Symmetry Invest
Østre Allé 102, 9000 Aalborg
www.symmetry.dk



Protector Forsikring

Research

Disclaimer

This report is written by Symmetry Invest A/S. The report is based on research, financial statements, interviews, field research, analyst reports etc. The report includes the opinions of Symmetry Invest A/S. This are our own opinions. Symmetry do no assure for any correctness written in this report as there could be material miscalculations, mistyping's etc. The research is often done on a 6-18-month basis before publishing. This report should in no way be seen as a buy, hold or sell recommendation of the company. Symmetry Invest A/S are an authorized alternative investment firm (FAIF) by Danish regulatory authorities. We are not authorized as an investment advisor and as such this research should in no way be interpreted as investment advice but as journalistic research and our own reasoning for owning the stock. Symmetry are in no way responsible for any losses incurred on investments based on this report. Readers of this report should interpret that Symmetry Invest A/S are holding shares in the company by the time of publishing this report. Symmetry Invest A/S keeps the right to buy or sell the stock at any time without any further notifications about it. Our target price for the stock could change materially caused by factors either in or out of company control. We are not obligated to issue a new report or any notification should or target price change.

This report is released to the following persons:

- This report is released on our company website to investors in Symmetry Invest A/S
- The report is passed through to fellow fund managers or investment advisors around the world as it is normal for investment managers to share ideas with each other
- The report is sent to subscribers to Symmetrys quarterly newsletter registered on our website.

Symmetry Invest A/S operates under the FAIF regulation and can only do marketing of our fund to Danish FAIF accredited investors. As such, this report should in no way be interpreted as marketing for Symmetry Invest A/S.

In some cases, Symmetry will issue a follow up report on material new information about the company. But are in no way obligated to so.

Investment in stocks includes risk of loss of capital and we always recommend others to consult with an authorized investment advisor before doing investments.

Pictures and other material in this report could be protected by Copyright and cannot be redistributed.

Symmetry are not receiving payments from any company mentioned in this report beside our return on stock ownership in companies mentioned.

Symmetry own a decent sized position in Protector Forsikring ASA in Norway. This is an investment with a much wider outcome than most of our investments. We therefore can't put a "fair value" target on the shares. It will depend on the assumptions individual investors are willing to underwrite the case with.

Instead we have tried to put the facts out and create a matrix model to value the company. This way potential investors can learn about the company, make their own assumptions, and determine whether or not they find the stock cheap.

About Protector:

Protector Forsikring is a Norwegian insurance company. They are a young and fast-growing company. Protector only sell to corporate (commercial and public) sector. After exciting the COI segment in 2018 they have not written any personal insurance. All the distribution is run through the broker channels where they try to develop unique relationships.

The core business model for Protector: Have the by far lowest cost ratio. Then you can sell insurance at lower prices than competitors and still earn a good profit while taking market share.

Gross expense ratio	2015	2016	2017	2018	2019	15-19
Protector	7 %	7 %	8 %	8 %	8 %	8 %
Tryg	15 %	16 %	14 %	14 %	14 %	15 %
Gjensidige	15 %	14 %	15 %	15 %	15 %	15 %
If	13 %	17 %	16 %	16 %	16 %	16 %
Topdanmark	16 %	16 %	16 %	16 %	16 %	16 %
Folksam General	19 %	17 %	15 %	19 %	14 %	17 %
Codan/Trygg-Hansa	20 %	19 %	19 %	16 %	16 %	18 %
Länsforsäkringar Sak	21 %	20 %	18 %	21 %	21 %	20 %
KLP	21 %	23 %	22 %	21 %	19 %	21 %
Avg. ex. Protector	**17 %**	**18 %**	**17 %**	**17 %**	**17 %**	**17 %**

As we can see above Protector have the far best cost ratio in the industry. There is no single reason for this. It's all about the small things. But in the end, it comes from the culture in Protector. Insurance is an "old-school-business" with old IT-systems, a lot of meetings, bloat cost structures and several layers of management teams etc. Protector is the "newcomer". The company was founded in 2006-2007. They have developed all IT-systems internally (cost is 1 % of premiums compared to +3 % for competitors). They have a culture based on meritocracy, cost leadership and a "must-win" mindset. A lot of the managers are fairly young and ambitious people. They constantly focus on becoming better and never accept the status quo etc.

