FINAL

Bloomberg Transcript

Recommended cash offer for RSA Insurance Group Plc

Company Participants

- Barbara Plucnar Jensen, Group Chief Financial Officer
- Gianandrea Roberti, Investor Relations Officer
- Johan Kirstein Brammer, Group Chief Commercial Officer
- Morten Hubbe, Group Chief Executive Officer

Other Participants

- Asbjorn Mork, Analyst
- Jakob Brink, Analyst
- Martin Gregers Birk, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Teik L. Goh, Analyst
- Tryfonas Spyrou, Analyst
- Unidentified Participant
- Youdish Chicooree, Analyst

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. My name is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published this morning the recommended offer for RSA Insurance Group plc. And therefore, I have our Group CEO, Morten Hubbe; Group CFO, Barbara Plucnar Jensen; and Group CCO, Johan Kirstein Brammer to comment on this important acquisition.

Over to you, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Gian, and good morning to all of you.

We are extremely excited to be with you here today and to announce the recommended offer for RSA, alongside our consortium partner, Intact. As we announced on the 5th of November, Tryg will be acquiring the Swedish and Norwegian assets of RSA and will be co-owning RSA's Danish assets. We see this as a very compelling and strong opportunity for Tryg to create the largest Scandinavian non-life insurer that will deliver very strong returns to our shareholders.

The total consideration for RSA is GBP7.2 billion or some DKK60 billion, representing a 51% premium to RSA's undisturbed share price. In Tryg, we are paying just under DKK35 billion for the Tryg perimeter of the RSA assets, including 50% of the Danish assets. We have teamed up with our consortium partner, Canadian insurer Intact, who will be taking the rest of the RSA assets and obligations.

If we move into the transaction highlights and timetable, we see on Slide 4, the transaction highlights. We see a transaction and strategic logic of the transaction, which is very, very compelling. With today's acquisition, we will be established as the largest non-life insurer in Scandinavia, with pro forma gross premiums of around DKK32 billion.

The transaction enables us to break into the top three for insurers in non-life in both Sweden and Norway through the acquisition of particularly Trygg-Hansa in Sweden and also of Codan in Norway. Very importantly, Tryg will become a group much more diversified in terms of premiums and earnings, leveraging increased knowledge sharing. The transaction offers excellence in-market synergy potential, and we've identified a total of EUR900 million of pre-tax synergies to be delivered by 2024, replicating to a very large extent the methodology established on the successful acquisition of Alka in Denmark. We believe this acquisition creates compelling value for our shareholders, driven by an ROI of around 7% and high-teens EPS accretion by 2023. The pro forma technical result of the group, including synergies will almost double to DKK6.3 billion. And therefore, we expect a strong increase in our dividend capacity in the long term.

On Slide 5, we elaborate further on strategic rationale. And as we mentioned on the previous slide, we will with this acquisition create the largest Scandinavian non-life insurer with gross premiums of around DKK32 billion. Importantly, our position in Sweden will sharply improve, moving from a market share of 3% to 17% and becoming the third largest player in what is undoubtedly and by far the largest populated area in Scandinavia. While at the same time, we will increase our market presence in Norway, growing to market share of 15%, also becoming the third largest player.

The transaction enables us to diversify the business and the future results strongly. It will enable us to leverage best practice and across a significantly enlarged portfolio. On a pro forma basis, Sweden will become 48% of the group's technical results. Denmark will be around 42% and Norway around 10%, effectively creating three large and strong legs in what is already our three well-known home markets.

On Slide 6, we comment on the financial rationale. We have identified synergies of DKK900 million a year before tax to be delivered fully by 2024. Very importantly, approximately 80% of these synergies are cost-related synergies. And bear in mind, we here define costs as both, meaning operational expenses and claims expenses, including procurement. Johan will comment in more depth on this topic later in the presentation.

The knowledge and expertise we gained from the Alka acquisition in 2018 gives us great confidence and expertise and knowing that we will be strongly able to realize the full synergy potential by 2024. The transaction will generate an ROI of around 7%, and high-teens EPS accretion in 2023. While it's important to highlight that the full run rate synergies will be reached in 2024. We expect the solvency ratio of around 170% at the end of 2021, which we see as a very robust level, considering that we will be booking restructuring, integration and transaction costs fully in 2021.

Finally, we clearly aim at remaining a core dividend stock. And we are extremely pleased that our earnings capacity will virtually double, given the very strong starting point earnings in Sweden and the very strong in-market synergies. And therefore, longer term, we expect our dividend capacity to follow a similar trajectory.

On Slide 7, we've outlined the indicative transaction timeline throughout to completion. As we also saw with Alka, you need to be somewhat patient in these processes. It's worth noting in the beginning of the process that is customary in the transaction governed by the UK Takeover Code that the timetable for the RSA shareholder vote will be dictated by RSA.

RSA's Board is recommending this offer to their shareholders, and they will have up to 28 days to publish their offer documents to shareholders, which will include full details on their vote. And they would then have a minimum of three weeks to hold the shareholder vote, following the publication of the offer document.

The actual closing of the transaction will take a while, as it always does, and is expected to close in the second quarter of '21. And then bear in mind that we expect some six months to nine months between the transaction closing and the actual separation of the Scandinavian assets to be fully complete.

And with that, I'll turn the word to you, Barbara.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you very much, Morten, and good morning to you all from me.

If you turn to Slide 9, we have tried to provide an overview of the structure of the transaction as well as the split of assets, which we have agreed with our partner, Intact. The overview shows the perimeter of today's acquisition, and it's consistent with what we communicated on the 5th of November. Tryg will be buying the Swedish and Norwegian business, as Morten just described, while holding 50-50 economic co-ownership of Denmark with Intact.

Intact will be buying the remaining RSA assets. We're buying approximately DKK10 billion of premiums. And please note that the figures shown here are net premiums earned as opposed to gross premiums earned and these figures come from the SFCR report. Even though it's likely that there will be minor differences between gross and net premiums, it's not expected to be significant.

Slide 10 highlights some of our main attractions of this transaction. You can see the expected premiums and pro forma technical results, including synergies post-transaction by country. Please note that there is some rounding errors -- or some rounding in the figures that we show as we have decided to use only one decimal. As Morten just mentioned, in the first part of the presentation, this transaction will truly transform our position in Sweden, which is the largest non-life market in Scandinavia.

For us, Sweden will contribute significantly more in terms of earnings for the group, adding a very important element of diversification. The additional contribution by the Norwegian business is also meaningful. For Denmark, the improvement relates purely from synergies.

In essence, this transaction will transform our Swedish position, will meaningfully add value to our Norwegian position and will retain our very strong position in Denmark. Through this, we expect to increase our premiums by 45% and double our technical results on a pro forma basis, including synergies.

Now please turn to Slide 11 for more details on Sweden. As mentioned, Sweden is, by far, the largest non-life market in Scandinavia. Trygg-Hansa is a household brand and one of the main players in the Swedish non-life market overall. It also holds a particularly attractive position in the personal accident segment, which is a very profitable business. In this slide, we provide a bit more detail on the strong financial performance by Trygg-Hansa.

The business has always been renowned as the crown jewel of RSA Scandinavian operations, consistently delivering a very strong financial performance in the last four years, with a combined ratio around 76%, while at the same time, growing the top line. Please note that the premium figures shown here are in Swedish kroner. As shown previously, the acquisition will result in a market share in Sweden of approximately 17%, significantly up from our current 3%.

If you turn to Slide 12, it's evident that besides the highly compelling strategic and financial rationale, we also see this transaction represents a very strong cultural fit. It has high importance and also represents true symbolic value that the acquisition will enable the two lifebuoy brands to be unified under the same ownership. These are both household brands with long history in their respective markets. Now for the first time, they will be part of the same group. All of the above gives us great confidence in our ability to integrate the RSA business that we're about to acquire in a seamless way. Tryg will be reinforcing our social responsibility values primarily focused on safety, health and well-being.

