

Intact Financial Corporation reports Q4-2019 Results

Highlights

- **Net operating income per share up 8% to \$2.08 in Q4-2019** driven by strong underwriting and distribution results
- **Premium growth of 12%** in the quarter and 9% for the full year led by rate increases
- **Combined ratio of 91.5% in Q4-2019** with solid performance in all lines, despite elevated catastrophe losses
- **Full year EPS of \$5.08 drove BVPS up 11% to \$53.97**
- **Operating ROE of 12.5%** with \$1.2 billion of total capital margin
- **Quarterly dividend increased** by 9% to \$0.83 per common share
- **Recently closed transactions were accretive to NOIPS in the quarter**; integration is well underway

(TSX: IFC)

(in Canadian dollars except as otherwise noted)

TORONTO, Feb. 4, 2020 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"We delivered strong results in the fourth quarter with double-digit topline growth and a low-90s combined ratio. Overall, 2019 marked another successful year for IFC as we advanced meaningfully on our strategies. We continued to improve the customer experience, digitally and in claims, while enhancing our use of data in risk selection, including leveraging our artificial intelligence expertise. At the same time, we bolstered our leadership position in Canada with the acquisition of The Guarantee Company of North America and Frank Cowan Company, and pushed deeper in the claims supply chain with On Side Restoration. With a strong balance sheet and momentum in favourable market conditions, we are pleased to increase dividends to our common shareholders for the fifteenth consecutive year."

Consolidated Highlights ¹						
(in millions of Canadian dollars except as otherwise noted)	Q4-2019	Q4-2018 ²	Change	2019	2018 ²	Change
Direct premiums written ¹	2,670	2,392	12%	11,049	10,090	9%
Combined ratio	91.5%	91.7%	(0.2) pts	95.4%	95.1%	0.3 pts
Underwriting income	229	210	9%	465	474	(2%)
Net investment income ²	142	143	(1)%	576	541	6%
Distribution EBITA and Other	45	42	7%	209	175	19%
Net operating income	303	281	8%	905	839	8%
Net income	240	244	(2)%	754	707	7%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	\$2.08	\$1.93	8%	\$6.16	\$5.74	7%
Earnings per share (EPS)	\$1.63	\$1.67	(2)%	\$5.08	\$4.79	6%
Return on equity for the last 12 months						
Operating ROE	12.5%	12.1%	0.4 pts			
ROE	10.0%	9.9%	0.1 pts			
Book value per share (in dollars)	\$53.97	\$48.73	11%			
Total capital margin ³	1,222	1,333	(111)			
Debt-to-total-capital ratio	21.3%	22.0%	(0.7) pts			

This press release contains non-IFRS financial measures. Refer to Section 31 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details. DPW

(1) change (growth) is presented in constant currency. 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 hereafter.

(2) Refer to Section 29 – *Presentation changes* in the Management's Discussion and Analysis for further details on the reclassification of comparatives.

(3) 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 19 – *Capital management* in the Management's Discussion and Analysis for further details.

Dividend Increase

- The Board of Directors approved a 7 cent per share increase in the quarterly dividend to 83 cents per share on the Company's outstanding common shares. This represents a 9% increase and represents the fifteenth consecutive annual increase in our dividend since our IPO in 2004.
- The Board of Directors 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, 26.80275 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 31, 2020, to shareholders of record on March 16, 2020.

12-month Industry Outlook

- For the **Canadian P&C** industry, we expect **upper single-digit premium growth**. Market conditions are hard as weak industry profitability in all lines of business continues to put upward pressure on rates.
- Overall, the Canadian industry's ROE is expected to improve, but remain below its long-term average of 10% over the next 12 months.
- In **U.S. commercial**, the market continues to harden. We expect **mid-to-upper single-digit premium growth**.