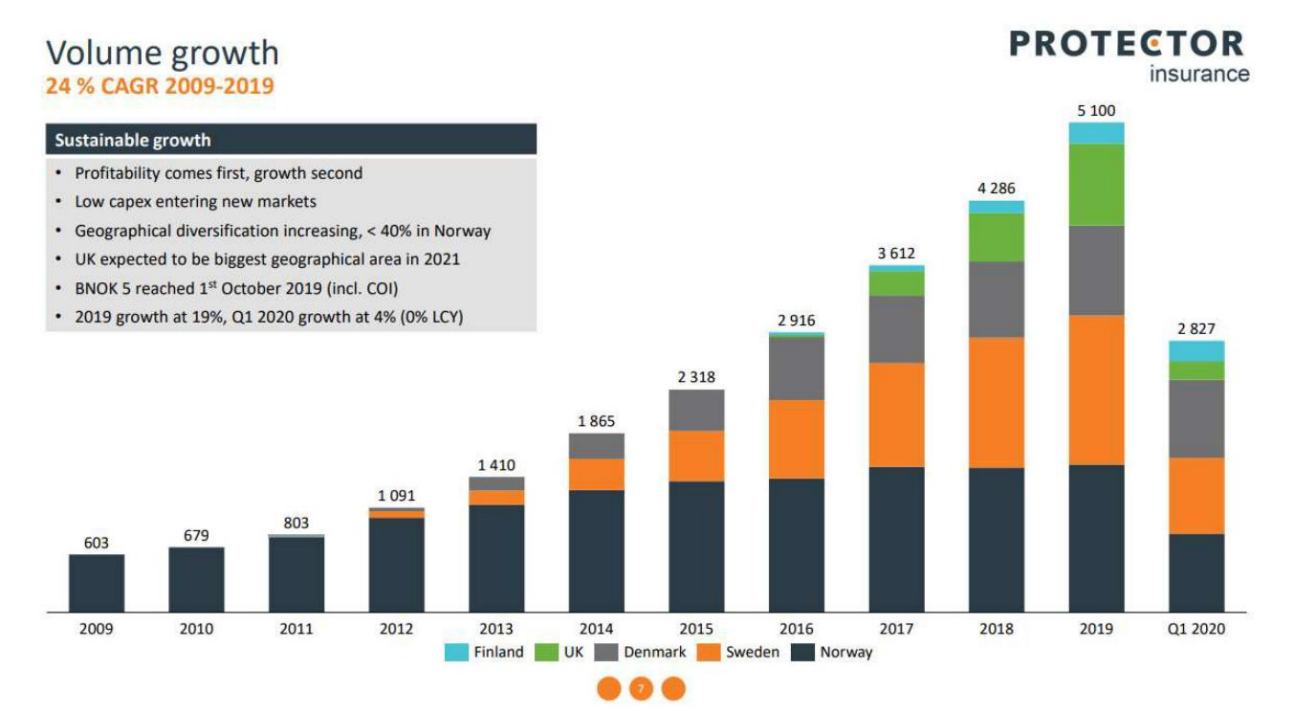
This cost structure is extremely relevant in short-term insurance (car insurance etc.). Here you have a lot of small claims. Its frequency-based claims, not complex claims. There is no competitive moat in pricing/actuarial models/history etc. in short-term insurance. This is not like workmen comp (WC) or reinsurance where you write a policy and only know several years after if you are profitable or not.

When everyone knows the claims within a short period of time the only real competitive advantage you can have in short-term insurance is your cost advantage. Protector have used this to constantly take market share from the established players.

The standard business model for Scandinavian insurance companies is the conservative "old-school-way". You want low single digit premium growth, a low and stable combined ratio (CR) and

a defensive investment portfolio. You then pay a big dividend and your shares are treated like "bond-like" investments.

This is not Protector:



As we can see above Protector have grown the premiums at a high rate (24 % CAGR) since 2009 (founded in 2007 and went public in 2008). Protector have grown in new countries and in new business segments and product lines over the years. The revenue is now more diversified.

From 2012 to 2017 Protector was an investor darling in Scandinavia. It had high growth combined with high profitability and a growing dividend. Over the last 2 years the star has fallen, and we don't hear about the name anymore in the community.

Protector try to push the limits. When you constantly want to evolve and take share you make mistakes along the way. Protector is not about not making mistakes. Its about learning from them, correcting them and become stronger from them.

2020 will be a year of slower growth (0-5 %) as the company have raised prices significantly (12-15 % per year) over the last 2 years to catch up with profitability issues. The company think prices are now where they should be to deliver on the long-term profitability target. With slower price increases the next few years management think growth should accelerate again.

Especially in the UK Protector have a significant TAM and a huge moat (competitors cost structure is higher than 20 % here).

This is the reason why the investment opportunity excists:



After delivering great CR the first 10 years (2008-2017) the company had a bad run in 2018 and 2019. There are several reasons for this 1) Most market participants underestimated claims inflation and price increases was to low 2) Protector is growing really fast (24 % CAGR). When you grow this fast you will make some underwriting mistakes that needs to be corrected 3) Protector experienced in some bad segments (Danish WC insurance etc.)

