all dollar amounts referenced will be in US dollars, consistent with our reporting practice.

Joining me today is our President and CEO, Andre Mousseau; our Chief Financial Officer, Kathy Jenkins; and Anthony Chandler, our Chief Controller. We'll begin with prepared remarks by Andre and Kathy, followed by a Q&A session.

With that, I will pass the call to our President and CEO, Andre Mousseau.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, George, and good morning, everyone. Thank you for taking the time to join us today.

Q1 2024 was a solid quarter for Sagicor, delivering net income to shareholders just slightly ahead of plan as we benefited from positive asset price movement in aggregate, in particular, in our US segment, offset in part by the opposite dynamic in Canada and Jamaica. We continue to make progress on a number of strategic initiatives, including the integration of our new Canadian subsidiary and optimizing our balance sheet to take advantage of our recent investment-grade ratings. This includes a new investment-grade rating from Morningstar DBRS that was issued subsequent to quarter end, which puts us in an improved position to refinance debt on our balance sheet at more favourable rates.

I'll expand on our outlook towards the end of the call and for now I'll hand it over to our CFO, Kathy Jenkins, to walk through our results. Kathy?

**Kathryn Jenkins** — Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Andre, and hello, everyone.

Sagicor had a strong start to 2024. Net income to shareholders was \$26 million for the first quarter, driven by excellent profitability at Sagicor Life USA due to market experience gains from asset price appreciation. Sagicor Life also had a solid quarter. Sagicor Canada's results reflected the negative impact of rising interest rates and Sagicor Jamaica's profitability was negatively impacted by market experience losses.

All segments recorded strong new business production, reflecting continued solid performance. Revenues of \$639 million in the first quarter were driven by strong contributions across all segments with the Sagicor Canada segment again posting a healthy proportion of the group's results. Strong growth in insurance revenue across segments was further bolstered by positive market experience. New business CSM was led by Sagicor Life USA, resulting from solid first quarter production in that segment.

Now let me provide more details on the results of each of our business segments. Sagicor Canada delivered \$5 million of net income to shareholders. As a reminder, Sagicor Canada has an idiosyncratic dynamic which causes its net income to shareholders to be positively correlated to asset prices, that is, negatively correlated to interest rates due to certain liabilities being held to maturity and, therefore, not revalued. This quarter, in a reversal from last quarter, net income to shareholders was negatively impacted

by the impact of rising interest rates, partially offset by favourable equity returns and narrowing corporate spreads. Total net CSM grew 1% quarter over quarter supported by new business CSM of \$10 million in Q1.

Sagicor Life USA generated \$238 million of new business production in the fourth quarter, which was on track with management's expectations. Net income to shareholders was \$37 million for the quarter, reflecting positive market value adjustments, partially offset by some modest insurance experience losses related to policyholder mortality. Total net CSM grew 3% quarter over quarter to \$210 million driven by new business CSM of \$14 million.

Sagicor's share of Sagicor Jamaica's net income to shareholders in Q1 was \$3 million, down from the same period in the previous year. This segment had solid underlying performance, which was largely offset by unrealized fair value losses. Its life insurance subsidiary had strong performance in both long- and short-term products, largely as a result of increased premiums. This was reflected in the year-over-year increase in insurance revenue. Total net CSM decreased 2% quarter over quarter as new business CSM was about \$1 million lower than the same quarter in the previous year.

Sagicor Life, our operating segment in the Southern Caribbean, posted net income to shareholders in the quarter of \$10 million. This performance reflected continued growth across all lines of business with strong revenue growth in the short-term business driven by re-pricing initiatives on renewals and adjustments on product offerings. Total net CSM increased 1% quarter over quarter to \$232 million.

Going back to the consolidated picture, Sagicor's capital position remained stable during Q1 with a slight increase to shareholders' equity plus net CSM to shareholders and total net CSM. Net CSM to

shareholders increased 1% quarter over quarter to \$1.135 billion. Our debt to capital ratio was essentially stable quarter over quarter, ending at 26.7%, and our life insurance businesses remain well capitalized with our consolidated MCCR ratio at 303% and total LICAT ratio of 136%.

