SPROTT STUDENT INVESTMENT FUND

INTACT FINANCIAL CORPORATION (TSE: IFC)

Equity Research Report

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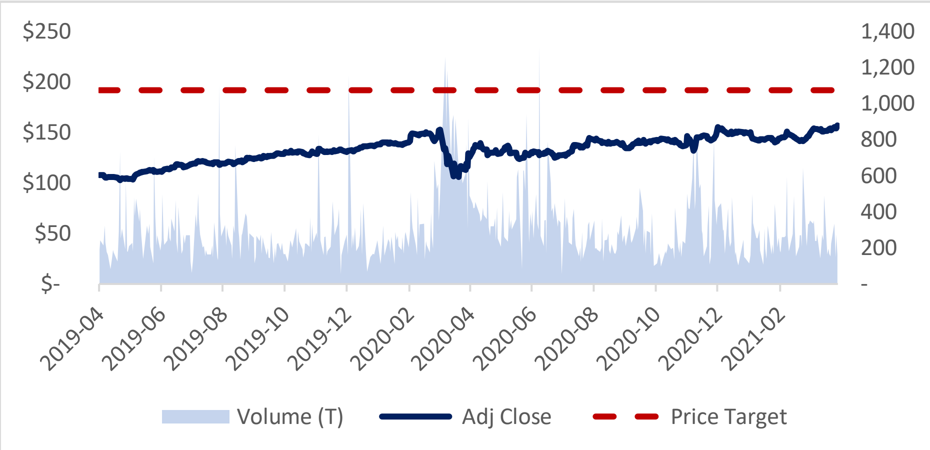
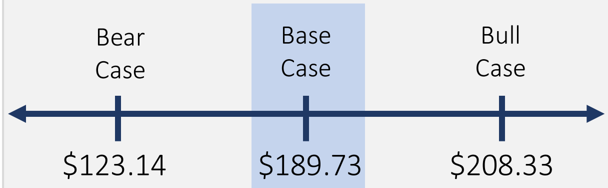


intact

Current Price: $156.78 | Rating: BUY
Price Target: $189.73 (21.0% Upside)
Market Cap: $22.4 B
Credit Rating: Baa1 (Moody's)



Executive Overview

This report initiates the coverage on Intact Financial Corporation (TSE: IFC) with a BUY recommendation based on a 12-month price target of $189.73, estimated through the average of two Dividend Discount Models. This price target represents a 21.0% upside from the last close of $156.78 as of April 1, 2021. It is expected that through the acquisition of RSA PLC's Canadian, U.K., and International geographical segments will prove favourable for Intact's long-term strategy. This acquisition is in line with the company's target to expand in foreign markets and provide further integration within the value chain of the company.

Investment Thesis

Investment Thesis I: Promising Acquisition of RSA

Solidifying its place as the largest P&C insurance provider within Canada, the partial acquisition of RSA PLC is expected to be very favourable in expediting management's long-term goals for the company. This acquisition is expected to close in Q2 of 2021 with expected annual direct premiums written of the combined company reaching $20 billion annually. Through leveraging existing products and distribution infrastructure, management expects this deal to be immediately accretive for the combined company. Immediate accretion has been estimated around $250 million of expense synergies before complete integration.

Investment Thesis II: Economic Resiliency

Intact has financially performed remarkably well during the COVID-19 pandemic, providing further confidence in outperformance during future economic downturns. As a large portion of the Canadian workforce has been encountering inconsistent lockdowns across the nation, economic conditions quickly worsened. Combined efforts of industry-wide relief programs, social initiatives, and lower frequencies of customer claims have greatly influenced Intact's lower combined ratio for the period. Through the maintenance of an investment portfolio of primarily A- investment grade or higher, returns can provide a buffer to withstand further short-lived economic disruptions. Intact is the largest pure-play, publicly traded insurance underwriter in Canada, providing access to separate financing vehicles such as preferred and common equity.

Investment Thesis III: Technological Integration Within Value Chain

Intact's primary strategy to increase the firm's ROE in the long term is driven through its technological integration of its supply chain. Through the further implementation of AI pricing and risk management, Intact's expense ratio will expect to encounter decreases as the underwriting fees will decrease. This technology will scale with the company's pre-existing market share within Canada, solidifying its place as the largest P&C insurance provider in the country. Furthermore, this integration will allow for further penetration in the speciality insurance market and those abroad, primarily through the RSA acquisition.

