

Hastings Group Holdings plc

1 March 2018

Hastings

# Annual Results Presentation 2017



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## 1 Profitable growth continues

- Strong policy growth and premium increases
- Live customer policies up 13% to 2.6m
- Increasing profitability whilst maintaining underwriting discipline
- Delivering on our targets

## 2 Another strong set of results for 2017

- Gross written premiums up 21% to £931m
- Adjusted operating profit up 39% to £184m
- Underpinned by strong financial position with net debt leverage multiple reduced to 1.4x
- Solvency II pre-dividend capital ratio of 190%
- A total dividend of 12.6p pence per share, 27% up on 2016

## 3 Continued investment in the business

- Continued expansion of our Leicester site, with over 1,200 colleagues
- New business sales now live on Guidewire broking platform
- Launch of Advantage Home Underwriting

	2017	2016 (pre-Ogden)
Calendar year loss ratio of 75-79%	73.0%	73.7%
Over 3m customers during 2019, but not at the expense of profitability	2.6m	2.3m
Net debt leverage multiple of around 1.0x during 2019	1.4x	1.7x
Dividend payout ratio of 50-60%	55.5%	55.5%

# Group financials

Richard Hoskins



Gross written premiums:

**£930.8m**

Gross written premiums up 21% compared to 2016

Adjusted operating profit:

**£184.1m**

Strong, profitable growth with customer policies increasing by 13% and adjusted operating profit increasing by 21%

Calendar year loss ratio:

**73.0%**

Calendar year loss ratio below the 75%-79% target range

Free cash generated:

**£118.1m**

Strong free cash generation up 20%, supporting continued investment in our business, healthy dividends and reduced leverage

Net debt leverage multiple:

**1.4x**

Reduced from 1.7x due to operating profit growth and cash generated

Pre-dividend Solvency II:

**190%**

190% Solvency II capital ratio pre a £40m dividend from Advantage

£m	2017	2016	
<b>Net earned premiums</b>	<b>410.1</b>	<b>334.8</b>	<b>22%</b>
Retail income	261.7	231.9	
Reinsurance and investment income	43.8	23.6	
<b>Net revenue</b>	<b>715.6</b>	<b>590.3</b>	<b>21%</b>
Net insurance claims	(299.5)	(260.1)	
Acquisition costs	(64.9)	(51.9)	} <b>17%</b>
Other operating expenses	(167.1)	(146.2)	
<b>Adjusted operating profit</b>	<b>184.1</b>	<b>132.1</b>	<b>39%</b>
Ogden impact	-	20.0	
<b>Adjusted operating profit</b>	<b>184.1</b>	<b>152.1 *</b>	<b>21%</b>
<b>Net income</b>	<b>144.6</b>	<b>114.9 *</b>	<b>26%</b>
<b>Profit after tax</b>	<b>126.7</b>	<b>96.4 *</b>	<b>31%</b>
<b>Adjusted EPS</b>	<b>22.0p</b>	<b>17.5p *</b>	<b>26%</b>

\* Pre-Ogden

## Another year of strong Group results

### Net earned premiums

Growth of 22% reflecting policy count growth and written premium increases earning through

### Retail income

Growth of 13% driven by higher policy count

### Operating expenses

Increase due to growth in policy count and investment in the business whilst maintaining positive jaws due to operational efficiencies

### Adjusted operating profit

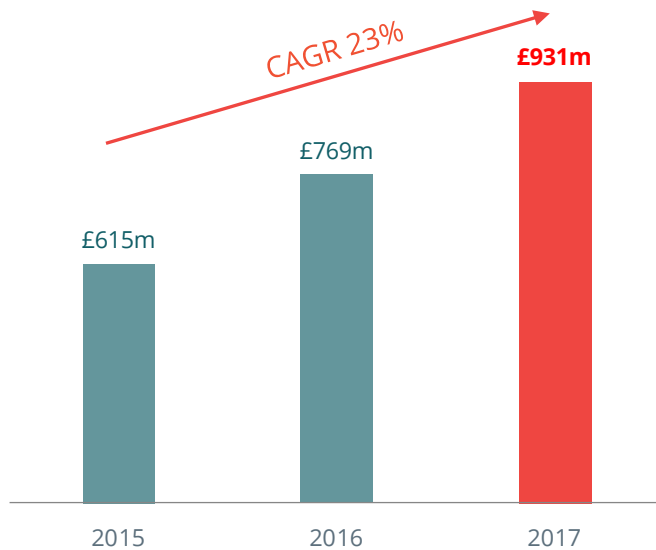
Continued profitable growth, up 21% on 2016 (pre-Ogden)