As mentioned in prior quarterly earnings calls, we are committed to providing a supplemental information package in 2024 which will provide greater visibility into our financial performance each quarter. This will include the drivers of earnings analysis and we will adopt a core earnings measure as a key performance indicator on a segment-by-segment basis. At this time, our segmented quarterly core earnings analysis is still in draft form and will be disclosed publicly when we are satisfied with its analysis. For the first quarter we estimate that core earnings were in the range of \$15 million to \$20 million. This number reflects the impact of reversing market gains, where positive gains more than offset negatives in Canada and Jamaica, some changes in actuarial model inputs, and certain non-core expenses. I would mention that core includes being burdened by \$5 million to \$7 million of negative mortality experience in US that we do not expect to persist.

With that, I'll hand you back to Andre.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you very much, Kathy.

Overall, we're pleased with the performance in the first quarter. We remain focused on expanding our risk-adjusted returns on equity and continue to execute on our plan of allocating resources and capital to growing our highest return on equity businesses. Strategic initiatives to find operational efficiencies,

cost savings, and synergies between our segments are progressing. We have significantly expanded our footprint and you can see that as our North American segments contributed over 75% of our segment net income to shareholders in the first quarter. We continue to believe Sagicor Life USA is an exciting platform for growth and we look forward to accelerating production there later in 2024 and beyond. Our Caribbean segments demonstrated ongoing strength in their respective markets and we expect to see improved performance as we modernize those operations with technology. Collectively, these initiatives can significantly expand our return on equity, allowing us to fuel growth while at the same time continuing to return capital to our shareholders. To that end, we're pleased to have announced our 18<sup>th</sup> consecutive quarterly dividend to shareholders since we've been listed on the Toronto Exchange and the second dividend at the new \$0.06 per quarter or annualized US\$0.24 per year. We continue to also return capital to our shareholders via our share buyback program and intend to continue to do so while our shares trade at a discount to book value and a significant discount to our book value plus our embedded future profit through net CSM.

With that, we are ready to start the Q&A period.

## Q & A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by the two. If you are using



a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Meny Grauman with Scotiabank. Your line is now open.

**Meny Grauman** — Analyst, Scotiabank

Hi. Good afternoon. I just wanted to start off by checking to see if there's any change to your guidance for either 2024 or 2025.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

I think our intent is to revisit our guidance after the second quarter. As you look through and take a look at where we think that our normalized earnings would be, it's still consistent with our guidance, so that would still be the most relevant metric at this point, but we will formally revisit that in August after our Q2.

**Meny Grauman** — Analyst, Scotiabank

Okay. And then if I could just follow up in terms of revisiting, is there something that is on your radar screen that could potentially materially change that guidance or are you just really referencing a prudent re-evaluation kind of at the half year mark? I'm just trying to understand the comment a little bit more deeply.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

I think it's about revisiting in a holistic manner. With six months of data, you have a lot more meaningful data in the noise than just with three months' worth of results. So a couple of the items that Kathy mentioned, the big deviation on our draft core net income to shareholders run rate right now would be a little bit of mortality noise in the U.S. business. We don't expect that to persist. If it did, that may move it. Otherwise, we're pretty consistent with where we thought we would be when we put those targets out there and, at the same time, we want to finish up and get our core earnings definition nailed down and exactly comparable among each of our segments so that we can disclose that publicly and tie it to that guidance as well.

**Meny Grauman** — Analyst, Scotiabank

Understood. And Andre, I wanted to ask a second question about the optimization of the balance sheet. You talk about taking advantage of new investment-grade ratings. First question, is that optimization already built into the existing guidance? And then can you help us understand sort of what the impact of that could be in terms of how much benefit you could get from optimizing the balance sheet?

