CHESNARA PLC

Showing good operational progress

Chesnara announced its 2024 results, which showed positive progress compared with 2023. The main features were positive market returns, offset by some mixed operational experience. Economic Value profit of £69.1m represented a 17% increase on the £59.1m in 2023. Economic Value increased to £531m, up slightly on £525m 12 months earlier, with a negative forex impact as well as dividend payment. Cash generation was excellent, with base cash increasing to £51.6m and commercial cash to £59.6m. The dividend, as expected, was increased by 3% to 24.69p. This is the 20th consecutive year of dividend increases.

- **Acquisitions:** There was an update on the second portfolio acquisition from Canada Life, with the gain increased by £3m to £11m due to better-than-expected cost efficiencies. The Part VII transfer of the Canada Life term-life portfolio was granted in February 2025 is now complete.

- **Estimates:** With net results better than we expected, and some expected efficiencies from the merger of the Netherlands businesses, we have raised our estimates. Our 2025E EPS is upgraded to 40.2p from 32.6p. We introduce a 2026E EPS of 41.4p.

- **Valuation:** With a price at ca.70% of its forecast Economic Value, Chesnara seems undervalued, in our view. A prospective dividend yield of above 10%, with good prospects of continued growth, also suggests an undervalued stock, in our view.

- **Risks:** Ultimately, the company remains tied to movements in financial markets and adverse developments in operational areas. Having just come through a testing period for the latter, in particular, we can see how well Chesnara is able to manage these challenges.

- **Investment summary:** Chesnara has three pillars for delivering value, under a responsible risk-based management. A close analysis reveals that there is substance underlying these aims. In our opinion, the discount to Economic Value looks wider than it should, and the yield appears high for a dividend that is both secure and growing.

Financial summary and valuation

Year-end Dec (£m)	2021	2022	2023	2024	2025E	2026E
Operating earnings	-58.8	-26.8	-7.7	10.4	16.0	16.5
Economic earnings	109.6	-109.1	42.9	50.3	51.8	53.4
Economic Value earnings	57.8	-85.1	59.1	69.1	60.7	62.6
Economic Value/share (p)	416	340	348	352	367	382
Base cash generation	20	83	33	52	57	57
EPS (p)	38.5	-56.6	39.3	45.8	40.2	41.4
Dividend (p)	22.60	23.28	23.97	24.69	25.43	26.19
Price/Economic Value (x)	0.61	0.74	0.72	0.72	0.69	0.66
Yield	9.0%	9.2%	9.5%	9.8%	10.1%	10.4%

Source: Hardman & Co Research

Life assurance

Source: LSEG, 2025

Market data

EPIC/TKR	**CSN**
Price (p)	**252.0**
12m high (p)	289.5
12m low (p)	240.0
Shares (m)	151.0
Mkt cap (£m)	380.5
Economic Value (£m)	531.0
Country of listing	UK
Market	London

Description

Chesnara, primarily, manages and acquires closed life assurance books in the UK, Sweden and the Netherlands.

Company information

CEO	Steve Murray
CFO	Tom Howard
Chairman	Luke Savage

+44 (0)1772 972 050
www.chesnara.co.uk

Key shareholders

Columbia Threadneedle	11.7%
Abrdn	9.0%
Hargreaves Lansdowne	8.9%
Interactive Investor	8.3%
M&G	5.8%
Canaccord Genuity	3.8%
Rotal London	3.7%
Janus Henderson	3.5%

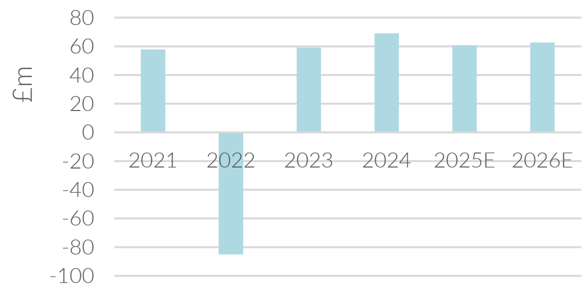
Diary

13 May	AGM
20 May	Final dividend paid

Analyst

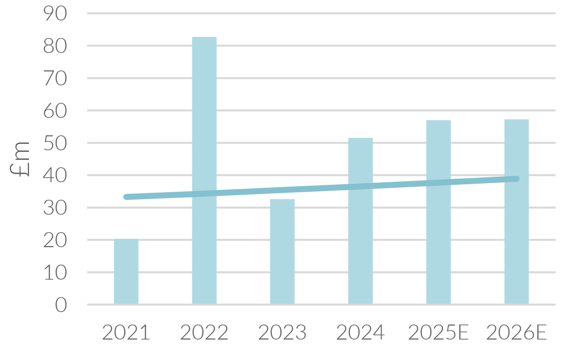
Brian Moretta bm@hardmanandco.com

Economic Value earnings



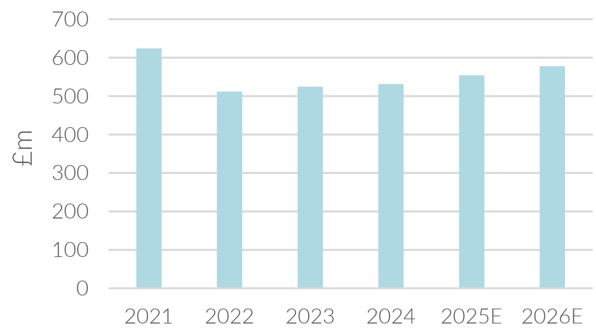
- Volatility for investment assets in 2022
- Also affected by operational challenges
- Forecasts are based on normalised assumptions
- Gains from acquisitions in 2023 of £28.4m and 2024 of £10.5m

