

Intact Financial Corporation reports Q3-2020 results

Highlights

- **Net operating income per share up 46% to \$2.78**, driven by solid underwriting performance across all lines, driven in part by benign weather, and strong distribution results
- **Healthy premium growth of 8% driven by strong retention and new business** and including The Guarantee Company of North America ("The Guarantee") acquisition
- **Relief efforts** helped more than 1.2 million customers, with \$510 million provided year-to-date, including the recently launched \$50 million targeted relief program for our most vulnerable small business customers
- **OROE of 16.9%** and BVPS up 4% in the quarter to \$56.22
- **Strong capital position** with \$1.9 billion of total capital margin available to manage potential further shocks and capture strategic opportunities

(TSX: IFC)

(in Canadian dollars except as otherwise noted)

TORONTO, Nov. 3, 2020 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"We entered this crisis in a position of strength, which enabled us to provide relief to over 1.2 million customers, while protecting our employees and maintaining our excellent service levels. Our small business customers have been significantly impacted by this crisis. We are continuing to support them with targeted relief and policy adjustments, and will help throughout the economic recovery period. Our resilient operations, coupled with the benefit of our action plans over time and benign weather, led to solid underwriting results this quarter. Our balance sheet remains strong, ready to absorb potential further shocks and capture strategic opportunities."

	Consolidated Highlights ¹					
(in millions of Canadian dollars except as otherwise noted)	Q3-2020	Q3-2019	Change	YTD 2020	YTD 2019	Change
Direct premiums written ¹	3,264	3,012	8%	9,167	8,379	9%
Combined ratio	87.1%	92.3%	(5.2) pts	90.3%	96.9%	(6.6) pts
Underwriting income	369	198	86%	812	236	nm
Net investment income	143	146	(2) %	434	434	-%
Distribution EBITA and Other	81	56	45%	203	164	24%
Net operating income	411	277	48%	1,004	602	67%
Net income	334	187	79%	704	514	37%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	2.78	1.91	46%	6.74	4.08	65%
Earnings per share (EPS)	2.25	1.26	79%	4.65	3.45	35%
Return on equity for the last 12 months						
Operating ROE	16.9%	12.4%	4.5 pts			
ROE	11.5%	10.2%	1.3 pts			
Book value per share (in dollars)	56.22	51.20	10%			
Total capital margin ²	1,871	1,116	755			
Debt-to-total-capital ratio	21.2%	19.3%	1.9 pts			

This press release contains non-IFRS financial measures. Refer to Section 20 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details. DPW (1) change (growth) is presented in constant currency.

Aggregate of capital in excess of company action levels in regulated entities (165% MCT effective April 1, 2020, previously 170% MCT, 200% RBC) plus available cash in unregulated (2) entities. Refer to Section 14 – *Capital management* in the Management's Discussion and Analysis for further details.

Common Share Dividend

- The Board of Directors approved the quarterly dividend of \$0.83 per share on the Company's outstanding common shares. The dividends are payable on December 31, 2020, to shareholders of record on December 15, 2020.
- With a strong balance sheet, low payout ratio and resilient operating income, IFC has capacity to support its customers and pay its dividends, while continuing to invest in its strategy.

Industry Outlook

- Given that the Canadian industry combined ratio was above 100% and the industry ROE of 5% was well below historical averages in H1-2020, we believe industry corrective measures will resume once the impacts from the COVID-19 crisis decline.
- The prevailing hard market conditions in personal auto have been tempered as claims frequency remained below historical levels. Hard market conditions in personal property are expected to continue, while hard market conditions in commercial lines have returned to pre-crisis levels. In the U.S., hardening market conditions in commercial lines are expected to continue.

Insurance Business Performance

	Q3-2020	Q3-2019	Change	YTD 2020	YTD 2019	Change
(in millions of Canadian dollars except as otherwise noted)						
Direct premiums written ¹						
Canada	2,724	2,491	9%	7,745	7,071	10%
U.S.	540	521	3%	1,422	1,308	7%
	3,264	3,012	8%	9,167	8,379	9%
Combined ratio						
Canada	86.0%	91.8%	(5.8) pts	89.4%	97.2%	(7.8) pts
U.S.	94.5%	95.9%	(1.4) pts	96.0%	94.9%	1.1 pts
	87.1%	92.3%	(5.2) pts	90.3%	96.9%	(6.6) pts
Underwriting income						
Canada	347	183	90%	762	179	nm
U.S.	21	14	50%	46	53	(13)%
Corporate & other	1	1	-%	4	4	-%
	369	198	86%	812	236	nm

¹ DPW change (growth) is presented in constant currency. Refer to Section 6 – *U.S.* in the Management's Discussion and Analysis for further details. In the U.S., DPW change (growth) as reported was 4% for the quarter and 9% year-to-date.

- **Premiums grew 8%** in the quarter reflecting strong growth in Canada. In Canada, premium growth of 9% in the quarter was driven by strong retention and new business and included the benefit of The Guarantee acquisition. In the U.S., topline growth of 4%, or 3% on a constant currency basis, including the benefit of The Guarantee acquisition, reflected lower volumes in lines impacted by the COVID-19 crisis despite strong organic growth in other lines of business. Overall, premium relief measures impacted growth by an estimated 5 points.
- **Combined ratio of 87.1%** in the quarter was strong. Our provision for direct COVID-19 losses remains adequate. The combined ratio in Canada was strong at 86.0%, reflecting strong underlying performance across all lines and a low level of CAT losses. In the U.S., the combined ratio of 94.5% reflected the seasonality of our operations and improved 1.4 points, driven by our profitability actions.