Now let's have a look at Norway on Slide 13, where we will go through the financial performance of Codan Norway. With respect to Norway, our existing business will benefit meaningfully from the addition of Codan's Norwegian operations. Codan in Norway has approximately NOK1.4 billion of premiums. And in recent years, the company has lost a few partner agreements and initiated profitability actions, which has driven initial improvements in 2019.

Since the RSA business in Norway is somewhat subscale, there is a large difference in expense ratios between the Tryg group level and Codan Norway. When adjusting for this difference, the combined ratio would be below 94%, and the technical result would be around NOK70 million. This highlights the significant potential to lower the overall expenses and thereby, improve profitability.

Finally, the addition of Codan Norway would ensure that Tryg would be the third largest player in the Norwegian market just as we have seen in the Swedish market. And finally, please note that in the figures shown here, there is some impact of rounding as we have decided again to only show one decimal.

Please turn to Slide 14 with regards to more information about Denmark. As mentioned, we will have a 50-50 economic co-ownership of the RSA Denmark asset with Intact. In this slide, we highlight the perimeter of the Danish operations of RSA, which have shown significant recent forward momentum and include both Codan and Privatsikring.

The latter is a smaller business in terms of premiums, focusing on private lines. It has been growing nicely and very profitably. And as announced at the end of October, they recently gained access to approximately 25% of banking customers in Denmark after having signed an agreement with Nykredit. Codan reported a combined ratio above 100 in both 2018 and 2019, with the numbers being hit by large claims, while profitability, as shown in the next slide, has improved markedly in the first half of 2020 with a combined ratio below 90%.

So on Slide 15, we take a look at the recent performance and market position of Codan in Denmark. Overall, RSA Denmark is one of the leading insurers in Denmark and ranks third in the Danish non-life market measured by premiums. Historically, Codan Denmark has underperformed versus key peers primarily due to a significant higher overall level of expenses.

However, as our consortium partner has noted, Intact believes that Codan Denmark has recently demonstrated forward momentum, including the significant bancassurance distribution agreement win with Nykredit as highlighted on the previous slide. To give an additional data point, you can see from the middle chart of the page that the first-half results already demonstrated a meaningful improvement of the performance compared to recent years, with a combined ratio just below 90%.

Our partner, Intact, believes that RSA's Danish business has all the elements required to ensure that it could be successfully run as a stand-alone entity and intends to support the business in continuing its positive trajectory. Furthermore, Intact has noted that it will assess strategic alternatives for the business, which may include exploring a sale if there is compelling interest from buyers or an IPO.

I will now hand over to Johan to provide more details on the financial implications of the transaction.

Johan Kirstein Brammer {BIO 18640275 <GO>}

Thank you very much, Barbara, and I think I will turn to Page 17.

And as mentioned before, we firmly believe this transaction is highly compelling both strategically and financially. And I would like to now focus in on the financial rationale. So Tryg will be paying a total consideration of DKK34.8 billion [ph] (sic) [DKK34.9 billion] to acquire the Swedish and Norwegian business, as well as to have a 50-50 economic co-ownership of the Danish business alongside Intact.

We're targeting the DKK900 million of pre-tax synergies in 2024. And the actual time of delivery of the synergies is very much dependent on the closing of the deal and the separation of the assets. Therefore, we'll have to wait all regulatory approvals to have a clearer picture. Currently, we do estimate little synergies in 2021 because we expect the separation to happen only towards the end of the year. And we do see overall financial returns to be very compelling for our shareholders.

Looking at the run rate earnings of the business and the targeted synergies, the transaction will deliver an approximate 7% ROI to our shareholders and a high-teens EPS accretion in 2023. And again, it is important to note that we expect full synergies from 2024 to further improve the financial metrics from then on.

If we move to Page 18, I would like to focus in on the synergies. So over the past several months, we have undertaken significant amount of work both to assess the potential synergies, but also to lay out a very detailed plan for how to achieve them. We know the businesses we are acquiring extremely well, and we have taken full advantage of our recent and successful experience from the Alka transaction when planning for these synergies. We, therefore, have great confidence in our ability to realize the full synergy potential as we are laying out today.

As you can see, we believe that the biggest potential for synergies are in Sweden, with DKK500 million driven by shared services, claims and distribution, but also commercial synergies based on knowledge sharing between RSA Sweden and Tryg's existing Sweden's business, Moderna.

In Norway, the estimated level of synergies are DKK250 million, with more or less the same drivers as for Sweden, but at a lower level, as RSA Norway is smaller than RSA Sweden. For Denmark and the group, we see estimated synergies of DKK150 million, reflecting both sharing of central functions in Denmark as well as synergies related to investments.

I'd like you to go to Page 19. We will be going into more detail on our plans, which, again, benefiting from the recent successful Alka integration experience and our intimate knowledge of the business and the markets we're acquiring. In this particular slide, we are illustrating the synergy split on different types of functions.

From a high level, it is important to note that approximate 80% of the synergies are driven by costs such as administration, distribution, claims and procurement. For admin and distribution, we expect synergies of DKK370 million, driven by a reduction in number of positions, reduced marketing spend and also using the same co-IT systems.

Tryg has been working with procurement for many years, and we do expect to realize DKK220 million through further leverage due to larger claims spend. We also expect to realize DKK140 million in claims to improve fraud detection and, in general, improve claims processes in combination with SE reductions. Commercial synergies are expected to approximate DKK170 million through best practice sharing to be used for both repricing and development of new revenue streams in areas such as digitalization and child insurance.

I'd like you to go to Page 20, where we will briefly touch on the asset side of this transaction. So with this transaction, Tryg's invested assets will increase significantly after the transaction with the total invested assets up approximately 60%, and the free portfolio up with DKK6 billion.

We'll continue with splitting investments in match and free portfolio and investment portfolio will gradually be adjusted to Tryg's approach. There's not much more to add to this point at this point. Apart from the fact that we would expect a small uptick of our normalized investment return, simply driven by a larger invested asset base. And just to be clear, we do not plan any changes to our risk appetite or investment policy.

I'd like to go to Page 21, where we'll actually zoom in a bit on our dividends. It should go without saying that Tryg is a dividend stock, and we have firm plans to remain so. In this slide, we are showing how the dividend has progressed since 2012, following a change in our dividend policy.

And looking at the pro forma result of the company and adding the full synergies we've just discussed, we'll be looking towards an almost double technical result compared to the current situation. Our dividend payout is expected to follow a similar trajectory over time. And this will ultimately be the proof of the financial rationale behind this transaction.

And I think with that, Morten, over to you and maybe zoom in a little bit more on the dividends.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Johan.

And if we continue on Slide 22, we elaborate on the very material uplift in the dividend capacity post integration, largely related to the doubling of the technical result to DKK6.3 billion. We've announced a few days ago, our nine months 2020 dividend of approximately DKK1.6 billion, and we believe that we will see this further very clear uplift in the dividend capacity, expecting to more than double over the medium-term following the trajectory of the doubling of the technical result.

Bear in mind that 2021, our P&L will be somewhat noisy, considering the restructuring, the integration costs, the transaction fees and the equity accounting of the assets. Our dividend policy will remain unchanged as our aim is to increase our overall dividend amount and needless to say, the dividend per share will be impacted by the new number of shares following the capital increase.

Now on Slide 23, we are showing the solvency ratio, expecting that the Solvency II ratio will develop between the end of 2020 and the end of 2021. We do expect a level of around 175% at the end of this year, as shown on the graph, perhaps a little higher considering the robust trends in capital markets in the past couple of weeks. We're currently estimating a relatively similar level of solvency ratio at the end of 2021. But bear in mind that there will be quite a few moving parts during next year, which will impact the solvency ratio. In the red box to the right, we have highlighted all of the main moving parts, which are hopefully self-explanatory.