Base cash generation and dividends paid (line)



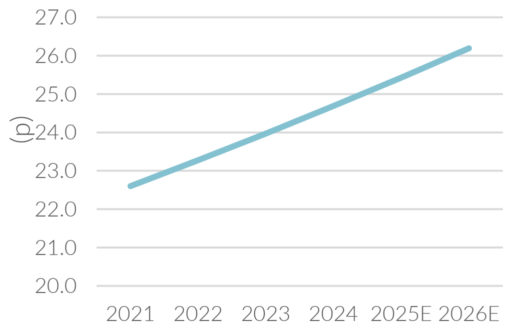
- 2021 and 2023 affected by a challenging Swedish market
- Symmetric adjustment smooths effect of markets on cash
- 2023 cash boosted by Risk Margin reduction in UK
- More normal conditions keeping cash generation at comfortable levels

Economic Value



- Volatility for investment assets has reduced in the past couple of years
- Also affected by operational challenges
- Forecasts are based on normalised assumptions
- Gain from acquisitions of £28.4m in 2023 and 2024 of £10.5m

Dividend per share



- Chesnara has been a consistent dividend payer for almost two decades
- We forecast continued steady growth of 3% p.a.

Source: Company data, Hardman & Co Research

Results commentary

The headline figures for 2024 showed good progress from 2023, which in itself was a positive year. Good results from equity markets and interest rate movements were the strongest positives, with operating movements being more mixed. Economic Value earnings of £69.1m were 17% up on the £59.1m in 2023 (or, up 91% if we remove the effect of the acquisitions). Economic Value increased slightly to £531.0m, from £524.7m as at 31 December 2023. Dividends and, to a lesser extent, forex losses offset the positive earnings.

Base cash generation of £51.6m was a distinct improvement on the £32.6m in 2023. With good market returns, the symmetric adjustment was a drag again and commercial cash generation of £59.4m was a smaller improvement compared with 2023.

As expected, the dividend was increased, by 3%, to 24.69p with a final dividend of 16.08p per share. This is the 20th consecutive year of dividend increases; a notable track record, which only a small number of companies can match.

We note there have been a couple of small restatements in the accounts, notably separating out central costs in Economic Value earnings and correcting treatment of acquisitions in IFRS. At the time of the interim results, the new CFO indicated a desire to simplify presentation, and a couple of minor items have not been disclosed in the 2024 RNS.

Earnings and operations

Economic Value earnings

Year-end Dec (£m)	2020	2021	2022	2023	2024
Expected movement	0.3	-1.7	-1.3	14.9	15.0
New business	3.7	2.4	8	4.4	5.2
Operating experience variances	-22.0	-19.2	-20.7	14.9	-9.1
Operating assumption changes	-35.8	-13.9	-14.5	-25.9	9.0
Other operating variances	3.9	-0.2	1.7	-1.9	-9.7
Total u/l operating earnings	-49.9	-32.6	-26.8	6.4	10.4
Material other operating items	-16.2	-26.2			
Total operating earnings	-66.1	-58.8	-26.8	6.4	10.4
Economic experience variances	45.7	79.5			
Economic assumption changes	-22.8	30.1			
Total economic earnings	22.9	109.6	-109.1	42.9	50.3
Other non-operating variances	-2.8	4.5	-2.6	-11.9	-11.3
Central costs				-14.1	-11.8
Risk margin movement	4.7	10.8	20.4	1.1	22.80
Tax	3.7	-8.2	12.0	6.3	-1.8
Gain on acquisition			21	28.4	10.5
Economic Value earnings	**-37.6**	**57.8**	**-85.1**	**59.1**	**69.1**
EPS (p)	-25.1	38.5	-56.6	39.3	45.8

Source: Hardman & Co Research

In 2024, the second half of the year gave a better result than the first half. Although the economic earnings were a little worse, the operating result was much better; there was also a significant release of risk margin. With European interest rates falling back, the expected movement (the unwind of the discount rate) showed only a slight improvement on 2023. Note that Chesnara now separates central costs from the operating figures, which affects comparisons with prior years.

Operating movements

Operating earnings of £10.4m are a significant improvement from the (restated) £6.4m in 2023. Negative experience and operating variances were somewhat offset by positive operating assumptions changes. The former includes lapse and expense experience, while the latter are mostly expense improvements.