Lines of Business

P&C Canada

- **Personal auto** premiums grew 8% in the quarter driven by robust new business and high retention levels. Premium relief measures impacted growth by an estimated 8 points in the quarter. The Q3-2020 combined ratio of 84.9% improved 8.5 points over last year. The underlying current year loss ratio of 60.9% improved 9.4 points from Q3-2019, reflecting lower claims frequency due to the benefit of our profitability actions, as well as reduced driving, partly offset by increased claims severity and relief. Benign weather conditions in the quarter led to a catastrophe loss ratio of 0.2 points.
- **Personal property** premiums increased 10% in the quarter, driven by strong unit growth, market conditions and The Guarantee acquisition. The combined ratio improved 5.4 points year-over-year to 83.7%. The underlying current year loss ratio of 49.2% improved 6.1 points compared to last year, driven by strong fundamentals and lower non-catastrophe weather-related losses. Catastrophe loss ratio of 1.8 points, versus 4.2 points last year, reflected benign weather conditions.
- **Commercial lines** (P&C and auto) premium growth of 11% in the quarter, including 10 points from The Guarantee acquisition, was tempered by the economic slowdown, customer relief measures and from issuing six-month policy renewals to businesses most impacted by the COVID-19 crisis. The combined ratio of 89.4% in the quarter improved 2.4 points over last year. The underlying current year loss ratio of 53.2% improved 3.0 points from Q3-2019, mainly driven by lower claims frequency and our profitability actions.
- **Distribution EBITA and Other** grew 45% to \$81 million reflecting the strong performance of our broker network and the acquisitions of On Side and Frank Cowan.

P&C U.S.

- **Premiums** grew 3% in constant currency to \$540 million in Q3-2020, including 5 points from The Guarantee acquisition, reflecting lower volumes in lines impacted by the COVID-19 crisis, such as ridesharing and entertainment, despite strong organic growth in other lines of businesses.
- **Combined ratio** of 94.5% in the quarter improved 1.4 points compared to last year, reflecting strong underlying performance in most lines. The underlying current year loss ratio of 57.3% improved 0.8 points compared to last year, driven by our profitability actions, despite higher weather-related losses.

Investments

- **Net investment income** of \$143 million for the quarter decreased 2% compared to last year, mainly due to lower reinvestment yields, partially offset by the benefit of higher invested assets.
- **Net losses excluding FVTPL bonds** were \$2 million for the quarter. Equity impairments were immaterial.

Net Income and ROE

- **Net operating income** increased 48% to \$411 million in Q3-2020, reflecting strong growth in underwriting income and Distribution EBITA and Other.
- **Earnings per share** increased by 79% to \$2.25 in Q3-2020 driven by growth in net operating income.
- **Operating ROE** for the last 12 months improved 4.5 points year-over-year to 16.9% as at September 30, 2020.

Balance Sheet

- The Company ended the quarter in a strong financial position, with a total capital margin of \$1.9 billion. MCT in Canada was estimated at 205%.
- IFC's **book value per share** of \$56.22 as at September 30, 2020, increased 4% since June 30, 2020, driven by strong operating performance and mark-to-market gains in the investment portfolio.
- The **debt-to-total capital ratio** was 21.2% as at September 30, 2020, compared to 22.1% as of June 30, 2020. We expect to return to our 20% target level over the next 6-12 months.

Preferred Share Dividends

- 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, 17.65225 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, 30.625 cents per share on the Class A Series 7 preferred shares and 33.75 cents per share on the Class A Series 9 preferred shares. The dividends are payable on December 31, 2020, to shareholders of record on December 15, 2020.

M&A Update

- The integrations of The Guarantee, Frank Cowan and On Side acquisitions are on track, and we continue to expect 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 \$2.01 and \$2.13, 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 Q3-2020 MD&A as well as the Q3-2020 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 November 4th, 2020 at 2:00 p.m. ET until midnight on November 11th. To listen to the replay, call 416 849-0833 or 1 855 859-2056 (toll-free in North America), passcode 6595826. 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 Company, a leading MGA, distributes public entity insurance programs including risk and claims management services in Canada.

In the U.S., Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. Products are underwritten by the insurance company subsidiaries of Intact Insurance Group USA, LLC.

Forward Looking Statements

The information linked from this press release may contain forward-looking statements. These statements may 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, the anticipated effect of applicable and future federal and provincial tax regulations and the impact on the Company of the occurrence of and response to the coronavirus (COVID-19) pandemic and ensuing events. 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 linked from this press release are qualified by these cautionary statements and those

made in our Q3-2020 Management's Discussion and Analysis (including in its "Risk Management" sections (Section 17-18), and our 2019 Annual Management's Discussion and Analysis, in Notes 10 and 13 of our Consolidated Financial Statements for the year ended December 31, 2019 and in our Annual Information Form dated March 30, 2020. 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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