



To Nasdaq Copenhagen

Announcement no. 19 – 2017  
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## **Tryg acquires Alka Forsikring**

Tryg has agreed to acquire Alka Forsikring ('Alka'), the 8th largest Danish P&C insurance business. Alka offers a diversified portfolio of P&C insurance products. Alka has around 380,000 customers and gross premiums of DKK 2.5bn. Policy numbers of Alka have been growing at a CAGR of 5% over the past five years, resulting in consistent increases in market share over this period. Alka is an efficient and well-managed business, supporting a best-in-class combined ratio profile which averaged 84 in the last five years. Alka is owned by Danish unions, companies affiliated with the unions, Folksam and employees.

The combination will deepen Tryg's presence in the Danish non-life market, Tryg's core market segment. Alka represents a strong complementary proposition to Tryg. Tryg expects to build upon Alka's successful partnerships with unions, thereby offering significant opportunities to expand the business. Tryg will benefit from applying the market leading commercial practices of Alka across a range of areas, such as in online distribution and data analytics. Alka will benefit from Tryg's advanced capabilities in areas such as claims procurement and innovation in products and services.

### **Highlights of the transaction**

- Total consideration of DKK 8.2bn - excess capital amounts to DKK 2.5bn, resulting in a valuation for the operations of Alka of DKK 5.7bn
- Best-in-class financial profile with average combined ratio over last five years of 84
- Tryg has identified merger benefits in the combined entity of DKK 300m, to be delivered by 2021. Alka's technical result for the last 12 months (to Sept 2017) was DKK 325m
- Tryg will finance the transaction by issuing up to 10% of current shares outstanding in an equity placing through an accelerated bookbuilding and a Tier 1 issue of DKK 500m. TryghedsGruppen will subscribe for 60% of the placing at the bookbuild price – furthermore TryghedsGruppen has committed to underwrite all shares at DKK 146 per share. The extraordinary dividend of DKK 1bn announced at Tryg's CMD will not be affected
- Earnings to be enhanced in 2019, the first full year following acquisition, with high single digit earnings accretion by 2021
- Significant long term potential to increase ordinary dividends
- Transaction is expected to close during H1 2018, following a period of regulatory approval



### **Statement by Group CEO Morten Hübbe**

"We are very satisfied with the acquisition of Alka which will strengthen our position in Denmark. Alka has delivered a combination of strong financial results and high growth, driven by excellent customer satisfaction. Alka is at the forefront of digital distribution and making it simpler to be a customer. We look forward to further developing the already strong cooperation between Alka and the unions, building on Tryg's experience cooperating with unions. We also look forward to the Alka customers benefitting from TryghedsGruppen's member bonus, which has been 8% per annum in the last two years. We see attractive mutual merger benefits arising from the transaction."

### **Strategic rationale - the acquisition strengthens Tryg's position in Denmark**

- The acquisition of Alka complements and strengthens Tryg's position and distribution presence in the Danish private market, Tryg's core market segment. Tryg's market share in Denmark will be 22%, with Alka adding an estimated market share in private lines of 6%
- Alka represents a strong complementary market proposition, as demonstrated by Alka's consistent top ranking in terms of customer loyalty and satisfaction. Alka adds significant capabilities in the online channel, having developed a significant track record in distributing online, resulting in 36% of premiums sold via the digital channel. Tryg sees significant potential to capitalise on Alka's capabilities in online as it continues to develop its presence in this channel of growing importance. Furthermore, the awareness of the Alka brand is very high, suggesting potential to continue to expand the business into the future
- Tryg and Alka both have an established heritage in partnering with unions - the acquisition will provide the opportunity to increase sales across unions. Tryg expects to continue to enhance successful partnerships with unions, building on Tryg's experience of over 75 years in working with Danish unions. Alka's customers are eligible for TryghedsGruppen's members bonus, which has been 8% of premiums per annum over the past two years
- Alka has been highly successful in the use of data analytics. The combined entity will apply best practices in data analytics to pricing, lead generation and fraud detection

### **Merger benefits**

The acquisition of Alka provides Tryg with significant opportunities to accelerate the development of the combined business, primarily through sharing of best practices and capabilities across the combined entity. Key drivers of merger benefits relate to claims procurement, fraud detection, data analytics, online and product innovation. Other sources of merger benefits will be delivered through reinsurance, investments and IT. Reduction in overlapping labour costs will mostly be



delivered through natural attrition across the combined entity. Total merger benefits of DKK 300m per annum are expected to be achieved in 2021, with an estimated impact of DKK 75m in 2019 and DKK 150m in 2020. One-off transaction costs and a restructuring provision are expected in 2018, resulting in a total charge of DKK 250m.

