2020 Half-year results presentation

28 July 2020

Presenters and Q&A

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Q&A

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Today's agenda

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1. **2020 – H1 Highlights**
   Geoff Carter
2. **Financial results**
   Adam Westwood
3. **Market context / COVID-19 impacts**
   Geoff Carter
4. **Sabre's strategic approach – a reminder**
   Geoff Carter
5. **Summary and outlook**
   Geoff Carter
6. **Q&A**
   All

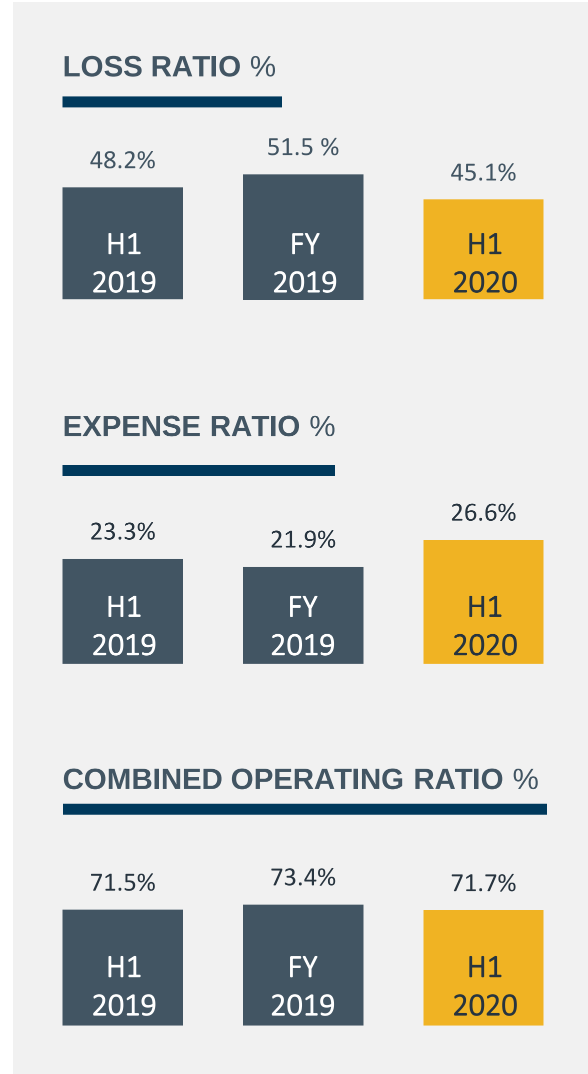
2020 - H1 Highlights

Geoff Carter

Financial highlights

Continued absolute focus on profitability delivering encouraging results as we begin to exit from lockdown

- Leading underwriting performance, strong profitability, organic capital generation
- Weekly premium levels on rollercoaster during H1 2020. 40% down vs 2019 on a weekly basis at points during April
- June month premium = +12% on 2019. July likely to be similar increase
- Data driven, temporary price reductions to reflect lower claims costs
- Tight focus on covering on-going significant claims and other industry cost inflation within this pricing approach
- Total interim dividend of 9.5p. 4.3p in-line with normal interim dividend policy and 5.2p representing a partial return of excess capital
- SCR coverage of 218% pre-dividend, 178% post-dividend



