QUESTION AND ANSWER SECTION

Lemar Persaud

Thanks. Lemar from Cormark. Maybe for Denis. You ended your presentation just by talking about how you felt the ROE target was a bit conservative. 16% in 2024, 17% by 2027, $1.4 billion in excess capital, $650 million in organic capital generation, and positive operating leverage. So can you talk to me why 17% plus makes sense here? Like, what type of macroeconomic backdrop are you assuming? Or should we think about this as IAG just being overly conservative?

Denis Ricard

The short answer is yes. We've been prudent, in any of the guidance we provided in the past. And I think we laid out pretty clearly what were the conditions under which we could deliver on that 17%. On our operations, everybody's working hard to improve the iA model.

Certainly, the capital deployment is one key element also of that ROE expansion. We are quite confident about our capabilities to deliver it. Capital deployment is also something that we will see. We have the NCIB as an opportunity, but we're also looking at acquisitions depending on how accretive the acquisition would be.

You know, sometimes when you do an acquisition, in the first year, you might have a ROE that is a bit lower than your expected future ROE. There are a lot of conditions that need to be met for us to meet that ROE target over time. At the end of the day, we're quite confident we can achieve it. We've done it in the past.

Lemar Persaud

Can I just have one follow-up here? Just on that, practically speaking, would you allow your organic capital for deployment to approach $2.5B? Because that's a big, big number for a company like Industrial Alliance.

Denis Ricard

No. That's a great point. It's the question I get all the time. We are spending much more attention into the capital deployment. It's the number one priority in the organization. We've done some acquisitions recently, but we are speeding up on looking at acquisitions. At the end of the day, we'll have to deploy it in certain ways. I mean, if we don't have any choice at the end, we'll probably return the, the capital back to the shareholder. That's not our first choice. Our first choice is really to grow organically, to grow by acquisition. We've done it in the past, but we'll see in the future.

Paul Holden

Paul Holden, CIBC. So follow-up question to that.

I guess, really, it comes down to acquisitions. I think you've laid out a path on how you can get something around a 20% plus ROE, but contingent on acquisitions. What's the binding constraint, would you say, on acquisitions right now? Right? You've laid out your framework for what you how you want to go about doing acquisitions. Is it price? Is it lack of targets?

Denis Ricard

I think your question is, how do we price our acquisition versus our ROE target? Is that it?

Paul Holden

No. My question is how would you characterize the acquisition environment today?

Denis Ricard

How do we characterize what?

Paul Holden

Yeah. Is it favorable? Is there a lack of targets? Is it too expensive?

Denis Ricard

Oh, okay. Right now. Well, it's a great point. How do we source our acquisition?

We're doing it two ways. I would say that, historically, we've done probably most of our acquisition by direct contacts with certain targets. But at the same time, we talk with bankers, obviously, because there are some companies that are on the book. I would say that we're still doing that. We are doing a lot of direct contacts, and we'll see over time that those take forever, sometimes years to unfold.

We also have the conversation with the bankers. I would say that in the various sectors we're in right now, let's say US Dealer, we still need to see the price, you know, going to the reasonable level for us to invest in something significant at this point. On the US life, it's case by case. You know, there are so many of them and sometimes most of them don't fit with our strategy. So I would say that it's a mix of, opportunities, versus price.

Paul Holden

And second question, Éric, you provided an interesting slide, I think, on risk management. If I take that together as sort of the book value growth over time, wasn't just 2020 where we outperformed the industry. It was also I noticed so that around that GFC period. Right? So the risk management has worked historically. Maybe you can just give us a few examples of how risk management is differentiated for iA today versus peers.

Éric Jobin

Yeah. That's another good question. Of course, I mentioned that, in the previous accounting regime, we were ahead of other peers in Canada in terms of doing the right things in terms of risk management to protect ourselves against macroeconomic variations or interest and so on. With IFRS 17, we've implemented an approach to further increase risk management of the interest rate risk. That's one area where we distinguish ourselves because we've brought this at another level to include and encompass our company asset and liabilities. I would also say that we maintain our goal toward low guarantee product. In terms of risk management, it definitely helps to get less exposure to products that come in with macroeconomic risk. So that's another area, Paul, where I would say we distinguish ourselves.

And globally, when we look at everything, I talked about the way we manage the project internally and all the investments in technology. I think it's a sound approach to make sure that we get what we expect from the lines of businesses and the different projects. I would say that's another way to think about how we distinguish ourselves.