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

So the piece on optimization, to be specific, is we have the \$320 million term loan where we're paying about 10% right now and that is something that we would look to finance this year. The savings on that, depending on execution, could be well into double digits millions. I'd say there's a conservative

version of that built into our guidance which would have reflected \$6 million to \$8 million of annualized savings for the back half of the year, so our guidance might have about \$3 million or \$4 million of anticipated savings to that. We're going to go out and try to beat that. I think if you look at typical triple-B spreads, you could connect the dots and say that we should be able to do better than 300%.

**Meny Grauman** — Analyst, Scotiabank

Okay. Thank you.

**Operator**

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one.

Your next question comes from Gabriel Dechaine with National Bank. Your line is now open.

**Gabriel Dechaine** — Analyst, National Bank Financial

Good afternoon. I want to follow up on that line of questioning actually, I guess, the interplay of sales and capital deployment and your debt refinancing. So the \$238 million of production in the US, that's the figure, I think it represents the fixed annuity sales for the quarter. A bit shy of the \$1-billion-plus you were talking about last quarter, because you want to ensure you have enough capital and liquidity and all that to support the sales. But then, you know, if the sales may have fallen short, I would have expected to see more buyback activity, which we didn't. So maybe there's something I'm missing in all of this. Is there

a seasonality in sales? Are you holding back on buybacks and on sales volumes until you've settled out your debt refinancing picture? Maybe you can walk me through that story.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Well, I think by the end of it you got to the right point, which is in the first quarter we were holding back a little bit, waiting to get the capital situation resolved. Our target of \$1 billion plus requires a little bit of a capital injection from the top company and so we will do that once we're comfortable that the debt situation has resolved itself. We have plenty of liquidity in the meantime, but we're managing liquidity in a conservative manner until we get that over the line.

Similarly with buybacks, the buyback number was a little bit light relative to some of the prior quarters. I wouldn't read a ton into that other than to say that for all of the first quarter, we were blacked out because it took us until the second half of March to get our financials out and get out of blackout. So we weren't able to be in the market for anything larger than the automatic daily purchase. That won't be the case in the second quarter, so I wouldn't look too much into that.

**Gabriel Dechaine** — Analyst, National Bank Financial

Okay. So, if I'm looking to couple timing or outlook here, Q2, the blackout won't be as much of a hindrance on buyback activity, but from a sales standpoint could be similar to this quarter because what you were commenting on earlier is that you're not counting on your debt refinancing to be completed and be effective until the second half, so Q2 might still be a little bit shy of your targets for fixed annuity sales. Is that the right way of looking at it?

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Yes. I think being between \$200 million and \$250 million was exactly where we wanted to be for the conservative scenario where we weren't going to put any more capital in to grow the US business faster and so, as soon as we're comfortable that we can land that, you should expect to see production. We haven't announced a refinancing yet and, therefore, I think you're right about Q2, and then it's a matter of can we get it into Q3 or does it go into Q4 to start accelerating production.

**Gabriel Dechaine** — Analyst, National Bank Financial

So the debt thing might not be until sometime during Q3?

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

We're very motivated to work on it and we'll pick a good window. We have plenty of liquidity available. It's more about optimizing things. So we'll make sure that we hit a good window, but we'd rather get it done sooner than later.

**Gabriel Dechaine** — Analyst, National Bank Financial

Okay, great. And then my next question is part of this crediting rate assumption thing, and pardon me if I, ah, but it's an assumption change because you're assuming higher crediting rates on renewals. So just maybe, I want to try to dumb this down as much as possible and help understand it and help clarify something, because it seems like there's a missing link there. But I get why it's happening, that when you were selling some product a few years ago rates were lower and today the rates are higher, so maybe the

rates shot up faster than you expected so the crediting rates have to be higher. But the flip side of that coin is that you're probably earning more on the asset side of the product, if you will. So why are we seeing these assumption changes that are negative as opposed to maybe a bit more neutral, because you're losing on one side with the crediting rates but you should be earning more. Is it a market dynamic thing? It's competitive? Or what? And what does that say about the future profitability of this block?