### Net Income and EPS

Up 26%, benefitting from lower finance costs

### Profit after tax

Up 31% on prior year, primarily reflecting strong operating performance

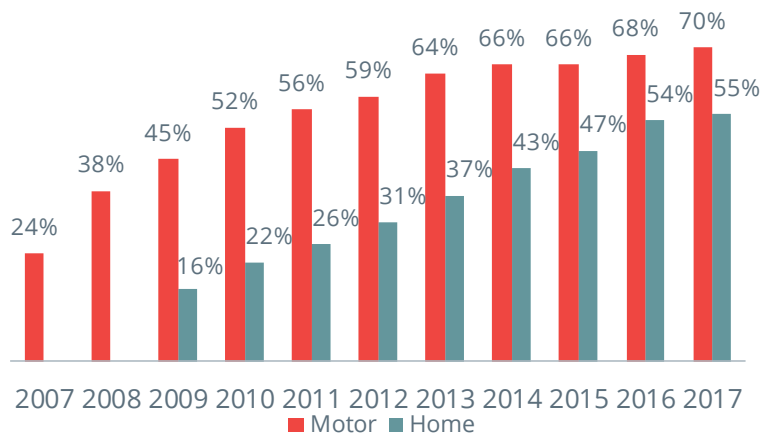


## Continued growth in gross written premiums

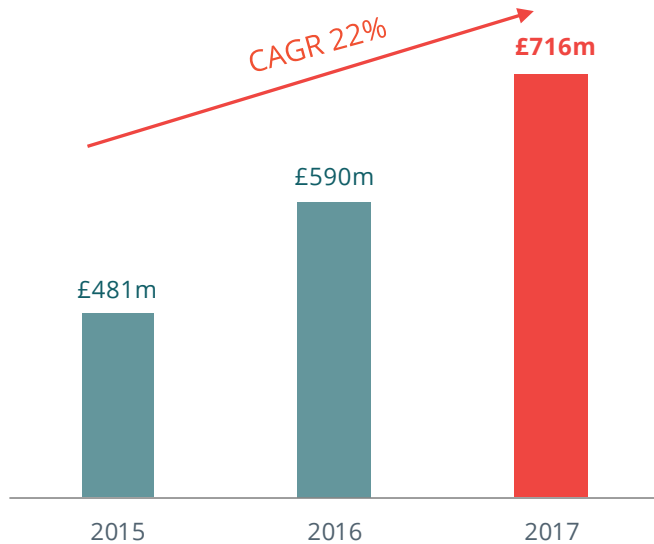
**Gross written premiums**  
Strong growth in customer numbers and a 7% increase in average motor written premiums

**Price comparison websites**  
PCW market has grown with more customers shopping around  
PCW market penetration increased to 70% on motor  
Hastings share of PCW new business sales has increased over 2017  
Private Car market share grew to 7.3% (2016: 6.5%)  
Continued increases in PCW penetration in the Home market

## UK market new business sales through PCWs







## Strong net revenue growth

### Net earned premiums

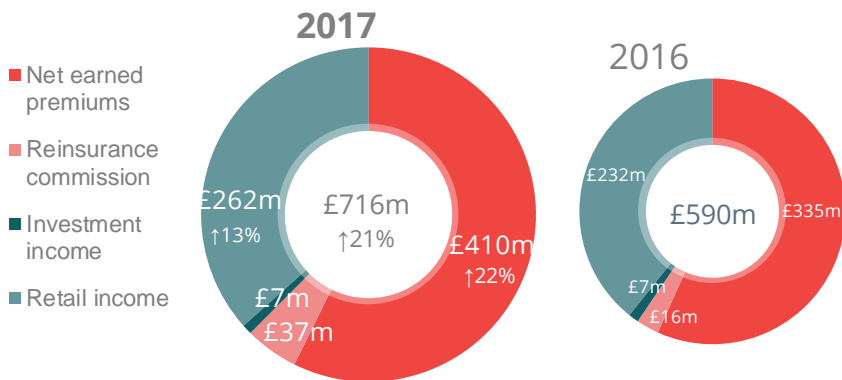
Net earned premiums growth of 22%, driven by increased policy count and rate increases, with average motor earned premium up 7%