The good thing is that we don't think its lasting problems. All competitors agree that prices have to go up and everyone is raising prices aggressively. Protector have raised prices +10 % in 2019 and now 13-15 % in 2020. As those price increases flow through to earned premiums it should help Combined Ratio. And because everyone is raising prices Protector is not seeing a huge outflow of customers due to this.

Everyone should expect mistakes in the future also. Its in the DNA of Protector to push the limits and test different stuff to create most possible shareholder value. When you test and learn you make mistakes.

Protector have already mostly excited Danish WC and in areas where they still need to write it (to win bundled contracts etc.) they have raised prices significantly.

Most investors have a short memory. In 2017 everyone was expecting Protector to take over the world. Today most investors we talk to think Protector will never make money on insurance again. But the reality is more nuanced and probably is somewhere in the middle.

We also hear some investors say: “Protector will need to raise prices a lot, then all their customers will leave”. I think this statement is quite flawed. Protector raised prices +10 % in 2019 and again 13-15 % in H1 2020. The big price increases are now behind them according to the company. Current price increases are enough to get them to the long-term target of 94 in CR. Now they only need price increases in line with inflation going forward.

If they were to see a huge outflow of customers due do those price increases, it would already have happened? Growth has slowed down in H1 2020 because of this. But Protector have still managed to grow despite some churn. And because competitors also raise prices and because protector is by far the low-cost company it’s not like someone else want to take this market share.

As most investors know in Insurance you have two income streams. You have insurance underwriting and investment income. Protector treat both as profit centers.

As with their whole business model Protector is also an outliner in the way they run their investments. The standard model in Scandinavia is to have a small equity book, a huge low risk bond book and then some real estate, private equity etc. to diversify and deliver stable and low returns.

This is not Protector. Protector manage their whole book (no real estate, hedge funds, private equity etc.). They then take risk on and off depending on the market, the opportunity set etc. They also look at alternatives in capital allocation (Premium growth, bonds, equity, share buybacks, debt repayments etc.). While most insurance companies want the investment book to deliver a low stable return to support the annual dividend Protector wants to allocate to the highest ROI idea and don’t care if that’s in share buybacks, bonds or equities etc.

Investments is core

Strong investment result over the business cycle



PROTECTOR insurance

Among the best within Nordic Insurance – ROI peer knock-out ambition

- Thorough risk management; Operational routines, mandate given by board, FSA stress test quarterly, internal stress test whenever applicable
- Investment portfolios in Norway, incl. Protector's, have enjoyed avg. NIBOR rates of roughly 1% above STIBOR and CIBOR in the period 2010-2017
- Slightly higher market risk than peer average in early years – risk taken down, especially last three years
- Approx. 75 % of company result after tax from investments 08-17

Return on investments	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg. 08-19
KLP Skadeforsikring	0.4%	8.3%	7.2%	4.5%	6.5%	6.5%	6.5%	4.4%	6.1%	5.6%	1.8%	6.7%	**5.4%**
Protector	-2.1%	16.1%	9.7%	-2.3%	8.9%	7.0%	5.3%	5.2%	7.0%	4.8%	-0.6%	1.5%	**5.0%**
Länsforsäkringar	-13.3%	6.4%	4.3%	6.4%	3.7%	-1.2%	5.6%	7.7%	5.7%	5.6%	5.6%	10.0%	**4.4%**
If	-3.1%	12.4%	7.4%	1.8%	6.1%	5.0%	4.1%	1.5%	2.9%	2.6%	-0.8%	5.0%	**3.7%**
Gjensidige	-0.6%	5.5%	5.2%	4.4%	5.4%	4.3%	4.3%	2.6%	3.9%	3.7%	1.5%	4.1%	**3.7%**
Codan/Trygg-Hansa (RSA)	5.6%	5.9%	3.5%	3.0%	3.9%	-0.4%	3.9%	3.0%	2.8%	2.5%	1.3%	4.3%	**3.3%**
Tryg	3.5%	6.6%	4.3%	4.8%	5.1%	2.0%	1.6%	0.3%	2.7%	1.8%	-0.8%	1.4%	**3.2%**
Topdanmark	-6.9%	7.3%	4.8%	3.1%	6.9%	4.1%	3.4%	1.0%	4.4%	2.1%	0.0%	3.4%	**2.8%**
Avg. Ex Protector	**-2.1%**	**7.5%**	**5.2%**	**4.0%**	**5.4%**	**2.9%**	**4.2%**	**2.9%**	**4.1%**	**3.4%**	**1.5%**	**5.0%**	**3.8%**