Moving on to Slide 25. We elaborate on financing, where the transaction will primarily be financed through an equity raise. In aggregate, we will be raising DKK39 billion [ph] (sic) [DKK37 billion) covering the acquisition price, the transaction costs, including the financing cost and the FX costs from British pounds and the restructuring costs.

We are planning to launch an equity raise in the first half of 2021, a rights issue for approximately DKK37 billion, with the equity raise fully underwritten by Morgan Stanley and Danske Bank already today. In addition, we expect to issue hybrid debt for an additional DKK2 billion prior to closing to optimize our capital structure. We mentioned previously that we do expect a solvency ratio at the end of '21 to be fairly similar to the level expected at the end of 2020.

Now on Slide 26, a few comments on our main shareholder, TryghedsGruppen, who today holds 60% of the Tryg shares and are highly supportive of the transaction. The Board of Representatives of TryghedsGruppen has already voted to support the transaction and has provided irrevocable undertakings to both vote for the transaction in the Tryg General Meeting and to provide capital support in the rights issue.

By virtue of the transaction, TryghedsGruppen will now be treated as an insurance holding company as opposed to their current status as a mix holding company. And therefore, in the future, they will be subject to FSA regulation and generally the Solvency II rules, which is not the case today.

TryghedsGruppen will support the transaction with all the necessary means and has committed DKK9 billion to the transaction, while an additional amount will come from the sale of Tryg shares. It is expected that the ownership of TryghedsGruppen will be around 45%, immediately following the transaction, while they aim to go back to above 50% in the medium term. And bear in mind that reaching the approximate 45% is only due to the new Solvency II capital requirements for TryghedsGruppen.

Finalizing on Slide 28. We conclude that we see this transaction as being very, very strategically compelling and provides an opportunity for very strong returns to our shareholders. Tryg will become the largest non-life insurance player in Scandinavia, increasing premiums by some 45%.

Tryg will be ranked number three in Norway and in Sweden, while maintaining our current number one position in Denmark, unchanged. The transaction will increase revenues and earnings diversification and leverage best practice, creating three large and strong legs and what is well-known to us as our three home markets in Scandinavia.

We expect to deliver annual pre-tax synergies of DKK900 million in 2024. The transaction is expected to deliver an ROI of around 7% and high-teens EPS accretion in 2023, while the full degree of synergies will kick in, in 2024, with a further add-on to earnings.

We see significant long-term potential to increase the ordinary dividend, following the sharply increased earnings expecting a doubling of our technical result to DKK6.3 billion by 2024 and, of course, for the long-term dividend potential to follow the same trajectory as the doubling of the technical results.

And with that, we are happy to open the floor for your questions. And of course, we cannot help showing our last and favorite slide with our favorite quote from John D. Rockefeller.

Questions And Answers

Operator

(Operator Instructions) The first question is from the line of Jakob Brink from Nordea. Please go ahead. Your line will now be unmuted.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you, and good morning. And definitely interesting with this transaction. So just to start maybe on the Danish part of Codan or Royal & SunAlliance. Could -- I know you already went through it in some details, but I guess I'm still a bit curious. For example, the synergies, the DKK150 million synergies that you state in Denmark and group, what is that exactly?

And also, it seems like a relatively small number compared to, for example, what you're targeting in Norway, which is a much lower premiums and still much higher synergies. You also mentioned that Intact will be looking to potentially divest it. So, are the synergies in Denmark dependent on you still having it? Or I mean, how does this exactly work with the synergies and the Danish part? I guess that's my first question.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Thank you for that question. And let me just answer that very clearly. The synergies related to Denmark and the group of DKK150 million are in no way related to the Danish asset whatsoever. The strategic focus for this transaction has been the Swedish and the

Norwegian business and the synergies of DKK150 million are related to shared functions compared to Sweden and Norway, nothing related to Denmark.

A - Morten Hubbe {BIO 7481116 <GO>}

So in other words, we have in Tryg today, our Danish headquarters. And of course, from our Danish headquarters, we share functions to our Scandinavian businesses. So what it means is that we will now be sharing headquarter functions out of Denmark to a dramatically larger Swedish leg and a somewhat larger Norwegian leg. And that will drive DKK150 million in synergies and DKK0 of that is related to Codan in Denmark.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. And just on that question, I guess, just a follow-up. How much cost in the sort of wider Codan group or RSA Scandinavia is actually headquarter allocated costs from the wider RSA group?

A - Morten Hubbe {BIO 7481116 <GO>}

I don't think there's a public number on that. But I guess what you could assume is that Trygg-Hansa in Sweden, Codan in Norway today have a number of costs that they share with the current group. They will stop sharing that with their current group, and then they will start sharing costs with the new group. So without publishing any RSA data on the current group costs for Sweden and Norway, I think you can roughly assume that one is substituted for the other.

Q - Jakob Brink {BIO 20303720 <GO>}

Yeah. But I guess your group overhead cost will not go up because, RSA is --

A - Morten Hubbe {BIO 7481116 <GO>}

No. So that's exactly right. So simply put, Jakob, you could say that for Sweden and Norway, the new acquired businesses, they would have roughly the same overhead or headquarter costs as today. But instead of paying it to the RSA group, they would be paying it to the Tryg Group. And as the Tryg Group costs would not increase in any significance, that is where we see a big part of the DKK150 million in synergies in Denmark.

Q - Jakob Brink {BIO 20303720 <GO>}

And is there any of that also in the other buckets so for Sweden and Norway? So how big -- I guess I'm just trying to figure out how easy will it be for you to take out the DKK900 million? And of course, if you already have, let's say, a big amount from the RSA group that will disappear sometime next year or in early 2022, then, of course, it's easier. Is it a big part? Or is it a small part?

A - Morten Hubbe {BIO 7481116 <GO>}

I think it would be fair to say that the majority of those synergies related to group are in this fourth bucket in the Danish bucket, if you will.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Okay.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Future operating model, Jakob [ph].

Q - Jakob Brink {BIO 20303720 <GO>}

Then -- Excuse me?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

So that comes down to the future operating model compared to the way that it's run today.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thank you. Then on Sweden and synergies, I guess, this could, of course, easily happen. But as you point out in your presentation, the combined ratio in RSA Sweden is extremely strong, mid-70s, which is -- last year, I guess, it was around the same level. But over the past some years, RSA Sweden has been at a lower combined ratio and the market leader is at mid-90s and folks [ph] on as well. So now you're going to do synergies of DKK500 million, which will be a 6 percentage points roughly improvement further to the Swedish combined ratio, if you look at it that way, so it will be sub-70. Is that really realistic that you can go that low?

A - Morten Hubbe {BIO 7481116 <GO>}

I guess, Jakob, the -- I think the reference point is not the combined ratio. I think we saw a completely similar situation in the Alka acquisition, where you could argue that if you took the starting point combined ratio in Alka and then you subtracted the combined ratio impact of the synergies, you would get to a combined ratio level, which you would think would be lower than what would be achievable.

So, I think the way you should see it is that 80% of the targeted synergies are cost synergies. So those are simply related to analyzing where do we have double functions, where do we see that we only need to do things once. And that goes through the entire organization. We have made 12 very detailed synergies tracks much along the methodology line as we saw with Alka. And there is a very, very clear and detailed plan of how to handle the number of costs and headcounts that we will no longer need moving forward. So, I don't think there is a magical combined ratio number. And actually, the amount of double functions has no link to the current combined ratio.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Fair enough. And then just one detailed, I guess, the relatively big goodwill payment, how much of that will be -- will you have to amortize over the P&L going forward?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think we will be paying a multiple of the 4.5 times PV for the parameter, which implies significant intangible accretion. As you say, a lot of this will be goodwill, but it will also be other intangibles, including trademarks, brands, customer relationships acquired and so forth. And there could be, you can say, separately identified and hence, applicable amortization schedules would apply.

