Industrial Alliance Financial Group

First Quarter 2025 Results Conference Call

Transcript

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Speakers:

Caroline Drouin

Head of Investor Relations

Denis Ricard

President and CEO

Eric Jobin

Chief Financial Officer and Chief Actuary

Alain Bergeron

Chief Investment Officer

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Chief Growth Officer of U.S. Operations

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Executive Vice-President, Group Benefits and Retirement Solutions

Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Industrial Alliance Financial Group First Quarter 2025 Earnings Results Conference Call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to Caroline Drouin, Head of Investor Relations. Please go ahead.

Caroline Drouin:

Thank you. Good afternoon and welcome to iA Earnings Conference Call for the First Quarter of 2025.

All of our Q1 documents, including press release slides for this conference call, supplementary information package and quarterly MD&A are posted on the Investor Relations section of our website at ia.ca.

This conference call is open to the financial community, the media and the public. I remind you that the question period is reserved for financial analysts. A recording of this call will be available for one week starting this evening, and the archived webcast will be available for 90 days and a transcript will be available on our website in the next week.

I draw your attention to the forward-looking statements information on Slide 2, as well as the non-IFRS and additional financial measures information on Slide 3. Also, please note that a detailed discussion of the Company's risk is provided in our 2024 MD&A available on SEDAR and on our website with an update in our Q1 2025 MD&A released yesterday.

With that, I will now turn the call over to Denis Ricard, President and CEO.

Denis Ricard:

Good afternoon, everyone, and thank you for being with us on the call today.

As usual, I will start by introducing everyone attending on behalf of iA. Joining me are Eric Jobin, Chief Financial Officer and Chief Actuary; Alain Bergeron, Chief Investment Officer; Stephan Bourbonnais, responsible for our Wealth Management Operations; Renée Laflamme in charge of Individual Insurance, Savings and Retirement; Pierre Miron, Chief Growth Officer of our Canadian operations and responsible for Dealer Services Canada; and iA Auto & Home. Sean O'Brien, Chief Growth Officer of our U.S. operations; and Louis-Philippe Pouliot, in charge of Group Benefits and Retirement Solutions.

Starting with Slide 8 for an overview of our first quarter results, we had a strong quarter marked by continued momentum in our sales and earnings along with disciplined execution. I'm pleased to walk you through the highlights of this remarkable quarter. Core EPS increased by a robust 19% year over year, reaching $2.91. Core ROE stands at 16.1% on a trailing 12 month basis. Progressing well towards our new target of 17%+ in 2027.

Sales in both Canada and the U.S. continue to be strong this quarter, contributing to the 19% year-over-year growth in premiums and deposits, as well as a 15% increase in assets under management and administration. This marks the fourth consecutive quarter of double digit growth in premium and deposits as well as assets under management and administration.

We maintain a robust capital position with a solvency ratio at 132%, which is supported by the ongoing organic capital generation and disciplined capital management. Our book value per share reached $74.62, representing an 8% year-over-year increase. Excluding the impact of the NCIB, the increase over the last 12 months is close to 11%.

Turning to Slide 9 to look at Q1 business growth for Insurance Canada. In this segment, we're seeing strong sales momentum in all businesses units while strengthening our leadership position in our foundation businesses, including individual insurance, dealer services and seg funds. In individual insurance, sales increased by 11% year-over-year, to reach $99 million. This result reflects the strength of all our distribution networks, the outstanding performance of our digital tools and our comprehensive range of products. We maintain our leading position in the Canadian market for the number of policies issued.

In group insurance, sales were driven both by increased product uptake among existing clients and by the addition of plan members resulting in a 31% year-over-year increase. This growth contributed to premiums and deposits totaling $531 million, representing a 5% increase from the previous year. In dealer services, total sales of $163 million grew by 10% supported by guaranteed asset protection and ancillary products. This solid result highlights our position as a top dealer services provider offering a comprehensive range of products and leveraging our extensive distribution network.