Operational highlights

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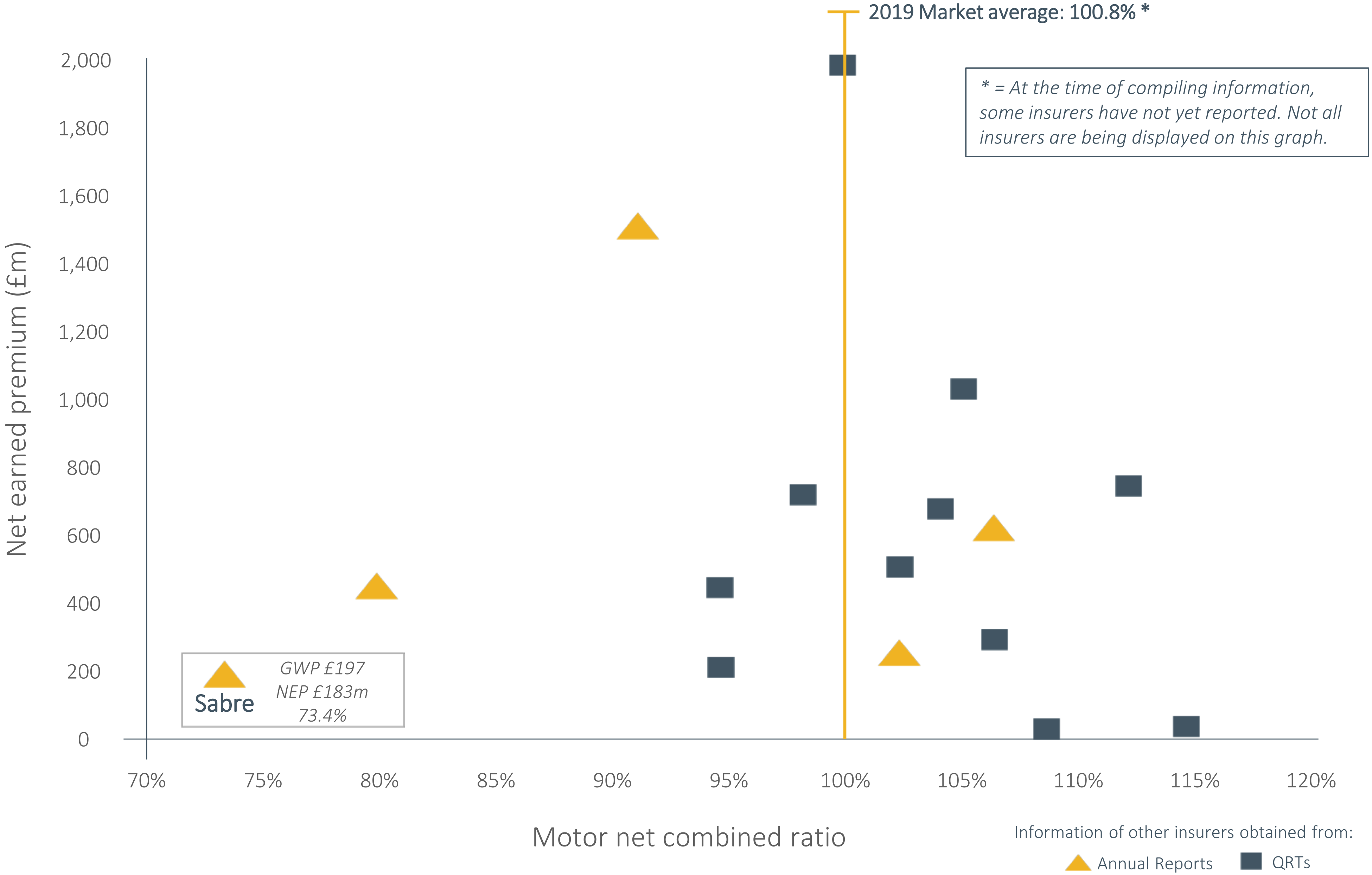
Current focus

- Continue to support customers as lockdown eases – charge the correct price and assist direct customers on payment issues
- Unwinding temporary price discounts in line with increase in traffic and claims volumes
- Continue to cover underlying claims and cost inflation
- Optimising profit within our 70% to 80% COR range
- Maintaining a conservative approach to assumption setting to ensure we end up on the right side of pricing impacts
- Optimise benefits from new rating factors rolled out in H1
- Plan for staggered return of all employees to the office as lockdown restrictions are eased
- Optimise opportunities from new Saga relationship and increase broker panel participation
- Ensuring we are prepared for potential local lockdowns or second national lockdown

Best in class combined ratio



Financial results

Results summary

HY 2020 financial performance

	H1 2020	H1 2019	FY 2019
Gross written premium	**£86.9m**	£101.2m	£197.0m
Net earned premium	**£84.7m**	£91.6n	£183.2m
Combined ratio	**71.7%**	71.5%	73.4%
Investment return	**£0.8m**	£1.7m	£2.4m
Adjusted profit before tax	**£27.8m**	£30.5m	£56.5m
Adjusted profit after tax	**£22.5m**	£24.7m	£45.7m
Profit after tax	**£22.5m**	£24.7m	£45.7m
Basic (annualised) EPS	**9.0p**	8.9p	18.4p
Interim distribution per share	**9.5p**	4.7p	4.7p
Solvency coverage ratio	**218%**	200%	214%
Post-dividend	**178%**	181%	180%
ROTE	**39.9%**	44.1%	41.6%

— Premium income down 14.1% against the same period in 2019, while we continue to adjust prices to reflect the cost of claims

— Combined ratio impacted by continued claims severity inflation, offset by low frequency

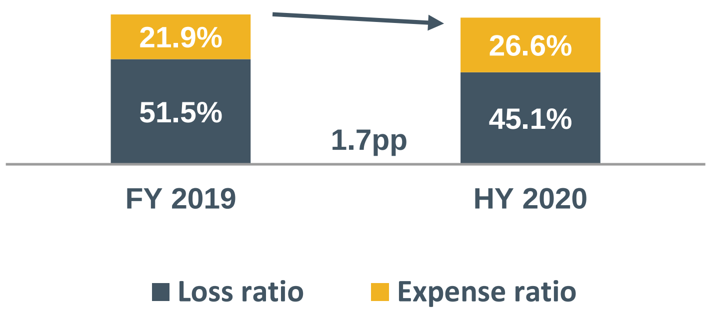
— We adjusted prices to reflect lower frequency, so business written during Q2 2020 will not necessarily over-perform