Denis Ricard

I just want to add on this. The total portfolio methodology that we're using right now to me is really a great improvement we've done to manage interest rate risk. You may have heard me in the past complaining or saying that IFRS 17 was not necessarily a good thing for the lifecos because it would bring volatility and all that kind of stuff. At the end of the day, when I look at the methodology that's being used to evaluate the liabilities of the lifecos, I think we are in a better spot with IFRS 17 overall, because, I think we manage even better our risks. Wherein before, the interest rate risk was managed by sectors, by blocks of business. Now we have an overall approach for the organization. So we are in a better spot than we used to be, I think.

Meny Grauman

It's, Meny Grumman from Scotiabank. Just sticking on the topic of M&A specifically in Canada, because I have a good sense of what you're looking for in the US. But in Canada, I thought, you know, it's not so clear what the targets are, specifically the ranking of the targets, specifically the strategic priorities in terms of M&A in Canada.

I know there was a period back where you were very focused on distribution, but you've made big strides there. So just give us I was hoping you'd give us a better understanding of what the priorities are in Canada from an M&A perspective.

Denis Ricard

I'll start, and then I'll ask probably Pierre to second on this. I would say that any business we're in, we are generating a ROE higher than our new target for all the businesses we're in, in Canada.

So we're looking at opportunity whether they're bigger or they're smaller. We just did one a couple of weeks ago. We announced the Global Warranty sales, which is strengthening the iA way, by increasing the reach of distribution and of products on the used car side. Also we are in distribution on the wealth management side, there are opportunities there to consolidate.

Obviously, on the Individual Insurance side, there might not be as many opportunities. Pierre, I don't want to take all the time here. Maybe you want to comment.

Pierre Miron

I mean, there's a common word that needs to be understood in this acquisition strategy. Our ability to scale it means our ability to integrate those, like, those companies in that model.

A good example is the Wealth. Remember last year, we've announced, at the beginning of the year, the acquisition of Laurentian Bank Wealth Management division. It was strategic for us in terms of scaling our business, but also the integration that Stephan and his team went through was perfect. So this thing is quite important.

Like Denis said, we're looking to expand all those businesses in the same concept, and we do have an internal process. We have implemented what we call the growth pipeline. Each leader has a responsibility to identify partnerships or future acquisitions in that sense and each leader is responsible to identify niche player, if you wish, or main player in that same concept of scaling our businesses. Now that the foundations are there, I mean, we needed to work on this since 2018, since we embark into that digital program.

We needed to put the foundation in place to make sure that the integration will be easier in the future. And that's basically what we have done so far. So, ready to scale those businesses. Including let's say, because the question may be asked, your only present in the P&C space in the province of Quebec.

You've heard me about this notion of synergies that Denis talked about. This thing is very important. Yes, we have this referral program that exists. The easiest product to cross sell for us is P&C. Because we do source client internally first, we do have a distribution direct-to-consumer, but our ability to source internal customer is key. The only thing that is common in the P&C for each province is the word P&C, but it varies from province to province.

So over the last two years, we have acquired Surex. Surex is a P&C quoting system online that deals with many carriers, as you know. So we're learning in that process and how maybe to expand in that space as well. I hope I answered your question.

Tom McKinnon, BMO Capital

Question for Éric. You had a slide that talked about your 10% core EPS growth objectives, 6% organic growth, 4% organic growth initiatives. Like, what's in each one of these buckets? The organic growth initiatives has another suggestion saying that it's $300 million in capital deployment annually. Is that consistent with this $400 million investment in technology that Pierre is talking about? Just a little bit more color there. And then the 12% growth you've been getting, how much of that has been organic versus how much of that has been organic growth initiatives.

Éric Jobin

Yes. Thank you. I'll say that the investment that Pierre talked about are embedded in the calculation, Tom. It's embedded in the different lines of business. And as we mentioned, technology cost is there to stay. So it's factored into our organic, growth measures. I think, I covered the points earlier about how we get the additional, growth on the organic side in terms of improving the US division, keeping up the pace with the operational efficiency and so on. So, I think I covered it for them.

Pierre C. Miron

And just to add a word on this, the $400 million, that's, I would say, the sweet spot that we found out in terms of our ability and capacity to execute on that. My dream will be to invest more than that, but, honestly, I mean, at that pace, we are able to deliver the expected benefits. And that's really important related to what Éric just said.

Tom MacKinnon

So Pierre's $400 million is embedded in both the organic growth and the 6% part and the 4% part.