### **Financing and capital**

In order to finance the transaction, Tryg will issue up to 10% of current shares outstanding in a fully underwritten equity placing through an accelerated bookbuilding, raising approximately DKK 4bn. TryghedsGruppen will subscribe pro-rata for 60% of the shares at the bookbuild price – furthermore TryghedsGruppen has committed to underwrite all shares at DKK 146 per share. Tryg will also undertake a Tier 1 issue of approximately DKK 500m in 2018. Alka's substantial excess capital and other capital optimisation measures will represent the residual financing sources. The pro forma Q3 2017 solvency II ratio including the impact from the transaction and the extraordinary dividend announced at Tryg's CMD stands at 170.

### **Timing of expected closing of the transaction**

The acquisition of Alka is expected to be closed before the end of H1 2018 and is conditional upon standard regulatory approvals.

### **Conference call**

Tryg is hosting a conference call today at 08:30 CET with CEO Morten Hübbe and CFO Christian Baltzer, including time to discuss Q&As. The conference call will be held in English. An on-demand version will be available shortly after the conference call has ended.

Conference call details:

Danish participants: +45 35 44 55 83

UK participants: +44 (0) 203 194 0544

US participants: +1 855 269 2604

Presentation can be downloaded on [tryg.com/dk/Investor/Downloads](http://tryg.com/dk/Investor/Downloads).

The content of this announcement will have no impact on the previously announced outlook for Tryg for 2017 as reported in the Interim report Q1-Q3 2017, dated 10 October 2017.

### **Contact information**

- Gianandrea Roberti, Investor Relations Officer +45 20 18 82 67 [gianandrea.roberti@tryg.dk](mailto:gianandrea.roberti@tryg.dk)
- Peter Brondt, Investor Relations Manager +45 22 75 89 04 [peter.brondt@tryg.dk](mailto:peter.brondt@tryg.dk)
- Tanja Frederiksen, Head of Communications +45 51 95 77 78 [tanja.frederiksen@tryg.dk](mailto:tanja.frederiksen@tryg.dk)

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## Advisors

PJT Partners (UK) Limited acted as lead financial advisor to Tryg in relation to this transaction. PJT Partners (UK) Limited, which is authorised and regulated by the Financial Conduct Authority is acting for Tryg and no one else in connection with the matters described herein and will not be responsible to anyone other than Tryg for providing the protections afforded to clients of PJT Partners (UK) Limited, or for giving advice in connection with the matters described herein. Nordea acted as financial advisor to Tryg in relation to this transaction. Accura acted as legal advisor to Tryg.

## About Alka

Alka, headquartered in Høje Taastrup, was founded in 1903. Alka is the 8th largest Danish non-life insurance company with a market share of 4.3% - Alka has an estimated market share in private lines of 6%. Alka is a very profitable and well-managed insurance business with a well-regarded and innovative management team. Alka offers a diversified portfolio of P&C insurance products. Alka has delivered a CAGR of 5% of policies over the last five years – this growth has supported an increase in Alka’s market share from 3.6% in 2010 to 4.3% in 2015. Alka has consistently reported a highly attractive combined ratio (84 average in the last five years). The business has an advanced digital platform, with 36% of premiums distributed online. The Alka brand is well recognised across the market, supported by high-profile sponsorships. Alka’s shareholders are Danish unions, companies affiliated with the unions, Folksam and employees of Alka.

## Financial information for Alka

DKKm	2012	2013	2014	2015	2016	9M 2017
<u>Non-life</u>						
Gross premiums	1,854	1,938	2,006	2,035	2,078	1,624
Technical result	363	368	335	357	191	288
Expense ratio	16%	15%	16%	18%	18%	16%
Combined ratio	81%	82%	84%	83%	91%	82%
Life technical result	12	5	-3	-5	-2	0
Investment income	174	88	76	98	120	124
Profit before tax	550	461	408	454	295	412
Net profit	402	343	307	344	235	319
Shareholders’ equity	1,912	2,195	2,450	2,630	2,696	2,958
Invested assets	4,597	4,592	4,991	5,361	5,146	5,446
Solvency ratio	n.a.	n.a.	n.a.	362%	364%	360%

For additional information about Alka, please consult the company’s homepage at [www.alka.dk](http://www.alka.dk)



## **About Tryg**

Tryg is one of the largest non-life insurance companies in the Nordic region with activities in Denmark, Norway and Sweden. Tryg provides peace of mind and value for 3 million customers on a daily basis. Tryg is listed on Nasdaq Copenhagen - 60% of the shares are held by TryghedsGruppen smba. TryghedsGruppen, annually, contributes around DKK 600m to peace of mind purposes via TrygFonden. Tryg's Danish customers are eligible for a bonus payment from TryghedsGruppen, which has been 8% of premiums over the past two years.