— Investment return in 2020 no longer impacted by market-value movements due to classification at fair value through OCI. Portfolio remains low-risk and primarily gilt-based, now with some corporate exposure

— Ordinary interim dividend of 4.3p plus previously deferred 5.2p special dividend in respect of 2019

Leading underwriting performance

Combined ratio evolution

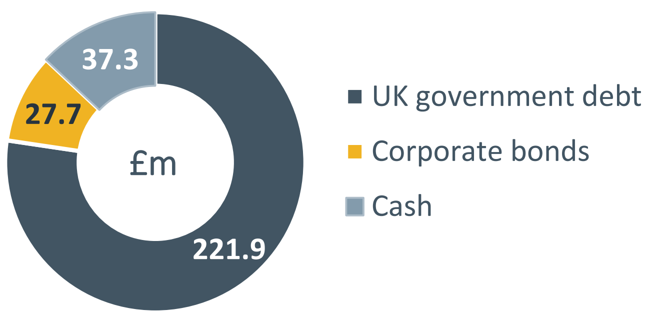


Loss ratio breakdown

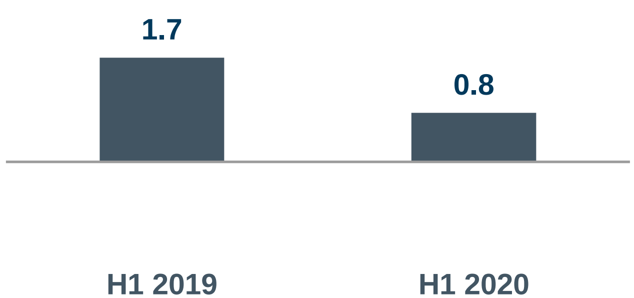
- Financial year combined ratio below long-run mid-70%’s target, driven by a strong loss ratio
- Current accident-year loss ratio represents claims incurred in the accident year to date and has benefitted from lower claims frequency during Q2 2020. At H1 2019, current-year net loss ratio was 64.3%
- Prior-year reserve movement continues to represent run-off of margins, but with fewer exceptional releases. Prior-year releases weighted towards H1
- No changes to reserving methodology
- Expense ratio benefited from a c.£3.3m one-off accrual release in 2019 (1.9% benefit to expense ratio). Underlying ratio up on 2019 primarily due to increase in levies and slight increase in fixed cost base against a reduction in top-line

Conservative approach to risk

Investment portfolio breakdown



Investment return evolution (£m)

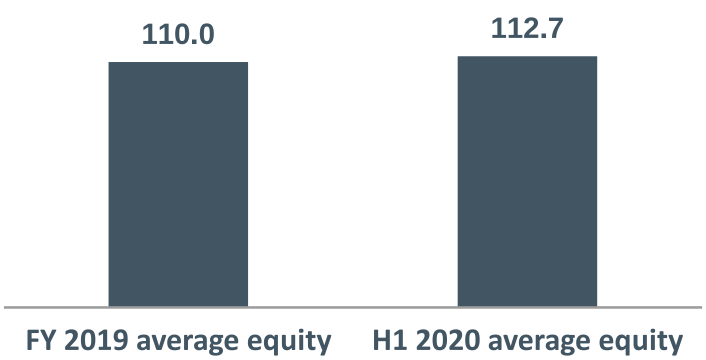


- Investments continue to be held in mainly UK government bonds, in-line with our conservative approach to risk, with new corporate bond element
- H1 2020 investment return represents effective interest on investment portfolio and excludes fair value movements
- All corporate bonds investment grade, low capital impact
- Engaged Goldman Sachs Asset Management in early 2020 to improve yield while maintaining a very low-risk portfolio
- Minimal expected impact of revised investment approach in the short-term

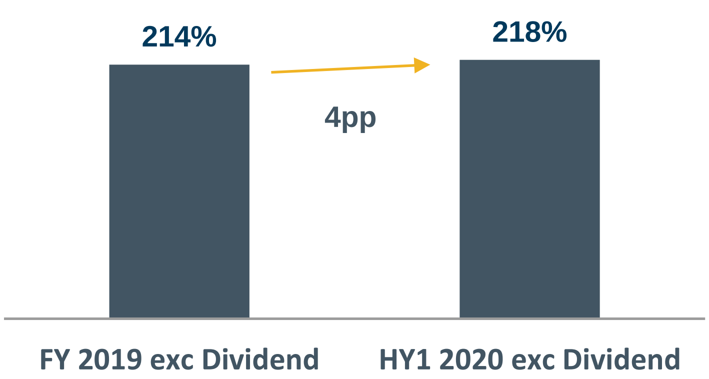
Attractive capital generation

Return on Tangible Equity

39.9% Return on tangible equity



Solvency coverage ratio



- We continue to benefit from strong profitability and an efficient capital model
- Strong capital generation led to a period-end solvency ratio of 218%
- Dividend policy is to pay an interim dividend equal to one third of the prior-year's ordinary dividend
- Post dividend capital ratio of 178%, leaving sufficient capital to minimise constraints on growth and protect against adverse shocks to the business