And in order to be able to accurately assess these numbers, Jakob, we would need book by book information on growth, retention, future profitability, et cetera. And to be honest, given that this is governed by a UK Takeover Code regime, we have not been able to go into those details at this point of time yet. So, you can say this is something that we will revert to. And we recognize, obviously, that there will be an amortization charge but we don't have enough details to be providing you meaningful insight at this point of time. But I think, it's --

Q - Jakob Brink {BIO 20303720 <GO>}

But I guess you are in [ph].

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah. I think it's just important. The final point I would like to make is obviously that any drag from intangible amortization is not impacting our cash flows, nor the dividend paying ability or capacity of Tryg.

Q - Jakob Brink {BIO 20303720 <GO>}

But the -- that is, of course, clear. But the EPS accretion you have mentioned, I guess, those are including a potential amortization or are they excluding it?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

You can say, excluding the amortization impact.

Q - Jakob Brink {BIO 20303720 <GO>}

So the 10% to 20% will be lower after amortization?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

It will be impacted by the amortization. Yes.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Okay. And then -- sorry, let's just stop here. Let's -- I think that's it. Thank you.

Operator

The next question comes from Youdish Chicooree from Autonomous Research. Please go ahead. Your line will now be unmuted.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, everyone. Firstly, congratulations on the deal. I've got three questions, if I may, please. Firstly, given your experience with the acquisition of Alka, do you think the regulator will be comfortable with you having well close to 30% market share in Denmark? That's my first question. Secondly, of the targeted synergies, what proportion would you consider to be low-hanging fruit? In that case, you could really achieve very quickly.

And then my final question on the integration and restructuring costs. Your rights issue of DKK37 billion covers transaction costs as well as restructuring and the cost of separating the RSA Group. So, I was wondering, when thinking about the dividend in 2021, should I exclude the integration and separation cost or should I ignore it? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning to you as well, Youdish. Thanks for your questions. I think the first question on -- was on whether the regulator in Denmark would allow us to have more than 30% market share? I think that is the right question. It's quite clear for us that the target for us in the transaction has been to strengthen our position in Sweden and Norway. And you also see quite clearly that the Swedish asset has a very, very strong market position and return profile for a large number of years. In Denmark, we are very pleased with our current market position. We have not had a target to take over a Danish business. And that is why we will only co-own the Danish assets.

There will be zero integration into Tryg of Codan's Danish business. It will be a situation where we will continue as being strong competitors completely unchanged today and a structure where Canadian's Intact is 100% responsible for the operations of Codan Denmark, a strong asset headed towards further improvement in one of the most attractive non-life markets in the world.

And then Intact has expressed that they will look into strategic alternatives. It could be a number of things. One scenario could be a sale, if there's an attractive offer from the buyer. Another alternative could be an IPO. So in other words, the authorities do not have to view an increased market share for Denmark on Tryg's behalf because we will not have an increased market share. We will have a financial holding in 50% of the Danish Codan, and we will have zero influence on the operations and we will continue as competitors.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood. Thank you.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Question regarding the low-hanging fruits in terms of synergies, I think the way we think about it is a little bit different. I think for us, we need to await the closing of the deal and the separation of the assets to initiate the synergy harvesting. But that being said, we do feel very confident with the synergy targets we are putting out here today. It's a muscle we have flexed in the recent years, lately with the Alka transaction. It's the same categories we've used for the in-market acquisition we've done in Denmark. And we are going to use this particular same framework in Sweden and Norway. So, we feel very confident with the markets we are operating in and the businesses we're acquiring and our own businesses.

So, we feel very confident with the targets we are setting out there. And for us, it's a matter of getting started. It's not necessarily low-hanging fruits. It will be complicated, but we feel very confident. We've proven that with Alka, where we're right now heading a little bit ahead of our scheduled synergy harvesting. So fully confident.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess we can add, Johan, that in this case, costs, as I mentioned, is 80% of the synergies and that is clearly a much higher amount than we saw in Alka. And we all know that ensuring that you reach a cost target and a cost synergy is more easily within our own control than, for instance, market synergies. So, 80% of cost synergy is dramatically higher than in the Alka case and a very strong part of the certainty of the synergies.

And then I think your last question, Youdish, was on dividends for 2021. I think on Slide 22 in this deck, we've tried to signal how you should think about dividends for 2021. Clearly, if you look at the long-term dividend trajectory, it will follow the doubling of the technical results. But we also see that 2021 will be this sort of transition year where we will pay all of the -- both consideration, the transaction costs, the integration costs, et cetera, and all of that will be taken in the year 2021. So, you see with the gray-shaded area that we will pay a sizable and meaningful dividend in 2021. So, we have a continuation of the strong dividend path also in the first year of an acquisition. And then you will see how it will grow materially to the medium term.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Very good. And just to clarify that, on 2022, that's basically your dividend capacity measured in -- not a per share basis, but in terms of monetary amount. So 2021, I guess, because it would take time for the deal to close, the implication on a per share basis is different. Is that correct?

A - Morten Hubbe {BIO 7481116 <GO>}

That's correct, Youdish.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Thank you very much.

Operator

The next question is from the line of Steven Haywood from HSBC. Please go ahead. Your line will now be unmuted.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning, everybody. Just quickly following on from the previous question and assuming that the deal closes in the second quarter next year, I guess, if you're doing quarterly DPS run rate, your first two quarters will be the similar DPS at this year and in last two quarters, will they get a similar DPS at the first two quarters just because of the increase in the new shares, essentially, you've got a big nominal increase in the dividend.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess what you will see is that the quarters of 2021 will not really look like each other because we will have some quarters with a lower amount of shares and some quarters with a higher amount of shares. We will have some quarters where the deal has not closed. So, we don't have access to the earnings of what is acquired and some quarters where we do have access to the earnings acquired.

And then you will also see following the closing that we, of course, do the full booking of the restructuring, the transaction costs, et cetera. So if you look at it from a dividend per share point of view, the distribution throughout the quarter will be a bit more uneven or messy than we are used to. And then from 2022, we'll see a more sort of steady course towards the trajectory of long-term or medium-term doubling of the dividend capacity.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And on your return on investment of 7% that you're expecting, can you tell me if that's based on the GBP4.2 billion acquisition price? Or is it based on the GBP4.7 billion acquisition plus transaction cost price as well?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

It will be the second one, Steven. So including the cost. You can see actually in the material that we have sent out, you have on Slide 31 in the investor presentation, the specific definition on both ROI calculations as well as the EPS in case you are in doubt.

Q - Steven Haywood {BIO 15743259 <GO>}

Perfect. Thank you. And then finally from me. From what you're saying about Intact's intentions with RSA Denmark is essentially 100% of RSA Denmark potentially up for sale or relisting on the Copenhagen Stock Exchange?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess, if you look at it from a helicopter perspective, the Danish non-life market is one of the most attractive markets in the world. We're very pleased to own half of the Codan Denmark asset. If you look at the -- what Barbara showed today, we see a very strong improvement in the Danish Codan results in the first six months of this year. And still, there is a very strong potential, if you look at the rest of the players in the Danish non-life market to further improve the results of the Danish Codan business, which means that the value potential is very high. And we'll see how long we will be owners of that asset.

But I think for Intact, controlling the assets, reviewing strategic alternatives effectively, that does mean that potentially 100% of the business is for sale. It does require that there is an attractive price from a serious buyer or a number of serious buyers. And we've made a structure where Intact is prepared to run the asset and prove the asset into strong future results and potentially waiting for an IPO as we see that Danish asset would have a very, very strong IPO features in the Danish market.

Q - Steven Haywood {BIO 15743259 <GO>}

Excellent. Thanks very much for your help.

Operator

The next question is from the line of Per Gronborg from SEB. Please go ahead. Your line will now be unmuted.

Q - Per Gronborg {BIO 15910340 <GO>}

Thank you. Still a couple of questions from my side. First of all, a very specific question. You're paying DKK34.9 billion. How much tangible equity do you get for that price? Or in other words, how much is goodwill in the deal? Can you give a more precise number?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Not at this time, Per.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. But you are getting some tangible equity in the deal, if I may ask it that way then?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah. But let us come back to that. Again, there are some things that we have visibility on at this point of time, and there are some things that we need to affirm when we get to the book and line-by-line review. So, we will have to follow-up on that in future calls.

