Sagicor Financial Company Ltd.

Third Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Andre Mousseau
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CONFERENCE CALL PARTICIPANTS

Felix Fang
Scotiabank — Analyst

Gabriel Dechaine
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Darko Mihelic
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PRESENTATION

Operator

Good afternoon. My name is Ynnah and I will be your conference operator today. At this time, I would like to welcome everyone to Sagicor Financial Company's Third Quarter 2023 Earnings Conference 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 the star followed by the two. Thank you.

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 2023 third quarter results. Our results, including the financial statements and the MD&A, along with the press release and link to our live webcast is available under the Investor Relations tab on our website at sagicor.com. 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 like to remind the audience that 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 and annual information form, which is available on SEDAR+ and on our website. A discussion of the assumptions underlying our 2024 pro forma expectations is provided in our current and prior earnings release.

Comments made in reference to the acquisition of ivari are made based on certain assumptions in respect of its business strategy and includes assumptions on economic conditions and other factors and therefore actual results may differ.

On October 3, 2023, Sagicor completed the acquisition of ivari. We'd like to point out to the audience that Sagicor's results for the three- and nine-month period ending September 30, 2023, do not reflect contributions from ivari, other than certain transaction costs that have been expensed or capitalized in connection with the acquisition. Starting in Q4 2023, Sagicor's consolidated financial results will include ivari's results as a new operating segment.

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 afternoon, everyone. Thank you for taking the time to join us today. I'll give some brief remarks focusing on the group's performance for the quarter, Kathy will expand on our segment performance, and then I'll return to provide an update on our outlook before we open up for analyst Q&A.

Sagicor delivered another solid quarter in Q3, and Kathy will provide some details on that. We are particularly pleased to have been able to close the acquisition of ivari in the beginning of the fourth quarter. This is a transformational acquisition for Sagicor. It's doubled our asset base, increased our book value per share, enhanced our earnings generation today, and provides another avenue for future growth. At ivari and in our growing US business, the higher interest rate environment makes the fundamental economics of our new business more attractive than they have been in years.

With that, I'll hand the call to Kathy to discuss our third quarter results.

Kathy Jenkins — Chief Financial Officer, Sagicor Financial Company Ltd.

Thank you, Andre, and hello, everyone.

Sagicor's underlying business posted solid results this quarter, as Andre mentioned, with each of our three business segments delivering positive net income to shareholders. Revenues of $291 million in Q3 were significantly higher year-over-year, driven by higher net investment income given more favourable market conditions and insurance revenue growth across all of our segments. New business production continued to be strong in Sagicor Jamaica and Sagicor Life. Sagicor Life USA production, while

lower than the prior quarter when we timed our production to take advantage of a more favourable competitive and investment environment, continues to be robust and on track to achieve our annual production target.

Our estimated core earnings to shareholders of $9 million were slightly below our forecast and included some adverse experience in the quarter. Our Q3 net loss to shareholders of $3.5 million was primarily caused by changes in actuarial assumptions as part of Sagicor's annual review and other one-time charges and expenses, which we exclude from our estimated core earnings. We believe our year-to-date net income to shareholders of $47 million through nine months represents a more accurate approximation of the earning power of our business prior to the ivari acquisition.

In Q3, per our usual practice, we undertook an in-depth review of our actuarial assumptions in each of our operating segments. The result of these reviews was a reduction in after-tax net income to shareholders of $8 million as well as a net $6 million reduction in total net CSM. The $8 million impact is excluded from estimated core net earnings to shareholders.

In our US segment, updates to product features to mitigate the effect of rising interest rates resulted in a strengthening of actuarial reserves, which meant a reduction of after-tax net income to shareholders of $9 million and a $30 million reduction in total net CSM. This was significantly offset by an increase in total net CSM of $30 million in our Jamaica segment, reflecting better than modelled experience. In Sagicor Life, the impact of the annual assumption changes amounted to an increase in after-tax net income to shareholders of $1 million, with a reduction in total net CSM of $6 million. I'll provide

more information on the estimated core earnings measure, but first I'll provide more details on the results of our business segments.