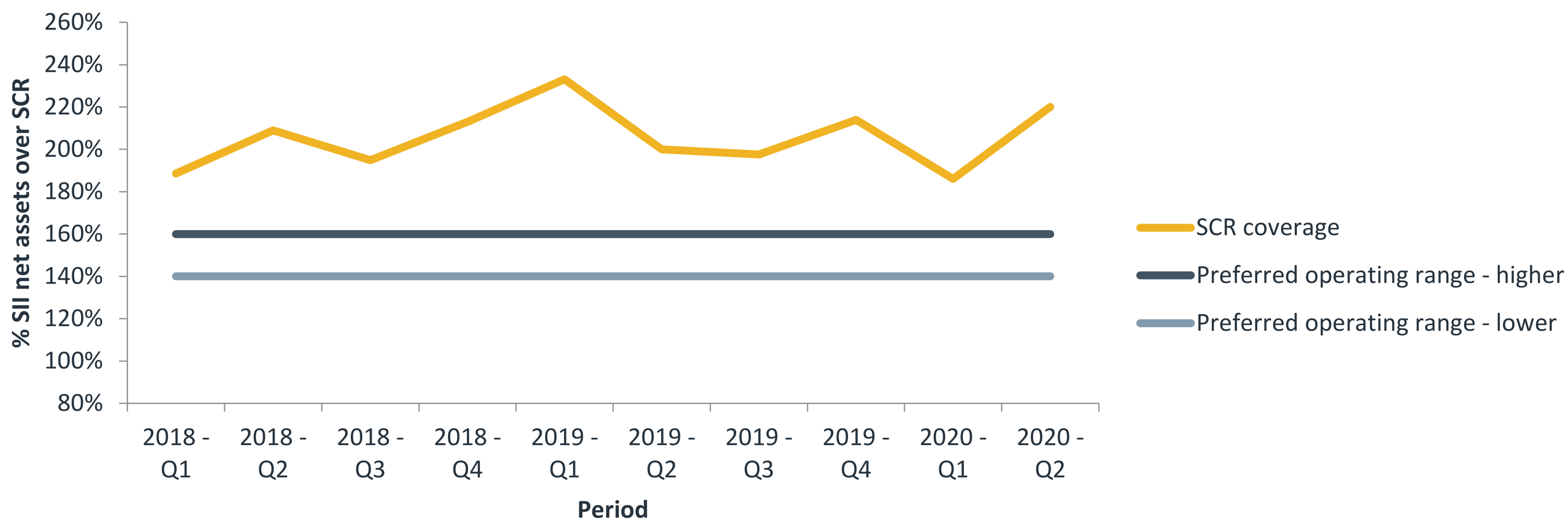
Interim distribution consists of an ordinary dividend in respect of 2020 of 4.3p per share plus payment of the deferred 2019 special dividend of 5.2p per share

Full interim distribution of 9.5p per share

Approach to capital management

Our approach	— Prudent approach to regulatory capital with a minimum SCR of 140% — Focus on underwriting discipline generating organic capital - target long term COR of mid-70%'s
Continued investment	— Continued investment in business to enhance product capabilities and maintain operational efficiencies
Capital distribution	— Ordinary dividend pay out ratio of 70% — At year-end, consider distribution of surplus capital beyond top of SCR range of 160% — Target range of 140% - 160% enables more stable returns of capital to investors by supporting dividends during cycle downturns or periods of rapid growth

Solvency II Capital Over Time



Market context

Sabre's view of claims inflation

- No change in our view of underlying claims and cost inflation
- Likely to be camouflaged in 2020 due to COVID-19 related reduction in claims
- Likely that mix of business underwritten will see competitors in a range around this