A - Morten Hubbe {BIO 7481116 <GO>}

And there's also -- yeah, there's also some degree of transitioning from their current set of accounting machines to our set of accounting machines. So, there will be a number of changes given that this comes from a UK company and becomes the accounting machine of a Danish company.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And bear in mind also the structure across the Scandi perimeter today because I don't know if you're aware, but basically, Sweden and Norway, which are the entities that we will be taking over are currently branches of Codan Denmark in the way that they are reporting. So, there are some things we need to work through on that.

Q - Per Gronborg {BIO 15910340 <GO>}

I would assume that you have not maybe a precise number, but in big terms, I guess, whether this is DKK1 billion, it's DKK5 billion, or it's DKK8 billion, you're getting intangible equity that, I assume, has impacted the prices and our ability to adjust whether this is a good or bad deal.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah. Well, I think in ballpark figures, it will probably be around the DKK7.5 billion amount. But let's come back and confirm that, Per.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. DKK7.5 billion, may not be precise, but in the ballpark. On the Danish situation, have you confirmation from the Danish competition authorities that they accept you at the end that you will not be involved at all in the running of the Danish Codan business?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think, Per, the way these things work, you don't get a pre-approval. You get a subsequent approval. But we have, of course, chosen a structure where the control of the Danish asset will remain with Intact, who today has 0% market share in Denmark. And as such, we are confident that, that structure will be approved. Today, Tryg has a very strong position in the Danish market. And we've had no interest in pursuing to increase our Danish market share. And as such, approving this structure with the asset being controlled by Intact should be a positive and good process and experience.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. My next question. You are buying a Swedish operation, which you assume to project that they can deliver low 70s combined ratio. I assume you have also considered the sustainability of such an excess profitability versus what you see in the other Nordic markets. Is this something you're seeing, especially in Trygg-Hansa's product portfolio, whether you had some uniqueness that others don't have? Or is it something you're seeing overall in the Swedish market? Why should we be not be concerned that you are buying Sweden at peak earnings that you will see profitability, then going more towards what you see elsewhere in the Nordics in the coming years?

A - Morten Hubbe {BIO 7481116 <GO>}

We have made a very detailed analysis of that question because, of course, that is a key question. And what we've done is that we have analyzed both in the various customer segments and in the various products. And throughout the various vintages, what has been the pattern of growth, lapse ratios of claims ratios, what has been the development and pattern of the claims reserves to see to what extent has that supported or subtracted or changed the actual performance. We have gone through a great detail, adjusting the expected future performance, adding or subtracting from the current performance. There are areas where we believe that the performance is on track to further improving the combined ratio before synergies. There are areas where we have assumed a somewhat higher combined ratio than the current combined ratio.

And I guess, if you look at it in more broader terms, the Swedish business is on a path of improving the commercial side of the business while the personal line side of the business has been very strong for a very long period. And clearly, there is a very, very sizable personal accident portfolio in personal lines in Sweden. There's a very sizable children's insurance book in the Swedish portfolio. And I guess that is quite different from other products in the Swedish market in the sense that the duration is very, very long. And the loyalty of those customers is extremely high.

And I think if you compare that to other players in Sweden, who are, for instance, more dependent upon the sale of new cars, which is a much more short duration type of business. Clearly, that explains well the differences in performance. And then we do see that Tryg's long-lasting work with creating more new products can be added to the Swedish book to increase sales and growth from the current level in the Swedish business of Trygg-Hansa.

But we have been extremely detailed, Per, on that analysis and extremely thorough. And needless to say that we have followed the Swedish asset for a large number of years. So it's fair to say that we have done this analysis a number of times. But of course, this time around, at even greater detail given that we've had access to very, very detailed data in the data room.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. One question related to that. Capital wise, when you have adjusted the risk profile of the investment portfolio, what sort of add-on should we expect this deal to give to you capital or your minimum capital requirement to the SCR?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Intact [ph], we believe that at the end of '21, we're looking at something around -- in total, DKK8.5 billion to DKK9 billion.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you. That was all from me.

Operator

The next question is from the line of Asbjorn Mork from Danske Bank. Please go ahead. Your line will now be unmuted.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes. Good morning. A couple of questions left from my side. First, on the synergies. You mentioned the alignment of IT systems in Sweden, Norway. Could you elaborate a bit on this? What kind of task is basically ahead of you? Are you going to integrate the Trygg-Hansa IT systems, or are you going to use your own?

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Yeah. I'd love to share a little bit of light on that. I think it's probably too soon now to sort of give you the details of our IT strategy across Sweden and Norway. But the way we're looking at it is there's a number of IT systems and a suite of IT systems that we are not going to use (inaudible) of in the future. So right now, when we have operations in Sweden and Norway and acquiring targets in Sweden and Norway, there's going to be a number of systems that we can actually get rid of. The exact IT strategy, I think, that will come at a later stage when we are further into the integration planning. But we feel comfortable that we can see IT costs go out of the business.

A - Morten Hubbe {BIO 7481116 <GO>}

Are you still there, Jakob -- Asbjorn, I'm sorry. Or did you fall off? I think we lost his line.

Operator

I believe that. Unfortunately, he has dropped out the line. In the meantime, let's take a question from Karsten Sondermolle [ph] from Maj Invest. Please go ahead. Your line will now be unmuted.

Q - Unidentified Participant

Yeah. Hi guys. First, a question on the commercial synergies, the DKK170 million, you say that you have ideas to -- within pricing and within -- sorry, innovation, it was. Where do you see the biggest potential within the RSA operation or within the old Tryg group? And also, could you give some examples of what it might be.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

I think the point here is actually is going to be a two-way street. So there's going to be some of the products that Morten just alluded to in the Trygg-Hansa book. In terms of -- for instance, child insurance is something we would like to bring to our Moderna customers. And likewise, we have a number of very strong Moderna niche brands that we would like to bring and cross-sell into the Trygg-Hansa customer base. So it's going to be mutual benefits. And on top of that, we are seeing the Trygg-Hansa business being very strong in digitalization and online sales. I think we can bring that further into the rest of the Tryg group.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess, you could argue if you add to that, Karsten [ph], that if you look at Atlantica that we have in Sweden today, the boat insurance, that is the market leader in boat insurance. We can cross-sell that to the Trygg-Hansa, very strong portfolio and distribution channels. Bilsport & MC in Sweden is in the same situation. Then we see that we are investing quite heavily in further online capabilities, including for the whole group, online capabilities in commercial SME. Trygg-Hansa has come extremely far and online in general for private lines, but it's also one of the few companies that has come very far in terms of online in the commercial SME segment. So there's a number of advantages and synergies we can take out of that and planned investments that we don't need to do, et cetera.

And then clearly, one thing that we can immediately start adding to Trygg-Hansa after closing is that the suite of new products that we have implemented in private Denmark, started to export to private Norway. We can use that with the strong business and the customers of Trygg-Hansa. So, there is a detailed plan of how to carry this out. I think it's always important to make sure that commercial synergies is not the biggest part of synergies because cost synergies are just easier and more certain to work with. And that's why that's 80%. But having said that, when we look at the Alka acquisition now, the commercial synergies are now running in at a higher pace than we planned. So that really shows that it does have tangible and real value, but very important that cost synergies of 80%.

Q - Unidentified Participant

Yes. Then my second question is, you mentioned that you'll have an unchanged risk profile compared to -- before the acquisition. But what will that mean for business within the acquired business, are there areas where you say, well, this is not our playing field? We're going to exit this almost immediately. Or what are the thoughts about this?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think what we mentioned the unchanged risk profile that was related to the assets that we have under management so the match and the free portfolio. So that is where you can say the combination of the two businesses will be aligned with the risk profile, which is a low risk profile in our investments. So that is the area where we sort of strive towards aligning, you can say the profile for the business that we're acquiring.