Lapses

Lapses remain a challenge within Movestic. While lapse rates have improved compared with the peak levels seen 18 months ago, they remain above long-term assumptions, albeit in line with the short-term provisions set last year. The continued ease of transfers in the occupational pensions market, following earlier legislative changes, is sustaining elevated lapse activity. This has been particularly pronounced in the unit-linked pensions segment, where competition remains intense.

Management continues to focus on mitigating the impact through a combination of retention initiatives, closer engagement with brokers, and by improving new business flows to offset the effect on the back book. The latter is aided by enhancing distribution partnerships and IT platforms. Despite these efforts, experience during 2024 reinforces the view that some volatility may persist for a while longer.

There were no material comments on lapse trends in the other divisions.

Mortality

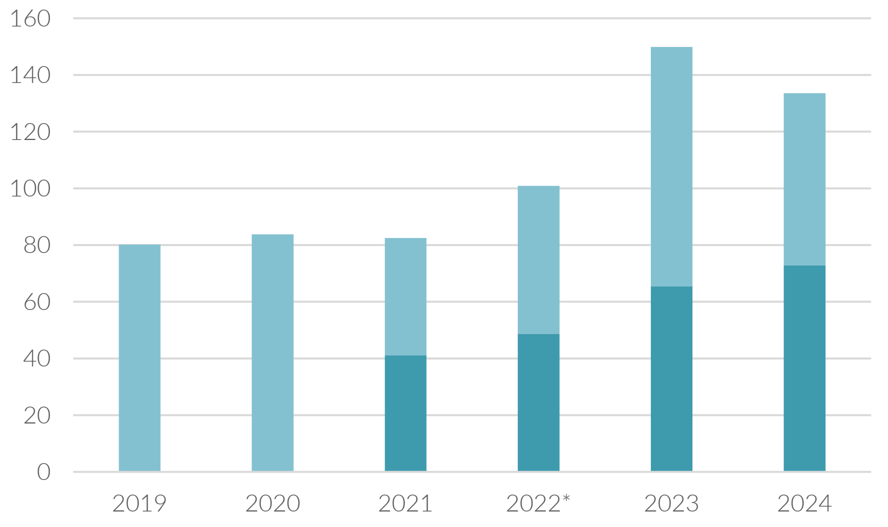
There was some strengthening of mortality assumptions in the Netherlands. As a reminder, these are strongly influenced by the regulator.

There were no other comments on mortality in the statement, suggesting it has largely been in line with expectations.

Expenses

As a reminder, figures prior to 2021 have not been restated for IFRS17.

IFRS expenses (£m) (first half highlighted 2021-24)



**2022 figures are restated for IFRS17, prior years on the original accounting basis. Source: Chesnara, Hardman & Co Research*

Group expenses declined slightly on an IFRS basis, from £150m to £134m. However, once adjusted for the Swedish policyholder yield tax and the AVIF impairment in 2023, the reduction was from £111m to £103m. Operational activity remained high across all regions, with a range of ongoing investments, regulatory responses, and platform development initiatives.

In the UK, one-off costs continued from the multi-year transition to SS&C's outsourced administration platform. While these expenses increased short-term cost assumptions, they are expected to deliver efficiencies in the medium term. Chesnara estimates the transfer will be completed in early 2026. Implementation of Consumer Duty and progress towards the Operational Resilience deadline also contributed to the cost base.

In Sweden, management focused on cost control while continuing to invest in digitisation. Upgrades to Movestic's digital platform are designed to improve transfer handling, pension withdrawals, and customer engagement. Regulatory preparations for DORA also progressed, alongside additional hires in operations and IT.

In the Netherlands, cost-saving initiatives included simplifying Scildon's operations ahead of its planned merger with Waard. This generated £1m of savings, contributing ca.£10m of Own Funds. The Waard business also completed the launch of a digital customer portal, and both companies advanced DORA compliance work.

Looking forward, there should be further savings from the merger. The teams are already operating out of a single site in Hilversum.

Central costs also decreased slightly due to reduced project spend. As in previous years, Chesnara continued to deal with regulatory change. The introduction of Consumer Duty, DORA, and Operational Resilience requirements brought additional expenses, although these were less significant than the IFRS17 implementation in 2023. Although these specific costs won't recur, similar regulatory expenses are expected to arise in due course.

Management changes

There were changes to the group board. Jane Dale, who has served as a non-executive director for nine years and chaired the Audit and Risk Committee, will step down at the 2025 AGM. She will be succeeded by Gail Tucker, who brings additional experience in the UK and European insurance sector.

In the Netherlands, Edwin Bekkering was appointed as Chief Financial & Risk Officer of Scildon. He and the recently appointed CEO, Pauline Derkman, are expected to lead the combined business following the planned merger with Waard.

Economic movements

Favourable market conditions in 2024 underpinned an improvement in economic earnings. For the year as a whole, Chesnara reported economic earnings of £50.3m, compared with £42.9m in 2023. These gains reflect the positive impact of equity market performance as well as net favourable interest rate and spread movements.

Although slightly below our (normalised) expectations, they remained the largest contributor to total Economic Value earnings for the year.