Finally, iA Auto & Home delivered good sales results with direct written premiums reaching $129 million in the first quarter, marking a strong increase of 13% over the same period last year. The growth in this subsidiary was driven by a high number of policies issued and targeted repricing.

Now, looking at Slide 10 to comment on sales results for Wealth management, which were again very solid, particularly for seg funds. iA continues to rank first in Canada for both growth and net seg fund sales, achieving record breaking levels this quarter. Gross sales sowed to over $1.9 billion, marking an impressive 52% increase compared to last year. Net sales amounted to nearly $1.2 billion. These outstanding results highlight the strength of our distribution networks and the quality and breadth of our product lineup.

Gross sales of mutual funds increased by a strong 33% compared to the same period last year, reaching a total of $647 million in Q1. Net outflows amounted to $62 million. Sales of other individual savings product reached $467 million during the quarter, maintaining high levels despite the market environment that favored asset classes with higher return potential.

Finally, sales in group savings and retirement totaled $841 million, reflecting an 8% decrease compared to the previous year. This is the net result of accumulation product sales remaining consistent with 2024 levels while insured annuity sales were lower than last year.

Let's move on to Slide 11, which covers our sales results in the U.S. In individual insurance, sales of US$68 million were 62% higher than a year earlier, driven by good organic growth in our target markets and the addition of sales from the various acquisitions, which added scale and new digital capabilities.

In dealer services, first quarter sales increased by 23%, compared to the same period last year, reaching an impressive US$306 million. This performance underscores the effectiveness of our growth strategy and focused on execution. By expanding our distribution channels and prioritizing superior customer experiences, we are solidifying our position in the industry. The impressive sales results in both U.S. business units, demonstrate the potential for expansion of our business model as we continue to allocate capital to grow and scale in the U.S.

Moving to Slide 12, where you see that our key financial results are well aligned with their respective targets. Core EPS growth of 19% year over year compares favorably with our midterm annual average target of 10%+. Core ROE of 16.1% is progressing well toward our target of 17%+ in 2027. This good profitability contributed to the generation of $125 million in organic capital in Q1, on track to meet our 2025 target of $650+ million. Lastly, our dividend payout ratio is near the middle of the target range.

Turning to Slide 13 to discuss our capital deployment priorities and recent initiatives. As you may recall, the revised CARLI Guideline, effective January 1, 2025, has positively impacted our financial flexibility and increased our ability to deploy capital, a top priority for executing our growth strategy.

As of March 31, 2025, we had $1.4 billion in capital available for deployment, following another active quarter of strategic capital deployment initiatives. These initiatives included dividends, share buybacks, IT investments, and the recent acquisition of global warranty, which strengthens our presence in the Canadian used car warranty market.

Now, before I turn the call to Eric to detail our first quarter financials, I'd like to offer my perspective on the uncertainty created by the fast moving political and macroeconomic environment. I want to highlight the financial strength and stability of our organization. Throughout our history, we have successfully navigated various economic cycles, slowdowns and recessions. Our business model is highly diversified, spanning products, markets and geographies, which makes us less sensitive to economic fluctuations today than in the past.

This resilience is due to our multiple revenue streams and best in class risk management expertise. We remain committed to focusing on improving what we can control, harnessing the entrepreneurial energy of our distribution networks, adjusting pricing as needed, driving efficiency internally and prioritizing the support and service of our clients' needs.

In February, we hosted an Investor event where we unveiled new financial targets and outline a clear strategy for achieving them. We emphasized that our goal to increase ROE and create long-term value for shareholders is grounded in our unique approach, the iA way. A prime example of this approach is our distribution network, which serves as a key differentiator that sets us apart from competitors.

In uncertain environments, customers tend to choose the provider they trust most. Our extensive distribution network, combined with a high quality advice from our human advisors, is a true point of distinction that reinforces this trust.

