



**Sagicor Financial Company Ltd.**

**Third Quarter 2022 Earnings Conference Call**

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## **CORPORATE PARTICIPANTS**

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### **Dodridge Miller**

*Sagcor Financial Company Ltd. — Group President & Chief Executive Officer*

### **Andre Mousseau**

*Sagcor Financial Company Ltd. — Group Chief Operating Officer & Chief Financial Officer*

## **CONFERENCE CALL PARTICIPANTS**

### **Meny Grauman**

*Scotiabank — Analyst*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen. My name is Michelle and I will be your conference operator today. At this time I would like to welcome everyone to Sagicor Financial Company's Third Quarter 2022 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.

I would now like to turn the call over to Mr. George Sipsis, Senior Vice President of Corporate Development and Capital Markets. Please go ahead, sir.

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

Hello, everyone, and thank you for joining us today to discuss Sagicor's third quarter 2022 results. I would like to note that our quarterly results, including the financial statements and the MD&A, along with a link to our live webcast is available on our website under the Investor Relations tab on our website at [sagicor.com](http://sagicor.com). We also invite you to visit the "Acquisition of ivari" tab on our Investor Relations page to learn more about this transformational acquisition that we announced in August.

I would like to 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 like to remind the audience that actual results could differ materially.

Unless otherwise noted, all dollar amounts referenced will be in US dollars, consistent with our reporting practice.

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 prepared remarks by Dodridge and Andre, followed by a Q&A session.

With that, I will pass the call to our Group President and CEO, Dodridge Miller.

**Dodridge Miller** — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

Thank you, George, and thank you to everyone for taking the time to join us today. As per our usual format, I will give some brief remarks focusing on our overall performance for the quarter and comment on our outlook going forward. Our Chief Operating Officer and Chief Financial Officer, Andre Mousseau, will then provide you with details on our financial and operating performance.

Sagicor again delivered solid results this quarter. This was particularly pleasing in the face of a volatile market and rising rate environment. Total group revenue was \$656 million for the quarter, which, along with net premium revenue, decreased by 16% over the same period last year, primarily driven by lower sales at Sagicor USA as we moderated the sales of our annuities in line with our strategy for

deliberate growth and scale. At the same time, we saw positive growth in net premium revenue for our life and health business lines, which were up by 9% year over year.

Total group net income to shareholders was a robust \$25 million during the quarter. This is a result of strong sales in the US, robust net premium growth across all major business lines in Sagicor Jamaica, and solid top-line growth for Sagicor Life, which was partially offset by certain non-recurring items, which Andre will expand further on in his remarks.

As you will recall, we announced on August 25<sup>th</sup> the acquisition of ivari, a leading middle market individual life insurer in Canada with over 80 years of history in the region. ivari provides individual life and critical illness insurance solutions for the Canadian middle market. The acquisition provides us with yet another outlet for growth and will bring Sagicor's 180-plus years of experience in individual life business to the Canadian market. We expect the transaction to close mid-2023.

Turning to our outlook, we continue to see asset price volatility and are mindful that an economic slowdown may occur globally as central banks constrain their economies to fight inflation. This may offset an improving outlook for tourism, particularly in the Caribbean, which is very dependent on the tourism outcome.

Lastly, I'd like to update you on a recent board change. Earlier this week we announced the resignation of Jonathan Finkelstein as Director of Sagicor's Board of Directors. We are thankful for Jonathan's advice and active participation over the last few years. We are pleased to announce that Mr. Alan Ryder has been appointed to our board, subject to regulatory approval. Alan is a highly experienced

insurance and reinsurance executive with over four decades of experience, most recently as CEO of North America Life for PartnerRe. We welcome Alan and look forward to his insight and guidance.

With that, I now turn the presentation over to Andre. Thank you.

