Sagicor Financial Company Ltd.

First Quarter 2021 Earnings Call

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CORPORATE PARTICIPANTS

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Andre Mousseau
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Anthony Chandler
Sagicor Financial Company — Group Chief Controller

CONFERENCE CALL PARTICIPANTS

Meny Grauman
Scotiabank — Analyst

Doug Young
Desjardins Securities — Analyst

Darko Mihelic
RBC Capital Markets — Analyst

PRESENTATION

Operator

At this time, I'd like to welcome everyone to Sagicor Financial Company Limited's First Quarter 2021 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'd like to ask a question during this time, simply press star, then one on your telephone keypad. If you'd like to withdraw your question, please press star, then the number two.

Ms. Samantha Cheung, EVP of Investor Relations, you may begin your conference.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company

Hello everyone, and thank you for joining our call today. A link to our live webcast and published information for this call is posted on our website at sagicor.com under the Investor Relations tab.

Please refer to the cautionary language and disclaimers in our materials regarding the use of forward-looking statements and the use of non-IFRS financial measures which may be mentioned as part of our remarks today. Unless otherwise noted, all dollar amounts referenced will be in U.S. dollars, which is consistent with our reporting practice.

Joining me today are Dodridge Miller, our Group President and CEO, Andre Mousseau, our Group CFO, and Anthony Chandler, our Group Chief Controller. We'll begin with prepared remarks by Dodridge and Andre, followed by a question and answer session.

With that, I'll turn the call to our Group President and CEO, Dodridge Miller. Dodridge?

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Thank you Samantha, and thanks to everyone for taking the time to join us. Today, as has been our practice in the last few quarters, I will give some brief remarks focusing on our operating environment and a snapshot of our overall performance for the first quarter, then I will turn it over to our Group CFO, Andre Mousseau, who will provide greater details on our performance.

We are pleased with our results for this quarter as we delivered meaningful revenue growth and strong net income to shareholders. In the first quarter, revenue grew 26 percent year-over-year to $432 million. Net income to shareholders in the quarter was $31.5 million, delivering a healthy 12 percent return on shareholders equity on an annualized basis.

Subsequent to our quarter end, you would have seen our communication on the successful completion of $400 million senior note issuance. We are very pleased with the execution of this bond issue, which allows us to materially lower our cost of capital.

Over our long history, we have demonstrated resilience in the face of varying economic circumstances due to our prudent financial management and our ability to be agile and to take advantage of opportunities. Overall, we continue to deliver healthy financial results, maintain a strong liquidity position, and strong capitalization levels well above internal targets.

Turning to our operations, before our CFO provides details on the operating segment financials and drivers of performance, I would like to place some context on our operating environment given the current state of the pandemic.

Our operations in the Caribbean continue to navigate through challenging environments. As in other parts of the globe, second and third waves have periodically disrupted normal business operations in our markets. Through this, we have kept servicing our customers and have continued to generate robust new sales, and while the Caribbean economies have shrunk since 2019, our outlook remains modestly confident for a strong recovery as vaccinations in the target markets where tourists travel have sped up over the last few months and as the vaccines are proceeding across the Caribbean. Throughout this period, we have stepped up our local efforts to support our clients, our staff and our vulnerable communities.

With regards to our operations in the United States, 100 percent of our employees have access to vaccinations. We are also seeing COVID restrictions beginning to relax in some states given the effective vaccination rollout.

Turning to our outlook, while we are clearly not yet through this global crisis, we have a sense of optimism. Our Company is financially strong and our operating results continue to improve quarter over quarter as we continue to progress our strategic initiatives.

With this, I will now turn the presentation over to our Group CFO, Andre Mousseau. Thank you.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Thank you Dodridge, and good morning everyone. As Dodridge said, it's good to be here reporting strong results once again as we continue to see robust performance after such a disruptive 2020.

Total revenues increased 26 percent year-over-year to $431 million. This level of growth really comes from the comparison against Q1 2020, which had negative net investment income due to a sharp fall in asset prices in March 2020. Absent that, we actually had a quiet quarter from a premiums point of view, in part due to a lower production quarter in the U.S. and in part due to devaluation of the Jamaican dollar year-over-year.

Net income to shareholders was $31 million in Q1 compared to a significant loss in the prior year. Contributing to this was $26 million of net income recognized on our investment in Playa Hotels and Resorts, which saw its share price improve significantly in the quarter as the outlook for hospitality assets improved with the global rollout of vaccines. I'll spend just a minute drilling a little bit more into this.