Insurance Business Performance

(in millions of Canadian dollars except as otherwise noted)	Q4-2019	Q4-2018	Change	2019	2018	Change
Direct premiums written ¹						
Canada	2,328	2,067	13%	9,399	8,601	9%
U.S.	342	325	5%	1,650	1,489	8%
	2,670	2,392	12%	11,049	10,090	9%
Combined ratio						
Canada	92.0%	90.8%	1.2 pts	95.9%	95.2%	0.7 pts
U.S.	88.8%	96.7%	(7.9) pts	93.2%	94.8%	(1.6) pts
	91.5%	91.7%	(0.2) pts	95.4%	95.1%	0.3 pts
Underwriting income						
Canada	184	196	(12)	363	400	(37)
U.S.	44	13	31	97	71	26
Corporate & other ^{2,3}	1	1	-	5	3	2
	229	210	19	465	474	(9)

¹ Includes DPW of The Guarantee Company of North America ("The Guarantee"). DPW change (growth) is presented in constant currency. Refer to Section 7.2 – P&C U.S. in the Management's Discussion and Analysis for further details. In the U.S., DPW change (growth) as reported was 5% for the quarter and 11% for 2019.

² In Q4-2019, the underwriting income (included in Other income) of The Guarantee is reported under Corporate. Starting in Q1-2020, the related underwriting results will be reported by segment and line of business.

³ Reflects the impact of our internal catastrophe reinsurance treaty.

- **Premiums grew 12%** in the quarter and 9% for the year, with strong growth across all lines of business. In Canada, premium growth was 13% in the quarter, reflecting continued average rate increases of 8% overall and improving unit growth. We continue to see hard market conditions in all lines of business. In the U.S., topline grew 5% in the quarter, both on stated and constant currency basis, driven by rate increases and strong growth in profitable segments.
- **Combined ratio of 91.5%** in the quarter was strong despite 4.3 points of CAT losses. The combined ratio in Canada was solid at 92.0%, despite deteriorating 1.2 points versus Q4-2018 from 3.2 points of higher catastrophe losses. U.S. performance was strong at 88.8% largely driven by profitability actions.
- For the full year 2019, IFC's overall **combined ratio of 95.4%** was 0.3 points above last year, as improved underlying performance and expense ratio were offset by lower favourable prior year claims development.

Lines of Business

P&C Canada

- **Personal auto** premiums' growth accelerated to a strong 15% in the quarter, mainly driven by rate increases as well as growing unit counts. The combined ratio improved 0.8 points over last year to 96.5% in Q4-2019. The underlying current year loss ratio of 73.0% was strong, improving 1.4 points from Q4-2018 driven by our actions, including rate increases. Prior year claims development was muted in the quarter. For the full year 2019, the combined ratio improved 1.8 points to 97.7% reflecting our ongoing profitability actions and improved portfolio quality.
- **Personal property** premiums increased 9% in the quarter driven by rate increases in hard market conditions and continued unit growth. The combined ratio of 82.0% in Q4-2019 was solid, despite 8.5 points of catastrophe losses due to the late October storm that hit Central Canada. For the full year 2019, the combined ratio of 92.5% deteriorated 4.2 points compared to last year driven by higher non-catastrophe weather-related losses in the early part of the year.
- **Commercial lines** (P&C and auto) premiums increased 12% in the quarter with strong contributions from all segments led by continued rate increases. The combined ratio of 93.5% in the quarter deteriorated 1.9 points over last year, driven by a 4.1 point increase in catastrophe losses. For the full year 2019, the combined ratio of 96.0% deteriorated by 1.4 points compared to last year from lower favourable prior year claims development.
- **Distribution EBITA and Other** grew 7% to \$45 million in Q4-2019 and includes the performance of our broker network as well as the recently acquired On Side and Frank Cowan Company ("Frank Cowan") operations.

P&C U.S.

- **Premiums** grew 5% in constant currency to \$342 million in Q4-2019, driven by over 14% growth in lines not undergoing profitability improvement. Rate increases and higher retention levels are driving growth as market conditions are favourable and continue to improve.
- **Combined ratio of 88.8%** in the quarter improved 7.9 points compared to last year, driven by our profitability actions across the portfolio, including improved business mix and the exit of the Healthcare business, and a lower level of CAT losses compared to Q4-2018 elevated level. For the full year 2019, the combined ratio improved 1.6 points to 93.2% reflecting a strong performance in lines not undergoing profitability plans.
- Excluding the results of the Healthcare business, the full year 2019 premiums written growth would have been 12% in

constant currency and the combined ratio of 93.2% would have improved by approximately 1.5 points to 91.7%. We continue to make steady progress on our profitability improvement plans and remain on track to achieve a sustainable combined ratio in the low-90s by the end of 2020.