Equities

Equity markets rose in all three of Chesnara's countries of operation. The most significant movement was in Sweden, where the OMX Index rose by 5.6% in 2024. Given Movestic's substantial exposure to unit-linked products, this reduced outperformance, nevertheless, still provided a meaningful contribution to earnings.

The UK market also contributed meaningfully, with the FTSE All-Share Index climbing 5.6%, which was a notable improvement on 2023 and supported growth in fee income.

Although the AEX Index in the Netherlands was the strongest performer again in 2024, up 7.5%, the group has relatively limited net equity exposure in that market, and the overall contribution was modest.

Interest rates

Bond yields increased across Chesnara's core markets during 2024. In the UK, the 10-year gilt yield rose from 3.64% to 4.64%. Although the 10-year Euro swap rate decreased from 2.49% to 2.37%, the pattern across the broader Euro yield curve was more mixed. In both regions, AA corporate bond spreads narrowed slightly.

In the UK, this environment produced a positive contribution to economic earnings, with the combination of higher yields and tighter credit spreads supporting returns.

In the Netherlands, the picture was more complicated. Scildon adjusted its asset mix by replacing short-duration government bonds with money market instruments to better hedge interest rate risk, and by increasing exposure to mortgage funds to improve asset/liability matching. Waard also rebalanced its portfolio, increasing allocations to longer-duration government and corporate bonds to support long-term returns.

While these changes are expected to enhance yield and performance over time, they had a negative impact on both capital in the short term and Economic Value earnings for the Netherlands in the year.

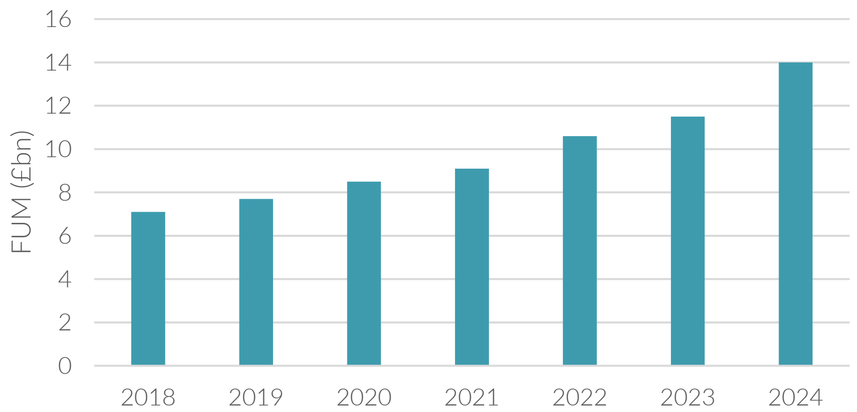
Fund returns

Data on fund returns was not supplied in this report.

Operational KPIs

The alternative KPIs show the general improvement in Chesnara's operations over the past few years. For 2024, Chesnara provided updates only on Assets under Administration, which grew to £14bn, up from £11.5bn at the end of 2023 and £11.9bn at the interims. Of this increase, ca.£1.5bn came from the new Canada Life portfolio. With ca.85% of liabilities being unit-linked, this remains a key indicator, as higher values directly support fee income.

Assets under Administration



Source: Chesnara, Hardman & Co Research

Although total policy numbers were not disclosed this year, commentary suggests a modest decline is likely, given the maturity of the UK and Dutch businesses and continued lapse pressure in Sweden. While the new Canada Life deal added 13% to AuA, it brought just 2% more policies.

Chesnara also continued to develop its sustainability reporting. It reaffirmed its commitment to achieving net zero by 2050, reporting a 13% reduction in normalised Scope 1 and 2 emissions, and a 25% reduction in operational emissions. Investment in nature and social impact solutions grew, by 65%, to £135m. The group is now a signatory to the UN Principles for Responsible Investment.

CSM

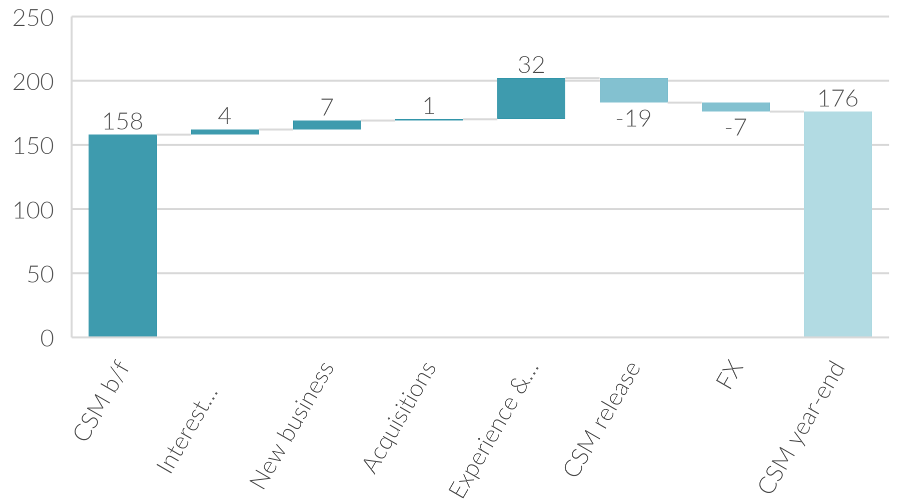
As we noted previously, IFRS17 has introduced the Contractual Service Margin (CSM), which applies to the ca.40% of Chesnara's liabilities that are classified as insurance. While it does not offer a complete view of value creation, it provides a useful additional perspective.

