

Sampo plc signs agreement to acquire full ownership in Hastings

Company Participants

- Knut Arne Alsaker, CFO
- Sami Taipalus, Head of IR
- Torbjörn Magnusson, CEO & President

Other Participants

- Blair Stewart, Analyst
- Unidentified Participant, Analyst
- Will Hardcastle, Analyst

Presentation

Sami Taipalus {BIO 17452234 <GO>}

Good morning, everyone. Welcome to today's conference call on the acquisition of RMI Holdings and Hastings. My name is Sami Taipalus, and I am Head of Investor Relations at Sampo Group. I'm joined on the call today by Group CEO and President, Torbjörn Magnusson; Group CFO, Knut Arne Alsaker; and Chief of Strategy, Ricard Wennerklint.

The call will feature a short presentation from Torbjörn followed by Q&A. We have a maximum of 30 minutes for the call today so please limit yourself two question about the transaction announced today. A recording of the call will later be available on sampo.com. With that I hand over to Torbjörn. Please go ahead.

Torbjörn Magnusson

Thank you, Sami. I am please to be able to report that we keep up the good strategic pace of development from the last 24 months and that we have been able to acquire full ownership of Hastings Group in a straight-forward transaction with RMI today to RMI, the only other owner.

I've got a few slides to introduce the transaction. We acquired the first 70% of the company November last year, and in ever respect they have proved as good as expected or better. They have also kept the underwriting focus strong during the pandemic and not attempted to go for uncontrolled growth in a period of beneficial change environment.

Our interaction with Hastings management team has in all situations been rapid and efficient. Thus we have a very positive view on their culture, their performance, the

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balance sheet, and also the potential for synergies. We reported on identified synergies so far after Q2 this year and obviously this transaction give us the full value of these synergies rather than just part of them.

In line with Sampos other strategic developments, we like to reinvest capital in P&C and simply our group structure. The move, of course simplifies the collaboration within the group, makes capital allocation more flexible, and makes sure that we can decide ourselves about any investments, developments, or bolt-ons for acquisition -- for Hastings in the future.

Then when it comes to the acquisition price we have now purchased all of Hastings at a price below 13x earnings. The total price per share is 279 pence. The EPS accretion from this last transaction only is 4%. We see a lot of potential for Hastings for the future, and they are very well placed to meet the turbulence that could occur next year in the UK market due to the GIP [ph] reform, and we see that as an opportunity.

With the underwriting discipline underlying all actions in Sampo, the downside is really very small. Hastings will stay a pure digital market segment insurer in the U.K. where they have been so very successful in the past decade and they will not venture into other segments or geographies.

We look forward to developing the company together with Hastings management and to report back to you on this next year. With that, Sami, we open up for questions.

Questions And Answers

A - Sami Taipalus {BIO 17452234 <GO>}

Yes. Thank you, Torbjörn. That concludes the presentation. Operator, were ready for Q&A.

Operator

(Operator Instructions) Our first question comes from the line of Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi, guys. Good morning. Thanks for taking questions. I've got a couple of questions. The first is you talked I think when you did the last disposal of Nordea shares that you would continue the buyback program over and above the 750 that you've -- that you've already got in place.

So I just wonder what the latest thinking on that is? Does this transaction affectively absorb the additional buyback capacity that you had? And secondly, now that you're in the full swing [ph] of buying in minorities, what does it mean for the top holding? Thank you.

A - Torbjörn Magnusson

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There's basically no inverse [ph] impact from these transactions on the buyback program. As such, of course we buy -- the transaction we make strategic moves we take are assessed individually and not in the swing of doing things rational.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks, Torb. And I know you said that the EUR750 million buyback is unaffected, but you have also said in the past that that will be extended? Is that still the case?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good morning, Blair, Knut here. We still intend to go propose to the board to go to the AGM with a proposal for a mandate to an authorization to have the option to do a buyback also next year.

Obviously just the simple answer to your question that we do spend EUR800 million on this transaction, so it's naturally consider that any buyback we will do of our excess capital will be EUR800 million smaller. However obviously the BDPS [ph] accretion from this transaction is compensating whatever will come from a buyback of a somewhat larger size without this transaction.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Okay thanks clear. Thanks, Knut.

Operator

And the next question comes from the line of Will Hardcastle from UBS. Please go ahead.

Q - Will Hardcastle {BIO 22230376 <GO>}

Yes. Thanks for the question -- thanks for the time. I guess really a different one is what changed that was initially designed the relationship [ph]? Relying on both to obtain benefits [ph]? Then the second one, are you saying essentially that the maximum level of synergies have not changed, it's just you're taking a greater share? Or is there further optionality now to obtain greater synergies?

Thanks.

A - Torbjörn Magnusson

We couldn't hear your first question. But on the synergies, we -- today we only say that obviously we will receive 100% of the synergies to the Sampo Group, and that's the only change. But it will of course be easier, we will be more flexible in the discussions going forward, identifying new synergies and implementing them.

Could you repeat the first question, please?

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Q - Will Hardcastle {BIO 22230376 <GO>}

Yes, absolutely. It's really just what's changed versus the initial desiring of a relationship with RMI to both obtain benefits? So you were very pleased initially with working together, I guess what's changed in the meantime?

A - Torbjörn Magnusson

Well we have always said that we would like to own 100% of the company, and then opportunity arose where that could happen. So that's the only thing that changed. We had an arrangement initially for a long relationship but one that had an endpoint. Now that we were able to bring that endpoint forward quite a bit, so that was only positive.