**Andre Mousseau** — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Dodridge, and hello, everybody.

The group performed well in Q3 and net income to shareholders was solid at \$25 million. The group's profitability this quarter was driven by robust sales of annuities and favourable asset spreads in our Sagicor Life USA segment as well as the strong performance of our life insurance business at Sagicor Jamaica, which benefited from rising interest rates. Year to date, total revenue was \$2 billion, up 16% year over year. Year to date net income to shareholders of \$102 million was up 12% versus last year.

Now let me comment on the performance of our major operating segments, starting with Sagicor Life. Sagicor Life had a difficult quarter. Total revenue was \$123 million, a 1% increase year over year. Within that, we had \$7 million of single premium annuity sales and \$6 million of annual recurring new business sold in the quarter. Net loss to shareholders was \$5 million this quarter, which came down to a number of small negative variances, including higher than budgeted claims and benefits as we see continued challenges coming out of the pandemic, a modest strengthening of reserves, some foreign exchange translation losses due to the unexpected appreciation of the Trinidad and Tobago dollar, and a

\$4 million charge related to a one-time pandemic levy by the Government of Barbados. So a list of several negative factors all at once, which we would not expect to persist.

At Sagicor Jamaica, total revenue of \$168 million, decreased 3% year over year. The core business performed well as net premium revenue increased 14% year over year. Interest income also increased by 10%, mainly due to rising interest rates. Our share of Sagicor Jamaica's net income was \$13 million, which is around our target and was a mix of a strong showing from our life insurer there, offset by a slowdown in capital markets business in our investment banking segment.

Sagicor Life USA had another solid quarter. This segment's growth in profitability is consistent with our strategy to grow our US business to scale by adding fixed annuity liabilities that we're able to invest at attractive spreads. We drove \$333 million of new annuity sales in the quarter, down a bit from \$420 million in Q2. Overall, our US business posted revenue of \$357 million. The segment generated \$42 million of net income in the quarter, nearly double last year's results. Through the first three quarters of the year we positioned ourselves to generate significant new premiums as we saw an exceptionally positive environment to generate spreads. So far in Q4 we have chosen to slow production by not following competitors' crediting rates ups. We expect Q4 to be lighter than Q3 for production and this is consistent with our managing our production to optimal times to generate spread.

Turning to our head office segment, there was some noise, both positive and negative. Net income at head office was impacted by one-time charges and expenses related to the ivari transaction, as well as some restructuring charges, all totalling about \$5 million. We took a \$7 million mark-to-market loss on our holdings of Playa Hotels and Resorts. These were partially offset by a \$6 million non-cash gain related

to the revaluation of the call option in our favour that is deemed to be embedded in our top company notes as our bonds traded at narrower spreads at the end of Q3 than they did at the end of Q2.

Our total comprehensive loss to shareholders this quarter was \$30 million as the positive net income during the quarter was more than offset by the impact of rising interest rates, leading to decreased asset values for our assets backing capital. With that, our book value was US\$7.25 or C\$9.96. We repurchased 55,000 shares at a discount to book value through our normal course issuer bid in Q3. Our MCCR was 204%, as our capital in our life insurance subsidiaries declined slightly with asset prices. We're also pleased to declare a dividend of US\$0.05625 per share to be paid in the fourth quarter. We've consistently declared dividends each quarter since we've been listed on the TSX. We remain well funded with significant excess capital at our holding company to fund both the ivari acquisition and our growth initiatives.

On a final note, we continue to make good progress on our implementation of IFRS 17. Our plan for systems implementation is well on track. We are planning to produce guidance during calendar Q1 2023 on what to expect in terms of the transition of our balance sheet and changes to our income statement going forward. We're just about ready now and we'll be ready to share these details early in the new year.

With that, operator, happy to open the line for questions.



## Q & A

### Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by the number one on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press star followed by the number 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 of Scotiabank. Please go ahead.

### Meny Grauman — Analyst, Scotiabank

Hi. Good afternoon. Andre, you referenced a restructuring charge in your remarks just now, so I'm wondering, if I heard that right, if you could give a little bit more detail in terms of what that's related to and maybe size that for us.

