

Intact Financial Corporation reports Q4-2018 Results

Highlights

- Net operating income per share up 19% to \$1.93 in Q4-2018 driven by solid operating results
- Premiums grew 4% in the quarter and 16% for the full year fuelled by commercial lines across North America
- Strong combined ratio of 91.7% in Q4-2018 with significant improvement in personal auto
- Full year NOIPS of \$5.74 drove Operating ROE of 12.1%, with over \$1.3 billion of total capital margin
- Quarterly dividend increased by 9% to \$0.76 per common share

(TSX: IFC)

(in Canadian dollars except as otherwise noted)

TORONTO, Feb. 5, 2019 /CNW/ -



Charles Brindamour, Chief Executive Officer, said:

"We delivered strong earnings performance across our businesses in the fourth quarter, with growth momentum building. In personal auto, we reached our mid-90's combined ratio run-rate and are focused on sustaining that performance. OneBeacon remains on track towards a low 90's combined ratio and becoming a leading North American specialty insurer. In the past year we made substantial investments in digital and artificial intelligence as we continue our customer-driven transformation and position ourselves for continued outperformance. Our balance sheet remains strong and we are pleased to again increase dividends to our common shareholders."

Consolidated Highlights¹

(in millions of Canadian dollars except as otherwise noted)

	Q4-2018	Q4-2017	Change	2018	2017	Change
Direct premiums written	2,392	2,293	4%	10,090	8,730	16%
Combined ratio	91.7%	92.6%	(0.9) pts	95.1%	94.3%	0.8 pts
Underwriting income	210	178	18%	474	486	(2)%
Net investment income	140	121	16%	529	432	22%
Net distribution income	36	28	29%	146	132	11%
Net operating income	281	236	19%	839	771	9%
Net income	244	232	5%	707	792	(11)%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	1.93	1.63	19%	5.74	5.60	3%
Earnings per share (EPS)	1.67	1.60	4%	4.79	5.75	(17)%
Return on equity for the last 12 months						
Operating ROE	12.1%	12.9%	(0.8) pts			
ROE	9.9%	12.8%	(2.9) pts			
Book value per share (in dollars)	48.73	48.00	2%			
Total capital margin ²	1,333	1,135	198			
Debt-to-total-capital ratio	22.0%	23.1%	(1.1) pts			

(1) This press release contains non-IFRS financial measures. Refer to Section 27 – Non-IFRS financial measures in the Management's Discussion and Analysis for further details.

The impact of fluctuations in foreign exchange rates was not material to our consolidated results. Impact on the U.S. segment's performance is outlined in the Insurance Business Performance section.

(2) Aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities. Refer to Section 18– Capital management in the Management's Discussion and Analysis for further details.

Dividend Increase

- The Board of Directors approved a 6 cent per share increase in the quarterly dividend to 76 cents per share on the Company's outstanding common shares. This represents a 9% increase in our dividend and the fourteenth consecutive annual increase in our dividend since our IPO in 2004.
- The Board also approved a quarterly dividend of 21.225 cents per share on the Company's Class A Series 1 preferred shares, 20.825 cents per share on the Class A Series 3 preferred shares, 26.95675 cents per share on the Class A Series 4 preferred shares, 32.5 cents per share on the Class A Series 5 preferred shares, 33.125 cents per share on the Class A Series 6 preferred shares and 30.625 cents per share on the Class A Series 7 preferred shares. The dividends are payable on March 29, 2019, to shareholders of record on March 15, 2019.

Industry Outlook

- Overall for the **Canadian P&C** industry, we expect **mid-single-digit premium growth** in the coming year, reflecting firm market conditions. In **personal auto and commercial lines**, industry profitability challenges are putting upward pressure on rates while in **personal property**, companies continue to adjust to changing weather patterns.
- In **U.S. commercial**, the pricing environment remains competitive with modest upward trends, and the economic backdrop is favourable. We expect **low-to-mid single-digit growth** in the coming year.
- Overall, the industry's ROE is expected to improve but remain below its long-term average of 10% over the next 12 months.