Business Description

Company Overview | Description of Business Model

Intact Financial Corporation (Intact, IFC, The Company) is Canada's largest provider of P&C insurance and provides specialty insurance in North America. Based in Toronto, Ontario, Intact distributes insurance products to approximately 17% of Canadians under banners such as Intact Insurance, Belairdirect, BrokerLink, On Side Restoration, and Frank Cowan Company. Intact serves over five million personal, business, and public sector customers within North America. Specialty insurance programs are offered through the company's Intact Insurance Specialty Solutions brand name. 85% of the company's direct premiums written (DPWs) are attributed to Canadian customers while the remaining portion are U.S. based. Of these Canadian DPWs, 87% are written through the company's network of brokers and 13% is written directly to customers through Belairdirect. Intact offers insurance in three areas of protection; personal auto (PA), personal property (PP), and commercial lines (CL).[i] The United States segment primarily focuses on small-to-medium sized businesses, distributing insurance through the Intact Specialty Solutions brand. These business units are well diversified, incorporating 13 separate units with the largest – accident & health – encompassing 16% of the DPWs.

The personal auto insurance provides a varying level of coverage for customers' vehicles including accidental benefits, third party property and physical damage. Personal property coverage provides customers with protection against many risks including fire, theft, vandalism, water, and other damages, as well as personal liability coverage. Commercial lines within Canada are available for a wide array of businesses, typically small-to-medium sized. Commercial property coverage includes the physical assets whereas liability coverage includes general, product, and professional liability as well as cyber endorsement. Moreover, within the United States, commercial lines protection aims to meet the unique needs of customers through the 13 business units available. These business units include accident & health, surety, technology, ocean marine, specialty property, management liability, tuition reimbursement, inland marine, public entities, financial services, entertainment, environmental, and financial institutions.[ii]

Competitive Advantage/Moat | Canadian Pure-Play

Intact Financial Corporation is the largest pure play publicly traded P&C insurance firm in Canada. Boasting a current market share of approximately 15%, the company's robust acquisition strategy has led it to the process of acquiring RSA's Canadian, UK, and international insurance portfolios. RSA currently holds a 6% market share in the Canadian market, growing Intact's share to approximately 21%. This deal is expected to close out in the second quarter of 2021. Furthermore, Intact's robust integration of its supply chain has allowed for costs savings through the offering of insurance policies directly written to customers through broker subsidiaries, minimizing the requirement of 3rd party brokerages. Intact's competitive advantage lies in its ability to scale operations, especially with integrating those of RSA.

Competitor Analysis

The insurance market within North America is heavily fragmented. Within Canada specifically, Intact holds the largest market share with 15% of the industry. The remaining market share is held by smaller segments of larger, foreign insurance companies. Other pure-play Canadian market share providers are generally not publicly traded or are smaller financial arms of much larger companies, such as TD Insurance Group. Intact is therefore the largest publicly traded Canadian-based insurance provider with the next largest being Aviva Group which is based out of the United Kingdom. The P&C insurance market size within Canada was an estimated $65 billion as of 2019. The P&C insurance industry within the United States is more heavily fragmented, with the largest insurer, State Farm, encompassing 9.27% of the $700 billion market.

Competitive Landscape | Casual Competitiveness

Aviva PLC: Based out of the United Kingdom, Aviva PLC offers 33 million customers globally savings, retirement, and insurance solutions. Aviva offers Canadian customers general P&C insurance through the protection in the event of damage to property or assets, injury to themselves or people whom they are responsible for. The company offers these products through motor, home, travel & pet insurance, commercial property, and liability and specialty covers.[iii] Within the Canadian P&C insurance market, Aviva currently holds approximately 8.35% of the market share.[iv]

The Allstate Corporation: Allstate provides P&C insurance to customers throughout North America. The company primarily insures customers through private passenger automobile and homeowner insurance, with over 145 million policies currently in force. Allstate provides coverage for general property and casualty coverage, but also provides coverage for life, accident, and health insurance, as well as electronic devices and personal identities.[v] Allstate currently holds 4.95% of the P&C market share within the United States.[vi]

The Travelers Companies, Inc: Travelers is a holding company which primarily offers commercial and personal property & casualty insurance products through its subsidiaries. As a corporate member of Lloyd's, Travelers' business insurance is distributed through 9,400 independent agencies and brokers. Insurance products offered by Travelers range form workers' compensation, commercial automobile, commercial property, general liability, and commercial multi-peril, while offering a wide range of insurance products to international customers.[vii] Travelers currently holds approximately 3.96% of the United States P&C insurance market share[viii].