The new Canada Life portfolio was classified as "investment contracts"; therefore, its purchase did not contribute materially to the CSM. Instead, movements were driven by underlying activity. The main positive factors included new business, primarily Scildon, experience and assumption changes and interest accretion. These were offset, to a lesser extent, by the release from in-force business and adverse foreign exchange movements. As a result, the CSM grew 11% over the year to £176m.

By region, the UK delivered an IFRS profit of £28m (2023: £3m), helped by strong insurance results and the absence of the prior year's £21m AVIF impairment. In Sweden, IFRS profit doubled to £10m, driven by growth in assets under administration and fee income, while the Netherlands reported £5m (2023: £23m), with the prior year benefiting from the Conservatrix acquisition.

Chesnara noted that ca.40% of the CSM has a projected emergence beyond 10 years, supporting future profit visibility. Again, we note the growth in the CSM despite the minimal effect of acquisitions.

CSM movement in 2024



Source: Chesnara, Hardman & Co Research

Acquisitions

Chesnara managed to fit in a new acquisition announcement just before the end of 2024. This book, comprising approximately 17,000 policies across onshore bond and personal pension lines, was initially acquired through a reinsurance agreement, which was retrospective to 1 January 2024. It added ca.£1.5bn to Assets under Administration and delivered an immediate Economic Value gain of £11m plus £10m in Own Funds. £3m has been added to Economic Value since the initial announcement due to improved cost assumptions. The transaction involved an upfront outlay of £2m.

As with previous acquisitions, the Canada Life business will not be fully integrated until a Part VII transfer is complete. Chesnara expects court approval in 2026, after which the business will be migrated onto the SS&C platform. Until then, it continues to operate under a reinsurance structure.

As expected, the term-life portfolio from Canada Life, which was announced in May 2023, saw its Part VII completion in February 2025. The transfer to the SS&C platform is also complete.

Prospects

While Chesnara continues to be highly active in the M&A market, converting opportunities into completed transactions remains challenging. Two substantial deals fell through in 2024: one when the seller opted to retain the business, and the other when a valuation gap emerged during due diligence that could not be bridged. We find the latter reassuring — it shows that management remains disciplined, even when under pressure to deploy capital.

Chesnara has taken further steps to ensure financial readiness. Liquid assets rose to £109m by the year-end and are expected to rise to ca.£130m by the half-year. The existing revolving credit facility means the group has more than £200m in immediately deployable firepower. It also has shareholder approval to issue £120m of RT1 instruments, providing additional capacity should a larger opportunity arise.

Management reiterated its preference for transactions within its existing territories, although others may be considered. Sweden remains somewhat constrained by recent market changes and transfer trends, and while there is cautious optimism, with some visibility on possible medium-term opportunities, the UK or Netherlands seem to be more likely for now.

In background, the European life insurance M&A market remains active. The ongoing drivers for sellers – including regulatory burden, cost pressures from legacy systems, and a desire to release capital for redeployment — all remain relevant. Subscale players, in particular, continue to face commercial pressure to consolidate.

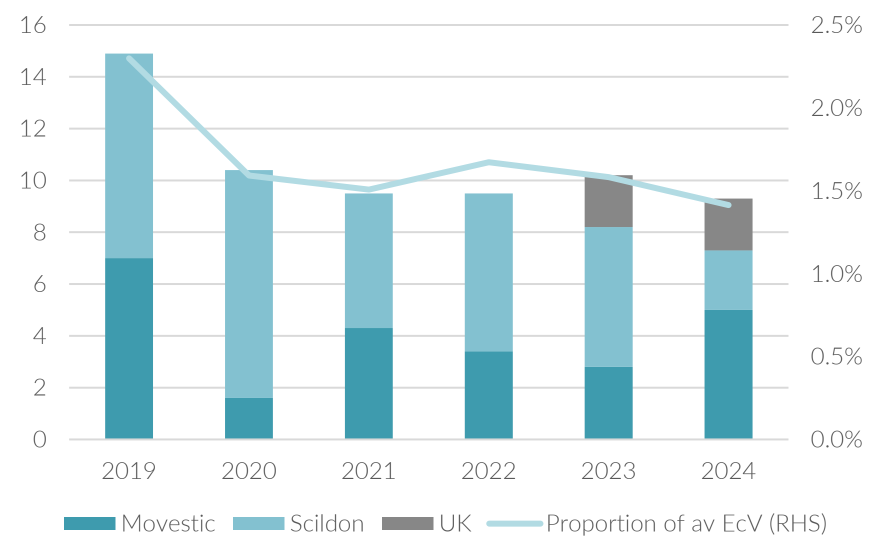
Chesnara's position as an experienced consolidator, with a strong solvency position and being a limited new business competitor, continues to make it a credible and attractive counterparty for potential sellers. While the pace of execution has been slower than hoped, the pipeline remains encouraging. The group is reportedly seeing a wider range of deal sizes and has flagged the possibility of working with strategic partners on larger deals, including pooled bidding consortiums in continental Europe.