### Retail revenue

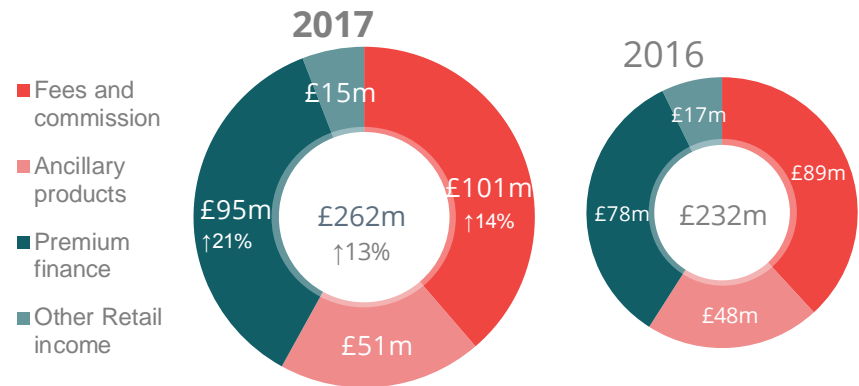
Retail revenue growing due to new business and strong retention rates

Average retail income per policy consistent with 2016

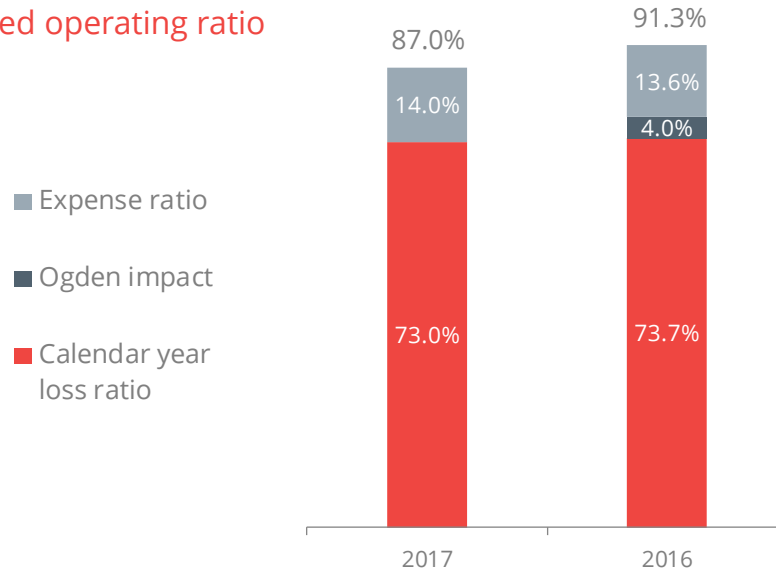
## Net revenue breakdown



## Retail revenue breakdown



## Combined operating ratio



## Calendar year loss ratio reduced to 73.0%

### Accident year loss ratio

Accident year loss ratio reduced to 73.8% (2016: 74.1%) due to average premium increasing at a faster rate than claims inflation

### Prior year development

Continued favourable prior year development

### Expense ratio

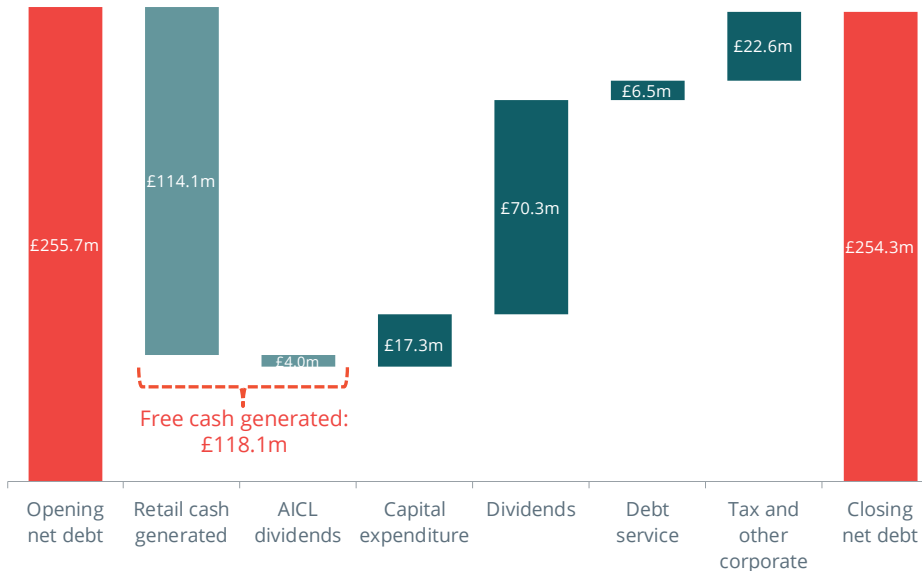
Expense ratio marginally up on 2016 due to increased acquisition costs reflecting new business growth