**Andre Mousseau** — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Sure. So, I think I lumped it together with the expense charges with ivari, which were for the ivari transaction, those two things together were \$5 million. About half of that would be related to a specific instance on severance from a change in the executive ranks.

**Meny Grauman** — Analyst, Scotiabank

Okay. And then you talked about the one-time tax in Barbados. I'm wondering if there is any indication you have that we might see similar taxes in any of the other jurisdictions in which you do business. If you could just comment on how you see that unfolding, that would be helpful.

**Andre Mousseau** — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Dodridge, do you want to take that one?

**Dodridge Miller** — Group President & Chief Executive Officer, Sagicor Financial Company Ltd.

We haven't seen any indication from anyone else, any other governments in the Caribbean to that extent. This was a single Barbados initiative and the view which seems to be held is that the banks and financial institutions during the pandemic did quite well and, therefore, there was an obligation to assist the government in funding some of the pandemic costs. So, we haven't seen any indications from any other territory to that extent.

**Meny Grauman** — Analyst, Scotiabank

Got it. I also wanted to ask about the reserve strengthening. It was referenced in your Sagicor Life segment. Wondering if you could give more details in terms of what that was related to and if there was any reserving impacts to any of the other business lines. I didn't see the reference to that, but I was just wondering if it was just Sagicor Life.

**Andre Mousseau** — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

So, we typically look at the majority of our assumptions in Q3 across all of our segments and certain of our segments we look at them every quarter and if there are material changes, we look at them every quarter, but we take a closer look at certain of them in Q3. The changes were very minimal and not to the point of materiality. So we're talking, within Sagicor Life, it was \$2 million to \$3 million in terms of strengthening. And so, if you look at the reserve profile, it's pretty minimal tinkering and that was around lapse in premium persistency, but we wouldn't call that a large number. Within the US, they took a look, I think there was a similar strengthening in the range of less than \$5 million and that's reflected in those Q3 numbers. Jamaica, net-net, had releases that would have offset the other two. So, on a consolidated basis, we were largely flat. And the releases in Jamaica were, the largest component of that was the rising interest rates where the Jamaican life book is net invested a little bit short, so they have a positive exposure to rising rates when they relook at the reinvestment assumptions.

**Meny Grauman** — Analyst, Scotiabank

Got it. And then just a final one for me, just in terms of guidance, forward guidance. You suspended it in the lead up to the pandemic and just wondering, there's an ongoing reference to resuming specific guidance when the recovery becomes more certain, I'm just wondering is there any sort of sense from you when that would be? Would we be able to resume specific guidance in 2023? How are you thinking about that? I understand during the pandemic, a lot of uncertainty. It seems like the pandemic more or

less is behind us, so just trying to understand the hesitation there on guidance and when you think that would actually come back.

**Andre Mousseau** — Group Chief Operating Officer & Chief Financial Officer, Sagicor Financial Company Ltd.

Well, we intend to resume guidance next year and do it in coincidence with the implementation of IFRS 17, which is going to change the source of earnings on our income statement. So, agree with your point, the pandemic is abating for the most part. That volatility has been replaced by inflation and interest rate volatility. I mentioned it briefly in the prepared remarks. We are in the final stages of putting together what our 2023 and going forward will look like and so what we'd like to do is get in front of you and the investment community and talk about how to model the company under IFRS 17. We're very close to being ready for that. And with that, we'll be putting forward broad ranges for guidance. And that's something that we'd like to do in Q1.

**Meny Grauman** — Analyst, Scotiabank

Great to hear. Thanks, Andre.

**Operator**

Ladies and gentlemen, once again, if you would like to ask a question, please press star one.

Gentlemen, there are no further questions. I'll turn the conference back to you for any closing remarks.

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

Great. Thank you, Michelle, 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, as usual, 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.

**Operator**

Ladies and gentlemen, this does conclude your conference call for this afternoon. We would like to thank you all for participating and ask you to kindly disconnect your lines.