For now, it seems the stars have yet to fully align, but Chesnara's firepower, readiness, and track record mean it is well positioned to act when they do.

New business

The value of new business in 2024 was just over £9m, slightly below the prior year (£10m), but with a different regional composition. Movestic delivered £5m (2023: £3m), supported by growth in the custodian business and better integration with brokers. Notably, unit-linked sales were the highest recorded in five years. While margins remain under pressure, the improvement in distribution and product expansion is encouraging.

Chesnara's value of new business (£m)



Source: Chesnara, Hardman & Co Research

In the Netherlands, Scildon's new business contribution fell to £2.3m, from £5.4m in 2023. Market conditions remain difficult in its core market of mortgage-linked term assurance. While market share dipped slightly to 10.6%, the market as a whole has shrunk meaningfully. Nevertheless, Chesnara has maintained pricing discipline, which we view positively in the longer term.

The UK business remained steady, with the new business contribution unchanged at £2m, albeit Annual Premium Equivalent (APE) rose sharply to £13m from £7m. Although the UK remains a modest part of the group in new business terms, the performance demonstrates solid traction.

Looking forward, management sees opportunities for product expansion, with a risk offering in Sweden and annuity or wealth products under consideration at Scildon. These additions are unlikely to transform volumes but should provide incremental support. There are also signs that some Swedish distributors may begin to focus more on genuine new business, rather than switching existing clients, which would be a welcome development.

Although the environment remains mixed, the new business performance in 2024 was resilient, and the group is continuing to build for the longer term.

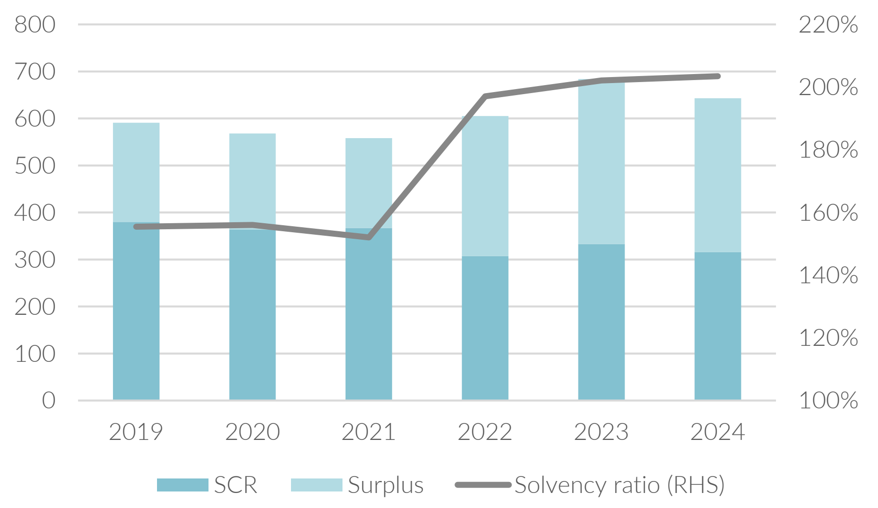
Capital and cash generation

Risk assets can have a complex effect on solvency ratios. While price increases or declines affect assets, the corresponding changes in liability values mean that the risks to be covered also shift. Under Solvency II, the Symmetric Adjustment acts as a countercyclical buffer: in times of strong investment returns, part of the gain is held back to support solvency in weaker periods. The positive performance of risk assets in 2024 triggered such an adjustment.

IFRS17 does not affect solvency or Economic Value, but it does influence the reported accounting balance sheet. At the 2024 year-end, IFRS equity stood at £314m, down from £360m in 2023, and the Contractual Service Margin (CSM) increased to £174m from £158m (restated). These changes contributed to a small increase in the leverage ratio, to 30.9% from 29.5% (restated). This remains within the range consistent with Chesnara's current credit rating.

Solvency

Group Solvency II metrics



Source: Chesnara, Hardman & Co Research

At the 2024 year-end, Chesnara reported a group solvency ratio of 203%, slightly down from 205% in 2023 but still well above its target range of 140%-160%. Both the Solvency Capital Requirement (SCR) and surplus fell, with the SCR down 5% (to £316m) and the surplus declining by 7% (to £327m).

The reduction in surplus reflected a combination of factors. Equity market gains supported economic capital generation, as did rising interest rates, and deferred tax recognition boosted own funds. These were offset by negative foreign exchange movements and a £32m increase in Tier 2 and 3 capital restrictions. There was also an adverse valuation shift in subordinated debt instruments and revalued liabilities.