## Calendar year loss ratio

	2017	2016
Accident year loss ratio	73.8%	74.1%
Prior year development	0.8%	0.4%
Calendar year loss ratio	73.0%	73.7%
Ogden impact	-	4.0%
Calendar year loss ratio (pre-Ogden)	73.0%	77.7%

## Premium & claims inflation

	2017	2016
Written premium inflation	7%	9%
Earned premium inflation	7%	11%
Claims inflation	5%	6%



## Cash flow generation and continued deleveraging

### Retail cash

Strong Retail cash generation of £114.1m, up 16% on 2016

### Capital expenditure

Capex of £17.3m primarily driven by the continued investment in Guidewire

### Dividend

6.6p per share final 2016 and 4.1p interim 2017 dividend paid

### Debt facility

Further improvements to the credit facility agreed during 2017, converting the facility to £310m revolving credit facility with lower interest margin

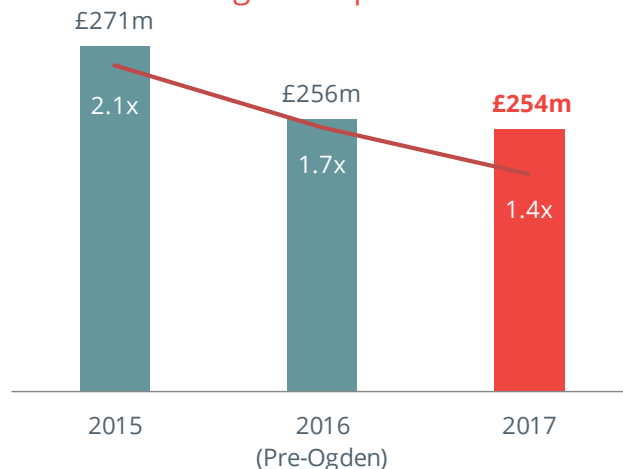
### Debt service

Debt servicing of £6.5m, down from £9.7m in 2016

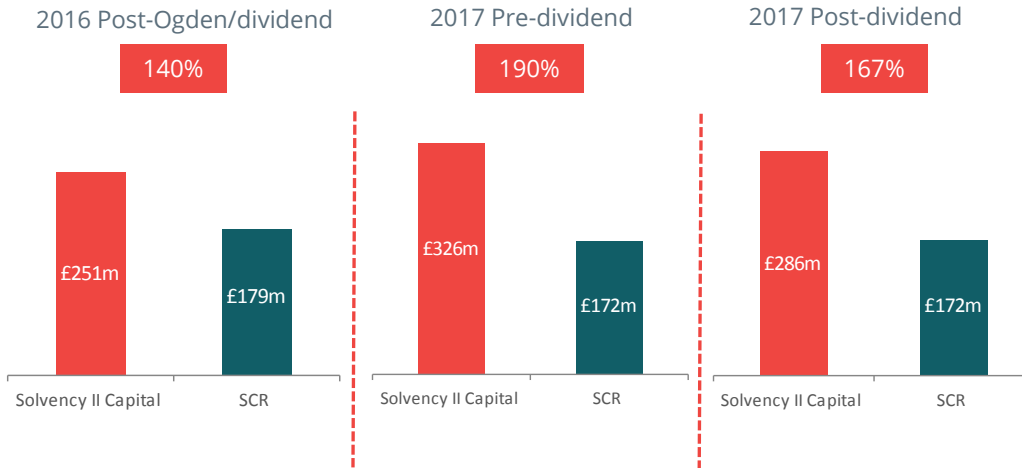
### Net debt leverage multiple

Net debt leverage multiple of 1.4x, improved from 2016 due to continued profit growth and cash generation