A - Morten Hubbe {BIO 7481116 <GO>}

But I think it will be a chain --

Q - Unidentified Participant

So it's your --

A - Morten Hubbe {BIO 7481116 <GO>}

Oh. Sorry.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Go ahead.

Q - Unidentified Participant

Yes. So it's your opinion that the acquired business has approximately the same risk profile as your own?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, actually if you take it, as Barbara mentioned, this comment was made on investments. But I think if you take that to the broader insurance exposure, we have been discussing also with you guys for the number of quarters how we see the mix developing between retail insurance and for instance corporate insurance. And they are actually the Trygg-Hansa business has a stronger and more positive mix than our own business also in

Denmark. So what we see is that the Trygg-Hansa has a very, very strong proportion of their business in Sweden being private lines, and a very strong position in the commercial SME lines whereas the higher-end commercial and the corporate business, which is often more tricky from a volatility and return point of view is a significantly smaller proportion of their current business. So in a sense, their business in Sweden has an even stronger retail component of the total than ours. And as you can see that is completely in line with the direction, we want to take Tryg in a direction where retail becomes a larger and larger part of our total business, because that's the part of the business where we see the strongest returns, the lowest volatility and the highest ROE. So I think that fits extremely well.

Q - Unidentified Participant

Okay. And activity that has often been mentioned in the media is exposure to wind turbines and their global positioning within this -- well will that be in the transaction -- will that be with you or in the Danish part or with Tryg?

A - Morten Hubbe {BIO 7481116 <GO>}

The exposure to renewable energy has largely been run out of Denmark in cooperation with Group in the UK. So that is largely a group matter, but to some extent, some of it has been channeled through the Danish business. So very, very, very limited link to Sweden and Norway.

Q - Unidentified Participant

Okay. My last question would be -- you have to hear all these regular authorities. Where do you expect to have the biggest problem? So aside Denmark, of course, but where would that be? And now I'm also thinking it needs to be approved by the UK and the Canadian authorities as well businesses. But I'm not very knowledgeable about -- could we see problems and postponements because of that compared to your attempting?

A - Morten Hubbe {BIO 7481116 <GO>}

I think that's a good question. I think the most likely is that we will have a fairly simple and fairly straightforward process. There has already been dialog and a number of items with the UK authorities. The UK takeover code is very strict on regulator dialog, on a number of topics. So that has already have been going on and will of course be formalized moving forward. There is also been initial discussions with the authorities and some of the other countries. But I think basically the structure we are putting forward is fairly simple. We're not expecting any market share challenges in Sweden and Norway. We're not expecting any market share challenges in the UK and in Canada. And with the structure suggested for Denmark, where intact becomes 100% responsible for the operations. Also here, we don't expect any authority challenged. And then, as with all transactions, you need to be somewhat patient because even though an approval process should be fairly smooth, it still takes a fairly long time. And then bear in mind as we described that there will be one approval process for buying the entirety of RSA and closing that transaction. And then subsequent to that, there will be the separation of the Scandinavian assets. So you should see it as a 2-step process where expectedly in Q2 '21 the overall transaction will close, and then from there on, the separation task of separating the Scandinavian assets starts as from the summer next year and continues for a 6 to 9-month period after that. So it does take some time.

Q - Unidentified Participant

Okay. Thank you so much and good luck with the transaction.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you, Karl [ph.

Operator

We now have Asbjornr Mork from Danske Bank back on the line. Please go ahead your line will now be unmuted.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes. Good morning once again. Sorry, my line broke up and sorry if you already answered the question while I was gone. But just looking on the IT systems and the alignment in Sweden and Norway, I would just like a little bit of more details of what exactly you need to do and you need to implement new systems, I mean the Trygg-Hansa and Codan systems? Or you move the Danish business into your own systems? And how big of a task would you see this as being? That was the one question on synergies. And another one on synergies, and I think you kind of answered it on Carsten's question before, but 80% of the synergies are cost synergies, but from the Alka deal that seem to be quite a lot of applying best practices from Alka onto your own business. So I was just wondering if you've been a bit more conservative on these kind of synergies this time around than we should see obviously that an as an add-on or if it's already included. I know it's a very different deal this time, of course, but just wanted to hear your thoughts on that one.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

But let me give it another go and hope you don't follow off the line once again. We didn't do that. So essentially we are not going to lay out our IT roadmap right now on this call. But we've been quite diligent in our due diligence over the past months and we are fairly confident that with integrating our Swedish operation with their Swedish operation and likewise in Norway, there's going to be a number of IT systems that we do not need. We do not need the licensees and we don't need to operate them. So there's going to be IT cost coming out of the business. And as I think you're alluding to also with Alka, these synergies never come easy and there is always cost associated with getting those synergies and we have made sure that we've actually taken that into account when looking at our overall transaction costs. So we're very confident that there will be IT savings coming out of this deal.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess Asbjorn just to paint a picture of what sort of animal is IT, we have many hundreds different IT systems. So typically if you compare it to Alka, we have converted a large number of IT systems, where we easily move into one system instead of using two with all of the reduced costs related to that and with a fairly simple process. There's a lot of hard work, but fairly simple process. But then as of today, for instance, we still have two different sets of policies systems between Tryg and Alka. So I think when you look at for instance Swedish Trygg-Hansa, we will have different policies systems for a long period going forward, and then we'll make sure that Tryg's current IT strategy manages a mutual road forward towards that. But before you deal with the policy handling system, there are several hundreds of other systems that are far easier to move in such a process.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And then there is the whole operations.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I mean the whole infrastructure and the operations of the IT, where again we have a well functioning setup where we could start off definitely find some synergies in that area.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah. So I think also here, we've learned a lot from the Alka process and the same IT staff and leaders that work with the Alka process have been working with the IT track as one of the 12 synergy tracks that we have worked throughout the process. So I think -- and the process has been, one, first high-level assessment of synergies, two, all of the detailed experts bottom up assessment of synergies, and then, three, the data room confirmation or adjustments going through tons and tons of detailed documents.

And then I think your second question Asbjorn on the synergies related to commercial synergies, I think you're right that given the size of this transaction, it's been quite important for us to make sure that the cost synergies were very material and very clear and large proportion of the total synergies at 80%. We also respect that it takes a while to make sure that we include all of these synergies. And as such, we have not been overly ambitious when it comes to the commercial synergies. And then I guess we see also from the Alka transaction that the cost synergies typically happens faster, whereas the commercial synergies typically takes a bit longer. So is the scenario where longer term, the commercial synergies could be higher? Yes, that is the case. But also typically it takes a bit longer.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And just taking into account the whole transformation of the business, the integration and so forth, that's a big task. So, as you say, Morten, that is more medium term than short-term.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Then a question on your capital -- some of the capital requirement that you take over the DKK8 billion to DKK8.5 billion, I think you mentioned Barbara that Sweden and Norway is actually run those branches of Danish Securities at the moment. So is there any sort of expectation that you will be able to take over and use the interim model straight away or is the risk here that when issue we should be aware of -- I guess you need some sort of approval going forward? And then on your leverage, you take up DKK2 billion of hybrid capital. Would it be fair to assume that your debt capacity is actually rising a bit more than DKK2 billion but you just being a little bit cautious here or just a little bit of comment on that things?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Very relevant questions. I think if we start with your question on the internal model, obviously, that is something that we will work through taking into account the timing at which we have the separation, you can say executed and so forth. So that should give us time to ensure that we have the benefits from the combined business in the modeling set up that we're using. When it comes to the hybrid capital, we are, of course, looking at optimizing our capital structure and hence the DKK2 billion that we expect to raise of hybrid capital as part of this transaction is basically optimizing the capital structure that we will be looking at in connection with the total capital structure. So with the equity raise of DKK37 billion, this is the capacity that we will have going forward.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. So, then on the requirement back on that one. If you get the approval straight away and there is no issues at all, would there be some improvement potential from here, I mean, diversification or other effects that we could hopefully see in a couple of years?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think as a starting point, you should see that as being relatively limited.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. And then just a final question, just a part of curiosity, the return on investment and the EPS accretion, if I understand the slide correct referred to 2023, but you expect 30% of the synergies to be harvested in 2024. So just wondering why you keep mentioning 2023? Is that because of the upcoming Capital Markets Day and this, of course, being a part of that? Next, I guess, three year financial plan or is there anything we should -- is there any reason why you mentioned 2023?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

No. I think it's more or less standard Asbjorn to look at a three-year horizon, so that's why we guide on those three years. So nothing more theoretical or scientific behind it. But it's taking into account that typically you would have a closer look at the first three years of an acquisition.