Sagicor Life, our operating segment in the Southern Caribbean, posted net income to shareholders of $4 million in the quarter, a significant increase over the prior year, with revenues of $109 million, which were 14% higher year-over-year. Growth in insurance revenue this quarter was offset by an increase in insurance expenses, which included the impact of some continued negative mortality and policyholder behaviour experience, which has continued somewhat since the pandemic. Total net CSM remained flat quarter-over-quarter with new business sales offset by the impact of the actuarial review.

Sagicor's share of Sagicor Jamaica's net income to shareholders was $14 million. It had strong performance in its long-term life insurance business and increasing contribution from its short-term insurance business, largely as a result of the increased premium rates. This was reflected in the year-over-year increase in insurance revenue. The segment benefitted overall from an improved Jamaican economy; however, the capital markets climate remains strained in Jamaica, which negatively impacted investment banking results. Total net CSM grew $31 million quarter-over-quarter with strong new business production and the positive results from its annual review.

Sagicor Life USA generated $5 million in net income to shareholders for the quarter versus the loss of $27 million in the prior year in which results were impacted by unfavourable market conditions. The annual review of actuarial assumptions had a major impact on this segment both on the income statement and CSM. New business CSM was more than offset by the impact of the assumption review, resulting in

total net CSM at the end of the quarter decreasing to $179 million. The net income to shareholders of $5 million this quarter was also negatively impacted by $9 million after tax as a result of the review.

Given the volatility introduced into our results by the annual actuarial assumption review and other one-time items, I would like to speak further about our estimated core earnings measure. We estimate core earnings to shareholders under the currently proposed definition for Q3 2023 as $9 million. This excludes $13 million of adjustments from the reported net loss to shareholders. The adjustments in Q3 consist of $10 million in pre-tax losses from the changes in actuarial methods and assumptions that I spoke about earlier, $2 million of net market experience gains, $4 million in one-time costs from the implementation of IFRS 17 and acquisition of ivari, and $3 million of other loss adjustments partially offset by $2 million of tax effects on these items. We intend to publish 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 adopt a final non-IFRS core earnings measure on a segment-by-segment basis.

Turning to our capital position, our debt-to-capital ratio is slightly higher quarter-over-quarter at 31% at the end of Q3 and the MCCSR ratio remains strong for our insurance businesses at 259%. We expect our debt to capital to decrease slightly pro forma with our acquisition of ivari. I would mention that, as we noted in Q1, we intend to produce a LICAT measure by year end 2023. These measures continue to demonstrate the strength of our current business and, with the acquisition of ivari, this will continue.

I will now pass it back to Andre.

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

Thank you, Kathy.

Overall, we're pleased with the $47 million of net income to shareholders delivered in the first nine months of the year and see it reflective of our underlying business performance prior to the ivari acquisition, taking out the quarterly noise. We remain very positive on the prospects for our business. The economic outlook for the Caribbean continues to be robust after a disproportionately difficult few years for our core Caribbean markets. The higher interest rate environments in the United States and in Canada continue to make the unit economics of new policies more profitable, even as we saw some strain in our older business. Net, we see that change in the interest rate environment as positive, as we intend to continue growing our US business. We expect to end 2023 with at least $800 million of new production in the US and expect to see that accelerate in 2024. And we remain very excited about onboarding ivari. We've already been validated by credit rating upgrades from both S&P and Fitch, as ivari enhances the credit quality of our company. This was a key thesis that has already played itself out.