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Look, you're right about the unit economics and, all things being equal, I think with higher rates we're better off for business when it renews and for new business we're putting on the books, because of the spreads that are available.

Kathy, maybe you could follow up with the specific asset versus liability side of this?

**Kathryn Jenkins** — Chief Financial Officer, Sagicor Financial Company Ltd.

Absolutely. And to your point, part of the reason we did see such an increase in the mark-to-market gains for the U.S. is because of the U.S. liability curve. Because it doesn't incorporate all the prefs and hybrid securities, we actually got a bit of an increase there. So, to your point, part of the increase that we saw on the market experience gains was due to that. We also had some increases contributing to our market experience gains related to our Playa shares and we also saw some net positive asset movements from some of the less liquid end of our traded securities, like our preferred shares and hybrid securities. So the U.S. is seeing that in the results this quarter.

**Gabriel Dechaine** — Analyst, National Bank Financial

Is this a geographic thing because of IFRS 17 where your asset yields are real time and the future costs go through an assumption gain or loss? In this case a loss. Is that maybe it?

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

That does sound right to me. If you wanted to take a look at a specific note, we could follow up with you again.

**Gabriel Dechaine** — Analyst, National Bank Financial

Yeah. Maybe not today, but down the road, sure. Thank you.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

We all continue to learn as IFRS 17 evolves.

**Gabriel Dechaine** — Analyst, National Bank Financial

Supposed to learn something new every day, it's not always a fun though. But anyway, thanks.

**Operator**

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one.

Your next question comes from Darko Mihelic with RBC. Your line is now open.

**Darko Mihelic** — Analyst, RBC Capital Markets

Hi. Thank you. Good afternoon. A few questions. Kathy, you sort of sized the mortality issue around \$5 million to \$7 million in the US. Why is it that you expect that to normalize lower in the future?

**Kathryn Jenkins** — Chief Financial Officer, Sagicor Financial Company Ltd.

We believe this is a one-time blip. Experience will continue to monitor this, but this was an exceptional situation. We have not seen that level.

**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Kathy, if I can step in here, I think it comes down to the cohorts where we've seen it and the products as well. We actually had half or so of it come through annuities where it's pretty rare to have that sort of emergence. And so, at this point, the view of the actuarial team is that, just statistically, it was a noisy quarter, not in our favour, but that there's not a trend that would cause you to reconsider your assumptions.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay. And the other question I had was with respect to sort of the view on the core earnings somewhere in the range of \$15 million to \$20 million. That's a fairly wide range, and I don't blame you, a lot of new stuff happening here and you sort of provide a wide range, but I guess, what is it that creates the wide range? Is it specifically ivari or is it potentially this mortality issue?



**Andre Mousseau** — President & Chief Executive Officer, Sagicor Financial Company Ltd.

Well, that \$15 million to \$20 million includes taking the hit from mortality and so, even in your core earnings you're going to say, okay, I did better or worse than expected from a mortality or policyholder experience point of view. The issue that we're having is geography of what's core earnings versus what is non-core market experience gains and losses. And so that number is the one that we need to get precisely consistent among the different subsidiaries and consistent with, in the long run, having core earnings be equal to reported net income to shareholders in aggregate. It's a wide range so that we can put round numbers on it and not try to be overly precise. I think internally we have a range that's a little narrower than that, but we don't want to put that out while we're still having debates around it.

**Darko Mihelic** — Analyst, RBC Capital Markets

Okay. All right. Thank you very much.

**Operator**

There are no further questions at this time. I will now turn the call over to George for closing remarks.

**George Sipsis** — Executive Vice President, Corporate Development & Capital Markets, Sagicor Financial Company Ltd.

Thank you, operator, and thank you, everyone, for joining the call today. A replay of this call will be available for one month on our website and a transcript will be posted as soon as 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 one.

**Operator**

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