

Acquisition of Silver Insurance Portfolios and SKAGEN by Storebrand ASA Call

Company Participants

- Kjetil Ramberg Krøkje, Head of Investor Relations
- Lars Aasulv Løddesøl, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer

Other Participants

- Håkon Astrup, Analyst
- Jan Erik Gjerland, Analyst
- Thomas Svendsen, Analyst
- Vegard Toverud, Analyst

MANAGEMENT DISCUSSION SECTION

Kjetil Ramberg Krøkje

Good morning. Good morning, ladies and gentlemen. And, well, we would like to welcome you all to the Third Quarter Results Presentation for Storebrand, both the ones attending here today and also the ones who are following us on the webcast.

Today, CEO, Odd Arild Grefstad, will go through both the two recent acquisitions and the main elements of the result for the quarter. Afterwards, Lars Løddesøl, will take us through the results in more detail. After that, we will open up for Q&A. You can send questions to our Investor Relations mailbox if you have any questions, and we will try to answer them during the Q&A session.

Without any further ado then, I will give the word to Group CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. First of all, it's of course a pleasure for me to present strong result for the third quarter, especially a very strong operating result of NOK 596 million, and an overall strong financial result. However, what excites me even more than strong results today are the news in the two press releases we sent out yesterday morning and this morning. It's the acquisition of the asset management company, SKAGEN, and of course, the acquisition of the individual pension provider, Silver.

So today's presentation will be a bit different from the previous quarters or years for that matters, as I will use most of my presentation on the structural moves that will boost our non-guaranteed savings growth going forward.

This slide illustrates the two-fold strategy that we have been implementing over the last five years. The two-fold strategy will continue to be important for value creation going forward, with capital-light growth within savings and insurance, combined with capital release from the guaranteed back book, which have reached its peak capital consumption level. In the previous quarters, the focus has been on organic growth. In this quarter, we have added substantial growth in savings and pension through the acquisition of SKAGEN and Silver.

So, this morning we announced the acquisition of SKAGEN, a leading Norwegian asset manager. SKAGEN is well-known to the Norwegian markets and have an international footprint. But I would like to briefly introduce the company to our international audience before I explain the strategic rationale for the acquisition and the financials of the transaction.

SKAGEN has an incredible journey since its start in 1993 to today's position with more than 140,000 customers and more than NOK 80 billion in asset under management. It has built its success as an active investor with a value-based investment philosophy, and that is still at the core of the company today.

After incredible growth and success both in Norway and in the rest of the Europe, SKAGEN has been through a period of decline in assets over the last years. However, we believe - and I will revert to that - that SKAGEN has a strong value creation potential going forward. The company today has a good mix of clients and geographic spread that very much complements our own asset management footprint and where we see great potential going forward.

Then let's turn to the strategic rationale for the acquisition, both in terms of how this combination supports our long-term strategy and why SKAGEN is a good fit to fuel our growth in the savings market. The underlying drivers is placing more and more of the responsibility for pensions and savings on individuals. We are growing older, but we are not working longer. And that combination is increasingly put burden on the public finances.

This has led to a number of regulatory changes over the last years. First of all, a change in the public pension system to adapt to aging population. Second, a structural change in the occupational pension market from collective defined benefit schemes to individualized defined-contribution schemes. And this year, two new individual private savings products has been launched to the market with tax incentives as a Pillar III savings.

In light of an increased focus on the Savings market, we also see a clear trend where asset manager join forces to secure scale and product innovation to meet competition and customer needs. The result of these changes is a blended pensions and savings market going forward. This is an attractive growing market where Storebrand and SKAGEN together is very well-positioned.

So, why is the acquisition important for our success in the Savings market? Well, Storebrand is a market leader in corporate pension space in Norway, and we have a strong position in the Swedish occupational pension market. Based on our pension platforms, we have built a leading presence towards institutions and distributors in Norway, and has a fast-growing position in Sweden toward institutions and distributors.

On the other hand, we are a small player in the pure mutual fund markets, which is the largest market segment for individual savings in Norway. Since we see a clear individualization force in the market, a strengthened position in the mutual fund space is very important to us. And by this acquisition, Storebrand moves from eight place with a market share of 4% to a second place in the market line-up in a combined market share with SKAGEN/Storebrand to 17%.