In Q1 in early January, Sagicor Financial purchased 8.5 million shares of Playa from Sagicor X Fund Jamaica, which is an investment company below our Sagicor Jamaica subsidiary that had taken in third party shareholders. Sagicor X Fund previously owned 20 million shares from having contributed some hotel assets that Sagicor Jamaica had owned. They contributed those hotels into Playa in 2018 and received back shares. They decided to sell and deploy the proceeds elsewhere. We at SFC decided, given our excess capital and our view on the recovery of the markets, that we would buy some of these shares. We bought 8.5 million shares at the top company at a net price of $4.80 per share, bringing our total shareholding at SFC to 10 million shares. Through the first quarter, the shares traded up, closing a $7.30, near where they are today, and we have booked a gain.

This transaction is also going to have the added benefit of greatly simplifying our reporting going forward. Prior to Q1, we had accounted for Playa as an associated company, which means we'd consolidate our proportionate share of Playa's net income or loss onto our income statement, then we had to back out most of that income or loss out of our results to shareholders through our non-controlling interest. Going forward, we will simply mark the investment to market every quarter. It will make understanding the results of our Jamaica operation much more simple.

Now, I'll speak about the first quarter performance of our major operating segments.

At Sagicor Life, our operating segment in the southern Caribbean, total revenue increased 15 percent year-over-year to $130 million. We benefited from single premium annuity sales of $13 million and $6 million of annualized new business sold in the quarter. Net income to shareholders of $8 million was $6 million higher than the previous year, which included asset price volatility at the end of the quarter.

At Sagicor Jamaica, total revenue of $165 million increased 25 percent year-over-year as in the prior year it had taken net investment losses. Net premium revenue was down 10 percent in U.S. dollars, driven principally by a devaluation of 8 percent year-over-year in the Jamaican dollar.

Sagicor Jamaica, like Sagicor Life, has some seasonality in it with Q1 traditionally being our quietest sales quarter. When you compare it against Q1 of last year, that was really the last quarter where sales were unaffected by the operating environment as the Caribbean didn't shut things down last year until about the third week of March, so most of Q1 last year was an unaffected sales quarter. Our share of Sagicor Jamaica's net income increased by $1 million to $10 million net of the effect of that currency devaluation.

Sagicor Life USA grew its total revenue 22 percent to $111 million, again growing revenue relative to a comparable quarter that had investment losses in Q1 of last year. Our net premium revenue was $87 million, including $82 million of new business. As a reminder, in our U.S. segment we can choose to shift new business production up or down based on marginal pricing changes. In Q4, we had turned production higher; in Q1, we throttled back production a bit based on the spread environment. We have increased production in Q2 and would expect it to be higher for the rest of the year.

Net income to shareholders was $1 million, which is an improvement over last year, but the low level of profitability was again a reflection of the low new business sales.

Our total comprehensive income to shareholders this quarter was just negative as we had some negative changes in bond prices backing capital in Q1 with rising rates in the U.S., and we saw a couple more points of devaluation of the Jamaican dollar which ran through other comprehensive income. With that, our book value per share is USD $7.52, or CAD $9.46.

One final note on an important development subsequent to Q1, as Dodridge noted, last week we closed a refinancing of our top company bond. We managed to get very good execution and support from the bond market in an offering that was over three times over-subscribed and issued a $400 million bond at 5.3 percent. This is going to replace our old bond, which was a $320 million note due next year that yielded 8.875 percent, so we saw more than a 350 basis point improvement in our debt cost of capital.

We tendered for our old bonds and got $130 million of take-up, so about $188 million remains outstanding. The call premium goes to zero in August, so you can imagine we would redeem those when it makes sense to do so. With that raise, we remain well capitalized and we have added to our already significant liquidity by retaining about an extra $70 million to fund future growth. Pro forma for that transaction, we expect to have a debt to capital ratio of approximately 25 percent.

With that, I will turn it back to Dodridge and Samantha.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company

Thanks Andre. We are now ready to take your questions. Operator, please open the line to our analysts for their questions.

Q & A

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 – Analyst, Scotiabank

Hi, good morning. First question is for Dodridge. It sounds like you're definitely getting more optimistic about the outlook for the Caribbean, but I'm hoping you could give a little bit more granularity in terms of how you see the pace of vaccinations and the overall reopening of the jurisdictions that you operate in, how that's all going to play out. If you look across your main geographies - Jamaica, Trinidad and Tobago, and Barbados, which geographies are ahead, and just in general when do you expect those economies to actually be fully opened?