## Net debt and leverage multiple

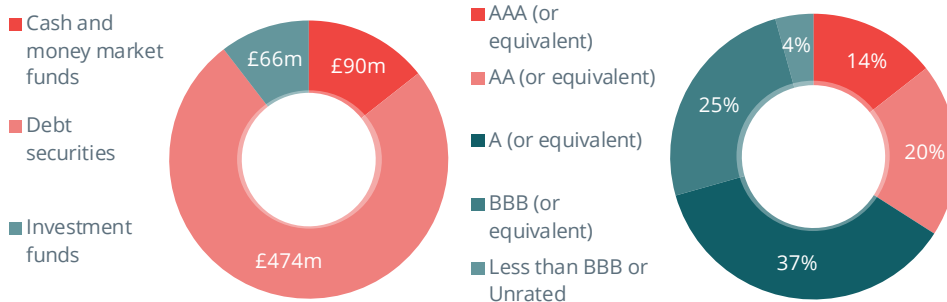


## Solvency II coverage<sup>1</sup>



<sup>1</sup>As at 31 December 2017, unaudited

## Advantage investment portfolio



Rating of non-cash investments

## Strong Advantage capital position

### Solvency II

USPs approved during 2017

Solvency II coverage ratio of 167%, post a £40m Advantage dividend

All Solvency II Own Funds comprise Tier 1 capital

### Investment portfolio

Strongly rated investment portfolio with overall credit rating A+, consistent with 2016

### Reinsurance

QS contracts placed for 2018, on a consistent basis with 2017



XoL retention maintained at 2017 levels fully covering losses exceeding £1m per event

# Looking ahead

Toby van der Meer



# Well positioned for future growth

		
Size of market	31m	20m
Current market share	7.3%	0.9%
Current market PCW penetration	70% ↑	55% ↑

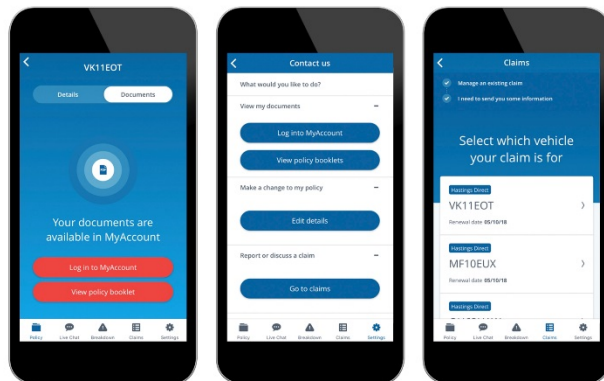
## 1 Pricing and analytics



## 2 Diversity and strength of proposition



## 3 Digital leadership



## 4 Technology





Underwriting discipline



Embedding of Guidewire



Diversification : Home, Bike and Van



Invest in analytics, digital and new technology



Cash generation, de-leveraging and delivering our targets



**Q&A**



# Appendix



# Adjusted operating profit to profit after tax

£m	2017	2016
<b>Adjusted operating profit (pre-Ogden)</b>	<b>184.1</b>	<b>152.1</b>
Ogden impact	-	(20.0)
<b>Adjusted operating profit</b>	<b>184.1</b>	<b>132.1</b>
Operational amortisation and depreciation	(5.5)	(5.6)
Finance costs	(7.8)	(9.6)
<b>Underlying profit before tax</b>	<b>170.8</b>	<b>116.9</b>
Taxation expense	(26.2)	(20.0)
<b>Net income</b>	<b>144.6</b>	<b>96.9</b>
Non-operational amortisation and other fair value adjustments	(21.8)	(22.6)
Tax effect of the above adjusting items	3.9	4.1
<b>Profit after tax</b>	<b>126.7</b>	<b>78.4</b>

## Retail results

£m	2017	2016
Retail policy income	335.3	288.5
Investment income	0.1	0.2
<b>Total income</b>	<b>335.4</b>	<b>288.7</b>
Salaries & other staff expenses	(71.8)	(62.3)
Acquisition costs	(66.6)	(56.0)
Other expenses	(82.1)	(69.2)
<b>Total expenses</b>	<b>(220.4)</b>	<b>(187.5)</b>
<b>Adjusted operating profit</b>	<b>115.0</b>	<b>101.2</b>

