# Tryg A/S Received the Final Approval of the Alka Acquisiton Call

## Company Participants

- Gianandrea Roberti, Head of IR
- Morten HÃ¼bbe, Group CEO & Member of Executive Board

## Other Participants

- AsbjÃ¸rn Nicholas MÃ¸rk, Analyst
- Per GrÃ¸nborg, Research Analyst
- Vinit Malhotra, Banca di credito finanziario S.p.A., Research Division

## Presentation

### Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti, Head of Investor Relations of Tryg. We're hosting this call today following the approval of the Alka acquisition. Morten HÃ¼bbe, our CEO, will walk you through slides and then we will leave it to Q&A. Over to you, Mort.

### Morten HÃ¼bbe

Thank you, Gian. Good morning to all of you. And of course, first on Slide 2, very pleased to announce that the Danish Antitrust has now approved our Alka transaction with 3 non-structural remedies. One, being an annual donation to what we call, Forsikringsguiden, in Denmark; two, being cancellation of certain fees for early cancellation; and three, being the removal of exclusivity on certain partner agreements.

I will elaborate on the next slide on these 3 remedies in a bit more detail. But generally, we estimate the financial impact of these 3 remedies to be roughly DKK 20 million per year for five years. We confirm very firmly our synergies target of DKK 300 million with unchanged timing and unchanged size.

In reality, that means that we compensate for the DKK 20 million annual impact of remedies by adding additional synergies. But let me get back to that. Then we confirm, as expected and communicated, a solvency ratio of 170% after everything has been carried out.

On Slide 3, we elaborate further on the 3 remedies. First of all, for those of you outside Denmark, Forsikringsguiden is not well known. Forsikringsguiden is a comparison poll also. But very unlike your typical U.K. comparison site, which tries to come between the customer and the insurance company, which charges commissions and pushes costs up for the insurance company. Forsikringsguiden is indeed developed by the Danish Insurance Association together with various consumer bodies. It has been in place for a number of years, generally to inform objectively about differences and carve-out price across the Danish industry. And we have agreed to pay an annual donation to Forsikringsguiden for the coming five years.

To elaborate on the second remedy, we've accepted to suspend certain existing fees that relates to a situation where the customer carries out an early cancellation of their policy and we have accepted to suspend that also for a 5-year period.

Then, finally, we have accepted to remove exclusivity on a number of partner agreements, both in Tryg and in Alka. In our experience, what determines success in the partner market is whether the partner finds our products attractive, more and more so whether they find our digital and innovation solutions attractive and whether they find our prices attractive and generally that the cooperation between the 2 parties work.

And fundamentally, it's key that a partner agreement is attractive to both parties. If that is not the case, then actually a contract would not save the business. And actually, exclusivity does not fundamentally change that recipe for success.

We have already, together with Alka, received very positive feedback from the unions that Alka works with. A wish for further and more additional cooperation, more new development has been required from a number of unions and several unions already plan to use some of their proceeds from the Alka sale to buy more insurance for their members, which is very positive. And it's quite clear for us that the Tryg family's bonus for members by TryghedsGruppen puts us in a very unique position where we are very attractive in these partner agreements.

If we turn to Slide 4, we see that the Alka financial performance has remained very strong since the announcement of our transaction. nine months this year, combined ratio of 84, technical result of DKK 276 million, 4% growth and a very healthy improvement of the cost ratio.

On Slide 5, we slightly elaborate on the Alka portfolio. Very positive to see that it is predominantly a Danish private lines business. And if we look at Tryg's historical business, Danish private lines is our largest and most profitable portfolio. And if you look across the Tryg group, it means that our overall exposure to private lines will increase from approximately 50% across the group today. So approximately 60% after Alka. And we find this a very reassuring and positive consequence of the transaction.

On Slide 6, we actually repeat the synergy slides that we published in December '17. While during this rather lengthy approval process, we have had lots of time to carry out very detailed plans, very detailed investigations, which means that we are very confident on the synergies planning. As an example, we have carried out a number of clean teams, for instance, official external consultants have gone through all of the spending in Tryg and

Alka on claims and contract data. They've gone through as much as 700 different contracts, carried out more than 50 workshops and interviews to make sure that we have a completely clear picture of what to carry out and when and a very detailed plan of doing so.

It means that we will offset the DKK 20 million of remedies by an addition of DKK 10 million of reinsurance synergies and an addition of DKK 10 million of procurement synergies.

Also, we are very pleased to have noticed that in 2018, Alka has been running at some 8% lower costs year-to-date. The cost ratio has improved from 16.6% to 15.3%, corresponding to some DKK 28 million lower costs year-on-year, very positive for the total case and the future. Also, it's quite clear that when we've investigated further, there will be extra efficiencies from group and innovation teams. We have very high activities on Innovation Tryg, Alka has the same, that will continue. But we don't need to do everything twice.