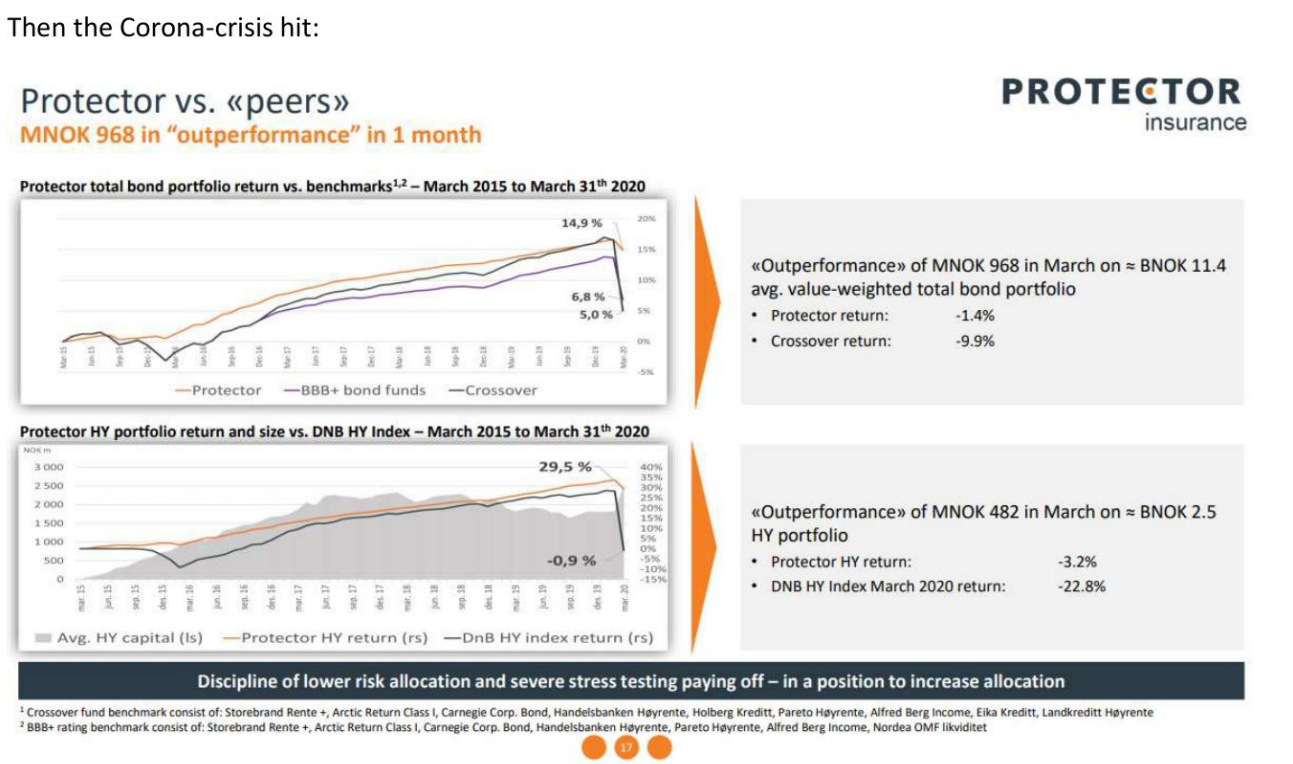
- Protector Return on Investments Q1 2020: -3.9%

Topdanmark, Tryg and Codan is a little understated because their bonds are mostly CIBOR related where Protector is NIBOR related. This would reduce the GAP to those 3 competitors with around 0,5 %. On the other hand, Protector have killed it on investments in H1 2020 where competitors have all lost money. This will widen the gap a lot.

One good example is the HY market. Protector earned a lot of money in the HY market from 2009-2016 as spreads contracted and companies performed better than expected after the financial crisis. But since 2016 Protector have been taking exposure off in HY and significantly reduced the

HY exposure. As spread narrowed and yields decreased Protector didn't thought you got paid anything to take the risk.

Then the Corona-crisis hit:



As can be seen above Protector performed significantly better than benchmarks here due to this 3-year risk off approach. In March, their bond portfolio returned -1,4 % compared to -9,9 % for the crossover fund. On HY isolated Protector returned -3,2 % compared to -22,8 % for the benchmark.