I'll comment on the guidance with respect to our financials pro forma the ivari acquisition, which will be further detailed in our business acquisition report. Upon filing that report, we expect shareholders' equity will be at or above the high end of our previous guidance of $650 million to $725 million. This means that our total deployable shareholders' capital, consisting of shareholders' equity and net CSM to shareholders, will be towards the high end of the previous guidance of $1.8 billion to $2 billion as at Q3 2023. We expect that, because our book value gain will be at or above the high end of our estimates, our ROE guidance will be closer to the low end of our 14% to 16% guidance for 2024. The rising interest rates

in Q3 significantly improve the embedded profitability of the ivari book, which increases our anticipated gain on acquisition, but the higher net income will be taken over time whereas the accounting write-up is proportionately higher.

Beyond 2024, the pro forma company will continue to target high single-digit net CSM to shareholders growth and double-digit net income to shareholders growth. So, our math continues to point you to net income guidance of either side of US$100 million for 2024. We will further refine this guidance upon filing of our business acquisition report, which we expect to file in mid-December.

With ample opportunities for growth, we are focusing on return of capital to our shareholders as well. We're continuing with our dividend, and we bought back nearly another million shares which were cancelled in Q3 at about a 40% discount to our expected pro forma book value and over a 70% discount to our expected pro forma book value plus CSM. We intend to continue to be active buying back shares while this valuation gap persists.

And with that, George, I think we're ready to start the Q&A period.

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

Yes. Operator, please go ahead and open the lines for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your telephone keypad. Should you wish to cancel your request, please press the 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 the line of Felix Fang from Scotiabank. Please go ahead.

Felix Fang — Analyst, Scotiabank

Thank you. My first question is, there are a lot of references in the earnings material related to the improving economic fundamentals across the Caribbean, including Jamaica, so I'm just wondering if you could please highlight the trends that you're seeing and the implications for your earnings outlook looking out to 2024. And then I have a follow up after that.

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

If you step back away from the quarterly movements, our major markets in the Caribbean were disproportionately affected by the COVID pandemic, which resulted in, in effect, a shutdown of the tourism sector for two full seasons and then knock-on effects into the third. And so, what we're seeing is a very strong rebound in that tourist trade, which is contributing to growth that, in 2024 and beyond, is expected to continue to persist at higher than the pre-pandemic levels. Growth was extraordinarily high, double digits, for example, in the case of Barbados in 2023 as we got into a more normalized economy,

but into 2024, the current outlook is for higher GDP growth in Barbados than the long-term trend prior to the pandemic. I think in Jamaica we're seeing much of the same. Jamaica just had its credit rating upgraded in October by Moody's, as an example, as the Jamaican economy and fiscal situation continues to improve. In Trinidad, the situation there is positively affected by the high global energy prices.

So, what it basically means is the economies are doing better. Our policyholders are, in aggregate, in better fiscal and liquidity situations themselves. And so, we see a strong outlook for new sales and improving outlook for policyholder behaviour in that environment. Kathy mentioned a couple of minutes ago that we continue to see a couple million dollars in Sagicor Life of negative emergence every quarter and that has been occurring since the pandemic. It's our view that the improved economic situation will help mitigate that over time.

Felix Fang — Analyst, Scotiabank

Okay, great. Thank you. And then just to follow up on that, given the better economic outlook, should we expect upside to run rate earnings power excluding ivari?

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

I think that will contribute to earnings growth in 2024 compared to where we are in 2023, yes. There's more to it than the economic situation. We have a number of other organic initiatives. But all things being equal, we are very positively correlated to the Caribbean economy in those core businesses.

Felix Fang — Analyst, Scotiabank

Okay, great. Just one more question. I'm wondering if there is any earnings impact to your recent Fitch and S&P upgrades.

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

That'll come over time. As of right now, it has minimal immediate effect on our P&L. There will be some marginal improvements in some of our credit lines and reinsurance arrangements, but it wouldn't scratch the surface of materiality. What it does is, when it comes time for us to refinance some of our debt facilities, we would see that being done at much tighter spreads than we would have done before.