The combined entity will have a strong footprint in the key markets for pension and individual savings. Both companies have significant customer bases with potential for mutual further development. Asset management is a scale business. By joining forces, we are adding another NOK 80 billion to our asset management factory, creating a new income stream and a strong basis for synergies.

In the past few years, we have seen a shift from active managed funds toward more index-based strategies. In the same time, we have also seen rise of new investment philosophies and product innovations. In Storebrand, we offer a broad range of asset classes and mutual funds, and we see

that SKAGEN offers a different asset management philosophy that complement and strengthens our existing offering to the retail and the institutional markets.

SKAGEN, as I already mentioned, has an impressive history of delivering strong result and has built a strong position for the SKAGEN brand. In the last few years, the company has been through some rough times; however, we believe that the current management in SKAGEN has taken important steps to rebuild its position going forward. We will uphold the independence of the investment team, keep SKAGEN as a legal entity and unique brand in the markets. We will, of course, take out synergies estimated to more than NOK 50 million mainly on administrative functions and the operational platform.

Then more into detail of the transaction. Storebrand will buy 91% of the outstanding shares. The sales price is initially NOK 1.6 billion with 75% paid in Storebrand shares and 25% by cash. With strong top line growth and performance fees, there will be some additional payments to the seller, and this will create, together with the shares of Storebrand, a common incentives for the sellers and the buyers.

The acquisition will have a negative 2% impact over solvency ratio day one that will, of course, create increased earnings and dividend capacity going forward. If you look at the 2016 post-tax earnings, our initial payments before synergies represents a price earnings on 11.5.

On top of the acquisition, we just today also announced the acquisition of Silver and we are looking forward to welcome more than 20,000 customers in the beginning of 2018. Silver builds its business model on guaranteed paid-up policies that failed to comply with the Solvency II regulation. The policies will now be converted into non-guaranteed paid-up policies with investment choice. Storebrand has already a customer-friendly web solution in place that will ensure smooth transfer of the NOK 10 billion portfolio.

The purchase price here is NOK 520 million. This will be financed by the company portfolio in our life insurance company, and the acquisition will increase our administration result with approximately NOK 60 million a year.

And by this, I give the word to you, Lars, to take us somewhat deeper into the results.

(13:13-14:47)

Lars Aasulv Løddesøl

Okay, I'll then give you a brief run through of the numbers, and I'm proud to stand here to show strong numbers in this quarter. NOK 596 million in operating result is a new record, I believe. I guided last quarter that the operating result is expected to land somewhat above NOK 500 million per quarter on a normalized basis. I repeat that guiding, and these results are above what can be expected going forward.

There is, however, no specific items that improve the results significantly by themselves, rather a number of small positive contributions from across the business. At the same time, good returns allow us to continue with buffer building and the earnings per share is strong due to good results and a low tax rate in the quarter. The solvency position is impacted by three main elements - market movements, technical adjustments, and operating value creation.

Starting on the left hand side of this picture, the model improvements of this quarter contributed a negative 1 percentage point. We're constantly working to improve our models and this time it has led to a marginal negative 1 percentage point. Over time, model improvements have contributed positively.

Of a more technical nature, volatility adjustment was reduced by 3 basis points to 18% in Norway and by 1 basis point to 3% in Sweden. This led to a 1 percentage points fall in the solvency margin. The steepness of the interest rate curve around the 9- to 10-year point impacts the forward curve beyond 10 years, even without a change in the interest rate level as such. This has contributed another negative 1 percentage point. The third element is that the equity stress factor increases when equity markets go up. This led to the final negative 1 percentage point for a combined negative contribution of 3 percentage points from primarily technical factors.

Importantly, the operating earnings and asset return contributed positively 3 percentage points, in line with previous guiding on the ongoing operational capital creation. Add to this the transitional capital of 10 percentage points to a regulatory solvency of 160%.