The Progressive Corporation: Distributing insurance directly to customers through 35,000 independent agents, Progressive offers personal and commercial lines. Personal lines account for over 85% of the company's DPWs with auto insurance contributing to 95% of these written premiums.[ix] Within the United States, Progressive currently holds approximately 5.54% of the P&C market share[x].

Chubb Ltd.: Chubb Ltd. is a diversified insurance company primarily operating within the P&C space. The company sells P&C insurance, life insurance, and reinsurance through subsidiaries globally. As the one of the world's largest publicly traded insurers, Chubb offers general liability, homeowners, auto, accident, workers' compensation, and specialty crop and marine coverage to customers in approximately 55 nations and territories[xi]. The company currently maintains approximately 3.3% of the United States market share relating to P&C insurance[xii].

Porter's 5 Forces

Competitive Rivalry | Very High 5

Competitive Rivalry within the North American P&C insurance industry is very high. Insurance is sold to end consumers through brokerages, which sell a variety of different insurance policies from a wide range of suppliers with P&C insurance products being generally homogeneous in nature. Distribution is conducted through affiliated, non-affiliated brokers and directly to consumers. Within Canada, approximately 60% of the P&C premiums written are distributed through brokers[xiii]. Within the United States, the top 25 insurers with regards to DPWs have a market share between 1-2.5% on average.[xiv]

Threat of New Entry | Low 1.5

The Insurance Bureau of Canada (IBC) regulates both the insurance products and market conduct surrounding such products. Additionally, the IBC regulates specific financial ratios of companies relating to the solvency and financial soundness of the companies within their respective provinces.[xv] Each province is subject to a separate overseeing body – for example, Ontario insurers are regulated by the Financial Services Regulatory Authority of Ontario (FSRA). Insurance companies within the United States must maintain a solvency capital requirement coverage ratio above 100%, although most firms maintain a ratio within the 200-300% range.[xvi] The rigorous regulation structure surrounding the insurance industry creates a low threat of new entry.

Threat of Substitution | Low 1

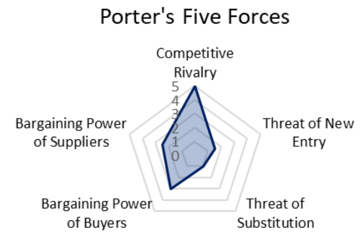
There is a high degree of psychological and economical switching costs regarding substitutions of insurance products. Insurance products offer customers a piece of mind relating to their financial stability in the event of an improbable accident. Within Canada, it is required for drivers to have auto insurance. The minimum for civil liability insurance is $50,000 but financial institutions recommend upwards of $2,000,000 to provide the customer with added protection. Moreover, a form of home insurance is generally required by mortgage providers[xvii]. As auto insurance is essentially a mandatory good for many consumers within Canada, the threat of substitution for P&C insurance is considered low.

Buyer Power | Moderate 3

Buyer power within the P&C insurance industry is moderate. As some forms of insurance within North America are necessary – such as auto and home insurance – the end customers are price sensitive and switching costs from one provider to another is rather low. Additionally, as some third-party brokers distribute multiple insurers products, further incentive to maintain lower cost premiums and search for other methods of distribution is an ongoing process. Growing demand of more personalized products as the consumer becomes more informed has pushed the insurance industry to seek further technological integration into the insurance writing process. Consolidation within the industry has become more apparent within Canada as the top 5 largest insurers within the country maintain 47% of the market share, with 129 P&C insurers operating[xviii]. Consolidation allows the insurance provider to more easily market insurance directly to the consumer, avoiding the third-party brokerage.