Management actions during the year were the extension of both the group's FX hedging programme and the UK mass lapse reinsurance. While other options were available, management saw no need to act further in a year with strong cash generation. It is worth noting that the FX hedge reduced, but did not eliminate, losses during the year.

The divisions were mixed in their solvency movements. The UK benefitted from economic conditions and new business but was affected by the addition of the new Canada Life portfolio. The mass lapse reinsurance arrangement continued to support a reduced SCR.

In Sweden, Movestic was also supported by market performance but partly offset by foreign exchange losses and adverse short-term persistency. In the Netherlands, the changes in asset mix at both Scildon and Waard both dragged on solvency. Scildon saw some progression due to the improvements in costs and positive operating variances.

Overall, solvency remains robust, and the group continues to have meaningful headroom to support both dividends and strategic options.

Cash generation

Cash generation within Chesnara is the net change in available surplus. Cash, and the dividend, at the group level, is funded from dividends from the individual divisions. These are generally paid annually, and those for 2023 were mostly paid to the group in 1H'24. Chesnara has not given an indication, as yet, for individual division dividends in 2025.

Group cash generation breakdown

£m	2019	2020	2021	2022	2023	2024
Base cash generation						
UK	33.6	29.5	27.4	40.8	45.0	35.3
Sweden	-6.2	12.4	-14.4	16.1	-7.0	8.2
Waard	0.8	4.1	2.9	8.4	15.3	1.4
Scildon	22.6	-22.3	15.2	-3.4	-3.1	14.1
Group	-14	4.1	-10.8	20.8	-17.6	*-7.5
Total cash generation	**36.8**	**27.8**	**20.3**	**82.7**	**32.6**	**51.6**
Internal dividends						
UK	32.0	33.5	27.5	56.0	35.0	
Sweden	6.2	10.2	0.0	12.0	7.8	
Waard	4.9	4.0	6.1	5.3	6.9	
Scildon	7.0	0.0	5.0	0.0	0.0	
Total dividends from subsidiaries	**50.1**	**47.7**	**38.6**	**73.3**	**49.7**	
Dividends paid to shareholders	**31.3**	**32.3**	**33.3**	**34.3**	**35.4**	**36.5**
Cash cover (x)	1.2	0.9	0.6	2.4	0.9x	1.4x
Internal dividend cover (x)	1.6	1.5	1.2	2.1	1.4x	n/a

** Group figure for 2024 includes £7.7m spent on acquisitions.*
Source: Chesnara, Hardman & Co Research

Base cash generation for 2024 was solid at £51.6m, a nice increase from £32.6m in 2023. This reflects stable underlying performance across the group, with positive contributions from all four divisions.

The UK remained the largest contributor, generating £39.6m in commercial cash (2023: £48.5m). While slightly lower than the prior year, this was still a strong performance supported by rising interest rates and a further benefit from the mass lapse reinsurance. Sweden also delivered a material improvement, with Movestic contributing £10.6m (2023: £0.3m), aided by positive economic returns.

In the Netherlands, Waard saw a large drop to £1.6m, from £15.8m in the previous year, reflecting economic losses due to the impact of interest rate increases on bond values. Scildon, by contrast, increased its contribution to £14.6m (2023: £8.2m), thanks to operating efficiencies, which more than offset the effect of market volatility.

Group centre costs remained a modest drag on cash, with another £7.7m being spent on acquisitions. The centre retained £109m of cash at year-end, expected to increase to £130m by mid-2025 after remittances and dividends.

With equity markets returning above the risk-free rate, all divisions saw additions to the Symmetric adjustment, reducing the cash generation across the group by £6.5m. This led to commercial cash generation of £59.6m, 14% higher than the previous year's figure of £52.4m.

As we predicted, 2024 was a somewhat simpler year than 2023, and we expect this to continue. Chesnara's internal forecasts for the next five years indicate that it has more than adequate cash generation capability to cover the dividend and debt servicing in that period. Management activity and, hopefully, further acquisitions should continue to strengthen that position.

Dividend cover

Base cash generation was 1.4x of the cost of dividend for the year, while commercial cash generation was 1.6x. With all divisions contributing positively, Chesnara seems well placed to continue steady dividend growth in the future.

Prospects

Operations

With the acquisitions being small, this seems to have been more of a "business-as-usual" kind of year. There remain a couple of areas with challenges (Swedish lapses, Scildon new business), but these are likely to have a smaller effect than we have seen in previous years.

The major internal initiative for the coming year or so will be the merger and integration of Waard and Scildon. The identification of £1m of annual cost-savings in Scildon in preparation is a bonus. Chesnara has not indicated quantum or timings of cost savings. However, with the merger planned for the middle of the year and both companies now sharing a location, we would expect these to be delivered reasonably promptly.

Looking further out, the completion of the UK migration to the SS&C platform will complete in early 2026. The transition has been allowed for in cost estimates and further benefits will arise as and when acquisitions are added.

