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Tower to acquire Youi NZ insurance portfolio and raise capital

Acquisition of Youi NZ portfolio

Tower Limited today announced that Tower Insurance Limited has signed a Portfolio Transfer Agreement for the purchase of Youi NZ Pty Ltd's insurance portfolio, subject to regulatory approvals.

Under this agreement, Tower Insurance will acquire Youi NZ's approximately 34,000 in-force policies for a total purchase price of NZ$13 million, with Tower policy renewals to be offered as current Youi NZ policies expire.

The purchase price of $13 million represents an 8% increase on Tower's current NZ GWP.

Tower CEO, Richard Harding, says this acquisition will further accelerate the company's growth ambitions and drive shareholder value.

"The purchase of Youi's portfolio will assist us to accelerate our growth and we are now firmly positioned as a challenger brand focused on delivering good customer outcomes and value for our shareholders.

"Together with the successful implementation of the IT simplification programme currently underway, this investment will deliver growth, build scale and leverage the investment in IT," said Harding.

The agreement is subject to conditions, including approvals from the Reserve Bank of New Zealand, which are being sought to ensure completion before the end of 2019.

Tower notes that if the purchase proceeds, Youi customers will remain covered under their existing terms for the remainder of their contract. Youi customers will then receive the benefits of Tower Insurance's award-winning, plain English policies, commitment to trust-both-ways and its risk-based approach to pricing.

Changing capital requirements and capital raise

Tower Insurance has consulted with RBNZ throughout to understand likely capital requirements to support the acquisition and on-going business of Youi NZ

Dialogue with RBNZ also included discussion of Tower Insurance's existing solvency capital, with particular focus on Tower Insurance's EQC receivable, which currently forms part of Tower Insurance's solvency capital

Tower Insurance's intention is to pursue the collection of the EQC receivable to the maximum extent possible.

Tower CEO, Richard Harding, says that given the status of discussions and the nature of the EQC receivable, it is likely that the dispute will proceed to litigation.

"We continue to be confident in the recovery of this receivable and while we have entered an alternative dispute resolution process, we are firmly committed to collection of the EQC receivable to the maximum extent possible," said Harding.

Given the increased likelihood of litigation and associated delay in receiving funds, it is appropriate to exclude the EQC receivable from Tower Insurance's solvency calculations. Accordingly, the RBNZ has modified Tower Insurance's licence conditions to remove the receivable from its solvency calculations with effect from 31 October 2019.

To facilitate the change in licence condition and the acquisition of the Youi NZ portfolio, Tower Limited will raise $47.2m capital via a pro-rata renounceable entitlement offer.

Capital will be raised via pro-rata renounceable entitlement offer at a ratio of 1 New Share for every 4 Existing Shares held at an issue price of NZ$0.56 (or AUD$0.54 for Eligible Australian Shareholders).

Business performance update for the 11 months to 31 August 2019

Tower advises that the onging transformation of the business is progressing well, with continued solid growth and positive trends being seen in key areas.

As a result of this solid performance, Tower has upgraded its FY19 guidance and is now expecting full year underlying NPAT[1] to be approximately $28m, subject to normal volatility in its claims expense, and no further large events occuring.

Given the acquisition of Youi NZ, and accompanying capital raise, no dividend will be paid in 2019. Tower's Board remains committed to resuming dividends, at 50-70% of Reported NPAT, where prudent to do so.

Solid growth continues

Ongoing efforts to simplify insurance and make things easier for customers is seeing Tower continue to achieve solid growth, with digital performance remaining elevated and retention levels stable.

In the 11 months to 31 August 2019, Gross Written Premium (GWP) in Tower's core New Zealand book has grown at 9.6%, resulting in total GWP increasing to $325.8 million, compared to $306.8m in the same period last year.

Claims ratio favourable

Relatively benign weather, along with a continued focus on underwriting excellence has seen Tower's claims expense ratio for the 11 months to 31 August 2019 decrease 8%, to 48.6%, from 56.6% in the same period last year.

As previously signaled, management expenses have trended slightly higher in the second half of the 2019 financial year. This slight increase is a result of finalisation of Tower's technology upgrade and broader transformation activity.

Tower is pleased to advise that it has secured its 2020 reinsurance programme on good terms, with an increase in cover, at rates in line with the prior year.

Major technology upgrade progressing well
The first phase of Tower's technology upgrade has launched with new business being sold on the new platform. Launch of the first phase has confirmed initial assumptions, with improved outcomes being delivered for customers and will result in increased efficiency.

Tower remains on track to deliver the second phase before the end of the 2019 calendar year, as previously advised. Phase two includes self-service, increased digital capability and the commencement of migration of customers to the new platform.

As the programme enters its final stages, there is some pressure on costs with total investment in its technology upgrade expected to be within 5-7% of the previously disclosed figure of $45m.

Further information about the Portfolio Transfer Agreement and capital raise will be made available on www.tower.co.nz/investor-centre.

ENDS

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Notes

1. Underlying NPAT is Tower's preferred measure of Tower's underlying performance. It does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP), and is not the same as Reported NPAT, which is calculated and presented in accordance with GAAP. Tower has applied a consistent approach to measuring Underlying NPAT in the current and comparative periods. In its first half results, Tower disclosed $7.5m, after tax, of non-underlying expenses in Reported NPAT - Tower expects non-underlying expenses to increase in the second half due to the portion of the IT transformation costs that is unable to be capitalised, and any other changes to provisions