Investments

- **Net investment income** of \$142 million for the quarter was in line with last year, as the impact of higher invested assets was offset by lower reinvestment yields. For the full year 2019, net investment income increased 6% to \$576 million, mainly driven by higher reinvestment yields captured in 2018 and higher invested assets.

Net Income

- **Net operating income** increased 8% to \$303 million (or \$2.08 per share) in Q4-2019, reflecting growth in underwriting and distribution EBITA. For the full year 2019, net operating income increased 8% to \$905 million.
- **Earnings per share** of \$1.63 in Q4-2019 declined 2% compared to last year, driven by non operating results, namely the results in OneBeacon exited lines and increased acquisition/integration expenses following The Guarantee and Frank Cowan acquisition, offset by a favourable tax recovery. For the full year 2019, earnings per share of \$5.08 was 6% higher than last year.
- **Operating ROE** for the last 12 months was 12.5% as at December 31, 2019 and below our 10-year average due to the severe winter weather in the early part of the year and unfavourable prior year claims development in personal auto in Q2-2019.

Balance Sheet

- The Company ended the quarter in a strong financial position, with a total capital margin of \$1.2 billion. MCT in Canada was estimated at 198%.
- IFC's **book value per share** was \$53.97 as at December 31, 2019, increasing 11% from a year ago driven by earnings growth and the equity issued as part of the financing of The Guarantee and Frank Cowan acquisition.
- The **debt-to-total capital ratio** was 21.3% as at December 31, 2019, in line with expectations following the recent closing of The Guarantee and Frank Cowan acquisition. We expect to return to our 20% target level in 2020.

M&A update

- On December 2, 2019 we announced the closing of The Guarantee and Frank Cowan acquisition.
- **Impact on Q4-2019 IFC results:** The Guarantee and Frank Cowan results and balance sheet are reflected in our financial reporting from the closing date (December 2, 2019). The results of these operations added 3 cents to NOIPS in Q4-2019.
- **Starting in Q1-2020**, the underwriting results of The Guarantee business will be reported as part of our segment and line of business results. Frank Cowan EBITA will be reported as part of our Distribution EBITA and Other results.
- Together with our On Side acquisition which closed on October 1st, 2019, these acquisitions were immediately accretive to NOIPS and are expected to deliver mild NOIPS accretion in 2020 and **mid-single digit NOIPS accretion by 2021**.

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 \$1.49 and \$1.68, 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 Q4-2019 MD&A as well as the Q4-2019 Consolidated Financial Statements, which are available on the Company's website at www.intactfc.com and later today on SEDAR at www.sedar.com.

For the definitions of measures and other insurance-related terms used in this Press Release, please 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 5, 2020 at 2:00 p.m. ET until midnight on February 12. To listen to the replay, call 1 855 859-2056 (toll-free in North America), passcode 1495139. 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 \$11 billion in total annual premiums. The Company has approximately 16,000 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. Frank Cowan brings a leading MGA platform to manufacture and distribute public entity insurance products in Canada.

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 press release are forward-looking statements. These statements include, without limitation, statements relating to claims, catastrophe losses and non-catastrophe losses, the anticipated effect on combined ratio as well as on a per share basis and by line of business, and the anticipated effect of applicable and future federal and provincial tax regulations. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements. In the case of estimated claims and losses, due to the preliminary nature of the information available to prepare estimates, future estimates and the actual amount of claims and losses associated with events described above may be materially different from current estimates.

All of the forward-looking statements included in this press release are qualified by these cautionary statements and those made in the "Risk Management" section of our 2019 Annual Management's Discussion and Analysis. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made in this press release. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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