A - Morten Hubbe {BIO 7481116 <GO>}

And then of course positive to see that there is a value pick up between 23 and 24.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Absolutely.

Q - Asbjorn Mork {BIO 17028219 <GO>}

No. I fully agree. I just wanted to make sure you weren't a bit more uncertain about the last 30%, and that's why you didn't want to --

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

No. No.

A - Morten Hubbe {BIO 7481116 <GO>}

No. Just complying that's kind of three years.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah.

Q - Asbjorn Mork {BIO 17028219 <GO>}

That's okay. Thanks. Thanks a lot.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you, Asbjorn.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

You're welcome.

Operator

The next question is from the line of Martin Gregers Birk from Carnegie. Please go ahead. Your line will now be unmuted.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Thank you so much. I have a couple of questions on most of the Danish asset. So you say that you will have subsequent discussions with local antitrust, so I assume that means that you haven't been in contact with them at all on this regard. Is that something you can confirm? That will be my first question.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think Martin that the formal process starts now. There has been an initial contact, but only very initial contacts. So really the process starts now.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. So let's assume that the Danish antitrust are going to implement -- well, certain restrictions on you? Or are they going to say no altogether? Is this going to be deal decisive or -- and what will happen in that case?

A - Morten Hubbe {BIO 7481116 <GO>}

No. I think we can answer that quite clearly. The structuring of the transaction is done in such a way that the transaction of buying RSA is taken to the full conclusion, and then the separation of the various assets only happens after that. And as such the structuring, where we have ensured that intact has the sole control of the Danish asset, and from an antitrust point of view, they start with 0% market share. You add Codan's current Danish market share to a 0% market share, leaving you at a market share size, which should clearly not be debatable from an antitrust point of view.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. So the Danish asset will have no Board members whatsoever. Is that how we should interpret it?

A - Morten Hubbe {BIO 7481116 <GO>}

I think the way you should broadly interpret is that we will have zero impact on the operation of that asset. We will hold a financial stake in the asset, but 100% of the operational responsibility would remain with intact.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. Do you see that there are any potential of the Danish antitrust or European antitrust forcing you to sell your stake in Codan Denmark within a very short timeframe?

A - Morten Hubbe {BIO 7481116 <GO>}

No. We don't see that as being a plausible scenario. And that is why we have chosen the structure where we don't run into complication and where we avoid that we have influenced on the Danish asset and thereby avoiding to change the Danish competition sets up as it is today.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And also a lot of the business to operate -- sorry, Martin -- also allow the Danish asset to operate its business as it is without having to focus on an exit tomorrow so to speak.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. And then just -- maybe just two final questions. The first one is super quick. So who would be the last regulatory or last antitrust authority to approve this deal ultimately?

A - Gianandrea Roberti {BIO 6786731 <GO>}

I think there is actually a long list of regulatory bodies that needs to approve of this transaction globally because RSA actually has global operation. So I mean that's -- actually it's impossible to tell you who is going to be the last, but there are operations even in the Middle East, and we don't know which one is going to be last. But as Morten mentioned earlier, we don't expect any issues or any red flags at all. But it is going to be a lengthy process with a lot of happening on top. So it's about being patient now.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. Okay. And then, and maybe a final question just on the entire deal. Are there any circumstances would you can think off, which would cause the right issue not to proceed?

A - Morten Hubbe {BIO 7481116 <GO>}

No. I think the way we have structured the transaction we have ensured a strong participation from TryghedsGruppen, which I think is very important. And then we have ensured that the underwriting is in place by both Morgan Stanley and Danske, which means that we have full clarity and full certainty of the financing as is required quite clearly by UK takeover code. So no, that is all carved in stone. There is of course a matter of precise timing et cetera. So there's a lot of work to be done in that sense. But there is no doubt about the certainty, and that is a requirement in the UK.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. All right. Thank you so much.

Operator

The next question is from the line of Teik L. Goh from Citigroup. Please go ahead. Your line will now be unmuted.

Q - Teik L. Goh

Hi. Good morning, everyone. Just a few follow-up questions please. So just, I think, going back to the Danish Co-ownership. A couple of points of clarification. So from what it sounds like -- it is a 50% ownership, but it sounds like it's going to be passive. So you're saying that if Intact were to sell it you would follow suit completely at the 450% share, and similarly, if it's an IPO, is that right?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, Teik, we'll see what happens both in terms of timing and in terms of the nature of the strategic alternatives that Intact is looking for Denmark. But I think it would be natural that their ownership stake and our ownership stake could move or could change in unison that would make a lot of sense whether that is through an IPO or is through a sale some years down the line or faster or other strategic alternatives. I think that a number of strategic scenarios would wish to have 100% ownership of the asset. So it would be natural for the two times 50 to follow each other.

Q - Teik L. Goh

Yeah. Yeah. Got it. And presumably again, because you have no kind of operational stake in the Danish asset. Would that mean that the RSA Denmark customers will not be eligible to your customer bonus that you currently offer for Tryg existing book?

A - Morten Hubbe {BIO 7481116 <GO>}

That is completely certain that given that we only have a financial holding in the Danish Codan business. The Danish Codan customers will not have any link to focus Codan and they will not have any link to the customer bonus.

Q - Teik L. Goh

Yeah. Perfect. And the next question just looking back to the SCR, you indicated a pro forma level of DKK8.5 billion to DKK9 billion. I mean is that just a simple addition of both assets because I know you mentioned that you've not actually study what potential there is to combine both the internal model yet. What have you assumed in that SCR assumption?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I mean, this is our pro forma SCR that we see at this range. So I think that is obviously what we have based the case on.

Q - Teik L. Goh

Right. So is it the case that is sort of the asset that you've acquired calculated on Tryg internal model basis.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yes, that's correct. Given the -- you can say the circumstances that we will need to take into account when we have the final split. As I mentioned before, given that you have the branch structure in the Scandinavian perimeter, there are some things that we need to have clarified, but that is the basis of our hypothesis.

A - Morten Hubbe {BIO 7481116 <GO>}

And as you can imagine you both have the separation as Barbara put it, and you also have the impact of what is the earnings throughout the period between now and closing, which also means between now and separation. So you are separating the various assets as they are not standalone companies to get today and you are separating them at a future point in time, and they will have made money between now and then. And that is why the exact numbers cannot be determined fully yet, so, of course, we've modeled that in great detail, including the assumptions for the future earnings between now and closing and, of course, the assumptions of the separation values. But as you can imagine, you cannot fully know that at this point in time as you're trying to clarify numbers of separation at a point in the future.