Our Q1 2025 results demonstrate that we haven't seen any attenuation of demand yet. While there may be some short-term noise along the way, we approach this new financial cycle confidently and remember that in every challenge lies great opportunity. With that in mind, we'll remain focused on growth by actively exploring acquisition opportunities and staying disciplined and vigilant to capitalize on potential new opportunities.

With that, I will now hand it over to Eric Jobin, who will comment on the first quarter profitability and capital strength. Following Eric's comments, we will take questions.

Eric Jobin:

Thank you, Denis, and good afternoon, everyone.

Let's begin with Slide 15, where we highlight a strong start to 2025 with good profitability results and financial strength. Core EPS for Q1 2025 reached $2.91, representing 9% year-over-year increase and reported EPS was $1.98. The rising core EPS reflects notably a strong increase in the insurance service result, driven by all operating business segments as well as a strong increase in the core net investment result.

Our strong earnings coupled with our strategic capital deployment initiative have elevated our core ROE to 16.1% for the last 12 months, marking steady progress toward our new target of 17%+ set for 2027. Our capital position is robust and supported by ongoing organic capital generation, providing plenty of capacity for organic growth and acquisitions.

Finally, over the last 12 months, our book value per share has increased by 8%, reflecting our ability to create value for shareholders. During the same period, we have strategically executed a series of share buyback reflecting our commitment to enhancing shareholder value and optimizing our capital structure.

Without the impact of share buybacks, our book value per share would've increased by approximately 11%. These figures underscore the significant role that our share repurchase program has played in driving value for our shareholders.

Turning to Slide 16 to look at the Q1 total earnings performance, net income decreased by 20% year over year due to the investment segment being affected by macroeconomic fluctuations, and I will come back to this point in a minute. Meanwhile, net income for all other segments together grew by a solid 14%. Core earnings grew by 12% year over year with all operating business segment posting good growth.

Now moving to Slide 17, to take a closer look at Q1 results by segment. In Insurance Canada, core earnings for the quarter rose to a $100 million, representing a 9% year-over-year increase. This growth was primarily driven by higher expected insurance earnings, which included an increase in the combined risk adjustment release and CSM recognized for services provided. Additionally, there was an increase in expected earnings from iA Auto & Home PAA business.

Also, contributing positively to this growth are the reduced impact from new insurance business and employee plans. Favorable insurance experience resulting from lower claims at iA Auto & Home and positive morbidity experience. Lastly, core non-insurance activities were higher driven by good performance in dealer services and distribution activities.

Turning to Slide 18 in the Wealth management segment. Core earnings rose to $106 million, representing a 12% year-over-year increase. This growth was mainly driven by an increase in the combined RA and CSM for service provided. These favorable impacts were largely due to a strong net fund, segregated fund sales and positive financial market performance over the past 12 months. Core non-insurance activities were higher as a result of good performance from group saving and retirement due to higher net revenue on assets.

On Slide 19, core earnings from U.S. Operation totaled $30 million in Q1, marking a significant 58% year-over-year growth. This increase was primarily driven by a strong pretax $19 million rise in the core insurance service result, which includes contribution from the Prosperity blocks of business and an additional $8 million from the Vericity acquisition. Core non-insurance activities saw an increase of $1 million year over year. This result is the net of $4 million loss from Vericity distribution activities and $5 million increase in earnings and in dealer services.

We are particularly pleased with the performance of dealer services, which underscores the effectiveness of the discipline management actions that we have been implementing. Looking ahead, we remain focused on executing our integration plan and realizing synergies on the Vericity acquisition. It's important to highlight that during Q1, the combined impact of the Vericity and Prosperity acquisition was neutral on core earnings. This result aligns with our expectations at the time of the acquisitions.

Now turning to Slide 20 for the result of the Investment segment. Core earnings for the quarter were $85 million consistent with the same period last year. Before accounting for taxes, financing charge and expenses, core net investment result was $124 million, up from $109 million a year ago, and exceeding the $120 million recorded in the previous quarter.