Overall inflation 7.5% - 8.5%

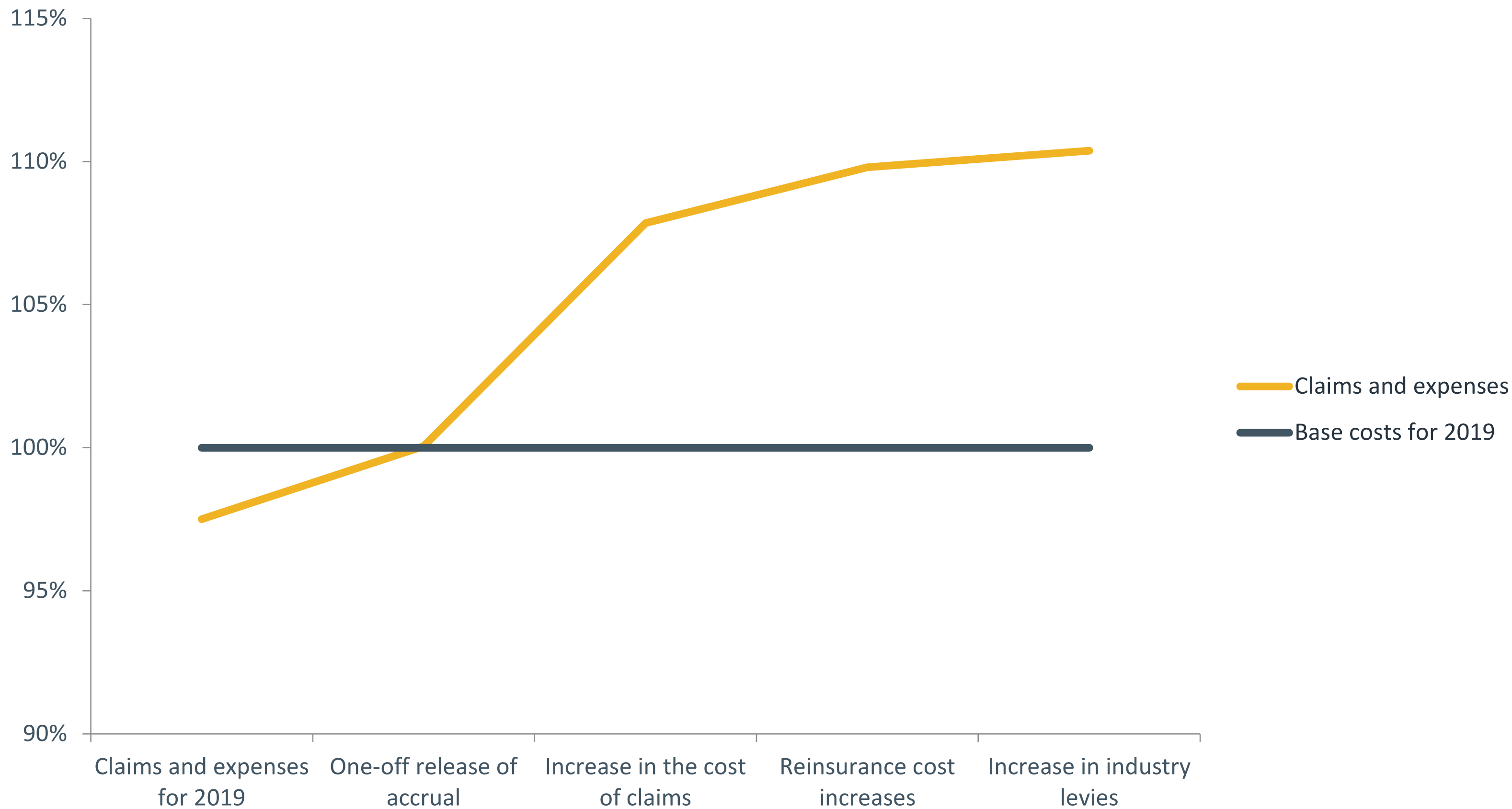
First & Third Party Damage severity inflation circa 12%