Pierre C. Miron

Okay. Yep.

Tom MacKinnon

And the $300 million that you said in this organic growth, what's – is that some of that $400 million, what's that stuff?

Éric Jobin

You're referring, I guess, to the $300 million capital deployment. Our base assumption here is that we will deploy that capital with NCIB, so which does share buybacks on that $300 million. And the thing on the $400 million, I could help you clarify and say, it is not only – it's not going P&L right from the start, right? There's an OpEx part that goes to P&L, and then there's a CapEx part that, that is, capitalized on the balance sheet. So that's how it plays out in the bottom line numbers.

Tom Mackinnon

Okay. And then just as a follow-up, the 18% ROE you're getting in Canada, do lots of different things in Canada.Can you split that 18% into insurance and wealth and maybe the group businesses and or which one's higher and which one would be lower?

Denis Ricard

So we don't we don't we don't disclose that right now. That's the short answer.

Gabriel Dechaine, National Bank

Good morning. Gabriel Dechaine, National Bank. Couple of questions here. First, on the acquisition strategy, you talked about the path to ROE and EPS accretion. That's, you know, rational, of course. I'm wondering, do you also have a timeline when you're, you know, making an acquisition? You expect to hit your target ROE within three, five years kind of thing?

Éric Jobin

Yeah. I'd say it depends on the type of acquisition, Gabriel. We can categorize them in two big buckets. Some of the acquisitions are like more IAS, which is goodwill type acquisition, and those take a bit more time to deliver because there's an expense part and a kind of dilutive effect that is a bit higher at the beginning, but we have higher benefits over the long term.

Aiming for the same target ROE on average for the investment horizon. So those are goodwill types. So those tend to be, a bit dilutive at the start, but we shoot for, neutrality or “accretiveness” in the following two years, okay, on those. So that's the idea behind the acquisition type. And then for insurance type acquisition, like we've done, last year with Vericity or, the block of business of Prosperity, those come in with, working capital.

So the accretiveness is way faster on those. We mentioned, yes, last year that for Vericity, we had a minor dilutive effect in the first year. That was related to the distribution arm mostly of the acquisition. The insurance block normally, pure insurance is, is contributing positively to the earnings per share at the beginning, and the ROE is, is more stable for those acquisitions. So depending on the opportunity, it may emerge differently, but we shoot for the same target over the long term.

Gabriel Dechaine

Okay. Great. And sorry if I missed this, but the ROE waterfall getting, to the 17% plus, I think it's 50 or 60, basis points coming from the US, which is a smaller contributor to IAG overall. You know, is that the amicable life or the individual insurance business or the auto warranty business driving that? And if it's the latter or both, whatever, you know, what kind of, sales environment does that contemplate for, you know, just warranty volumes, I guess, sort of industry sales of autos?

Éric Jobin

So, I have difficulty hearing you clearly. So I guess, your question is on the US side, what's coming with the ROE that we disclosed?

Gabriel Dechaine

Yes. What's boosting that ROE over the next few years is the life side, the warranty side? And then specific to the warranty side, what kind of auto industry, auto sales volumes are you assuming in there?

Éric Jobin

Yeah. The potential increase is coming from US Dealer. Joe will speak later on the US life, and the performance is already where we want it to be. And where the improvement in ROE globally will come from is US Dealer, and my colleague, John, will speak about, what he's going to do and Sean as well, what he's going to do, what are they going to do to improve the ROE out there. But, globally, we expect this to improve over 10%, in the near future.

Denis Ricard

Actually, traditionally, when I look at the way we build the businesses at iA, there are three phases. As Sean will talk about it. And, so for, American amicable, we are in the third phase. I mean, very high profitable, high growth, whereas for Vericity and US

Dealer, we're more like in first or maybe second phase for one of them. You'll see that in the presentation on the US side, after the break.

Gabriel Dechaine

Okay. One last one just on the buybacks. I mean, it's become a big feature of the capital story from IAG the last two, three years, I guess. Prior to that, basically, non-existent. So this is simply a reflection of your business mix change of being capital light and all that stuff. So, we can plug in 3% buybacks a year kind of thing in perpetuity?

Denis Ricard

Well, actually, you saw the slides from Éric, which showed the way that we generated excess capital year after year. It was pretty minimal, ten years ago and, and for whatever reasons. And so we've improved significantly and the ROE followed. And I think you're right. We should assume that going forward, unless we deploy it through acquisition, the level of buybacks will be, will be kind of sustainable.