The strong performance was supported by several factors including the favorable impact of interest rate variation in recent quarters. In addition, credit experience was positive in Q1 due to the higher impacts from upgrades than downgrades in the fixed income portfolio, while credit experience in the iA auto finance car loan portfolio, met expectations. Non-core adjustments total $50 million, primarily reflecting unfavorable market related variation, including losses in public and private equity and value adjustment in the investment properties.

Moving to Slide 21, the Corporate segment, core other expenses total $65 million pretax, aligning with the quarterly expectation of $68 million plus or minus $5 million. This consistency reflects our ongoing focus on operational efficiency.

Please go to Slide 22, for an overview of the Company robust capital position. Our solvency ratio stands at 132%, well above the regulatory minimum ratio of 90%. The seven percentage points decreased during the first quarter, primarily resulted from the strategic capital management and deployment activities, including the redemptions of subordinated debentures, the Global Warranty acquisition, share buybacks and IT investments.

Our strong profitability enabled the organic generation of $125 million in additional capital during the first quarter. This aligns with our projections to exceed the annual target threshold of $650 million in 2025. As a reminder, due to the seasonality, organic capital generation is typically lower in the first quarter and tends to strengthen from the second quarter onwards.

As of March 31, 2025, the capital available for deployment was assessed at $1.4 billion, positively impacted by the updated CARLI guideline as of January 1, 2025. Our first quarter results demonstrate the strength of our operations. Profitability was strong, and we have the capacity to continue to generate and deploy capital. This financial strength provides the resources necessary to fuel our continued growth. As we progress through 2025, we look to the future with great confidence in our strategy, capabilities and long-term sustainable growth.

These conclude my remarks, Operator, we will now take questions.

Operator:

Thank you. We will now begin the question and answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two. We'll pause for a moment as callers join the queue.

The first question is from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman:

Hi. Good afternoon. Eric, you ended your comments by talking about the seasonality and organic capital generation noting Q1 seasonally lower. I just wanted to understand what drives that seasonality? Why is Q1 lower?

Eric Jobin:

Absolutely, Meny. What's happening there is the seasonality effect of the group businesses, the capital deployment to support that line of business, if you remember, we talked that seasonality is higher in Q1 and Q2, so that's what is happening. It's only capital deployment to support the business growth in there. Employers typically, renew a lot of their business on the first quarter of the year.

Meny Grauman:

Got it. Then a second question just on the dealer services side. Obviously, good results in Q1, but lots of uncertainty and question marks about the underlying auto business. Just wondering if you are hearing from the dealers on either side of the border, any change in customer behavior due to the uncertainty of tariffs and do you expect that to change?

Denis Ricard:

Hey, Meny, it's Denis here. What we've seen so far is that, especially in the U.S., people tend to—I would say we have more purchase of cars; it's all advance there, the purchase of cars. That's what's going on right now. There might be some movement from, let's say, the next quarters to this quarter or the last quarter in a sense that people expect that there might be some impact on price, so pretty much with an advance changing their cars. That's, I would say, the behavior that we see at this point.

Meny Grauman:

You're talking about the pull forward of demand. I guess does that mean that it's reasonable to assume that we could see some weakness in the coming quarter?

Denis Ricard:

Okay. The way I look at it myself, okay, there might be some noise per quarter. But at the end of the day,the question we have to ask ourselves is that, will people drive less cars in the future? It might be that the sales per quarter will vary. It would be different from the historical pattern, but the reality is that people need their cars to go to work, to travel. To me the mid-term, long-term, perspective hasn't changed at all. It's just that there might be some noise in the near future.

Meny Grauman:

Got it. Thank you, Denis.

Operator:

The next question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine:

Hi, there. Just a couple questions around capital. I think your buyback had been very active for the past year and a half or so, and it really pulled back this quarter. I know there's a priority list that ranks lower than some of the other ones. But I'm wondering if there's any other element to that decision not to repurchase as many shares this quarter. Does it have to do with, I guess, your timing it with your internal capital generation, possibly? Yes. Then I have a follow-up.