Thirdly, it means that the total synergies of DKK 300 million are very, very firm and that the timing and size is unchanged and that we actually offset the DKK 20 million.

Bear in mind, as we have communicated all along, there will be one-off costs. We expect to be at DKK 200 million in Q4, of which DKK 120 million will hit the technical result and DKK 80 million will hit other.

On Slide 7, we mainly repeat our solvency expectation of around DKK 170 million repeat, as already communicated, no extraordinary dividend on the back of full year '18. It's quite clear that our profitability has been very high and robust in Tryg alone. Alka, in addition, will increase our earnings ability going forward. And quite clearly, with our ROE target, we have no intention or incentive to grow our equity too much and that will, of course, help our total payout.

And we're generally pleased to have now even more private lines exposure, which longer-term, will result in higher profitability and lower capital requirement and then the starting point, all other things equal. On Slide 8, we mainly confirm our unchanged 2020 strategy, including now the Alka technical result and synergies and a target of DKK 3.3 billion technical result in 2020. And as always, we finalize and close out with our favorite quote from John D. Rockefeller before moving over to your questions.

## Questions And Answers

### Operator

(Operator Instructions) The first question is from AsbjÃ¸rn MÃ¸rk of Danske Bank.

### Q - AsbjÃ¸rn Nicholas MÃ¸rk

A couple of questions from my side. First of all, on the remedies, Morten, you seem very focused on the 5-year time horizon. And I understand that you're not too concerned about the exclusivity suspension. But I guess, this could have an impact going forward as well on potential lost revenue after your 5 -- or is there something I'm missing here?

## A - Morten HÃ¼bbe

Well I think that if we look across the Tryg book, we have a very large proportion of partner business already today. I think we've proven that -- there's no doubt that partner business structurally has more risk than direct business. I think we've proven historically that we've been so good at driving the partner business that we have more longer lasting relationships. We have actually even stronger loyalty and even stronger returns in the partner business. And in addition to that, the bonus is now a new character which would help the total partner business. Could you lose partner business? Yes. You could with exclusivity or without exclusivity. But our experience is that if the partner doesn't feel that an agreement works, they stop putting business into the agreement, regardless of what the legal wording is. And that is why we see that there is no fundamental change to the way we perceive our ability to create success in partner business and if you look at it from the union in Alka, they get the same product as before at the same price as before and now they get 8% bonus in addition. And that is getting very, very positive feedback from the unions, exclusivity or not.

## Q - AsbjÃ¸rn Nicholas MÃ¸rk

So there is no real catch for union members in any way? They get at least the same product and 8% custom bonus?

## A - Morten HÃ¼bbe

They get the offer that they're getting today and then they get 8% bonus on top, which I think most of them will find attractive.

## Q - AsbjÃ¸rn Nicholas MÃ¸rk

Of course. Okay. Question on your -- on the synergies. First of all, the bridge that you have, it's altered slightly since the December last year announcement. You have 5% box called reinsurance investment, now you have costs about -- about 30% or 25%, is that just technical or is there something that we should focus on?

## A - Morten HÃ¼bbe

No. To be honest, it is fair to say that in December a lot of the synergies were assumptions. And now as I mentioned, with 700 contracts and the 50 workshops, we have altered a ton of things within those lines, one of them being, for instance, that reinsurance has more synergies and development and group costs has more costs, synergies, et cetera, et cetera. So a lot of moving parts. But I think, the overall picture is fairly unchanged. But I guess, initially, we thought that the implementation would start earlier and therefore, we would start with more simple and crude plans. Now instead, we start a little bit later. But with extremely detailed plans. But in the overall and bigger scheme of things, it actually looks slightly more positive than planned and now, more detailed.

## Q - AsbjÃ¸rn Nicholas MÃ¸rk

So the extra DKK 20 million from procurement and reinsurance, I guess that is seen as sustainable, right? So after year 5, you would actually have met synergies of 320, all things equal?

## A - Morten HÃ¼bbe

That is correct.

## Q - AsbjÃ¸rn Nicholas MÃ¸rk

All right. Then final question from my side, you mentioned as well Morten, the cost ratio in Alka, of course, has come down quite significantly. But I also think, I guess, marketing expenses, et cetera, has come down quite substantially as well. So is it really the correct starting point to look at the actual cost ratio as of Alka right now? Or is that including some of the, what you would call cost synergies going forward because they have lowered their marketing spend, et cetera?