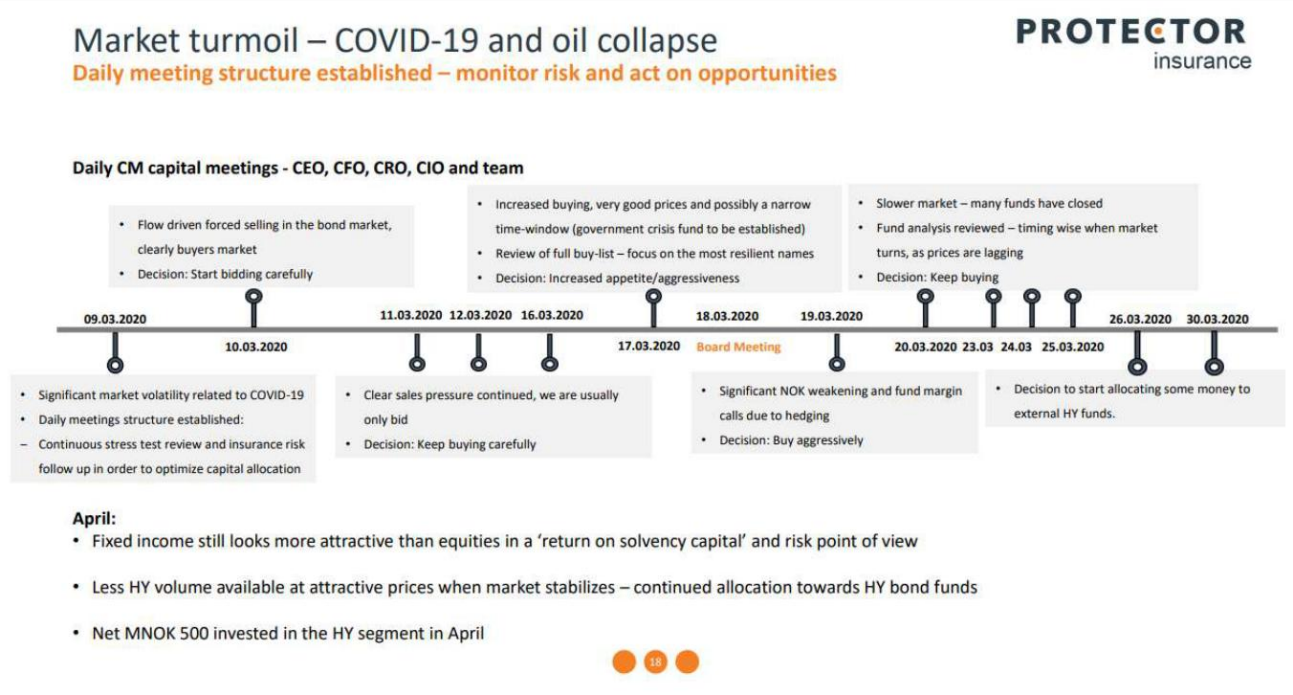
Investors can see the charts above on how this strategy have delivered a clear outperformance in the bond market. And its not only outperformance. Its with lower risk. We could both watch this in March 2020 but also in early 2016 when the Oil price collapsed. Here Protector again performed better due do virtually zero oil exposure.

Protector has done the same thing in equities. Since inception Protector have normally had around 15-30 % invested in equities. But in the last 1-2 years this has come down to 8-12 %. Simply because the opportunity set became poorer and equities market more fully priced. This lower equity exposure again helped Protector going into March 2020.

Protector normally have quite volatile equity returns as they run their equity book concentrated in only 10-15 high conviction names that they understand well and where they have done significant research before investing. Since taking the equity book in-house the total return has been average. After a few really good years the recent 2-3 years have been poor in equities. We have

talked with CIO Dag Marius Nering about this several times. We have confidence in him and his team and think they have learned from their mistakes.

As Warren Buffett says: Its okay to be defensive, but when it's raining gold and opportunities arrive you need to act aggressively. Protector try to run their investments this way. While most competitors constantly think risk-off and diversification Protector try to make outperformance by focusing on capital allocation in relation to the opportunity set. The slide below illustrates how they think quite well:



The data above illustrate the thinking Protector had during the Corona-crisis related to their investments. They were constantly monitoring if there were opportunities and decided there was extreme opportunities in HY. The CEO told us that during the week from 16 – 20 march Protector literally consisted of +50 % of all buying volume of all HY bonds in Norway. Think about this. At a situation where everyone was panicking and selling, the rest was scratching their head about what to do and Protector was one of the only buyers in the market literally buying everything they could get their hands on.

This approach is not for everyone. When you have an insurance company that run the investment book low risk at all times and diversify insanely it's not that important to understand the investment people. But in a company like Protector where they take risk on and off depending on the opportunity set and concentrate the equity book its important to have faith in the investment team.

As we have written before, we are disappointed by the equity return over the last 2-3 years. To many mistakes have been made here. But overall if we look at bonds and equities we are still satisfied, and we have confident in Dag and the team going forward.

Management and shareholders:

As with most of our other investments in Symmetry Invest, Protector insurance is also a founder-led company.

The two founders are still running the company today. They are now chairman (Jostein Sørvoll) and CEO (Sverre Bjerkeli). Today they own around 5 % of the shares outstanding. Other big shareholders like Stenshagen Invest (8,27 %) also have board representation.

