Acquisition of Majority Stake in Caser by Helvetia Group

Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmur, Chief Executive Officer

Other Participants

- Jonny Urwin, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Simon Fossmeier, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Analyst Conference Call on the Acquisition of the Spanish Insurance Company Caser by Helvetia. I am Alessandro the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Philipp Gmur, Group CEO. Please go ahead, sir.

Philipp Gmur

Thank you. Ladies and gentlemen, welcome to our conference call. We are very pleased to be able to inform you today that we reached another milestone that perfectly fits with our current strategy. Helvetia is acquiring a majority stake in the Spanish insurer Caser. This acquisition will considerably reinforce the European business as a second pillar of the Group. We will be gaining substantial market share in Spain and together with Caser, we will improve our positioning to a meaningful number seven in non-life.

Moreover, we will not only be significantly strengthening our core business, but also improve the business mix for the Group through a higher share of non-life and the more balanced geographical mix. Helvetia is also significantly improving its distribution channel mix by increasing its presence in the area of bank distribution.

Caser operates very successfully in Spain. We see Spain as a very promising growth market and market economics for Spain look positive. We repeatedly emphasized that an acquisition in Spain would be very interesting. And now, we are seizing the opportunity offered to us.

For our shareholders, the good news is that Caser will also immediately make a significant profit contribution and the acquisition is EPS accretive. Furthermore, Helvetia will be preserving its strong capital position. I will provide you with more details of the acquisition on the following chart.

Let's move to Slide 3, as I have already mentioned, the acquisition of Caser is a unique opportunity to strengthen the European business as a second pillar of the Group. Our business in Spain has developed very well in recent years and will be additionally reinforced by this transaction. Helvetia will significantly increase its market share in Spain, which also substantially increases the importance of our European activities.

The acquisition of Caser perfectly fits with Helvetia's strategy. Caser also is strongly focusing on the attractive non-life business, which made up 68% of Caser's premiums in 2018. Caser has a balanced product portfolio offering products and services in all retail insurance segments.

Helvetia is also opening up valuable new sales channels in the area of bank distribution. Caser has had distribution agreements with Ibercaja, Unicaja and Liberbank, and further banks for a long time. The bank distributors will remain as minority shareholders and distribution agreements will be continued. Hence Helvetia is gaining important new strategic partners in Spain. Ibercaja, Unicaja and Liberbank are present across Spain with around 3,100 branches, serving more than 7 million customers.

Both Caser and Helvetia focus on customer centricity and digitalization. In addition Caser, like Helvetia, is developing new business models to further diversify the business. With Caser, Helvetia gains access to attractive ecosystems in the health and old age sector with stable fee income.

Among other things, Caser operates nursing homes and hospitals. Given the demographic development, this offers further growth opportunities. The two companies complement each other in a perfect manner, be it business wise, be it culturally. Furthermore, Caser will also immediately make a significant profit contribution. Finally, we see additional potential to realize synergies over time.

On the next slide, our CFO, Paul Norton, will provide you with more details on the structure of the acquisition, the financing structure and the financial implications.

Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Good morning also from my side. Caser is owned by a group of shareholders, most of whom are banks with distribution agreements with Caser. Helvetia has reached an agreement with a group of these shareholders on the sale of their share packages. Helvetia would acquire up to 70% of Caser.

The purchase price for stake of almost 70% in Caser is EUR780 million and is close to the book value of Caser. Helvetia to intends to finance two-thirds of the acquisition of Caser by using hybrid bonds and one-third by issuing new shares. This financing mix enables efficient capital management and contributes to a balanced capital base. The Annual General Meeting on April 24, 2020, will vote on the issuance of new shares.

Until the capital transactions are completed, the acquisition will be financed with existing liquidity. Helvetia's capital position remains solid after the transaction. The SST ratio will remain within the target range of 180% to 240%. Helvetia has already had confirmation that the S&P rating of A will remain unchanged subject to completion of the transaction financing actions.