Insurance Business Performance

(in millions of Canadian dollars except as

otherwise noted)

	Q4-2018	Q4-2017	Change	2018	2017	Change
Direct premiums written						
Canada	2,067	1,986	4%	8,601	8,423	2%
U.S.	325	307		1,489	307	
<i>Growth as reported</i>			6%			nm
<i>Growth in constant currency</i>			2%			nm
	2,392	2,293	4%	10,090	8,730	16%
Combined ratio						
Canada	90.8%	91.9%	(1.1) pts	95.2%	94.2%	1.0 pts
U.S.	96.7%	97.4%	(0.7) pts	94.8%	97.4%	nm
	91.7%	92.6%	(0.9) pts	95.1%	94.3%	0.8 pts

Underwriting income

Canada	196	170	26	400	478	(78)
U.S.	13	8	5	71	8	nm

Corporate & other ¹	1	-	1	3	-	3
	210	178	32	474	486	(12)

¹ Corporate & other segment reflects the impact of our internal reinsurance treaty.

- **Premiums grew** 4% in the fourth quarter and 16% for the full year. In Canada premiums grew 4% in the quarter with double digit growth in commercial lines, tempered by profitability actions in personal auto. U.S. commercial premiums grew by 6% in the quarter (or 2% on a constant currency basis).
- **Combined ratio** of 91.7% improved 0.9 points driven by strong underlying performances in both Canada and the U.S. In Canada, significant improvement in personal auto was partially offset by a deterioration in commercial lines.
- For the full year, IFC's overall **combined ratio** of 95.1% was 0.8 points higher than last year. Improvement in personal lines, particularly in auto, was more than offset by higher large losses and catastrophe losses in commercial lines.

Lines of Business

P&C Canada

- **Personal auto** premiums declined by 1% in the quarter, as rate increases taken ahead of the market continued to impact unit growth. The combined ratio of 97.3% improved 3.9 points over last year as a result of our action plan initiatives and lower claims frequency. Prior year claims development was minimal at 0.3 points unfavorable in the quarter. Our profitability actions have yielded results, and we remain well positioned to capture growth opportunities as market conditions continue to improve.
- **Personal property** premiums grew 2% in Q4-2018 driven by rate increases in firm market conditions, tempered by slower unit growth related to our profitability actions in personal auto on bundled products. The combined ratio was strong at 78.5%, 1.2 points better than Q4-2017. For the full year 2018, the combined ratio remained solid at 88.3%, 0.8 points better than 2017, despite the impact of severe weather.
- **Commercial lines** (P&C and auto) premiums saw very strong growth of 11% with contributions from all segments, aided by rate momentum in firm market conditions. The combined ratio of 91.6% was solid, though 4.2 points higher than last year's very strong result. For the full year 2018, the combined ratio of 94.6% deteriorated 8.1 points compared to last year driven by higher large losses and catastrophe losses.
- **Net distribution income** was \$36 million in the quarter and \$146 million for the year, an increase of 29% and 11% respectively over the prior year. Continued growth and improved profitability of our broker network drove this increase.

P&C U.S.

- **Premiums** grew 6% (or 2% on a constant currency basis) to \$325 million for the quarter, with solid progress in our growth focus lines, tempered by the impact of our profitability improvement actions in other lines.
- **Combined ratio** of 96.7% improved marginally over Q4-2017, despite 5.9 points of catastrophe losses. The full year 2018 combined ratio was solid at 94.8%, reflecting good progress on improving OneBeacon's profitability. We are well on track to achieve a sustainable low-90s combined ratio within 18 to 24 months.

Investments

- **Net investment income** of \$140 million increased 16% compared to the same quarter last year from investment optimization initiatives and higher yields. For the full year, net investment income increased 22% to \$529 million from the growth in our investment portfolio following the acquisition of OneBeacon, optimization initiatives, and higher yields.