In general, we think the company is led really shareholder friendly.

Other members of the management team like CIO Dag Marius Nering, Country Manager Sweden Hans Didring and COO Henrik Høye also holds fairly large stock positions. All of them have been net buyers in the market over the lats 12, 24- and 36-month timeframe.

The only negative I can mention here is that the CEO can come up as quite obsessed with the share price to some extent. Normally it's a red flag in investment if the CEO is to focused on the share price. But on the other hand, you also want to have a board and management team that cares about the shareholders.

We think there is two main reasons for the CEO focus here:

1) His personal wealth is tied to the stock price. Back in 2017 the CEO took a loan to buy even more shares in the company. Today he is all in and even some leverage in the position. He is really motivated, but one could argue also to motivated.

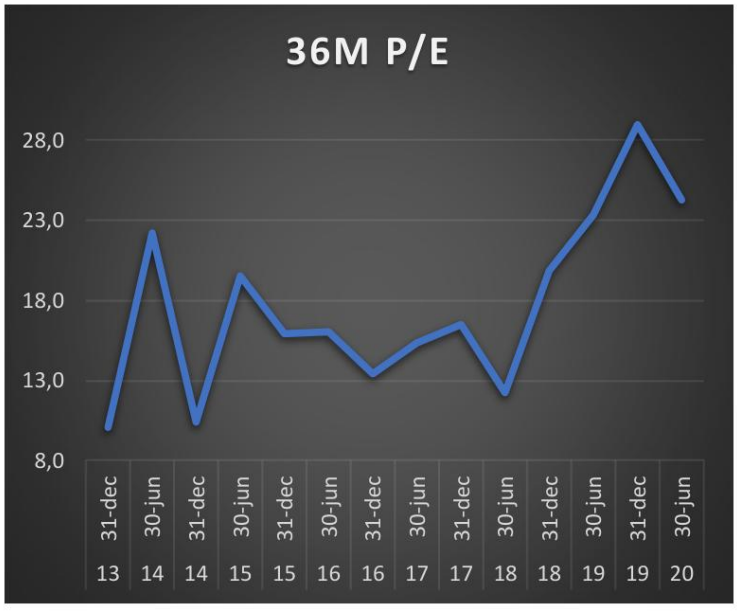
2) But I think the real reasons is not really financial. Sverre is an ultra-competitive guy. He runs marathons, skiing, climbing etc. The share-price is his scorecard for how well he is doing as CEO. When the stock doesn't perform it's the investors telling him they don't believe in him. As a competitive guy that wants to deliver results it doesn't sits well with him.

Valuation:

Below we have shown some valuation figures for Protector:

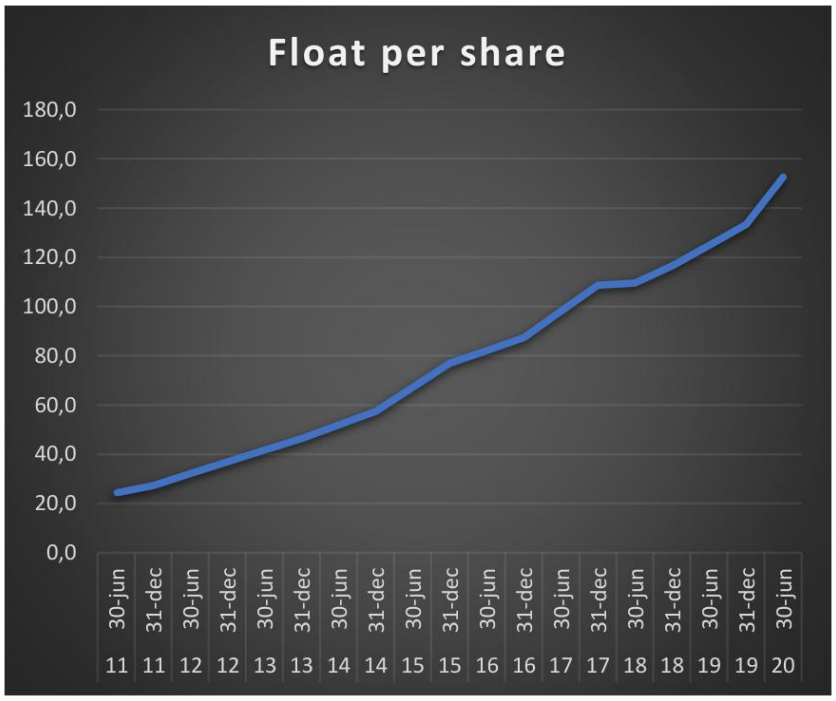


As shown above the price to sales (sales = written premiums) ratio has never been lower over the last 10 years.