In addition, as Philipp already mentioned, the acquisition will be EPS accretive. At the moment the full IFRS numbers remain provisional because Caser reports under local GAAP. We will obviously give you more details once the acquisition has been completed and as with the Nationale Suisse acquisition, we will report the impact of acquisition accounting in the future results so you can see the underlying results.

We expect the transaction will be concluded in the first half of 2020.

With that, I will hand back to Philipp, who will provide you with more details on Caser as a company.

Philipp Gmur

Thank you, Paul. Slide 5 shows that together with the Caser, Helvetia will become an important player in the Spanish non-life market. While Helvetia currently ranks number 20, the combined companies will advance to a number seven position, an excellent market positioning and basis for future growth. This premium volume in Spain even exceeds the non-life book we have in Switzerland. Also, in the life business, Helvetia significantly improves its positioning.

Let us move to Slide 6 that provides you with an overview on Caser's business. Founded back in 1942 in Madrid, Caser is a Spanish composite insurance company that is active in non-life and life. The company has a strong focus on the non-life business, where it holds the top 10 position standalone.

In 2018, Caser generated on a local GAAP basis revenues of EUR1.6 billion and a profit of EUR87 million. Non-life business accounts for 62% of the revenues. Alongside the insurance business, Caser has developed nursing homes, hospitals and real estate services to diversify its operation.

As you can see on the right side of the slide, the company has also built up comprehensive bank distribution networks. Caser has non-life distribution agreements with Ibercaja, Unicaja and Liberbank and other banks. These co-operations will be continued and Helvetia is gaining important new strategic partners in Spain.

Let us move on to Slide 7. Slide 7 shows Caser's business mix, with 68% of premiums coming out of the attractive non-life business. Because Caser reports based on local GAAP, it's figures are only comparable to Helvetia's numbers to a limited extent. However, Caser contributes significantly to the top-line figures in Spain and improves the share of the non-life business from a Group's perspective.

In addition Caser generated EUR141 million of revenues with fee income from the ecosystems in the health and old age sectors, offering future growth potential.

On Slide 8, we will provide you with further information of the bottom line impact. Also, here I would like to emphasize that due to the fact that Caser reports based on local GAAP, it's figures are only comparable to Helvetia numbers to a limited extent. However, they can give a broad indication of the impact of the acquisition.

Any numbers in this presentation related to the acquisition and its impact on Helvetia Group are preliminary and will only be finalized after the completion of the conversion of Caser's number to IFRS and the related acquisition accounting. Nevertheless, it is already apparent today that Caser will also provide a substantial positive bottom line impact.

With that, I'll move on to Slide 9. Caser will continue to operate in the Spanish market with its existing well-established brand, as we will Helvetia Seguros in Spain. The management teams and locations of both companies will also remain in place. Helvetia aims to combine its strengths with Caser's.

For this particular reason a joint management committee will be set up after the transaction has been completed, in which members of Helvetia Spain and Caser will be represented. The joint management committee will coordinate common activities in the market also with the aim of realizing synergies. Moreover, it ensures the exchange of knowledge and experience.

Let's move on to Slide 10. Helvetia has reached an agreement with the main shareholders on the sale of their shares in Caser. Other shareholders have the opportunity to sell their shares at the same conditions to Helvetia. Helvetia expects to acquire a stake of up to 70% in Caser. By last night, we have a contractual commitment of 67.1%. We expect the remainder within one week's time. The above mentioned three strategic bank distribution partners will each remain invested with around 10%, underscoring the importance of these strategic co-operations.

On Slide 11, you see that the acquisition of Caser supports Helvetia's growth ambition, without compromised financial targets. It is very important for me to emphasize that together with Caser, Helvetia will reach its volume ambition of CHF10 billion by the end of 2020, but without jeopardizing profitability. To the contrary, the transaction supports our strategy of profitable growth.