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Thanks for your question. When I refer to my optimism, I'm looking largely at tourism-based Caribbean islands, which would be the Eastern Caribbean, Barbados, Jamaica. We know that Jamaica is going through the tail end of a recent surge, which seems to be coming back under control; but the Eastern Caribbean and Barbados, heavily tourism-based, they have had good experience through the pandemic. Barbados had an uptick early in January - that is now under control, and the government is about ready to re-launch its tourism product. During the closures, they have spent a lot of time retraining staff and retooling the plan and getting ready for the coming winter season, so based on what I'm hearing, they expect good outcomes as the source markets are way ahead in their vaccinations, and as the Caribbean is proceeding quite aggressively for their own vaccination programs.

Trinidad is in a slightly different situation, but again that's not a heavily tourism-based country. We are optimistic that they will also get that under control and reopen for business.

Meny Grauman – Analyst, Scotiabank

Thanks for that. Andre, in talking about the U.S. segment, I think you were referencing better annuity sales in Q2. Is that just a function of you coming in and out of the market, depending on spreads, and related to that, how much of a clear sightline do you have? It sounds maybe like conditions change pretty frequently in the U.S. market, so how confident are you in terms of the outlook for annuities for the rest of the year, and can it change quickly or is it pretty clear in your mind that conditions will improve and sales will be able to ramp up as we move through the year?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Thanks for that, Meny. When we say coming out of the market, we're keeping our products on our producers' shelves and really what it comes down to is, where do you choose to price yourself relative to competitors that are selling similar products. What we have the ability to do is to nudge crediting rates, essentially pricing, up and down to be more or less relatively attractive. To your question of how quickly can that be done, the process is not instantaneous but a change in pricing can be done. It's measured in weeks, not in months, so we're constantly evaluating the spread environment, which is a function of where the market clearing rates are relative to where we're able to add new assets to back the liabilities, and kind of making a call on how much we want to be producing in a given week or month.

We think about our annual production in terms of annual targets. I would say that our quarter run rate for Q1 was well below our annual target. We're confident based on what we've seen so far in Q2 and based on our past track record of being able to throttle production forward and backwards, we're still confident with our original target, which I don't think is a disclosed number but it's well in excess of what the Q1 annualized rate would be.

Meny Grauman – Analyst, Scotiabank

Thanks for that. In terms of just the competitive dynamics in the U.S., are there irrational players in the market, as you see it? Are there very extreme differences in pricing when you decide to throttle back, or is it much more subtle? I'm just trying to get a sense of your competitors and how you view your competitors. Does it sometimes get totally out of whack or are we talking about relatively small differences here?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

We're still talking differences that are at the margin. I mean, we're talking about pricing zip codes where you're in a very different competitive position by, call it 30 or 40 basis point change in the underlying crediting rate on annuities products. It's not like we see folks out there usually who are way, way off base, but to the extent that ever does happen, you simply set it, stand aside and allow other people to take that production.

We talk about these products in buckets so that we can summarize it, but the reality is within annuities, there are several different kinds of annuities that we sell, and even within those annuities we're selling multiple different tenures, right, so even within the MYGA product, which is the biggest ones that we're selling right now, we're selling three, four, five, seven year, and so if you see a player who's being particularly aggressive in one tenure, you can choose to let them take up the majority of the production and be somewhere else.

Different players are getting different economics out of that business based on what they choose to do with the assets, but in general we see ourselves as being able to be competitive.

Meny Grauman – Analyst, Scotiabank

Thanks, and then final one from me, just wondering if there's any notable reserve releases in any of the segments. I don't think there was any reference, but I just wanted to double-check if there was anything there.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

I would say no. It was a very quiet actuarial quarter. As we've talked about before, we do our big work around Q3 and then some of that gets followed often into Q4, when we do our annual numbers. But from an actuarial point of view, this was a pretty unaffected quarter.

Meny Grauman – Analyst, Scotiabank

Thanks Andre.

Operator

Your next question comes from Doug Young from Desjardins. Doug, please go ahead.