We note the changed asset allocation in Waard and Scildon improves expected returns, but these will be small compared with market volatility. We note that there is an unusual amount of economic uncertainty since the change in the US presidency. However, like everyone else, we cannot predict how that will pan out.

Acquisitions

As we discussed above, we are unable to say when we will see any further announcements on acquisitions, although management continues to talk positively about prospects. We note that completion, typically, takes several months and the retrospective reinsurance arrangements we saw with the Canada Life transactions may not repeat. An announcement now would be unlikely to affect the 2025 results meaningfully, and most benefits would only be seen in 2026.

Forecasts

In our earnings forecasts, the main differences were in operating experience variances and assumption changes as well as the risk margin movement. The former were worse, while the latter was significantly improved. Despite our economic forecasts being normalised, they were pretty close in practice.

For 2025 and 2026, our forecasts are based on steady progress across the board. In the operating lines, we have assumed an improvement in other operating variances and left assumption changes at the same level as before. As usual, we make no assumption about future acquisitions, although we would be hopeful of something appearing within the next 18 months.

Our forecasts are on a normalised basis, economically. If we exclude acquisitions, then we are expecting steady growth in earnings in 2025 and 2026. We increase our 2025E EPS by 19% to 40.2p, from 32.6p. We introduce a 2026E EPS of 41.4p.

We have kept our forecast dividend growth rate forecast unchanged, at 3% p.a. With the abatement of the inflation rate over the past few months, this rate of increase is no longer significantly behind it, and has been the growth rate for the past several years.

Economic Value earnings

Year-end Dec (£m)	2021	2022	2023	2024	2025E	2026E
Expected movement	-1.7	-1.3	14.9	15.0	15.5	15.9
New business	2.4	8.0	4.40	5.2	5.5	5.7
Operating experience variances	-19.2	-20.7	0.8	-9.1	-9.4	-9.7
Operating assumption changes	-13.9	-14.5	-27.8	9.0	9.3	9.5
Other operating variances	-0.2	1.7				
Total u/l operating earnings	-32.6	-26.8	-7.7	10.4	16.0	16.5
Material other operating items	-26.2	0.0				
Total operating earnings	-58.8	-26.8	-7.7	10.4	16.0	16.5
Economic experience variances	79.5	0.0	43.0			
Economic assumption changes	30.1	0.0	2.3			
Total economic earnings	109.6	-109.1	42.9	50.3	51.8	53.4
Other non-operating variances	4.5	-2.6	-11.9	-11.3	-11.6	-12.0
Central costs				-11.8	-12.2	-12.5
Risk margin movement	10.8	20.4	1.1	22.8	23.5	24.2
Tax	-8.2	12.0	6.3	-1.8	-6.7	-7.0
Gain on acquisition	0.0	21.0	28.4	10.5	0.0	0.0
Economic Value earnings	**57.8**	**-85.1**	**59.1**	**69.1**	**60.7**	**62.6**
EPS (p)	38.5	-56.6	39.3	45.8	40.2	41.4
DPS (p)	22.60	23.28	23.97	24.69	25.43	26.19

Source: Hardman & Co Research

While the normalised basis is our core expectation, in practice, results will rarely match the average. To give some idea of sensitivity, the following table gives estimates with two adjustments:

- annual equity returns of 3.5% instead of 7%; and
- no returns from credit spreads, i.e. credit losses match the gain from the spread.

Investors can easily imply the effect of different assumptions from these adjustments.

Sensitivity to economic assumptions

£m	2023	2024	2025E	2026E
Normalised Economic Value earnings	59.1	69.1	60.7	62.6
Half equity returns			33.4	34.5
Reduction			-45%	-45%
No credit spreads			38.9	40.1
Reduction			-36%	-36%

Source: Hardman & Co Research

With improved Economic Value earnings, we have increased our year-end Economic Value estimates. For 2025E, this is now £554.0m (from £546.1m) and the new 2026E is £577.8m.

We have adjusted our cashflow estimates. With no cash from acquisitions and a bounce back expected by Waard, as well as some benefits from the Netherlands merger, we have increased our forecasts meaningfully. Dividend cover remains comfortable.

Key balance sheet and cash generation

Year-end Dec (£m)	2021	2022	2023	2024	2025E	2026E
Borrowings	47.2	212.0	207.9	207.9	207.9	207.9
Economic Value	624.2	511.7	524.7	531.0	554.0	577.8
Economic Value/share (p)	416	340	349	352	367	382
Base cash generation						
UK	27.4	40.8	45.0	35.3	33.5	31.9
Movestic	-14.4	16.1	-7.0	8.2	7.8	8.2
Waard	2.9	8.4	15.3	1.4	4.2	4.4
Scildon	15.2	-3.4	-3.1	14.1	11.3	11.6
Group	-10.8	20.8	-17.6	-7.5	0.2	1.2
Total	20.3	82.7	32.6	51.5	57.0	57.3
Dividends paid	-33.3	-34.3	-35.4	-36.5	-37.7	-38.9
Dividend cash cover (x)	0.6x	2.4x	0.9x	1.4x	1.5x	1.5x

Source: Hardman & Co Research

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research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com