

SAMPO GROUP'S RECOMMENDED CASH ACQUISITION OF A MAJORITY STAKE IN HASTINGS GROUP HOLDINGS PLC

Stock Exchange Release - 5 Aug 2020 at 9:14 AM

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF SUCH JURISDICTION.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION.

Sampo Group's recommended cash acquisition of a majority stake in Hastings Group Holdings Plc

Following the announcement of Sampo and Rand Merchant Investment Holdings Limited's (RMI) potential interest in UK Property & Casualty (P&C) insurance company Hastings Group Holdings Plc (Hastings), Sampo and RMI have today announced a recommended cash offer to acquire all issued and to be issued shares in Hastings not currently owned or controlled by Sampo and RMI.

The offer price is GBp 250 for each Hastings share, valuing Hastings' entire issued and to be issued share capital at approximately GBP 1.66 billion or approximately EUR 1.84 billion.

The offer price represents a premium of approximately 37.5 per cent to the volume-weighted average price of GBp 182 per Hastings Share for the three-month period ended 28 July 2020 (being the last Business Day before Hastings announced it had received an approach that may or may not lead to an offer).

Sampo and RMI have entered into a newly-formed jointly owned company for the purposes of acquiring Hastings. Following completion of the offer, Sampo and RMI will own and control 70 per cent and 30 per cent of the shares and votes in the jointly owned company, respectively. RMI is a South African financial services investment holding company that is a 29.7 per cent shareholder in Hastings having acquired the stake in 2017 for GBp 248 per share.

The size of Sampo's investment, based on its 70 per cent stake, would be GBP 1.16 billion or EUR 1.29 billion valued at the offer price.

Sampo expects to fund its part of the acquisition with approximately EUR 1 billion of newly issued hybrid Tier 2 capital with the residual coming from existing cash resources.

Strategic rationale for acquisition

Sampo has a strategic ambition to expand further into non-life insurance, a segment where it has extensive experience and expertise. As part of this strategy, and in the context of its leading market positions in the Nordic markets, Sampo has been considering a geographic expansion beyond its current footprint. Sampo believes that the UK, as one of the largest retail P&C markets in Europe, offers an attractive scale opportunity.

In this context, the acquisition of Hastings represents an attractive opportunity for Sampo to advance its strategy and accelerate its repositioning towards retail P&C insurance. Hastings is a leading motor insurer in the UK and has recently been diversifying into other non-life insurance products including home insurance. Both motor and home insurance represent large markets in the UK with growth potential for the Hastings business.

The acquisition of Hastings provides an attractively positioned platform in one of the most digitally advanced markets globally. The UK is characterized by its high levels of digital distribution and Hastings is one of the leading distributors of motor insurance policies in this market. Sampo believes that, under its ownership together with that of RMI, Hastings will be able to further develop its agile and digital business model to create long-term value.

RMI has a similar investment philosophy to Sampo, with a long-term horizon and a focus on building enduring value over many and differing market cycles. Given the significant retail P&C insurance experience and expertise of Sampo, through its subsidiaries If P&C Insurance and Topdanmark, and RMI, through its ownership of OUTsurance and existing shareholding in Hastings, the intention is to combine this knowledge to drive the strategic direction of Hastings. RMI brings institutional knowledge in Hastings and the UK P&C market to the jointly owned company.

Sampo and RMI intend for Hastings to continue to be operated on a standalone but unlisted basis. Sampo believes that a private partnership with RMI provides an optimal structure for Hastings to fulfil its potential and build long-term value for its stakeholders. As a private company, Sampo believes Hastings will benefit from a more long-term approach to decision making.

Sampo and RMI believe with their experience and under private ownership there are a number of areas of Hastings' operations that can be improved, including claims handling sophistication, expansion into home insurance, customer retention and reinsurance strategy.

Financial impact of an acquisition on Sampo Group

The Sampo Board expects the acquisition of Hastings to be accretive to earnings per share and RoE from the first full year following completion. Sampo estimates the transaction will have a positive impact on earnings per share in the mid-single digits (%). Meanwhile, it is expected that Sampo's solvency position will remain robust at approximately 175 per cent (post planned issuance of approximately EUR 1 billion of hybrid Tier 2 capital to part finance the transaction).

Sampo does not believe that the transaction will lead to a change in the Group's credit ratings subject to the planned financing structure. The Sampo Board do not expect the acquisition to impact the Sampo's dividend policy in the short-term but is expected to enhance the dividend potential in the long-term.