Net Income

- **Net operating income** of \$281 million for the quarter (\$1.93 per share) increased 19%, driven by an improved underwriting performance and strong growth in both net investment income and net distribution income. For the full year

2018, net operating income increased 9% to \$839 million, reflecting a full year of OneBeacon results.

- **Earnings per share** of \$1.67 for the quarter improved 4% from a year ago, driven by solid operating earnings. For the year ended 2018, earnings per share of \$4.79 was 17% lower than last year, despite higher operating earnings. In 2017, we had benefited from one-time non-operating gains of \$0.69 per share relating to the OneBeacon acquisition.
- **Operating ROE** for the 12 months ending December 31, 2018 was 12.1%, due to weak personal auto results in the earlier part of 2018, as well as elevated large losses in commercial lines. Our OROE remains well above the industry, though below our historical track record.

Balance Sheet

- The Company ended the quarter in a **strong financial position**, with a total capital margin of over \$1.3 billion. MCT in Canada was estimated at 201%.
- IFC's **book value per share** was \$48.73 as at December 31, 2018, a \$0.73 increase from a year ago. Profitability from operations was partially offset by the impact of volatile capital markets on our investment portfolio.
- The **debt-to-total capital ratio** was 22.0% as at December 31, 2018 and continues to track towards our goal of 20% in 2019.

Analysts' Estimates

- The average estimate of **earnings per share** and **net operating income per share** for the quarter among the analysts who follow the Company was \$1.47 and \$1.75, respectively.

Management's Discussion and Analysis (MD&A) and Consolidated Financial Statements

This Press Release, which was approved by the Company's Board of Directors on the Audit Committee's recommendation, should be read in conjunction with the Q4-2018 MD&A as well as the Q4-2018 Consolidated Financial Statements, which are available on the Company's website at www.intactfc.com and on SEDAR at www.sedar.com.

For the definitions of measures and other insurance-related terms used in this Press Release, refer to the MD&A and to the glossary available in the "Investors" section of the Company's website at www.intactfc.com.

Conference Call

Intact Financial Corporation will host a conference call to review its earnings results tomorrow at 11:00 a.m. ET. To listen to the call via live audio webcast and to view the Company's Financial Statements, MD&A, presentation slides, Supplementary financial information and other information not included in this press release, visit the Company's website at www.intactfc.com and link to "Investors". The conference call is also available by dialing 647-427-7450 or 1-888-231-8191 (toll-free in North America). Please call 10 minutes before the start of the call. A replay of the call will be available on February 6, 2019 at 2:00 p.m. ET until midnight on February 13. To listen to the replay, call 1-855-859-2056 (toll-free in North America), passcode 4279984. A transcript of the call will also be made available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation (TSX: IFC) is the largest provider of property and casualty (P&C) insurance in Canada and a leading provider of specialty insurance in North America, with over \$10 billion in total annual premiums. The Company has approximately 14,000 full- and part-time employees who serve more than five million personal, business and public sector clients through offices in Canada and the U.S. In Canada, Intact distributes insurance under the Intact Insurance brand through a wide network of brokers, including its wholly-owned subsidiary BrokerLink, and directly to consumers through belairdirect. In the U.S., OneBeacon Insurance Group, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and managing general agencies.

Forward Looking Statements

Certain statements made in this news release are forward-looking statements. These statements include, without limitation, statements relating to the outlook for the property and casualty insurance industry in Canada and the U.S., the Company's business outlook and the Company's growth prospects. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several

assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements as a result of various factors, including those discussed in the Company's most recently filed Annual Information Form and annual MD&A. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this news release, whether as a result of new information, future events or otherwise. Please read the cautionary note at the beginning of the annual MD&A.

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<https://newsroom.intactfc.com/2019-02-05-Intact-Financial-Corporation-reports-Q4-2018-Results>