55:45 ratio of Damage:Injury

PI frequency flat, severity

circa 4% inflation

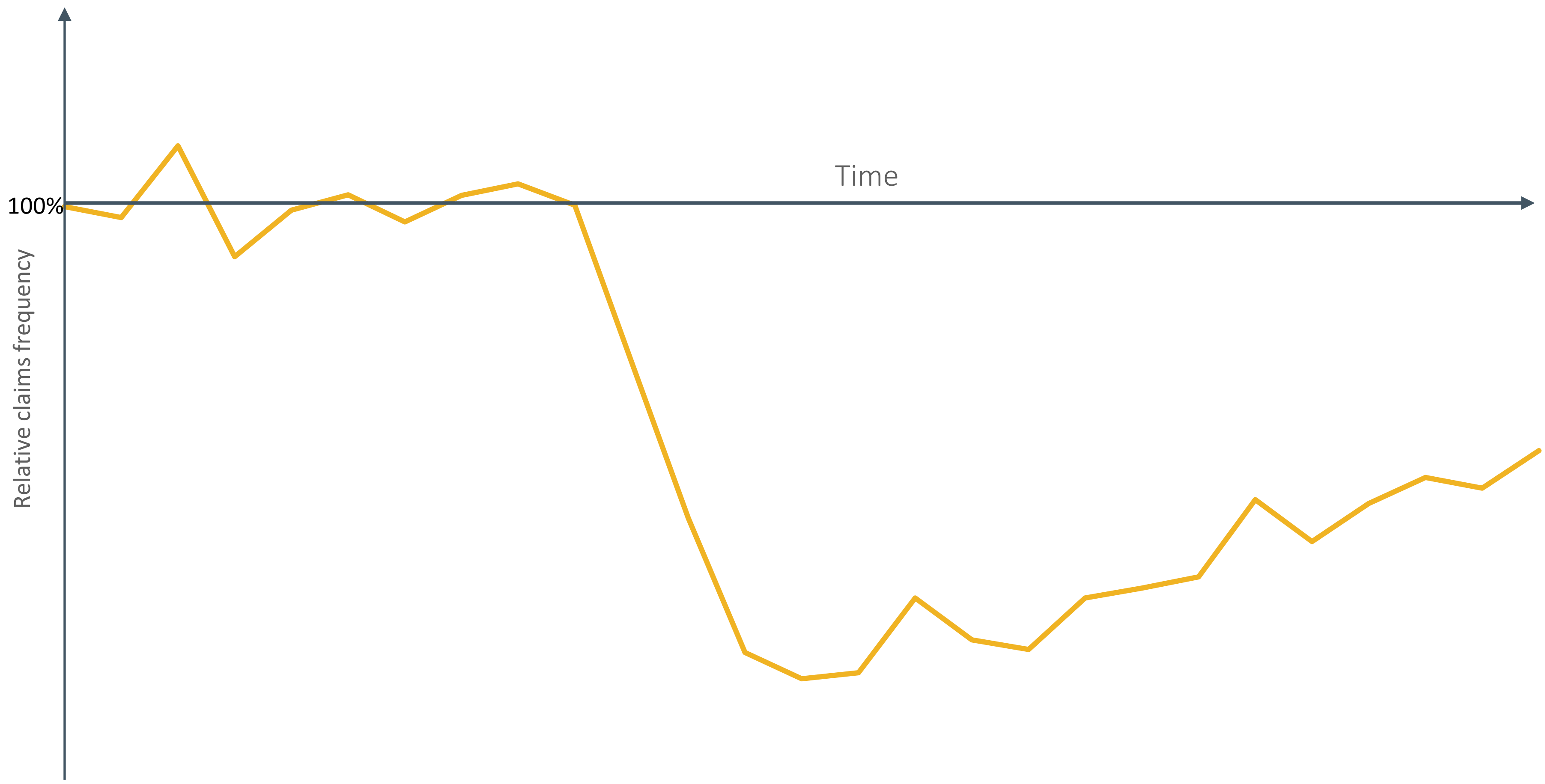
Overall cost inflation – No change in view



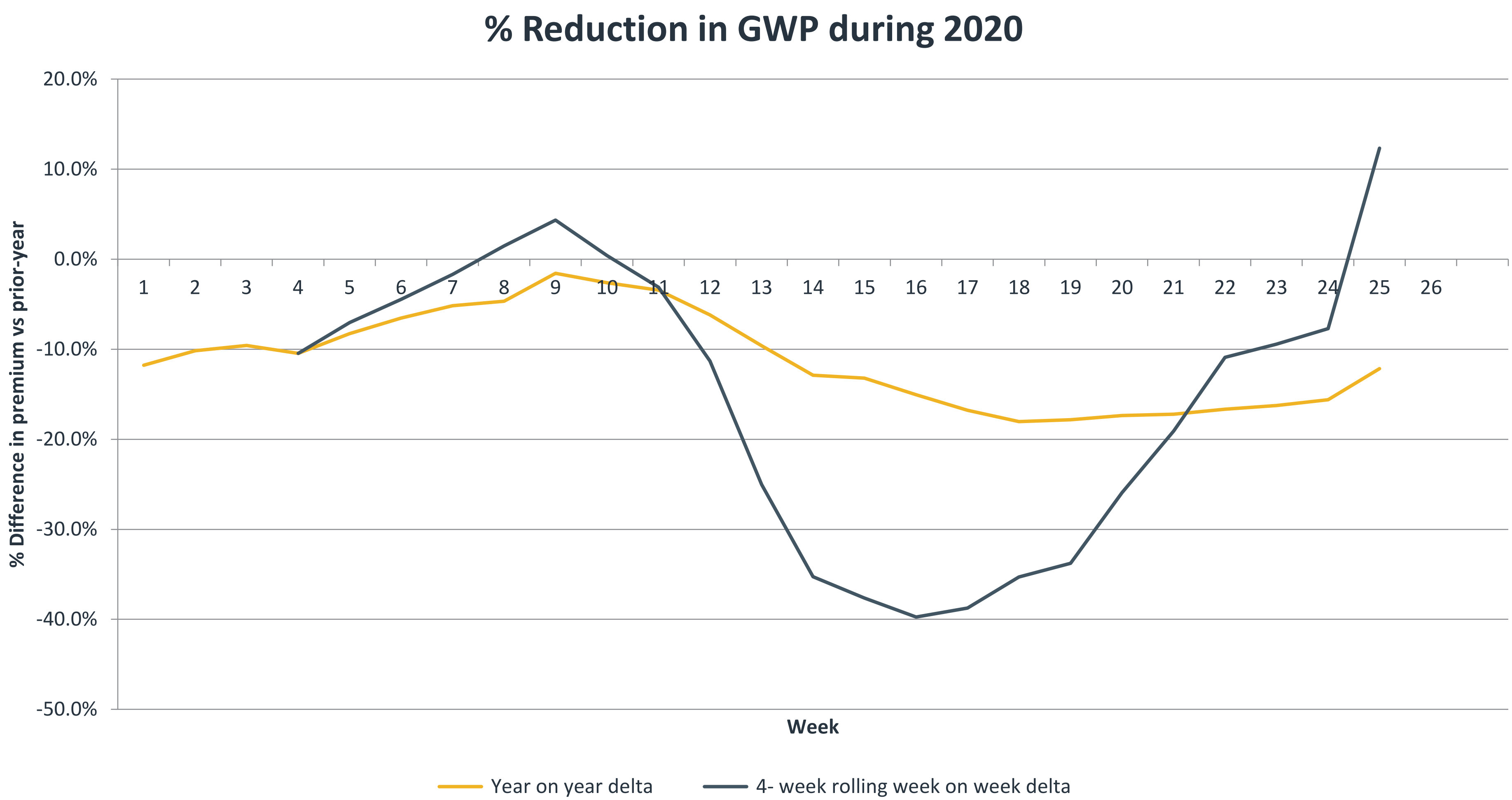
We intend to cover potential cost increases of over 10% with price changes with volume remaining an output, not a target