Let's end our presentation with a summary on Slide 12. To sum up, with the acquisition of Caser, Helvetia is: first, achieving its strategic aim of reinforcing its position in Europe and strengthening Europe as a second strong pillar of the Group; second, strengthening the core business and exploring new business models; and third, creating shareholder value by acquiring a successful insurance company under financially attractive conditions.

Now, Paul Norton and I are ready to answer your questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from the line of Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I'll try and limit myself to three questions initially. The first one was on earnings. I mean, I guess, given your comments, you can't give us a better indication of the underlying IFRS earnings, but I was wondering if you can give us any idea or quantification of the synergies you expect, and also, whether you can quantify the one-off in Caser's 2018 numbers?

The second one was on capital structure. I'm just wondering whether you're happy with the financial leverage as it will be after this deal, or whether you might look so decrease that over time and whether it leaves you with any capacity for further deals?

And then, the third one was just on the dividend. I'm just wondering whether it has any implications for the dividend policy given this should increase your earnings? If you cut the dividend policy unchanged, then I guess your payout ratio would go down a little bit. Just wondering if you can comment anything over this at this stage? Thank you very much.

A - Philipp Gmur

Okay. Thank you, Peter. Let me answer question number three, and then, hand over to Paul. With regard to our dividend policy, of course, our dividend payout ratio is slightly changing according to the number of shares and all that, but we are not planning as of today to have a major change in our dividend payout ratio, as we used to comment on that during the last years. So instantly, there is no change in dividend policy. Now, for the other two questions, I would like to hand over to Paul.

A - Paul Norton {BIO 16145125 <GO>}

Maybe I can just add to the dividend policy. As you know, we have a new strategy period coming up and we will update our dividend policy as part of the strategy. As you know, we also have strategic gear increase in dividends and with the Nationale Suisse transaction, we increased dividends due to synergies. I'll come up to that in a minute, the synergies. But obviously Caser will bring additional net income to us, which is available for dividend. So it may or may not have an impact on the payout ratio, but I think the most important thing is that, we have a clear strategy going forward.

In terms of the earnings, you're right, it's very difficult at the moment to give you a guidance on the underlying earnings under IFRS until we've gone through the details. The one-off was in the low double-digit millions net impact. As far as synergies are concerned, we have specifically not mentioned synergies. We've said this is a deal which adds distribution to us. It's not specifically a synergy deal as the Nationale Suisse deal was. Having said that, we do know of areas where we will, over the next few years, be able to achieve them, but we're being very conservative and are not saying anything at the moment. So I hope you can understand that.

In terms of the capital and leverage, we are very happy with that. On a small amount, you probably saw earlier this year, we repaid EUR150 million of senior, because we just needed and it would help the structure a little bit. You've seen hopefully today S&P have confirmed our A rating and taken off the credit watch, including the impact to cost [ph] as we spoke to them last week. So they are saying, as far as we're concerned, if you succeed with the financing of the transaction as you propose then we think the capital structure is absolutely fine. So we have no intention at the moment of decreasing the leverage and we'll look at it as we go along. Obviously, given the size of Caser, talking about future acquisitions, it's probably a bit too soon.

A - Philipp Gmur

More questions.

Operator

Your next question comes from the line of Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, guys. Good morning. Thanks for taking my questions. Well done for getting this over the line. It looks like it was quite competitive. I guess, from our perspective, as Peter touched on, it is just quite difficult to get a feel for the financials. You've helped us with the one-off, but just conceptually on the local GAAP versus IFRS point, I mean, what should we expect the direction of that to be? Normally IFRS is higher than local GAAP, so any comments there would be great.

Any broad comments on EPS accretion? I mean we've all did our calculations this morning, which invariably will be wrong given the accounting differences, but any just roughs there would be really helpful. But then, just on the funding structure, I mean -- and let's say you could have done this potentially just from internal resources given where you are in the solvency range, maybe the difference is from a credit rating perspective, but is the funding structure that you propose to give you more kind of powder future M&A going forward? Thank you.