Eric Jobin:

It's Eric, I'll take it. In terms of NCIB in the quarter, remember at the Investor event we talked about capital deployment for the year. Remember that early in the quarter, in January, we announced an acquisition of Global Warranty, which resulted in about one percentage point reduction in the ratio. For us, it's a form of capital deployment.

That's why we had a slow start in the year with respect to NCIB. If you look in the recent months, we've been accelerating the NCIB to deploy more capital through it. If you look at the monthly adjustment that we've made in February, March and now April, you will see that it's steadily increasing.

Gabriel Dechaine:

Okay.

Eric Jobin:

Gabriel, I would add that if you look at the Investor event document, we provided some guidance where we would like to be for this year in terms of capital deployment and the pace of buyback is consistent with that.

Gabriel Dechaine:

Got it. Pretty straightforward there. As far as the capital rule changes for seg funds, you're still using the old capital formula in the first half, but then switching to the new one in the second half, if I understand correctly. Any impact there that you can quantify? Will it be meaningful.

Eric Jobin:

Yes. Gabriel, it's Eric again. You're right. This will be effective July 1, so it's third quarter. We don't expect this to be meaningful to our results, you know that we've talked at the Investor event about our discipline risk management practices. This is reflective of our good risk management practices.

Gabriel Dechaine:

Got it. Okay. That's it. Thanks.

Operator:

The next question is from Doug Young from Desjardins Capital Markets. Please go ahead.

Doug Young:

Hi, good afternoon. Just going to Slide 22, and I look at the organic capital generation and capital available for deployment this quarter versus last quarter, and the capital available for deployment didn't change quarter over quarter. One of the things that seems to be dragging down organic capital generation is the macro variations and it's happened for two quarters in a row. I'm just trying to figure out how to think about this and what is driving the impact from the macro variations? I think you talked about what happened last quarter, is it similar to this quarter? But just if you can talk through how I should be thinking about all that.

Eric Jobin:

Yes, Doug, it's Eric again. On the macroeconomic side, you have to remember that what we do on the investment side in terms of getting closer to our optimal portfolio deploy somehow capital down the road. Adjustments to our portfolio is a way to deploy capital, to get additional returns, so that's a big element.

Doug Young:

Maybe two follow-ups on that. Can you talk about what you're doing or what you're investing in? Why wouldn't that be just a normal organic consumption of capital or am I missing something?

Alain Bergeron:

Hi, it's Alain Bergeron speaking here. I think you're right that generally speaking, the trend will be that as the firm grows, as the liability grows, our investments in portfolio including assets consuming capital like privates or public equity, will go up. Now quarter-to-quarter, there may be noise depending on opportunities, depending on return, and so I think that's the high level.

Doug Young:

Okay. You wouldn't expect this to be ongoing. This can be a little bit—just happened two quarters in a row, but it could be a little bit lumpy. It's quarter-to-quarter, that's how I should be thinking about it. This is going into private and public equities, that's really what's consuming the capital then.

Alain Bergeron:

On the investment portfolio, that's correct. I think you're right to say that's a trend, but quarter-over-quarter, really, that could go either way.

Doug Young:

Okay.

Alain Bergeron:

A little bit of noise around it.

Doug Young:

Fair enough. Then I don't know, Sean or Denis, the U.S. dealer service profits, think you talked a bit about it, it looked like the profits, when I back into it, have improved by a good amount year-over-year. It sounds like you're feeling better about this business. Am I reading that correctly? Can you talk a bit about how much core earnings at the U.S. dealer services? How much was core earnings up and has this business turned the corner? Is it to the point where if things get tough, you would be more willing to allocate capital to do M&A in this business?

Denis Ricard:

Okay. Several questions. Thank you for that. I was expecting it, I guess. First of all, about turning the corner, last quarter, I said that there are signs that we are turning the corner and now, let's say, we are on the high road right now to turn the corner. We might be on the highway soon, but we're not there yet. But that's the way I would put it at this point.

