Enstar First Quarter 2023 Audio Update with Dominic Silvester and Matt Kirk

PETER KALAEV, GROUP TREASURER

Hello everyone, I'm Peter Kalaev, Group Treasurer. Thank you for listening to Enstar's First Quarter 2023 Earnings Audio Review with CEO Dominic Silvester and CFO Matt Kirk.

Before we begin, I'd like to remind everyone that this presentation contains forward-looking statements and non-GAAP financial measures. Forward-looking statements in this presentation include, but are not limited to, statements about Enstar's expectations for pending and future transactions, run-off liability earnings, the performance of its investment portfolio and the impact of rising interest rates on Enstar's business. These statements are inherently subject to risks, uncertainties and assumptions that may cause actual results to differ materially from the statements being made as of the date of this update or in the future. Additional important information regarding these statements and measures is outlined in the text that appears below the link to this recording. With that, I will turn it over to Dominic.

DOMINIC SILVESTER, CEO

Thank you, Peter.

After a positive end to 2022, we have maintained the momentum into the first quarter. A few notable highlights:

- We delivered strong net earnings through improved performance in our investment portfolio, as well as the non-recurring gain from the unwind of Enhanzed Re, from which we earned an inception to date return in excess of 23% per annum. Run-off Liability Earnings, or RLE, was in-line with our expectations.
- We announced our $1.9 billion-dollar ground-up LPT transaction with QBE, which following regulatory approval, we completed in April. This transaction differs from other LPTs we have undertaken in the past and opens more opportunities for us. Not only are we providing our usual cover for discontinued lines, but we are also delivering our expertise on seasoned liabilities within active lines of business. This innovative structure is clear testimony to our ability applying our creative and entrepreneurial spirit to the ever-changing needs of our partners.
- We also announced an approximate $245 million dollar LPT with RACQ Insurance Limited, which we expect to close shortly. We have ample capacity to execute on additional M&A opportunities beyond these two transactions, provided of course they meet our internal hurdle for risk-adjusted returns.

- Lastly, we repurchased the remaining $341 million dollars of non-voting convertible ordinary shares at a 13% discount to year-end 2022 book value as presented in our 2022 10-K, creating value to our shareholders and simplifying our capital structure. Prudent capital management is critical to Enstar, and we remain focused on deploying capital to the most value-accretive opportunities.

We announced several management changes during the quarter:

Following the retirement of long-term Group President Paul O'Shea: Orla Gregory became our new President, while Paul Brockman was named Chief Operating Officer in addition to his role as Chief Claims Officer, and Matt Kirk was appointed Chief Financial Officer. We have the utmost confidence in this team's ability to step up into larger roles at a critical time in Enstar's development.

Looking ahead, while the macro environment remains challenging, we are confident that we are well-positioned and there appears to be more attractive opportunities for us today than ever before. In addition to P&C run-off solutions, we remain open and are formally evaluating assumed life opportunities as we believe that they should provide an attractive diversified earnings profile with the appropriate risk-reward.

On a final note, our company turned 30 years old on April 8th. Thank you to all who have worked with us along the way to help create our company today - our employees for their commitment, our partners, regulators and advisors for their trust, and our shareholders for their loyalty. We are proud to have pioneered run-off solutions as a mainstream part of the insurance industry and intend on continuing to provide innovative and differentiated risk management and capital release solutions to our global partners long into the future.

We owe a big part of our history to Rod Frazer, who sadly passed away in March. Rod was instrumental in investing in our Castlewood business back in 2000, and in the merger transaction that formed the Enstar of today. Rod was more than just a wonderful businessman, he was a friend and a man of the utmost integrity and a magnificent champion of our company, and I want to end by saying just how grateful we are for his guidance and massive contribution.

Over to you Matt.

MATTHEW KIRK, CFO

Thanks, Dominic.

We had a profitable first quarter, recording $424 million of net earnings, compared to a net loss of $267 million in the first quarter of 2022. We generated a return on equity, or ROE, of 9.5% and adjusted ROE of 6.8%. Adjusted ROE is a performance measure that excludes net realized and unrealized gains and losses on fixed maturity investments and funds held-directly managed, as well as other adjustments as detailed in our 10-Q.

Our solid first quarter performance was largely driven by strong investment results of $355 million. Of this total, we experienced favourable returns on our non-core equity investments of $147 million as a result of the rally in global equity markets, $41 million on our fixed income portfolio due to a decline in interest rates, and $156 million of net investment income.

The increase in net investment income is nearly double when compared to the first quarter 2022 and reflects an increase of approximately 170 basis points in our investment book yield. This was due to a combination of investment of new premium from deals completed in 2022, reinvestment of fixed maturities at higher yields, and the impact of rising rates on our $3.0 billion floating rate portfolio. All of this, plus gains on our AFS portfolio contributed to a strong total investment return, or TIR, of $442 million or 9.5% on an annualized basis.

We also recorded a $194 million non-recurring gain in the quarter from the completion of our unwind of Enhanzed Re and the novation of its business, which had previously been noted during our year end filing.

In addition, we recorded Run-off Liability Earnings, or RLE, of $10 million, and adjusted RLE of $36 million. We saw favourable development in the 2021 acquisition year driven primarily by claims experience in our workers' compensation book. We complete most of our annual loss reserve studies in the second half of each year and, as a result, tend to record the largest movements during that period.

For Q1, we reported growth in book value per share of 7.8% and on an adjusted basis, 7.1%. These returns were negatively impacted by the adoption of new accounting standards relating to Long-Duration Contracts, or LDTI, which required us to retrospectively increase opening equity by $273 million. The impact of which was offset with the novation of the affected liabilities. The combined impact of these items is book value neutral, but the restatement of opening equity reduced our growth in book value per share and Adjusted book value per share for the quarter by 7.0% in each case. Such returns would have otherwise been 14.8% and 14.1%, respectively.

Our capital and liquidity position remains strong to weather market volatility and execute on opportunities as they arise. We maintain access to a $600 million unsecured revolving credit facility which was fully unutilized at March 31st. We are currently in the process of renewing the facility with a view to finalizing prior to the August 2023 maturity. Further, we have no debt maturities until 2029, and currently, all of our debt is fixed-rate at attractive costs of capital.

We closed 2022 with an estimated group solvency ratio in excess of 200%. We have since allocated a portion of this excess capital to our M&A transactions with QBE and RACQ, and our $341 million share repurchase. The repurchase was done at a 5% discount to trailing 10-day volume weighted average price of our voting ordinary shares at the close of business March 22, 2023.

While the banking sector continues to grapple with volatility, leading to an increasingly challenging macro environment, Enstar's balance sheet remains well positioned. As of March 31st, Enstar had no material exposure either directly or indirectly to the impacted US regional banks and held only an immaterial amount of senior investments and deposits with Credit Suisse. However, we will continue to monitor the situation closely.

As we look ahead, our strategy, financial strength and best-in-class team of experts ensures that we will continue to generate long term value for our shareholders and maintain our position as the dominant legacy player. Our proven ability to consistently drive high performance and our careful and thorough approach continues to be evidenced by the 'Enstar Effect' and our consistent RLE outperformance.

Thank you for your time and your continued interest in Enstar.