These movements give us a solvency overview shown here. The picture includes the sensitivities related to movements in rates, equity markets and spread levels as well as changes in the UFR. The sensitivities are more or less unchanged from previous quarter. It is satisfying to see that the growth in the top line is picking up speed. The top line growth adjusted for changes in the currency rate between Norwegian krone and Swedish krona is up 5%. That is driven by an 11% growth in the front book more than making up for the decline in the back book.

The insurance results - or the insurance result is good in the quarter and year-to-date despite low growth in premiums. Cost control remains satisfactory. Financial results are down from last year, but still at a satisfactory level. The tax rate for the quarter is negative due to - i.e., contributing to the result due to sale of a property, which has released a tax liability. Our expected long-term tax rate remains slightly above 20%.

This picture is the same as the previous one that's splitting the results into the three profit lines - Savings, Insurance and Guaranteed. All of the profit lines performed better than last year. And the Other segment includes Corporate Banking and run-off and company portfolios, which has a lower return than last year.

In this picture, you can see a further breakdown of the results from the savings area into Unit-linked Norway, Unit-linked Sweden, Asset Management, and Retail banking. All product lines are significantly up both quarter-on-quarter and year-on-year.

Here, we see that the growth in both premiums and reserves within Unit-linked continues and especially the Unit-linked reserve growth of 20% is strong. The Asset Management business grows 10% year-on-year and will benefit from further growth through the two acquisitions that Odd Arild announced earlier. The Retail banking growth continues with satisfactory interest rate margin. As we approach the NOK 50 billion in mortgage lending that we have announced earlier, we will gradually manage the portfolio more for profitability than additional growth.

There are good results from the insurance line. In particular, the profitability from health and group life is strong, while the disability insurance line in Norway is negatively impacted by regulatory changes last year. The results are stronger than we expect going forward from the insurance business. And we can see this here where the combined ratio is very strong in the last quarter. We continue to operate the business with an objective of a combined ratio between 90% and 92%, and that's what you should also expect going forward. With the increased focus and growth in Asset Management and nonguaranteed savings, we reduce our growth ambitions within this area.

Whilst the Guaranteed business is in long-term run-off, the results are significantly better this year than last, mostly due to strong results from the Swedish business with profit split following good investment returns. The assets under management in Guaranteed has stabilized as you see up on the left hand side. And the Guaranteed reserves as a percentage of the total continues to decline by almost 1 percentage point per quarter as you can see on the lower right hand side, but first remain at the satisfactory level.

Under Other, the main change is lower investment returns from company portfolios. Last year, we saw a significant credit spread contraction which gave very strong financial results in the low interest rate environment.

And that concludes a brief run through of the numbers, and I'm sure you have some questions both to the transactions and to the numbers afterwards.

Kjetil Ramberg Krøkje

All right. Thank you, Lars and Odd Arild. We will now open up for questions both from the audience and also via the e-mail – Investor Relations e-mail if you have any questions. Please do send them in.

Q&A

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Jan Erik Gjerland from ABG Sundal Collier. If you look at the Guaranteed products, you have been delivering now very healthy profit split to your shareholders which is very good. At what kind of level would you like to see your value just the return to be before you (23:19) as you now booked the return. Is this a good indication that the value (23:25) this quarter is in the line which you would like to book profit split going forward or how should we think about it in the long run here?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Our main focus is building buffers in the Guaranteed portfolios to make sure that we can meet the interest rate guarantee for a number of years to come. You will see that the profit split that we show this quarter is primarily from the Swedish business, which has a slightly different profit split regime and where we'll have very good returns and we have a satisfactory consolidation in the relevant portfolios.

There is also, in the individual portfolios in Norway, some of the old (24:04) in those kind of portfolios. There is also full buffer levels on certain contracts, which allow us to take profit split in those particular contracts. Our main focus is continuing to build buffers to make sure that we meet the interest rate guarantee in the low interest rate environment in a number of years to come.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

And just one second question regarding the Silver acquisition. The deferred tax advantage of NOK 300 million, is it any uncertainty about that not being used in the right direction or is it so that how certain are you about that number because it's quite big compared to the acquisition price?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

We have been advised that that is something we can rely on, but that's obviously a question in a transaction like this where there is a bankruptcy where there is some doubt related to that, but we've been advised that this is something that can be used in the transaction form that has been presented.