Sabre claims volumes in recent months

Number of non- windscreen claims indexed to 2019 average, adjusted for exposure



Premium impact on Sabre



Possible future premium inflation factors

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These issues have not gone away

Possible premium inflation factors

- Continued claims inflation ↑
- Competitor margin squeeze ↑
- Whiplash reforms impact ↔
- Lawyer legal reforms response ↑
- FCA pricing review ↑
- MIB levy increase ↑
- Reinsurance cost increase ↑

Possible premium deflation factors

- Modest (at best) Whiplash reforms

Now delayed to April 2021

Sabre Strategy

- Continue to price in 70% - 80% range optimising long term profit.
- Changes reflected as they emerge and avoiding speculation

Impact of Sabre's prudent views

Possible outcomes

Sabre's current cautious approach is correct

- Claims and other cost inflation leads to market margin compression
- This leads to material price increases
- Sabre has already taken significant pricing action, and will therefore be able to grow margins or volume

Sabre's current view is too cautious

- Data will demonstrate too much prudence in pricing assumptions, allowing prices to be reduced fuelling growth

- Timing on either scenario is difficult to assess and a range of GWP outcomes therefore remain possible
- Sabre will continue to maintain a cautious stance and only return to GWP growth at the appropriate time

June 2020 view

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Possible cost inflation factors

- Parts availability and cost ✗
- Bodyshop capacity - during and post social distancing ✗
- Increase in miles driven post social distancing ?
- Inability to purchase replacement cars increases mobility costs ✗
- Increase in theft / vandalism claims ✗
- Financial stress increases propensity for fraud ?
- Increased loss of earning claims ?
- Poor behaviour from claims management firms ?

Possible cost reduction factors

- Short term reduction in claims frequency ✓

✓ = Appears to have happened

✗ = Appears to not have happened

? = Remains uncertain

Sabre Strategy

- These are SHORT-TERM impacts, not factors that influence our view of claims inflation

New COVID-19 considerations

Possible Issues

Concerns....	could be offset by...
— Traffic/Claims volumes increase more than assumed — Different claims patterns and costs — Market fails to raise prices in line with increasing exposure — Customer impacts as furlough schemes wind down	— Reduced traffic volumes sustain longer than assumed — Transition away from public transport brings new car owners into the market — Competitors need to sharply reverse irrational discounts

Sabre will continue to maintain a cautious stance and focus on profitability over volume

COVID-19 related claims factors

- Variations emerging across geographic regions – driven by car use patterns and different national approaches to lockdown?
- Increase in proportion of accidents involving cyclists
- Some pent up demand being released – e.g. unsubmitted glass claims
- Some evidence of expensive credit hire claims as vehicles are released from body shops
- Increases in claims costs to reflect need to sanitise vehicles
- Likely pressure on rates in body shops as they seek to recover lost income
- Possible increase in nursing / care costs

Other Non-COVID-19 factors

Need to continue to ensure a tight focus on underlying claims / cost inflation drivers

Impact of Whiplash reforms and competitors utilising optimistic assumption in pricing

Impacts from a potentially disorderly Brexit – although we do not anticipate material impacts