Q - Will Hardcastle {BIO 22230376 <GO>}

Okay. Thanks.

Operator

And the next question comes from Marco Zolaudi [ph] from Jefferies. Please go ahead.

Q - Unidentified Participant

Good morning, everybody. I had a quick question please again on the synergies piece. At half year you talked about synergies from capital management including reinsurance optimization and until the financing of Hastings debt in the revolver.

Were those synergies perhaps not fully available whilst you didn't own 100% of the group? And would they now be more easily achievable now that you do own 100% of Hastings? I'm thinking particular, of course around debt instruments at Hastings, now that you have a 100% control are you able to capitalize the Hastings business as you would wish to without the interference of minorities? Thank you.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good morning, Marco [ph], it's Knut Arne here. We don't denounce any new synergies this morning as Torbjorn just said. But needless to say to have 100% ownership doesn't make it more difficult to both realize capital synergies and look for capital optimization across the sample group going forward.

Q - Unidentified Participant

Thank you. I was just (inaudible), so good use of words. But I'm just wondering, would there been any impediments by having a minority holder to exact some of those synergies that are now removed?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

No. I can't say that. But obviously we would, going forward, be totally free to optimize the capital and capital allocation across the group and also the way that the obviously capital requirements were calculated in any part of the sample group.

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A - Torbjörn Magnusson

Maybe this discussion is a bit unnecessarily implicit. I mean if we were to want to do something that would cause synergies in Sampo Group, it is much easier if we don't have to take that to a board with an external party with a strong ownership in that entity. And that hones for any activity or system or process.

Then to Knut Arne's point, capital same thing. If we were to find something, let's say a home insurance portfolio in the U.K. that we would like to acquire and that we don't have to ask another buyer to support that with capital process, it's going to be much easier.

Q - Unidentified Participant

Indeed. Thank you very much for the conversation.

A - Torbjörn Magnusson

Barely [ph] made EBIT [ph].

Q - Unidentified Participant

Appreciate it.

A - Torbjörn Magnusson

Yes. Thank you.

Operator

(Operator Instructions) Our next question comes from the line of Fiser McKinnie from HSBC. Please go ahead.

Q - Unidentified Participant

Good morning, I have some very simple questions. So one, does this change the policy around upstream dividends with Hastings? Secondly, when I look at the -- you provided guidance in terms of how this compares to the deal versus our consensus is (inaudible) but when I look at the operating ratio the consensus has it's well below your target range. So is it the case that if we were to apply to your target range that the deal is probably not as valuation sort of friendly? Would that be a fair statement?

And the -- and finally, on one of your slides for half-year [ph] you mentioned the rerating effect and compare Hastings versus (inaudible) but when you look at the price of the (inaudible) and direct line over the past year how does that still compare in your mind given where it's peers are trading at right now? Thank you.

A - Torbjörn Magnusson

One, two, three.

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A - Knut Arne Alsaker {BIO 18730318 <GO>}

All right, I'll take the dividend. There's no material change to our thinking around upstreaming on dividend from Hastings. We're comfortable, obviously with reinvesting some of the profit that Hastings can rate in the business to grow that business going forward.

And they have relayed [ph] that profit of -- on Hastings balance sheet to do so. So no material plans to significantly change Hastings current dividend setup.

Q - Unidentified Participant

Okay. Thank you.

A - Torbjörn Magnusson

And on the peer review, if you look at the same [ph] and direct line I don't think they are really peers to Hastings, those are very different businesses. So I don't really see their evaluation as a good comparison to this one. And well, obviously being the company that's closer to Hastings in the type of business that they write.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

And if I were to take -- I think you asked about the EPS equation and consensus -- we used consensus numbers, we haven't guided specifically for a decimal on Hastings profit. I don't think there would be a material difference in the numbers we published this morning, whatever set of numbers we were basing that conclusion on.

The EPS equation from Hastings is at least as high as for share buyback. Then, of course it would always also -- you also need to make some assumption about where the Sampo share price would be going given our ongoing buyback program. And we haven't made any such assumption, just used current share prices.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

And we have one more question from Triffon Aspira [ph] from Berenberg. Please go ahead.

Q - Unidentified Participant

Hi, morning, everyone. I just had a question around capital. Would only 100% of Hastings allow you to eventually move to a group partial intel model and benefit from capital comment [ph] (inaudible)? Could there be more synergies on this copy potentially looking at take the remaining minorities up from the market [ph] (inaudible). Thank you?

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A - Torbjörn Magnusson

This is not -- this is probably the most difficult Q&A that we've ever had because the sound quality is a bit difficult. Just, Knut, I think you got the question.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

I think I got the question, thanks for the question. We -- in our business case around Hastings, we haven't concluded anything around an internal model for Hastings.

Obviously as we now our P&C group and when we own 100% of PMC business is that it is clearly easier to manage capital across the group and calculate capital requirements on a Sampo Group level according to mobile [ph] which we find appropriate. But an internal model for Hastings capital requirement you shouldn't expect this is happening overnight so to speak.

But the governance that we know we have with Hastings makes it easier to have such thoughts since an internal model is more than just a technical instrument. It's also the use test and governance structure that we have around the business.

Q - Unidentified Participant

Thank you, very clear.

Operator

And as there are no further questions I will hand it back to the speakers.

A - Sami Taipalus {BIO 17452234 <GO>}

Thank you, Operator. This concludes our call today. Thank you for participating and we look forward to speaking more to you in the near future.

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