A - Lars Aasulv Løddesøl

And we are continuing the business, of course, and we feel comfortable that this is the excess (25:14) that we will take advantage of.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thanks. Vegard Toverud from Pareto. I was just wondering about some details on the transaction for SKAGEN. Could you just inform us on who the 9% remaining shareholders are and potentially why they didn't sell or you didn't acquire 100%? And also give us some information on the earn-out structure. So, what we should - how we should think about that going forward.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

The 9% is related to B-shares, which is part of the incentive program in the company. So we will look to find a way to make a long-term incentive program for the company that may include the current 9%, but that's part of a employee incentive scheme. So it's not part of free shares as such.

A - Lars Aasulv Løddesøl

So we have the votes in the company.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

So we have all the votes, yeah. We have 99.9% of the votes. And the second question?

A - Lars Aasulv Løddesøl

It's about earn-out structure.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Earn-out structure. Yeah. Sorry. I'm a little tired today. The earn-out structure is such that if results are - or most of the results for 2017 will go to the old shareholders. And if the business continues to perform with a net income which is growing in the next couple of years, they will have an additional earn-out which bring - will bring the sales price from NOK 1.6 billion up to NOK 2 billion. In addition, they will have 50% of the performance fees in the next five years. And if the performance fees goes through the roof, that percentage point will increase, but under no circumstances will they get more than NOK 1.5 billion.

A - Lars Aasulv Løddesøl

So it's all explained in our notes also in these quarterly results.

Q - Vegard Toverud {BIO 17129809 <GO>}

Sorry, if we're missing out on that one. And just one more question just to the comments on Insurance, if I understood that correctly. As you are experiencing or seeing more growth elsewhere, you are reducing your ambitions for growth within the insurance area, is that like...

A - Odd Arild Grefstad {BIO 5483351 <GO>}

We have said in the last couple of quarters and also since Capital Markets Day a couple of years ago that we have an ambition of 10% growth in Insurance that we are no longer aiming for 10% growth in Insurance, we are aiming for growth, but below 10%. So we will shift the focus more towards Asset Management and non-guaranteed savings growth.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Good morning. Thomas Svendsen from Nordea Markets. Do the sellers of SKAGEN have any lockup on the shares they receive?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes. They do have a short lockup.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Actually, I forgot the second question. So I come back.

Q - Håkon Astrup

Håkon Astrup from DNB Markets. Regarding the Silver acquisition, you have guided for around NOK 60 million in annual pre-tax contribution. How do you see – do you see that's likely this will, say, increase going forward due to, say, cross-selling and also, say, higher asset under management or may it fall due to, say, customers leaving you and also margin pressure?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

We have put in, of course, different sensitivities in our numbers here. So we have taken into account that there will be some lapse in the portfolio. It's a long-term run-off portfolio. But there is also, of course, cross-selling opportunities that is not taken into account in this number. So on the total, we feel comfortable about the guidance we have given and that we will have a good result stream from this going forward.

Q - Håkon Astrup

So NOK 60 million is also your best estimate for, say, five years down the line?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes, I would say so. Yeah.

A - Lars Aasulv Løddesøl

Yeah.

Q - Håkon Astrup

Thank you.

Thomas from Nordea Markets again. Regarding the equity issue, which is 75% of the proceeds, what consideration have you done with concluding on this mix? Is that the level you felt you needed to secure a dividend for this year, or was it the sellers who wanted shares, or what considerations did the board do here?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Well, this is a combination. As I said, it's a good alignment of the interest of the sellers and the buyers in this deal together with the earn-out structure. Of course, it's very important for us to keep a high solvency level, as we now has reached the levels that we'd like to have long term, and to make no doubt about that we are fully committed to deliver on the dividend policy that is already communicated to the market. So, altogether, this was the mix that we felt was appropriate in this deal at this time.

A - Lars Aasulv Løddesøl

And it's also right to say that the sellers were interested in acquiring shares in Storebrand as part of the transaction. And, again, they believe in the combined entity creating additional values going forward.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Thank you.