Regarding the core earnings, I don't know. Just before about acquisition, because you asked a question about acquisition. It's interesting because there might be opportunities that will arise in the foreseeable future because of all the, let's call it, the disruption with the tariffs and whatever's going on in the U.S. and the interest rates and the cost of debt for private equity, whatever. There might be opportunity that will arise in terms of opportunities in that space. For us, it's to be on the lookout and it could be positive on that regard. With that said, Eric, do you want to comment on the core earnings?

Eric Jobin:

Yes. Just quickly to add on the core earnings, the situation improved. We've mentioned explicitly that there was $5 million improvement in earnings for U.S. dealer. We're very happy with this. This is the combined impact I would say of profitable growth and the impact of collecting the benefits on the investment we've been making and adjusting the processes and the business in the last year or so. We're collecting the benefit on that, and we expect that these will remain going forward.

Denis Ricard:

Maybe I would like to ask Sean, just to give some color about what we are doing in the U.S. on that front to improve the business.

Sean O'Brien:

Yes. Thanks, Denis. It's a quite an exercise in really extracting the benefit out of the work that we've done in modernizing that business and bringing together the administration systems. We're also putting a lot of focus on, we have a nice distribution—a variety of distribution channels in the U.S., so we're investing in those particular channels to bring in the new business. Then the other part is the repricing initiatives where we were looking at our products and just doing some catch up in a number of the products across our bandwidth, so we're seeing some nice benefit from that catch up on pricing. It's a three-prong approach that's starting to pay off.

Doug Young:

Denis just one follow-up on the acquisition side in the U.S. dealership, you're on the lookout, obviously, if there's disruption. Are you willing to do a big deal? I mean, you've done bigger deals with IAS, is this more tuck in or would you be willing to step in, lean into something bigger?

Denis Ricard:

I would say that we are concentrating on focusing on the organic growth at this point, turning the corner solidly. I would say we are on the right track, I feel very confident about the team and the actions that they're taking. I think we have to be a bit patient about the next step where we would go for a bigger acquisition. There might be a smaller one, but I don't think you should expect a big one in the short-term.

Doug Young:

Appreciate the color. Thank you.

Operator:

The next question is from Paul Holden from CIBC. Please go ahead.

Paul Holden:

Thank you. Good morning. Ongoing question I continue to hear related to tariffs is the impact that might have on U.S. dealer services profitability. Not so much from a sales perspective, which we've already covered, but more from a claims cost perspective. Two parts to that question. One are there any actions you're taking today to help mitigate potential cost inflation or higher cost of parts? Then two, how would you think about the longer-term impact and ability to reprice? Going to Denis's point that maybe it creates some short-term noise, but longer-term would actually maybe be positive.

Sean O’Brien:

Yes. This is Sean O'Brien. Yes. We're watching that one closely. We haven't seen parts increases or labor increase, but as that gets passed down, we expect that potentially could come. We're watching it really closely and are prepared to adjust pricing as we need to. We're also watching the industry as well to see as competitors are making any moves of that such. We're ready to do it and prepared for it.

The other part that we're seeing as we talk to dealers is there's uncertainty in pricing gets pushed onto the consumers that there's having protection in their vehicle is important. I mean, vehicle repairs are quite heavy, so it's having that protection, and that peace of mind is something that, will hopefully we'll see a bit of an uptick on F&I sales even as prices are going up in U.S.

Eric Jobin:

If I can add. One thing that is specific to U.S. as well is that the business is highly reinsured, Paul. It's 75% reinsured, we do mostly admin in the U.S., so we're less affected because of that.

Paul Holden:

Yes. Yes. Okay. No, that's a fair point. Thanks for that. Then I guess second question because Denis, I can't remember if it was Denis or Eric, you mentioned that the Vericity and Prosperity deals were earnings neutral in Q1. I think based on original guidance the expectation is for them to start becoming earnings accretive in second half of this year. I just want to verify that I have that correct. If that is correct, that you're on path to delivering that expected accretion by second half of '25.