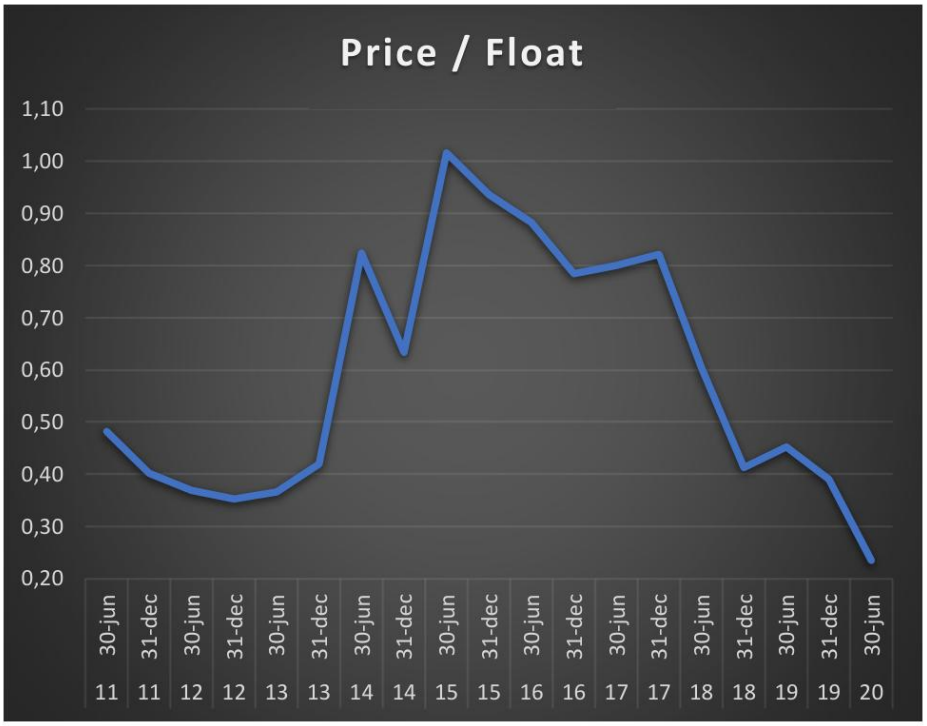
We have used a 36-month trailing P/E ratio to get an estimate on what the normal is. Because both investment and insurance income are volatile. Protector have on average traded at around 17-19 times on a 36-month rolling P/E.

As we will show later, we think P/E today is more like 4-6.



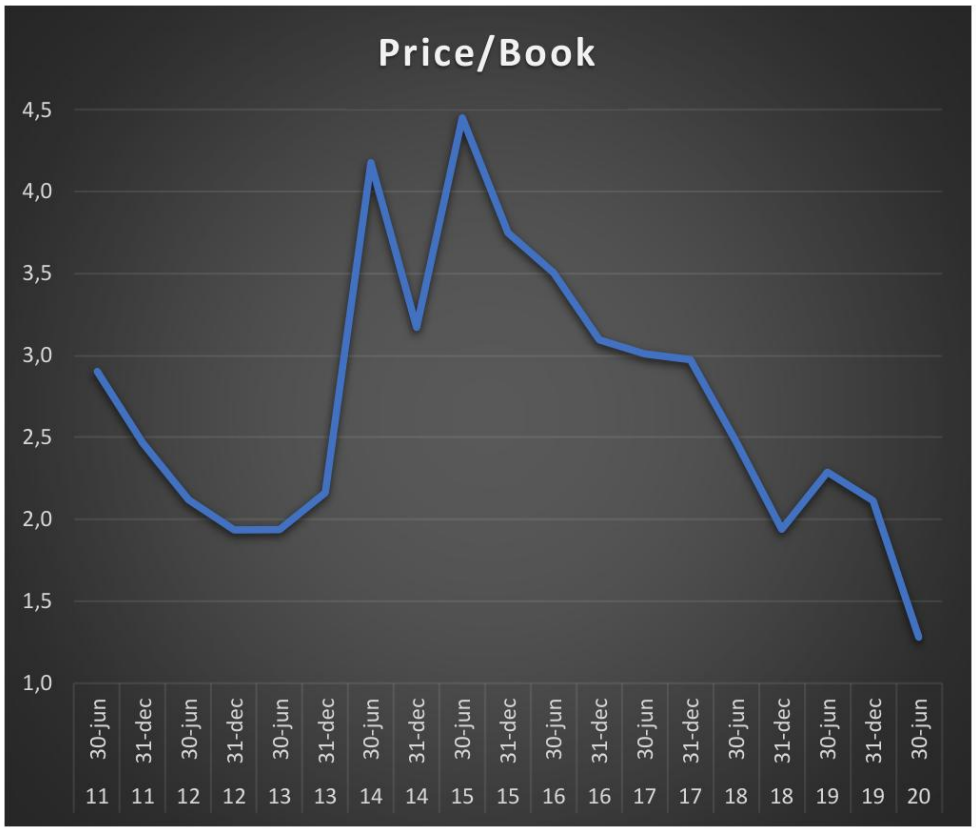
Above we have shown the "float per share" figure. This is an important insurance figure because it show how big the investment book is.