Doug Young – Analyst, Desjardins Securities

Hi, good morning. Just wanted to understand first just a little bit about the earnings emergence. Common shareholder earning was USD $31.5 million, $25 million of that was due to gains from the sale of the Playa in the accounting there, so it's $6.5 million net of that. I'm just trying to get a sense of what drove the earnings, like was it new business? Obviously new business was a negative for the U.S. division, so I'm just trying to get a sense of what the puts and takes were from new business, experience. You just mentioned the assumption changes were not material. Was there additional investment gains or yield enhancement that came through? Just hoping to get some bigger picture kind of themes and trends for the quarter.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Right, thanks Doug. Bigger picture, there were no material changes that would run through, and I think if you're thinking about a source of earnings analysis, when I responded to Meny's question, there were no material basis or assumption changes. If you back out the Playa net income, which is from the marking it to fair value, we end up with a net income number that is pretty low at $6 million, in the sense that it would be below a normalized targeted run rate. I'd say that's reflective of seasonality, and in our Caribbean operations where traditionally the first quarter is a quiet quarter as a lot of our new business generation is driven by the direct sales force that is driven by annual quarters on the calendar cycle, and so Q1 tends to be quiet. If you look in the past, you can see that pattern over the last number of years in terms of the proportion of our net income out of those subsidiaries compared to the full year.

Then with the U.S., it's not so much seasonality as there is a bit of lumpiness based on whether we decide to throttle production on and off, and so what we're saying is over a full year, we would expect to be generating higher run rate sales out of the U.S., which would mean more new business, which would mean significantly more net income from new business generation in the U.S. segment.

Doug Young – Analyst, Desjardins Securities

Okay, and then head office had net income of $12.2 million. I assume that's the Playa, or is there something else that was in there?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Yes, that's correct - that's where it ended up. Our head office and other is a mixture of head office SG&A, our finance costs like our outside bonds, and also several different non-core operating businesses that we own, that end up being bucketed into that segment.

Doug Young – Analyst, Desjardins Securities

Okay, perfect. Then just on Sagicor U.S., you talked about production and some of the puts and takes there, and I apologize for this question, but on Page 19 in the benefits section, there was just some mention, there was lower benefit payments in the U.S. resulted in higher provisions for future benefits being maintained. I just didn't understand what that was, so I don't know if you can just simplify and elaborate on that.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

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Doug Young – Analyst, Desjardins Securities

Yes, and if it's easier to follow up, I'm happy to do that as well.

While you're looking for that, I can throw another one. We talked before about using reinsurance in the U.S. as a way to improve the profitability and capital efficiency within the U.S. division. I didn't see that there was any additional insurance or reinsurance that was done in the quarter. Is that correct, and any updates in terms of the outlook for further using reinsurance?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

That is correct - there was nothing in the first quarter, and I'd say you can expect us to, and we would expect to announce details of further reinsurance this year.

Doug Young – Analyst, Desjardins Securities

Okay, so that's still on plan, it's just there wasn't—I would assume that's just going to be lumpy from time to time as well?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Yes, correct. I mean, we could evolve it eventually into a flow arrangement, where it would be less lumpy, but there's a lot of the U.S. balance sheet to do, so it's going to be lumpy first.

Doug Young – Analyst, Desjardins Securities

No, that’s fair. Then just on credit, credit wasn’t big in the quarter, but I did see in Sagicor Jamaica, there was a build, and I would assume that involves—that’s related to the bank, and that would be involved in higher impairments and then potentially some changes for your allowances for performing loans, so either a release because the forward-looking indicators improved, or a build because of some of the challenges that continue to go on. I just wanted to get a little bit of clarity if there was any big items underneath that Sagicor Jamaica credit item.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

I may ask Anthony to elaborate a little bit. If you think about the Jamaican book, it’s directionally evenly weighted between larger loans and a credit card portfolio, and so you’ve got both.

Dodridge and Anthony, off the top of your heads, it’s a small credit number but it is still $400,000 in Jamaica. Was there anything large in that?

Anthony Chandler — Group Chief Controller, Sagicor Financial Company

No, but Jamaica will have the effects of the bank where the proportionate credit events will be a little more significant than some other areas. That’s largely what’s happening there.

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Andre, this is Dodridge. There were no material credit events in the Jamaica bank. What you may be seeing is an uptick in credit cards, but that goes up and down as the collection efforts are intensified.