Other regulatory issues - including FCA pricing review

Sabre’s strategic approach – summary

Strategy and key business principles

Maintain wide underwriting footprint

Continue to develop defensive non-standard positioning

Market leading underwriting performance

Mid-70%'s

LONG-TERM COMBINED RATIO TARGET
70% - 80% RANGE

Strong returns and cash generation

70%

BASE DIVIDEND PAYOUT

140% - 160%

TARGET SOLVENCY RATIO

Return excess capital to shareholders

Controlled and attractive growth across the cycle

Premium growth across the cycle

Pricing approach

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In 2020 will seek to move towards the “bullseye” ahead of volume growth

2019 written position in soft market

70% low-end where growth outstrips operational capacity

75% “Bullseye” in stable market conditions

80% COR Ceiling

- At any point in time we seek to optimise long term profit by balancing volume / margin within this corridor
- Dependent on point in the underwriting cycle, greater margins more profitable than an increase in volume

Summary and outlook

Geoff Carter

Summary

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We remain focused on our long-term and well established strategy; prioritising underwriting profitability over premium volume and centred on a 70% - 80% COR range and mid-70%'s long-term target

Market conditions have improved significantly since our AGM trading statement

We are comfortable with our rating on new/renewal business and current volumes and believe prices are comfortably positioned in our COR target corridor

We will maintain cautious assumptions as COVID-19 impacts unwind

Reduced uncertainty allows us to return an element of excess capital at this point in addition to the ordinary interim dividend

Outlook

Premium outturn for the year uncertain – likely to be in a range of 0% to minus 15%

COR expected to be within our target 70% - 80% corridor, close to our long-term mid-70%'s target

Continued strong organic capital generation will support an attractive dividend

Q&A

Geoff Carter
Adam Westwood
Trevor Webb
James Ockenden

Appendices

Reconciliation to KPIs

Adjusted Profit Before Tax

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Profit before tax	**27,750**	30,472	56,479
Add:			
Amortisation of Intangible assets	-	-	-
Exceptional items	-	-	-
Adjusted profit before tax	**27,750**	30,472	56,479

Adjusted Profit After Tax

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Profit after tax	**22,495**	24,663	45,711
Add:			
Amortisation of Intangible assets	-	-	-
Exceptional items	-	-	-
Tax on exceptional items	-	-	-
Adjusted profit after tax	**22,495**	24,663	45,711

Reconciliation to KPIs

Net Loss Ratio

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Net insurance claims	42,122	47,743	101,990
Less: Claims handling expenses	(3,977)	(3,592)	(7,558)
Net claims incurred	38,145	44,151	94,432
Net earned premium	84,672	91,618	183,238
Net loss ratio	45.1%	48.2%	51.5%

Expense Ratio

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Total expenses	18,606	17,804	32,507
Plus: Claims handling expenses	3,977	3,592	7,558
Net operating expenses	22,583	21,396	40,065
Net earned premium	84,672	91,618	183,238
Expense ratio	26.6%	23.4%	21.9%

Combined Operating Ratio

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Total expenses	18,606	17,804	32,507
Net insurance claims	42,122	47,743	101,990
	60,728	65,547	134,497
Net earned premium	84,672	91,618	183,238
Combined operating ratio	71.7%	71.5%	73.4%

Reconciliation to KPIs

Solvency Coverage Ratio – Pre Dividend

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Solvency II net assets	**127,859**	119,813	127,086
Solvency capital requirement	**58,624**	59,839	59,495
Solvency coverage ratio	**218.1%**	200.2%	213.6%

Solvency Coverage Ratio – Post Dividend

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Solvency II net assets	**127,859**	119,813	127,086
Less: Dividend declared	**(23,750)**	(11,750)	(20,250)
Solvency II net assets (post dividend)	**104,109**	108,063	106,836
Solvency capital requirement	**58,624**	59,839	59,495
Solvency coverage ration – post dividend	**177.6%**	180.6%	179.6%

Reconciliation to KPIs

Return on Tangible Equity

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
IFRS net assets at period end	271,770	258,187	267,417
Less:			
Intangible assets at period end	-	-	-
Goodwill at period end	(156,279)	(156,279)	(156,279)
Closing tangible equity	115,491	101,908	111,138
Annualised closing tangible equity *	114,236	114,821	111,138
Opening tangible equity	111,138	108,869	108,869
Average tangible equity	112,687	111,845	110,004
Annualised adjusted profit after tax **	44,990	49,326	45,711
Annualised return on tangible equity **	39.9%	44.1%	41.6%

Return on Opening SCR

	30 June 2020 £'k	30 June 2019 £'k	31 December 2019 £'k
Opening SCR	59,495	60,995	60,995
Annualised adjusted profit after tax	44,990	49,326	45,711
Return on SCR	75.6%	80.9%	74.9%

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