If you look at where our corporate bond is trading now, it's at a significantly tighter spread to US treasuries than we've seen since issuing that bond, as an example. So, over time, as we have the opportunity first to refinance the term facility that we put in place to acquire ivari, we could see meaningful earnings upside from that. If you look at the ivari facility at $320 million, we would aim to improve on that pricing by 200 or 300 basis points when we do refinance it. You can put together the math on potential earnings upside, but that would be something that we would aim to do midway through 2024 and you would get the full-year effect in 2025.

Felix Fang — Analyst, Scotiabank

Okay. Gotcha. That's great. Thank you.

Operator

Thank you. Once again, should you have a question, please press the star followed by the one on your telephone keypad.

And your next question comes from the line of Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine — Analyst, National Bank Financial

Good afternoon. I'd like to ask you about the actuarial review a bit more in detail here. Can you describe what actually went on there, the losses on onerous contracts and actions you've taken to combat rising interest rates? And then dovetail that into your US fixed annuity sale. You deliberately pulled back this quarter? Is there any pricing action, or something like that, you took that is connected to any of this?

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

Kathy, do you want to do the first half and I'll do the second?

Kathy Jenkins — Chief Financial Officer, Sagicor Financial Company Ltd.

That makes sense. With respect to the review of actuarial assumptions, it's the non-financial assumptions, and this is a review we do annually. This year we were seeing some higher than modelled surrenders of policies, and this is specifically to the US due to less competitive terms with the rising interest rates. We saw some of that experience earlier in the year, so we made an economic decision to modify some of the terms on our existing blocks of business to make them more attractive at renewal.

That compressed the economic returns on the products, resulting in the reduction in CSM. And then, for certain policy cohorts where we reduced CSM even below zero, that impacted the P&L.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. There are some fixed annuities policies, presumably, that were not as competitive as they were a few years ago or whenever and you're adjusting the renewal terms so that people are more likely to stick around and that's reducing the economics a bit? Is that the idea?

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

Yeah, it's around the renewal terms and some of the minimums and some of how we interact with the agencies. And so, it's still a very profitable business and profitable business to retain, but the margins come in a little bit, and that's primarily reflected in the CSM.

Gabriel Dechaine — Analyst, National Bank Financial

Okay.

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

And then with respect to production, we had set a target of $800 million for the year. If you look at where we were in Q2, we were well ahead of target and so we throttled that back. Basically, the way you do that is you don't raise rates as much as competitors in the rising yield environment. The net spreads that we saw in Q3 were very, very positive, I think. In general, the market prevailing crediting rates have risen slower than asset yields and so the business that we put on the books in Q3 and continue to put on

the books in Q4 is well through expectations in terms of the economics of that business. Now that we have ivari under our belts and we will have a very precise view of our capital situation, we intend to accelerate production in 2024.

Gabriel Dechaine — Analyst, National Bank Financial

And the credit upgrade by S&P, is that even noticeable to your distribution partners and the end consumer or is it not impactful?

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

It doesn't hurt, but the channel tends to look at the local rating. Our US business had an AM Best A- rating before. It continues to have AM Best A-, so it's not as much of a difference at the front line.

Gabriel Dechaine — Analyst, National Bank Financial

Okay. Thank you.

Operator

Thank you. And your next question comes from the line of Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic — Analyst, RBC Capital Markets

Hi. Thank you. I think we sort of stopped short the discussion on the movement to CSM. I wondered if we can just go back to that for a minute and talk about what happened in Jamaica, please, and what that means going forward.

Kathy Jenkins — Chief Financial Officer, Sagicor Financial Company Ltd.

In Jamaica, we had some positive experience versus what we had been modelling out, and that's across a number of different products, so, based on our experience, we made that adjustment.