## A - Morten HÃ¼bbe

I know for a fact that a lot of Alka's new business comes from the beginning of the year and I also know for a fact that there is a rather large marketing spend planned for November and December. So no, you cannot just assume that that is the run rate. I would probably more look at it as an additional positive signal that Alka is becoming even more efficient. But I think Alka will continue to have a rather high marketing spend. So I think, I would assume the same run rate as before. I would add the DKK 300 million and then I would see this, if you will, getting slightly ahead of the curve as just one more positive signal that we're on the right path.



## Operator

The next question is from Per GrÃ¸nborg of SEB.

## Q - Per GrÃ¸nborg

Per GrÃ¸nborg from SEB. Two questions from my side. First of all, mostly a clarification. You are removing the fees for power plants, moving their contracts within contract period. How much of those fees did you charge in 2017 just to get a perception of how big a share that is of the DKK 20 million?

## A - Morten HÃ¼bbe

Well. Good morning to you, Per. I'm pleased that you start with a question that we will not answer. I think it is fair to say that the early cancellation fees did actually not exist in Alka. They existed only in Tryg and that they play a sizable proportion of the total DKK 20 million. It is not our experience that they have a significant impact on customer behavior. But of course, there is a financial impact, which we then have to compensate.

## Q - Per GrÃ¸nborg

Okay. My second question, getting a bit back to AsbjÃ¸rn's question but a bit broader. You have approximately DKK 750 million of operational improvements in November '17. You posted an additional DKK 300 million from this acquisition. How far -- how much have you delivered by the end of -- should we expect you to have delivered by the end of '18 of the 1050, sorry of the 750? Then, I think I didn't get very clear on your answer, the DKK 300 million new plans of synergies on Alka, should we base that on the 2017 earnings or should we base that on the 2018 earnings?

## A - Morten HÃ¼bbe

I think you should base it on the 2017 earnings and then, probably, assume that when we look at the run rate of '18, we are slightly ahead of that curve. What I would suggest is that when we do the full year '18, we spent a little bit more time giving a complete status on the targets for the three years in Tryg and the initiatives and the run rates on those and then, we show you a little bit more color on the synergies and the plans for Alka. It's clear that up to now there has been rules as to how close we've been allowed to get to Alka data. That's why we've used clean teams that are external teams. But when we report Q4, we should be able to give you more detailed information both on the synergies and plans there. But also on the status on the 3-year initiatives in Tryg. So let's elaborate on that with Q4.

## Operator

(Operator Instructions) The next question is from Vinit Malhotra of Mediobanca.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Some topics have been addressed so thank you. But I'm just curious that, the exclusivity clause, for example, is it something like car dealerships or is it partnership business? That could mean a lot more on the cooperate and those kinds of things. But what kind of exclusivity clause could this be? I'm just more curious about the actual nature rather than the numbers as such because I'm just trying to understand what the competition authority got out of this as well.

## A - Morten HÃ¼bbe

Well. Good morning to you as well, Vinit. Fundamentally, the bulk of Alka's business is private lines business. So we're talking about the private lines business. In that business, roughly half of the business is related to cooperation with unions. Those agreements have a length, typically five years, which is the legal maximum period and then they have today an exclusivity, which means that the union cannot work with other insurance companies than Alka. Now what this changes is the exclusivity clause, which means that the union has the opportunity to work with other companies than Alka as well. And that's where I comment that when a union, which -- slash partner is pleased with the products, the innovation, the digital, the pricing and now, in addition the bonus, they will not want to work with other insurance companies than us and Alka. If we don't perform, then they won't put business to us, regardless of whether there is exclusivity or not. But it relates fundamentally to these union agreements in private lines.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. And in your assumption, sorry, to follow up. But in your assumptions, you have assumed that some undesirable business will go away. Have you assumed something will go away or very little?

## A - Morten HÃ¼bbe

What we have assumed, we have a business plan, which looks at the starting point run rate. Then we have made assumptions on which agreements will have a similar volume as before, which agreements would have a larger volume than before and which agreements would have a slightly lower volume than before. Then all of that flows into our total plan. But we haven't really changed our assumption of those plans as described because we believe the success of the agreements does not rely on the exclusivity. It relies on the attractiveness for the partner and the union and us, on products, on pricing, on innovation, on digital and then, of course, we have the tailwind and the help that we add 8% bonus on top. And that's why we're quite confident that this is a key focus area to be alert and keep partner and union agreements attractive. But that was a key focus point already before the exclusivity question.

## Operator

We have no further questions. I hand back for closing remarks.

## A - Gianandrea Roberti {BIO 6786731 <GO>}

Well thank you very much for your calls. If you have anything more, you can just call Peter or myself. Otherwise, we look forward to talk to you as usual. Thanks, again.

## A - Morten HÃ¼bbe

Thank you.