Doug Young – Analyst, Desjardins Securities

Yes, that makes—okay. Then just lastly, the MCCSR was down 6 points sequentially. Any big moving pieces there? Was there implications from interest rates or—and I didn't see anything, I know you did a debt restructure that kind of was after the quarter, but I didn't see anything in the quarter that would have drove that down. I'm just hoping to get a sense of what drove that down six points. Thanks.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

I don't think there were material movements, Doug. You can expect to see that, the MSSCR kind of wander a path in and around the number, but kind up go up or down 5 to 10 points in any given quarter, based on the precise capitalization and dividend timing at the subsidiaries.

Doug Young – Analyst, Desjardins Securities

Okay, perfect. Thank you very much.

Operator

Your next question comes from Darko Mihelic from RBC Capital Markets. Please go ahead.

Darko Mihelic – Analyst, RBC Capital Markets

Hi there, thank you. Good morning.

I just want to first revisit Playa for a moment. Andre, you gave us a bit of history there and what happened in terms of the transactions. Can you just remind me, when the fund originally decided to sell its stake, you guys had made a decision to buy it. Why was that decision made?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

At the fund level or at the SFC level?

Darko Mihelic – Analyst, RBC Capital Markets

At the SFC level.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

We have a view on the assets, including having some expertise around our investors and board table around hospitality assets in general and this one in particular, and we saw disproportionate relative value at $4.80. We saw ourselves having a significant excess capital position to be able to take advantage of that, and so it's a bit of a one-off in terms of it's not a strategy necessarily to go and do more of these, but we made a decision on it and so far, it's worked well.

Darko Mihelic – Analyst, RBC Capital Markets

What's the intention? What do you intend to do with this asset? Hold it forever?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

I think we would continue to re-evaluate that on a quarter by quarter basis, and it's a mixture of how the stock trades relative to our view on value, and also where we are with our capital position. I think right now, we have a significant amount of excess capital, and so we're in a comfortable position of being able to be a supportive shareholder.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, thanks for that. Then just moving back to the U.S. for a moment, I'm just trying to get some sort of sense of—I don't know, I need a reference point, I need materiality. Can we talk about what you sold in the quarter relative to last year's run rate? It sounds like you don't want to give out targets in terms of sales, but I just need some sort of a—you know, how much were sales down, how much do you expect them to improve? I see other players in that market actually put up record sales in Q1. Perhaps they were pricing inappropriately, I don't know, but I certainly see other ones, especially even in MYGA sales, they had very good results in Q1, so I'm just—first, I'm looking for some reference, like a reference point in terms of materiality here, in terms of how much it moved down relative to the past and to future run rates. Can you help me with that at all?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

I can certainly help you for reference points, and that is if you look in our segmented financials, the sizeable majority of our net premium revenue for the U.S. is going to be annuity sales, which are going to be annuities new sales, so there is some periodic premium in there, but over 90 percent of that is going to be new annuity sales. If you look at that number, and I'm looking at Note 3.1 to our financials, where we say okay, we did $87 million of net premium revenue, which I said in my comments I think $82 million was new sales, the prior year in Q1 was $120 million, so that is off by approximately 30 percent.

As I talked about earlier, we're picking our spots based on the spread environment. You're right - some folks were aggressive and had more sales. We're not giving specific targets, but we certainly have aspirations to be producing well in excess of the run rate that we had in Q1. I'd say it would be well in excess of the run rate that we had this year in Q1, and we're seeing that already so far in Q2.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, and as I understand the market, rates are changing quite a bit, and you mentioned tenures - you mentioned three, four, five, seven-year tenures, so there could be an onslaught of these things that in a year or two would be up for potential surrender, or whatever. Is this a phenomenon that you're working on, because I understand the MYGA - that's fine, but fixed annuities, is this something that you can shed some light on in terms of, first, whether or not you are preparing to build other products for what potentially could be a meaningful shift later in the year, and if you do that, I guess what I'm interested in understanding is the MYGA sales versus fixed annuities, profitability, and the whole search for scale. As I understand the U.S. business, right, you guys aren't at scale. For some reason you turned off sales in the first quarter, so am I sensing here that, all right, maybe margins in the products wasn't as high as you wanted, you turned them off, and you're preparing to shift into new products as time wears on, you're expecting sale to rebound and in fact profitability per sale will go up, or is this purely just about the marketplace and the movement in rates?

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Andre, can I just take a shot at that, answering Darko's question? This is Dodridge.

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Sure.