## Underwriting results

£m	2017	2016
<b>Net earned premium</b>	<b>448.8</b>	<b>359.6</b>
Other revenue	37.1	23.4
Investment income	6.7	7.0
Net claims incurred	(299.5)	(246.7)
Other expenses	(121.7)	(93.0)
<b>Adjusted operating profit (pre-Ogden)</b>	<b>71.4</b>	<b>50.3</b>
<b>Ogden Impact</b>	<b>-</b>	<b>(20.0)</b>
<b>Adjusted operating profit</b>	<b>71.4</b>	<b>30.3</b>

# Segmental reconciliation

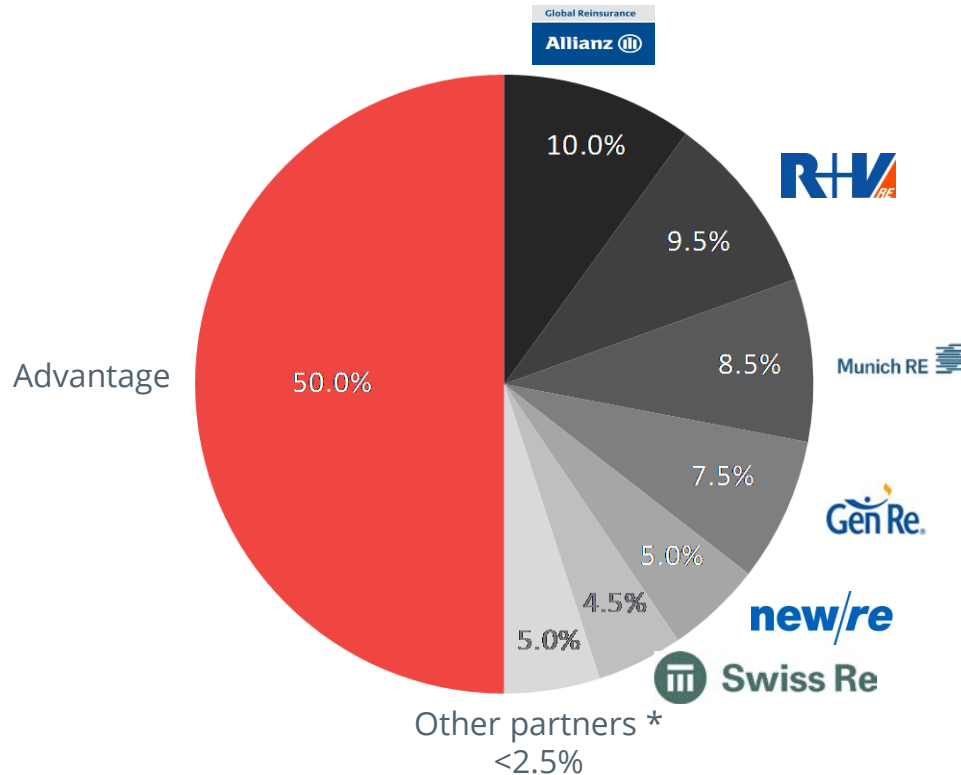
<b>£m, 2017</b>	<b>Underwriting</b>	<b>Retail</b>	<b>Corporate costs</b>	<b>Earn through discounts</b>	<b>Eliminate intercompany income</b>	<b>Other</b>	<b>Group</b>
Net earned premiums	448.8	-	-	(35.0)	-	(3.7)	410.1
Other revenue	37.1	335.3	0.3	41.3	(112.6)	(2.7)	298.7
Investment and interest income	6.7	0.1	-	-	-	-	6.8
<b>Net revenue</b>	<b>492.6</b>	<b>335.4</b>	<b>0.3</b>	<b>6.3</b>	<b>(112.6)</b>	<b>(6.4)</b>	<b>715.6</b>
Net claims incurred	(299.5)	-	-	-	-	-	(299.5)
Operating expenses	(121.7)	(220.4)	(7.2)	-	112.6	4.7	(232.0)
<b>Adjusted operating profit</b>	<b>71.4</b>	<b>115.0</b>	<b>(6.9)</b>	<b>6.3</b>	<b>-</b>	<b>(1.7)</b>	<b>184.1</b>