A - Philipp Gmur

Okay. Johnny. Thanks. I would like to hand over for answering the two questions to Paul.

A - Paul Norton {BIO 16145125 <GO>}

I understand your needs to get more direction on the earnings and EPS. I really at this stage, would not like to give you anything there. I mean the EPS will be very mildly accretive at the moment, it's not -- we don't foresee a huge EPS accretion. But given the differences, and we're also dealing here by the way as a small amount of revenue which is not under IFRS for Insurance accounting, it's under IFRS 15 for revenues at some of the various hospitals and nursing homes, the sort of ecosystem health business. So at the moment I really wouldn't want to give you any stare on that I am afraid.

In terms of the funding, we've always had a very conservative funding approach and it's not so much about giving capacity for future M&A deals because this is going to take us some time to bring it back. Just with the Nationale Suisse we said, look, we're not going to do any major deals for a couple of years. It's about making us resilient and ensuring that we have a backbone that enables us to keep growing without any problems while we integrate the company. So that's why we didn't want to do that out of the existing funding.

Q - Jonny Urwin {BIO 17445508 <GO>}

That's great. Thank you.

A - Philipp Gmur

More questions.

Operator

The next question comes from the line of Simon Fossmeier from Bank Vontobel. Please go ahead.

Q - Simon Fossmeier

Good morning. Thanks for taking my questions. I see your EPS accretion. On the other hand, it looks like, the deal is slightly ROE dilutive. Just directionally, is that correct? The second question is on the life book, is this a book with guarantees? And third, if you have any estimate on what your costs will be on the hybrids that you will issue? Thank you.

A - Philipp Gmur

Thank you, Simon. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Yes. I mean, I have to look at the return on equity ratios. We think it actually will be not much different. Actually, it will be probably slightly positive given the two thirds funding is on hybrid and not in equity. So it should be slightly positive on that. The hybrid cost we estimate to be under 3%. It's pretty good at the moment. And what was your third question, Simon.

Q - Simon Fossmeier

On the life guarantees.

A - Paul Norton {BIO 16145125 <GO>}

Yes. There are guarantees. It is a traditional book, it is relatively small, we think -- actually due to the acquisition accounting for it and so on, but we think we can manage that book of business and make sure that it's more than adequately reserved. So we don't have a problem with that.

Q - Simon Fossmeier

All right. Thanks a lot.

Operator

The next question is a follow up from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Apologies if I missed this, but I was just wondering if your major shareholder has said anything about whether it will sort of take its share of the extra shares? That was first question. I am maybe out of luck with the other two, but you've given the -- you have said you'll remain within the range of the SST ratio. Are you able to give us any steer on the impact that it will have on the SST ratio very, very broadly on your calculations?

And the final one, again I might be pushing my luck, but in terms of the hybrid, you mentioned under 2%, but are you thinking Switzerland or euros for that or (inaudible)? Thank you.

A - Philipp Gmur

I start with answering the first question whereas Paul is now or afterwards answering the second question. With regard to our major shareholder, you probably are inferring to Patria Mutual. Of course, we want to get in touch with them as soon as possible. We do not know yet their position on whether they are positive or not and whether they are helping us increasing the capital. However, so far, they also -- they always we're supporting Helvetia's strategy and we are pretty confident that they would do so also with this transaction. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Okay. On SST, there will be reductions in the SST, but not hugely. It only depends on obviously the calculations and we're having to take Solvency II numbers and translate them into (inaudible) at the moment, but there will be, I will say, a reduction. I don't want to give you the exact accounts or our estimates at the moment, but it won't be going to the bottom end of the range at all. I am certainly not going to get into what will happen.