Eric Jobin:

Yes. Paul, it's Eric again. I will say absolutely, you're right on this. We're on the path to get there. We're still in the first year, so we're slightly negative on Vericity. Remember last year that we said that the combined "accretiveness" of Vericity and Prosperity was neutral in the first year and we're expecting Vericity to start being accretive starting in the second half of the year.

Paul Holden:

Okay. Great. The last one from me, and hopefully it's a quick one too. I don't recall you mentioning technology investments as an impact on the LICAT ratio in the past. Maybe that's just because now we're talking about a larger capitalized cost versus something that's expensed. But just curious on the accounting and nature of that investment.

Denis Ricard:

It was just a question of materiality, I guess, Paul, it's always been there. We have a very robust program to deploy capital through IT to support our businesses, and as you know, we're following very thoroughly our operating leverage and capital deployment. We're just business as usual for this.

Paul Holden:

Okay. Maybe some quick color on what that investment exactly is for, the nature of it.

Denis Ricard:

Oh, it varies a lot. It's for back office system, front office, everything that supports lines of business.

Paul Holden:

Okay. Okay. I'll leave it there. Thanks for your time.

Operator:

The next question is from Tom Mackinnon from BMO Capital Markets. Please go ahead.

Tom Mackinnon:

Yes. Thanks. Good afternoon. Just going to take the acquisition of Vericity a little bit further. I think when you disclosed your third quarter '23 results, that's just shortly after you announced the acquisition, you talked about $0.04 core EPS dilution in the first year, $0.02 accretion in the second year, and then $0.10 accretion in the third year. Are you still seeing that?

Eric Jobin:

I'm not sure. Can you repeat what you mentioned, Tom, because—can you repeat your question please?

Tom Mackinnon:

Yes. You talked about the core EPS impact of the acquisition of Vericity.

Eric Jobin:

Okay.

Tom Mackinnon:

It was $0.04 dilution in the first year, this is to core EPS, $0.02 accretion in year two and $0.10 accretion in year three. It looks like you would still stand by—I mean, this is three quarters through year one, and you're already neutral. Are you on the trajectory to be $0.02 accretion in year two and $0.10 accretion by year three or before year three?

Eric Jobin:

Yes. The short answer is yes to this, Tom.

Tom Mackinnon:

Okay. That's great. Then the second is, just with respect to the new business strain and group business, this thing came down nicely year-over-year, but if I look at the employee benefits sales, they basically doubled or more than doubled year-over-year. Is it really a function of that, the strains down because the sales are up, or have you done anything different to mitigate strain outside of just volume?

Eric Jobin:

Yes. I'll just start with the strain and I'll pass it over to Louis-Philippe, for business outlook. On the strain, we're just out of the year-end review of assumptions and what you've seen in the strain reduction is just an update. We've got pretty good profitable renewal, so the strain is lower in Q1 because of those items, Tom. On the business outlook with respect to premiums, I will pass it over to Louis-Philippe.

Louis-Philippe Pouliot:

Yes. Thanks. I'm happy you mentioned the renewals because when you look at the weight of renewals versus new sales on the effect of strain renewals, is actually a bigger effect. What we see is that we are executing really well on our renewal on strategy, so it maintains profitability over time. We like what we're seeing on that front.

Maybe with respect to, I guess, what we see for the future and how things are going, I mean, we're looking at internal indicators, right now, the quoting activity. What we're seeing in the marketplace is an indication that we can continue on the same trend that we've seen in the last maybe year or two. Yes. It's great news. Happy to see $70 million in the first quarter compared to a full-year, 2024 of $80 million something. We're in a great spot and I see that momentum continuing for sure.

Louis-Philippe Pouliot:

Is the result of a few things?

Louis-Philippe Pouliot:

Oh, I'm sorry.

Paul Holden:

Yes. If you continue that momentum, do we expect that that strain number is going to stay in the range that we saw in the first quarter?