Q - Teik L. Goh

Perfect. And just one last question, please. I appreciate you've given a lot of thought around the integration there, but I'm just thinking, where do you see the main challenges, I mean, I recall, I think the Alka integration itself was quite an undertaking, which I think consequently led to perhaps some areas being overlooked like Swedish motto. So I guess what comp can you give around ensuring that this integration on a much bigger top will actually go according to plan without overlooking the existing Alka integration along with all the other operation assets?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think, first of all one challenge in transactions is always timing because you would want to start the integration tomorrow, but you actually need to make sure that you wait until the actual closing, and then the separation. And what we did in the Alka process was to define a large number of integration tracks then we meant those -- each of those tracks with someone from Tryg and someone from Alka, and then we started the planning straight away, while waiting for authority approval. There is something called the gun jumping rules where you need to make sure that you do not have a dialog on customers and pricing and topics that you're not allowed to debate as competitors, but you can plan for processes and steps and focus areas. And even in the areas we're not allowed to have a dialog or inside, you can actually create what is clean teams, where external consultants does the analysis and look to the data and starts the planning. And you may recall that in Alka we actually waited 12 months for the approval. We've actually meant the full planning had taken place; a lot of the relationship building have been taking place during those 12 months, which meant that we were ready to push to button on all of the integration tracks; the second, we've got the approval. And we will use that exact same methodology with the same number of integration tracks one responsible from each company for each track and then having all of the detailed planning running while we wait for authority approval, and then we will be ready on day one to implement.

So I think the main challenge would be to waste too much time and get started too late. And I think we've worked extremely well from the Alka process how to handle that and that was a huge success. And one of the reasons why Alka integration was very successful we see today that Alka has a very, very high customer satisfaction and very high employee satisfaction. We've seen all-time high growth on the top line and extremely strong bottom line, while being somewhat ahead of plan on synergies. So this is clearly a model worth copying.

Q - Teik L. Goh

Perfect. And just maybe a small one. The Capital Markets Day that you had cancelled in for the end of January, presumably, that's still going ahead of plan?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think we will have to revert on that because, obviously, with a transaction like this, we also restricted in terms of what we can and may say about future projections and so forth. But we will come back to you shortly with probably a new date for that.

A - Morten Hubbe {BIO 7481116 <GO>}

You can say in that sense the upcoming Capital Markets Day is becoming even more important. And in that sense, likely to be at a later date.

Q - Teik L. Goh

Okay. Thank you so much all.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you.

Operator

The next question is from Tryfonas Spyrou from Berenberg Bank. Please go ahead. Your line will now be unmuted.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Good morning, everyone, and thanks for taking my question and congratulations on the deal. Truly exciting times for Tryg. So I had two questions, one of it was answered. So my question is on the foundation and the customer dividend. Do you anticipate that increase in the Group's dividend paid partially also offset the impact of the dividend received by foundation due to the dilution that the foundation were experienced already their shareholding interpreting 50% to around 45% and then the 50%. Do you still aim to sort of pay out roughly 8% premiums to customers?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think it's quite important that the support of the TryghedsGruppen and the foundation is extremely high. As you put it, of course, their ownership stake will drop from 60% to 45% for hopefully a shorter period of time and then they will buy their way back above 50%. So in a sense, their proportion of our total dividend will be lower. But as our total dividend payout will be substantially higher than in absolute numbers the dividend to TryghedsGruppen foundation will increase. So with a lower ownership stake in Tryg, they will have a higher dividend annually from us. And as there are no new Danish members and no new customers to be eligible for the bonus, they will, in other words, have a higher annual surplus. And then they will decide what to do with that surplus. But you can argue that their ability to pay bonus in Denmark is Intact, and then some. It is actually improved.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Very clear. Thank you.

Operator

The next question comes from the line of Jakob Brink from Nordea, once again. Please go ahead. Your line will now be unmuted.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. And sorry for just have a few follow-ups. On the SCR again, so looking at the wells on Alliance Scandinavian SCR, it's somewhat larger in proportion premiums than what we're seeing in Tryg. And what have you assumed when you put in -- is it just one for one taking the Coda and Group SCR putting that in? Is that what gives you the DKK8.5 billion to DKK9 billion? Or have you already implemented that probably investment of market, which will be lower?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

We have taken into account -- you can say what are the assumptions on the business that we will take over? And bear in mind that when you see the SCR reported today, it goes for the whole business. And what we are focusing on is obviously the impact of the Swedish and the Norwegian business.

Q - Jakob Brink {BIO 20303720 <GO>}

That's -- and then maybe what I don't understand because you said before that the tilt towards private lines in Sweden was larger than for the Tryg Group currently as a whole. So you would think that also the SCR would be lower. If you implement the same market risk -- market approach with match portfolio and free portfolio with the same kind of assets, why wouldn't the SCR premiums not be lower than in the current Tryg? Why is it higher?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

If you look at the characteristics of the lines in Sweden, you would have the longer-tailed business in the Swedish business then compared to, for instance, what we have in both Denmark and Norway today. So as it's been far more long-tailed, then it will also require more SCR in that context, so you cannot compare like-for-like.

A - Morten Hubbe {BIO 7481116 <GO>}

I think, Jakob, you should bear in mind that even though it is retail, you'd see for instance that Swedish motor third-party liability has longer duration than in most other countries due to Swedish legislation. But also that personal accident and children's insurance has very long duration as well.

So, very stable, very profitable, but long duration. So you need to factor that in.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. So the DKK3.5 billion to DKK4 billion, I guess there is addition to your current SCR is including the change to a sort of the trucks investment approach and it's a stable run rate going forward?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

That's probably fair.

Q - Jakob Brink {BIO 20303720 <GO>}

Yeah. Thank you. And then actually one just -- the second part of that question, so you mentioned before to another question. And also, in your slides that you will be doing IT alignment in Sweden and Norway. And does that require any big IT investments that will be capitalized in near future or how will that run?

A - Gianandrea Roberti {BIO 6786731 <GO>}

Not require any major IT investments. All the costs associated with leaping those synergies already incorporated into our integration costs. There'll be nothing on top.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

That integration and restructuring costs that will take into account the changes that will be needed.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yeah.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Sounds good. And then on the Danish assets, just would it be possible to actually divest that asset to sell it in some kind of process already before you will do the rights issue, or is that impossible?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess Jakob it's difficult to know exactly what will be the timing. I think that's -- we have created a structure whereby Canadian Intact will be allowed to run the Danish asset for as long as they want. And whether that is short-term or long-term and whether that is towards the sale on IPO or something else, time will show. Whether that happens faster depends, of course, on how the assessments of the strategic alternatives play out. If there is a very strong appetite of buyers and prices, then maybe Intact will decide to sell faster. And maybe they will decide to wait for longer and further follow the earnings improvements going on in Coda and Denmark at the moment, and that could lead to an IPO. So I think what you're asking, could happen, and it could also not happen. But I think if your question is whether that could be part of the financing, I don't think that is a realistic scenario because you would need to see the overall transaction close first.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And bear in mind we do the rights issue ahead of closing the deal, because obviously we need the proceeds to fund the deal. So I would say it's more or less not likely that will be able to sell the Danish asset before we actually get it as part of the deal.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. And then my last part actually on that. So you have just mentioned of what the Tryg -- foundation of that Tryg and Codan will do. It says in a bullet, I think on was it Slide 25 or something, whatever, it said that they will be -- oh, yeah, it's 26. It's a sale of Tryg shares preemptive rights expected participation in the license. Could you just explain just 100% sure what you mean with that?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah. I mean obviously Tryg and Codan as was also mentioned in the call, post the transaction, they will be treated as an insurance Holdco under the Solvency II regime, and that will put a limit, so to speak, in terms of their participation in the rights issue that we will be doing. And hence in order to manage, you can say the limitations that would apply under the new regime for them. They would have to look at what would their future hold be. And in this context obviously as Morten also said, they have already committed to participate with a specified amount. As we say here they have committed DKK6 billion upfront with the aim to increase that to DKK9 billion at the time of the rights issue. And hence they will need to work with their current shares and also the rights issues up to the actual transaction.

Q - Jakob Brink {BIO 20303720 <GO>}

So they will be selling shares now or whatever between now and the rights issue down to some level in order to have more than DKK9 billion to put the money back in the rights issue. Is that how we should read it?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

That's correct.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Fair enough. Thank you.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, we are finishing this call now. Today has been a bit longer than normal, but of course it's a transformational deal. I'll just thank you a lot on our part. Peter and I will be around, of course, for further call. Thanks a lot.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you.