In terms of the funding, we probably would use euro loans which may mean we may have slightly over 2%, but at the moment indications are pretty good. Obviously what the market is, the Swiss range is well below 2% -- the Swiss franc range and the euro is probably closer to the 2%, and general feeling is that we'll prefer or my feelings are prefer to raise money in euros. So we have liabilities backing the assets, but we'll have a look at the exact mix closely and so on.

Q - Simon Fossmeier

Great. Thank you.

Operator

The next question is from Rene Locher from MainFirst. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Good morning, everybody. So I am referring to Slide 57, the half year results, where we can see these net economic dividend capacity and you have explained that it's going to be used for dividends or growth purposes. So I was wondering why you have not touched a little bit of this CHF0.6 billion for the funding? So that's my first question.

The second one is on the equities, 33%, which is roughly CHF270 million CHF280 million. I mean that's more or less a yearly dividend, so looks to me a little bit like left pocket, right pocket, and what is the thinking behind it? Thank you very much.

A - Philipp Gmur

Thanks Rene. I hand over to Paul.

A - Paul Norton {BIO 16145125 <GO>}

I'm glad somebody is now reading our NEDC disclosures. That's good. The NEDC is only one part of the equation, Rene. You're right, it is there partly for dividends and partly for growth, because you also have to look at the solvency, the SST, and the two are indicative, but not directly. So you could have a situation where you effectively use up capacity, which affects the solvency, but doesn't affect the NEDC and vice versa. So that's the first point. So solvency -- and the S&P rating, obviously, are very, very important things. Let me be clear. So they are not totally connected.

The NEDC, we will obviously look at as part of the dividend strategy going forward. I mentioned earlier, we will have a new strategy period coming in, but then we will explain more about our dividend policy. So at the moment, we'll leave it as it is and you'll get more information later on that. So what was the other one?

Q - Rene Locher {BIO 1921075 <GO>}
The equity financing. The CHF270 million.

A - Paul Norton {BIO 16145125 <GO>}
Is that the right pocket or left pocket. I'm not quite sure what you meant by that, are you suggesting that we're taking it out of NEDC to --

Q - Rene Locher {BIO 1921075 <GO>}
No. I mean, you could out scrap the one year's dividend and with that you could have financed the equity of the deal.

A - Paul Norton {BIO 16145125 <GO>}
Yeah. But I mean don't forget that -- I said that's part of the connection between the NEDC and the solvency and the S&P rating. You can't make that simple connection. Also don't think you'll be too happy if we scrap the year's dividend.

Q - Rene Locher {BIO 1921075 <GO>}
That's right.

A - Paul Norton {BIO 16145125 <GO>}
We can of course pay a dividend and we think the ongoing capital structure is really important to maintain that balance. Always have to keep the resilience going forward.

Q - Rene Locher {BIO 1921075 <GO>}
No. That's fine. And can I just on this page or Slide 57, you show a hybrid capital of CHF1.5 billion. So that means you know everything equal, you just add like CHF500 million to this CHF1.5 billion, so hybrid is going up to CHF2 billion and you have a leverage of roughly 35%?

A - Paul Norton {BIO 16145125 <GO>}
Roughly, yeah.

Q - Rene Locher {BIO 1921075 <GO>}
Okay.

A - Paul Norton {BIO 16145125 <GO>}
We paid back CHF150 million of senior debt.

Q - Rene Locher {BIO 1921075 <GO>}
That's right.

A - Paul Norton {BIO 16145125 <GO>}

Last year.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Great. Thank you very much.

Operator

(Operator Instructions)

A - Philipp Gmur

Are there more questions?

Operator

There are no further questions at this time.

A - Philipp Gmur

So, in order to come to an end, thanks a lot for your interest in Helvetia and in our recent acquisition of last night. For our Group, it's a major milestone in our history. And we are looking forward to meeting with all of you in due time to discuss the whole transaction in more detail. Thanks a lot. And have a good weekend.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call. And thank you for participating in the conference. You may now disconnect your lines. Goodbye.