# Combined operating ratio

£m	2017	2016
<b>Group net earned premiums</b>	<b>410.1</b>	<b>334.8</b>
Current accident year claims costs	(302.6)	(247.9)
<b>Accident year loss ratio (%)</b>	<b>73.8%</b>	<b>74.1%</b>
Prior year development (%)	0.8%	0.4%
<b>Calendar year loss ratio (%)</b>	<b>73.0%</b>	<b>73.7%</b>
Ogden impact	-	4.0%
<b>Calendar year loss ratio (post-Ogden)</b>	<b>73.0%</b>	<b>77.7%</b>
Net acquisition costs	(33.6)	(25.4)
Net underwriting expenses	(23.8)	(20.1)
<b>Total expenses</b>	<b>(57.4)</b>	<b>(45.5)</b>
<b>Expense ratio (%)</b>	<b>14.0%</b>	<b>13.6%</b>
<b>Group combined ratio (%)</b>	<b>87.0%</b>	<b>91.3%</b>

<b>£m</b>	<b>Prior</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
At end of current period	835.3	124.7	171.3	204.3	253.2	302.6	1,891.4
One period earlier	837.6	125.3	169.1	203.4	256.4	-	1,591.8
Two periods earlier	840.4	125.2	165.5	200.6	-	-	1,331.7
Three periods earlier	844.7	130.8	163.4	-	-	-	1,138.9
Four periods earlier	849.8	136.4	-	-	-	-	986.2
Five periods earlier	857.8	-	-	-	-	-	857.8
Six periods earlier	741.8	-	-	-	-	-	741.8
Payments to date	(830.2)	(117.6)	(152.6)	(171.0)	(179.8)	(117.6)	(1,568.8)
<b>Net outstanding claims liabilities</b>	<b>5.1</b>	<b>7.1</b>	<b>18.7</b>	<b>33.3</b>	<b>73.4</b>	<b>185.0</b>	<b>322.6</b>

## Quota share (QS) reinsurance programme (2018)



### Capital efficient reinsurance programme

#### QS contracts

All contracts placed on a continuous basis

Reinsurer margins on 2018 programme maintained providing stability in overall cost of QS

Continued incremental reduction in risk transfer point on 2018 programme

Well diversified reinsurance panel, all rated A or above

#### XoL

Unlimited XoL cover on a traditional programme basis

Maintained at 2016 and 2017 levels fully covering losses exceeding £1m per event

## Excess of Loss (XoL) reinsurance programme (2018)



\* Axis, Chubb and DR Swiss



£m	2017	2016
<b>Assets</b>		
Goodwill	470.0	470.0
Intangible assets	87.4	97.2
Property and equipment	14.2	12.7
Deferred income tax asset	6.6	4.5
Reinsurance assets	1,087.7	822.0
Deferred acquisition costs	31.1	24.2
Prepayments	5.3	4.0
Insurance and other receivables	421.0	356.5
Financial assets at fair value	539.6	403.6
Cash and cash equivalents	154.6	168.0
<b>Total assets</b>	<b>2,817.5</b>	<b>2,362.7</b>
<b>Liabilities</b>		
Loans and borrowings	272.0	286.6
Insurance contract liabilities	1,665.6	1,299.5
Insurance and other payables	239.8	198.1
Deferred income tax liability	16.0	18.5
Current tax liabilities	11.2	6.4
<b>Total liabilities</b>	<b>2,204.6</b>	<b>1,809.1</b>
<b>Total equity</b>	<b>612.9</b>	<b>553.6</b>
<b>Total equity and liabilities</b>	<b>2,817.5</b>	<b>2,362.7</b>

# Return on capital employed

<b>£m</b>	<b>2017</b>	2016
Advantage deployed capital <sup>1</sup>	255.0	208.5
Retail deployed capital <sup>2</sup>	34.2	31.5
Corporate free cash balance <sup>3</sup>	4.8	8.1
Capital employed	294.0	248.1
Net income	144.6	96.9
<b>Return on capital employed</b>	<b>49.2%</b>	<b>39.1%</b>

<sup>1</sup> Advantage deployed capital represents the average of Advantage Insurance Company Limited's net assets during each period

<sup>2</sup> Retail deployed capital represents the average of Hastings Insurance Services Limited's total capital resources, being total net tangible assets

<sup>3</sup> Corporate free cash balance represents the average cash held during the period in the Group's unregulated corporate entities

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