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

I think there was a bit of a dynamic where some of the adjustments that were taken were some embedded conservatism in the Jamaican numbers under the prior framework. Now that IFRS 17 is being adopted on a statutory basis in Jamaica, some of that was able to be released. So, we'd caution you around saying that there would be $30 million to come out every year, but certainly Jamaica has shown itself to be a very conservatively modelled book over the last few years. And then the implications for net earnings are, with more CSM, you would expect that to present itself into earnings in the single-digit millions of dollars more in run rate earnings over the next few years.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Thank you for that. And I wanted to just revisit a comment, Andre, that you made earlier in your prepared remarks with respect to the nine-month earnings, $47 million, is more representative of

the earnings power excluding ivari. Would you say that $47 million being representative, is it also representative by segment? Or is, within that $47 million, maybe one segment punching above its weight and another not quite, and all in it might be $47 million, but in fact you expect one segment to be a bit more? I'll give you more ideas as to where I'm going with that, but do you think it's representative by segment, I guess is where I'm going with this, for earnings power for the first nine months of the year?

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

Kathy, do you have a view on this one? You were running with the core earnings here.

Kathy Jenkins — Chief Financial Officer, Sagicor Financial Company Ltd.

In terms of the core earnings? I think that we're definitely seeing the growth in the US business, so as you're seeing, as it's been growing, we start seeing increased CSM released into it, so we're definitely seeing that.

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

I think where you're going, Darko, is using the actual year-to-date for numbers going forward. It may be that the US is punching a little bit above its weight and SLI a little bit below on a on a net year-to-date basis. I think this will become much clearer when we are able to provide the full segmented drivers of earnings and reconciliation to core earnings analysis, and so we're close to that, but it's not quite ready for production.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Is it safe to assume that the losses in head office and other are also a bit high relative to what would be a more normalized run rate?

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

Yes, they are. And there's quite a bit of noise that is running through there.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. And with respect to costs; obviously in your assumption of core you removed some costs with respect to IFRS 17 and ivari. Are those done or will there be more costs as you go forward with ivari that we will ignore for the purposes of core, but you actually will take through reported?

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

ivari should largely come out in the wash in the pro formas and so we will expense that into the pro forma balance sheet and that will be done. We will continue to work on projects with ivari in terms of bringing systems together and working on integration with some of our other segments, but I don't think we would look to exclude those from core earnings necessarily. Those would just be kind of run rate on the business.

With respect to IFRS 17, those costs are going to remain high through mid-2024. The cost of the year-end audit, much of that work will be done in Q1 2024 and that will be into the millions of dollars, and we wouldn't expect that to persist into 2025 but it will get into 2024.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Thank you. And my last question just has to do with the debt to capital. I recognize it's going to go down slightly, but can you remind me where you really want that figure to land longer term for your company?

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

I think we would like to be inside of the 30% mark, at or inside of 30% over the long term. Our covenants are at 35%, but we wouldn't want to be too close to that for very long. And I think if we were looking at something, if we were going to look at another significant growth initiative, we'd want to keep that balanced debt to equity in mind.

Darko Mihelic — Analyst, RBC Capital Markets

Okay. Great. I appreciate all this. I really do look forward to the enhanced DOE, core, LICAT, and even the business acquisition report. That's going to all be very good for us, so really looking forward to all of that. I really would appreciate it. And the guidance has been helpful, Andre, so thanks very much for all of that, but there are a lot of moving parts, so I'm hoping that at some point, maybe after you file your report, that we can maybe get together and go over some of these things a bit more fine-tuned, if that would be possible. Thank you.

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

Yeah, absolutely. Thank you for that, Darko. We're excited to have those discussions and it'll be much easier to have off of an official printed report than just out of our projections. We were able to bring the ratings agencies in the tent over the last few months so that they could do the analysis and you saw that it got us the immediate upgrades upon the closing of the transaction and so we're hopeful it will have the same effect with the equity analysis when you can see the rubber meet the road.

Darko Mihelic — Analyst, RBC Capital Markets

Yeah. Thanks a lot. Appreciate it. Cheers.

Operator

Thank you. There are no further questions at this time. Mr. Sipsis, please go ahead.

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

Great. 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 day, everyone. Bye.

Operator

Thank you. Ladies and gentlemen, that concludes our conference for today. Thank you all for participating. You may all disconnect.