Louis-Philippe Pouliot:

I think we're in the right spot the way we're looking at this level. Probably a good indicator that it's going to be bumpy, it's going to be because it's just the nature of things. But I think the level we're at is a good indication for the future.

Tom Mackinnon:

Sounds good. Thanks.

Eric Jobin:

Tom, I just want to remind you one item though, because you compare business growth with respect to strain, keep in mind that the business growth of that line of business is reflective implemented sales. What Louis-Philippe is talking about is implemented sales and the strain is connected with confirmed sales that may take a while to be implemented. There's a slight disconnect between the growth that you see and the strain. Strain comes first.

Tom Mackinnon:

Okay. You mean you report confirmed sales, but by the time you get them on your books, they're implemented, is that the way we would distinguish the difference there?

Eric Jobin:

No, not exactly. We report the strain on the confirmed business that will take a little while to implement, and the business growth that you see in the SIP is reflective of the implemented sales that were confirmed, let's say, in the last 12 months or so.

Tom Mackinnon:

Okay. Thanks for that.

Operator:

The next question is from Mario Mendonca from TD Securities. Please go ahead.

Mario Mendonca:

Good afternoon. Denis, I appreciate your comments about the long-term trends in U.S. dealer services. But in the short-term, it does appear that there could be some volatility. Maybe going to Eric, then there's $306 million of U.S. dealer services sales in the quarter. If we assume 75% of that is reinsured, so we're looking at maybe $240 million. What I'd like to understand is how that $240 million or so of sales in a given quarter would impact the drivers of earnings in the U.S.? Firstly, does it go through the core non-insurance activities? Does it go through PPA? Then secondly, sales in a given quarter, how do they affect the quarter? Do they benefit earnings over, say, a 12 month period or immediately in the quarter of the sale?

Eric Jobin:

Mario, it's Eric. I will start with respect to your question with where does it show up? The reinsured business is admin business, so you are right. It shows up in the core non-insurance line of the driver of earning.

Mario Mendonca:

Does it get reflected immediately or over time?

Eric Jobin:

It's mostly reflected at time of sale.

Mario Mendonca:

Okay so if in fact there is some meaningful volatility, and sales have been pushed forward, and that's what every—that's what you would read. You could read that in pretty much any economist's papers of late that there was a significant pull forward of sales. Then does it necessarily mean that if sales were to come off meaningfully in Q2, that that line could be impacted, the core non-insurance activities?

Eric Jobin:

Yes, it can be impacted because of what I just explained about the timing and where it shows up.

Mario Mendonca:

Okay. Then maybe, Denis, there was a discussion around material capital flexibility for the Company, this is a discussion that was had late last year, because of the change in capital standards. I'm trying to understand how that might play out at a practical level? I may have asked you this in the past. Is this something where we'd see the Company's leverage ratio increase more significantly? Is that still something we should expect or will there be no meaningful impact on the balance sheet as a result of that change?

Denis Ricard:

Our intent, Mario, is to have the most optimized balance sheet eventually. The idea is to move, I would say, gradually over that state, I mean, I would say that the leverage ratio right now is too low in terms of where we want to be.

Mario Mendonca:

Okay. Thank you.

Operator:

This concludes the question-answer-session. I would now like to turn the conference over to Denis Ricard for closing comments.

Denis Ricard:

Thank you for all your questions and being here. Just want to emphasize three things that I think are important. We didn't have that many questions on growth, but growth has been fantastic in the quarter, and it's really a testimony of our capacity to grow the Company for the next quarter, because you're going to ask questions in the next quarters. I mean, the more sales we have now, the better the results should be in the future. That's number one.

Second is when you look at our core ROI, we're moving towards our 17%+. I mean, we're not there yet, but we're certainly moving towards that. Lastly, the U.S. earnings operation is improving significantly, so I'm very pleased about that.

Thank you for attending this call and see you next time.

Operator:

This brings a close to today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.