Then if we compare the investment book with the share price it looks like this:



Today you are only paying 0,25 NOK pr. Share of float in the company. The 10-year average have been more like 0,7.

The last figure we will show is price/book. Normally the most used metric in insurance valuation.



Again, quite stunning. Today Protector trades at around 1,3 x book value compared to a historical average of 2,9 x.

Fair value:

As we have written before, it is extremely difficult to calculate the fair value of Protector. Because the outcomes are so wide. What we have done is to create a Matrix where everyone can put in

their own assumptions about the future CR and the future IR. Then based on the current market cap, float and premiums written the P/E is calculated:

CR/IR = P/E	5%	4%	3%	2%	1%
102	7,2	9,4	13,4	23,3	89,5
100	6,0	7,4	9,6	13,8	24,6
98	5,1	6,0	7,5	9,8	14,3
96	4,4	5,1	6,1	7,6	10,0
94	3,9	4,5	5,2	6,2	7,7
92	3,5	3,9	4,5	5,3	6,3
90	3,2	3,5	4,0	4,5	5,3

Historical 12-year CR and IR average
CR guidance + current Yield on IR book
Symmetry estimates

As one can see from the Matrix above the P/E have a wide outcome depending on the assumptions. We have shown the P/E based on historical numbers with purple, based on current company guidance with green and then our internal assumption at Symmetry. We hope to get positive surprises and then be able to move our target down to the left.

What we think is interesting is the margin of safety here. Its only in the worst 2-3 scenarios where the stock gets expensive. And in most scenarios the P/E ends up at single digits.

What P/E should Protector then trade on? Again, it's hard to estimate for sure. It depends on the future growth (the historical 24 % is probably not achievable). But if we compare to Nordic competitors that have had much slower growth but also more stability in the numbers, they all trade at quite high valuations:

2021E	P/S	P/E	P/B
Tryg	2,5	21,4	4,8
TopDanmark	2,4	16,5	3,7
Gjensidige	3,4	19,9	3,5
Sampo	4,2	12,8	4,2
Average	**3,1**	**17,7**	**4,0**
Protector	0,6	4-7	1,1
Upside	**431%**	**221%**	**261%**

I think this also illustrates the huge valuation difference between Protector and competitors. I am not to say that Protector should be valued the same way as competitors. On P/S and P/B you can

argue competitors should trade at higher multiples structurally. But un P/E I don't see any reason Protector should not trade at the same multiples. Their returns are more volatile yes, but they are also growing much faster.

If we try to calculate the current upside in the stock based on a P/E of 12 and 18 we get the following.

P/E = 12	5%	4%	3%	2%	1%
102	66,7%	27,7%	-10,4%	-48,5%	-86,6%
100	100,0%	62,2%	25,0%	-13,0%	-51,2%
98	135,3%	100,0%	60,0%	22,4%	-16,1%
96	172,7%	135,3%	96,7%	57,9%	20,0%
94	207,7%	166,7%	130,8%	93,5%	55,8%
92	242,9%	207,7%	166,7%	126,4%	90,5%
90	275,0%	242,9%	200,0%	166,7%	126,4%

P/E = 18	5%	4%	3%	2%	1%
102	150,0%	91,5%	34,3%	-22,7%	-79,9%
100	200,0%	143,2%	87,5%	30,4%	-26,8%
98	252,9%	200,0%	140,0%	83,7%	25,9%
96	309,1%	252,9%	195,1%	136,8%	80,0%
94	361,5%	300,0%	246,2%	190,3%	133,8%
92	414,3%	361,5%	300,0%	239,6%	185,7%
90	462,5%	414,3%	350,0%	300,0%	239,6%

The interesting part again is the wide outcome. But overall, we think this illustrates that there could be a decent upside in the stock today depending on the assumptions.

Another metric to look at it is to use the historical multiples Protector have traded at. We look at 4 metrics here:

	10-year avg.	today	Upside
Price to sales	1,5	0,5	200%
Price to earnings	17,7	5	254%
Price to float	0,7	0,24	192%
Price to book	2,9	1,3	123%

Based on those numbers Protector have an upside between 123 % to 254 % today. Just to trade in line with the 10-year historical average.

Conclusion:

We won’t tell whether or not Protector is cheap today. It depends on assumptions. But at least based on history, competitors and a Matrix model with a wide outcome it seems that the risk/reward is really great today.