General information about Hastings

Founded in 1996, Hastings is one of the leading property and casualty insurance (P&C) providers to the UK market, with approximately 3 million live customer policies and employing over 3,500 colleagues at sites in Bexhill, Leicester, Gibraltar and London. Hastings provides straightforward products and services to UK car, bike, van and home insurance customers with around 90 per cent of policies directly underwritten by Hastings' Gibraltar-based underwriting business, Advantage Insurance Company Limited (Advantage).

Hastings operates as an insurance provider with two separate businesses. Hastings' retail business, Hastings Insurance Services Limited, is responsible for product design, pricing, fraud management, distribution and management of the underlying customer relationships. Hastings' underwriting business, Advantage Insurance Company Limited, undertakes risk selection, underlying technical pricing, reserving and claims handling.

For the six months ending 30 June 2020, Hastings reported gross written premiums of GBP 515 million, with underlying average premiums up 3 per cent. Hastings reported underlying profit after taxes of GBP 56 million.

For the year ending 31 December 2019, Hastings reported gross written premiums of GBP 962 million, with underlying average premiums up 5 per cent on the same period in 2018. Hastings reported underlying profit after taxes of GBP 72 million.

Hastings Key Financials

GBP million unless otherwise stated	2015	2016	2017	2018	2019	H1 20
Gross written premiums	615	769	931	958	962	515
Net revenue	481	597	716	756	741	393
Adjusted operating profit	126	152	184	191	110	78
Underlying profit after taxes	76	115	145	149	72	56
EPS (GBP)	0.5	11.9	19.2	19.8	10.6	8.4
Loss ratio (%)	75.4	77.7	73.0	75.0	82.6	75.6
Expense ratio (%)	15.9	13.6	14.0	14.4	15.5	16.6
Combined ratio (%)	91.3	91.3	87.0	89.4	98.0	92.2
Advantage Solvency II ratio (%) (post dividend)	156	140	167	161	151	151
Live customer policies (million)	2.04	2.35	2.64	2.71	2.85	2.96

General information about RMI and the shareholders agreement

RMI is a South African financial services investment holding company founded in 1977 and listed on the Johannesburg Stock Exchange with a market capitalization of ZAR 48.4 billion or EUR 2.4 billion on 4 August 2020.

RMI aims to be a value-adding, active enabler of leadership and innovation in financial services and currently holds an investment portfolio including its existing investment in Hastings and investments in some of South Africa's premier insurance brands and in next-generation financial services and asset management companies. RMI has been the largest shareholder in Hastings since 2017.

Sampo and RMI have entered into a long-term partnership in relation to Hastings. The governance of the jointly owned company reflects the relative shareholdings of Sampo and RMI, recognizing Sampo's controlling position, but protecting RMI's interest with customary minority protections. The shareholder agreement includes customary exit arrangements for agreements of this type.

Hastings Board recommendation and transaction structure

The independent directors of Hastings intend to recommend unanimously that Hastings' shareholders approve the offer and have entered into irrevocable undertakings to do so in an amount of 0.33 per cent of Hastings' issued share capital.

It is intended that the offer will be implemented by way of a court-sanctioned scheme of arrangement under English law. The scheme document is expected to be posted to Hastings' shareholders within 28 days after the 2.7 announcement and Hastings' shareholder meetings to approve the scheme will take place no earlier than 21 days after posting of the scheme document. It is expected that Hastings' shareholder meeting to approve the scheme will take place before the end of September 2020. Sampo and RMI expect all other conditions and regulatory approvals to be satisfied, and the scheme to become effective, by year-end.

More information on the offer at www.sampo.com/offer and www.hastingsplc.com.

J.P. Morgan Securities Plc is acting as Financial Adviser to Sampo and RMI in connection with the offer.

Allen & Overy LLP is acting as legal adviser to Sampo and RMI in connection with the offer.

J.P. Morgan Securities Plc and Nordea Bank Abp will serve as joint lead managers for Sampo's hybrid T2 bond issue.

SAMPO PLC
Investor Relations and Group Communications

Further information:

Ricard Wennerklint
Chief of Strategy
Tel: +46 8 792 8022

Jarmo Salonen
Head of Investor Relations and Group Communications
Tel: +358 10 516 0030

Maria Silander
Communications Manager, Media Relations
Tel: +358 10 516 0031

J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove (J.P. Morgan Cazenove), is authorised in the UK by the Prudential Regulation Authority and regulated in the UK by the Prudential Regulation Authority and the FCA. J.P. Morgan Cazenove is acting as financial adviser exclusively for Sampo and RMI and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters in this announcement and will not be responsible to anyone other than Sampo and RMI for providing the protections afforded to clients of J.P. Morgan Cazenove, or for providing advice in relation to any matter referred to herein.

Distribution:

Nasdaq Helsinki
London Stock Exchange
The principal media
Financial Supervisory Authority
www.sampo.com