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Darko, we have long relationships with a group of independent brokers and we're also on some specific platforms, and we monitor the market on an ongoing basis, and what we target is to be in a band of prices that puts us in the top three on those platforms and in our relationships with the brokers. What we see from time to time is that someone who might have been lagging in production may be a little bit more aggressive with their prices, and we may drop to number four or number five. We have to take a view, is it worth competing against that person in the short term and destroy margins, or do we wait it out and then step back in? Those are things that we are constantly monitoring and in discussions with our platform leaders and with our brokers.

To your point, we used to be heavily into the indexed annuity. We've seen the shift and we've responded and we're in the MYGA, and we're constantly monitoring where the market is going and preparing the new products to step into the market. But for the first quarter, we got good sales in the first quarter—sorry, in the fourth quarter, we saw a couple players stepping in and being aggressive in the first quarter. We chose not to respond to that and we are ramping back in the second quarter. It's constantly monitoring the market, constantly in discussions with the independent agents, and watching to see where is the shift and when is the shift to a different product. Our development team is constantly working on what's the new and next thing that the market is looking for.

Darko Mihelic – Analyst, RBC Capital Markets

Okay, thank you for that.

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

I hope that helps.

Darko Mihelic – Analyst, RBC Capital Markets

Yes, it does help, and it sounds like the competitive environment is—well, it's competitive. I guess the question then becomes how long are you willing to drop down in sales, from top three to four, five, six spot, before you lose and you fade sort of your recognition, your brand and people start to move onto other companies, I suppose? It sounds like you're back in the market in Q2 and you expect things to rebound, so my question again to Andre is, is the profitability—dollar for dollar, the sales of these annuities that you had in first quarter versus second, I expect there to be—you know, if you're telling me there's a rebound, I expect there to be a rebound, but is the profitability per sale the same or better in Q2, and why?

Andre Mousseau — Group Chief Financial Officer, Sagicor Financial Company

Well, the changes in profitability come down to—in large part to the spread that you think you're getting out of it, and so that's a function of your crediting rate and the assets you're putting behind it. I don't think we would want to shift or signal a shift in unit economics necessarily, because I don't know that we're seeing things materially more or less based on where we can get the sales, but I think we're saying that we expect to—at some point in the second quarter, we have throttled on and we expect to see higher levels, and you'll see as it evolves the marginal difference in net premium down to the segment net income.

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

And Darko, we're not doing these things without discussing with our partners in the market, so there's no risk to the brand and you would see that we were able to ramp up in the fourth quarter without any difficulty. We're again starting to do that in the second quarter. These discussions and decisions are taken in conjunction with our production partners and our distribution partners in the market.

Darko Mihelic – Analyst, RBC Capital Markets

Right. No, I'd anticipated that. I just hope you understand the line of questions, where I'm coming from in the sense that you're building out a U.S. business, but it seems like from time to time, you hit moments where pricing pressure is there and sales pull back while bigger competitors continue to charge ahead, so it just—you know, effectively what I'm looking for and what I'm trying to better understand about the U.S. business is we all know it's not to scale and it's showing, at least this quarter it seems to show that it may not be as easy to get to scale, depending upon competitive forces, and that's, I guess, what I'm trying to figure out, is how willing you are to get to scale in this business, irrespective of the competitive environment.

Dodridge Miller — Group President, Chief Executive Officer, Sagicor Financial Company

Darko, we said this when we started to reengage the market and retain the business we wrote in the early part of 2018, and what we've been able to demonstrate since then, that given the competitive pressure and the different scenarios that we have to play out, we're able to meaningfully grow the business. I wouldn't judge our ability to do so on our throttling back in Q1 because if you look back from 2017 through where we are now, we've had significant growth and we were able to successfully do that in the face of a competitive environment.

I think as we go forward, we will demonstrate our ability to engage the market profitably and while building the business out, but I understand your question.

Darko Mihelic – Analyst, RBC Capital Markets

That's great, thank you. That's good perspective as well. Thanks very much.

Operator

Ladies and gentlemen, that's all the time we have for questions today. I'll now turn it back to Samantha for closing remarks.

Samantha Cheung — Executive Vice President, Investor Relations, Sagicor Financial Company

Great, thanks Colin. Thanks everyone for joining our call today. Following the call, a telephone replay will be available for one month; as well, a transcript will soon be available on our website. If you do have additional questions, please do not hesitate to reach out to any of us.

Our annual general meeting for shareholders will be held virtually on June 4 and details are available on our website at www.sagicor.com.

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.