A - Kjetil Ramberg Krøkje

All right. I'll do one question from the e-mail here. So this from Matti Ahokas from Danske Bank. Will the SKAGEN and Silver acquisition impact your dividend plans?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Now, as I already said, this is done in a way that does not impact our dividend plans. On the contrary, when we look forward, this of course shifts the balance towards non-guaranteed savings, increases the (32:04) in the group and also increases the solvency position, and by that also the dividend capacity going forward.

Q - Kjetil Ramberg Krøkje

On the IPS market, could you give us some more information about what you think is the potential for you there in terms of volumes, and what kind of profit margins you are looking for?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Well, first of all, we are, of course, the largest player in the corporate pension market. We feel that is Pillar III that is now coming in with real tax incentives for Pillar III savings is adding on to the corporate pension schemes. And with a 30% market share in corporate pension, we of course have high expectations for the IPS market and has a put forward everything that is necessary now to be focused on that in the market from the 1st of November.

It's still early days about really how the pickup in the market will be, but we will have our unfair (33:24) share of that market. And we have put everything forward to make sure that we will actually do so. This is based on the same products that we have in the market for pension saving as well. So it's up to really the allocation the clients do what kind of margins we'll have on the product. This goes all the way from the, of course, quite simple index products into more alpha type of solutions in a blend with mutual shares.

Q - Kjetil Ramberg Krøkje

So there will be no additional fees on top of what fees in the various form you decide to invest in?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Now, this is the same structure as we have for some savings in the pension area already.

Q - Kjetil Ramberg Krøkje

Thank you.

One more question from the mailbox from Peter Eliot from Kepler Cheuvreux. Do you think you can turn around the decline in SKAGEN's AUM?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes. As I said, of course, there will be some outflow especially on institutional clients in SKAGEN. They have a very strong presence, especially in the retail market. We feel confident that we, when we join forces together, will create value and, of course, also create growth for us combined with this acquisition in SKAGEN.

Q - Kjetil Ramberg Krøkje

Just one follow-up then on the lock-in period, how long was it? It was short. What is it, one day or is it half year, or is it one year or is it three years or very short?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

That's more of a technical nature. The point is that we have now made this transaction in shares, and until it actually goes through, obviously, they will be locked up in the shares. And afterwards there is a short lock-up period. But most importantly, they have signaled quite clearly that most of them want to continue to be investors in Storebrand, and I hope this is - we will see that on the share list going forward. So we're quite confident that we will maintain a good relationship and keep them as shareholders in Storebrand for a long period of time.

Q - Kjetil Ramberg Krøkje

And just one follow-up to Håkon's question about the Silver portfolio. The NOK 60 million is sort of the five years trend is then, of course, a slightly decreasing AUM and I think slightly increase in fees. That's your base assumption?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes. And, of course, it's the return on the assets as well. So it's a combination of all these elements.

Q - Kjetil Ramberg Krøkje

Christian Fotan from Gobler (36:11). I have two questions. One concerns the tax issues. You mentioned 20% effective tax rate. The government did approve (36:21) change in the national budget on potential changes to life insurance and property casualty insurance taxation. First question then would be how and what kind of impact do you see from the potential changes that was put forward in the government side on this? We know that they are eager to tax financial institutions, so we would expect they are looking for some money here. That was the first question.

I think the second question, IFRS 17 is coming in a couple of years. When do you expect to start reporting to shareholders on the impact of IFRS 17?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

I'll do the first question on tax. There are some suggestions on tax deductibility of buffers in life insurance. As we see it, we still have to go through it and we don't see there's any large material impact for us from that proposal. And the tax rate as such is a blend of the tax rate we have from Sweden and the tax rate we have from Norway. And it's also important to point out that we do have tax losses carryforward that shields shareholder in the coming years.

A - Lars Aasulv Løddesøl

And on IFRS 2017 reporting, we have started implementing that. I don't know exactly when we will start reporting on it. That's a little bit too early yet. But as soon as we have meaningful information to share with the market, we will share that information with the market. But the date I don't have as of now.

A - Kjetil Ramberg Krøkje

Okay. If there is no further questions, first of all, I will welcome you all to join the call at 14:00 CET and we'll try to answer the rest of the questions there. Thank you, all, for showing up today. And have a good day.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you.

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