Supplier Power | Moderate 2.5

Within the insurance industry, reinsurers are considered the suppliers for insurance providers. Reinsurance firms are essentially insurance firms for the insurance firms. This relationship allows for the primary insurance firm to acquire more risk through the distribution of increased DPW figures. Reinsurers have an influence on the ability insurance providers have in terms of the quantity of premiums the company can write depending on specified risk levels.



Market Trends

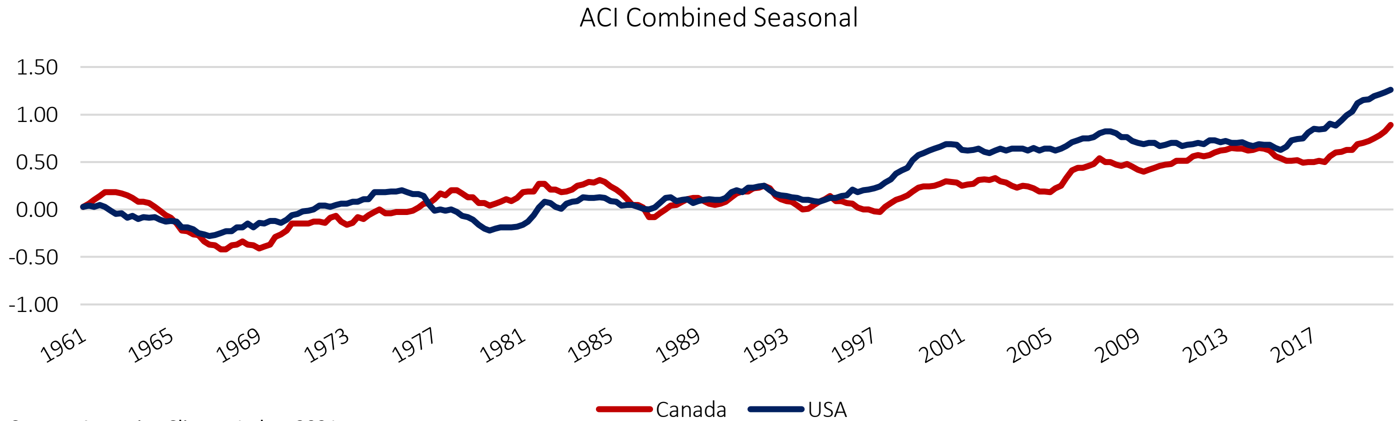
Industry Trends | Insuring a Weatherproofed Future

Key Trend I | Insurance Ecosystems Altering Strategies

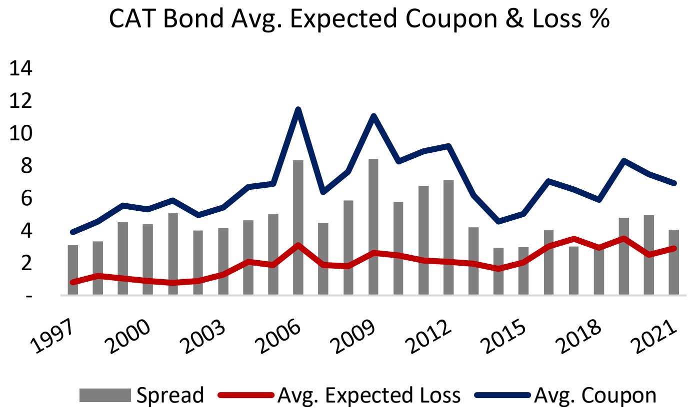
McKinsey has found organic growth within the P&C industry has trailed GDP growth figures over the past decade. The share of global GDP insurance holds has remained at approximately 2.1% since 2008[xix]. While avoiding large disruptions within the industry, insurance providers have been forced to look within their supply chains for growth opportunities. Although it remains a very fragmented industry, consolidation has been a primary source for companies to capture market share. An estimated 30% of personal line P&C insurance premiums will be distributed to customers through ecosystem models by 2030[xx]. These ecosystem models are designed to provide customers with flexible written premiums tailored to their needs and requirements, placing pressure on insurance companies to address these evolving appetites.

Key Trend II | Weather Changes Impacting P&C Insurance

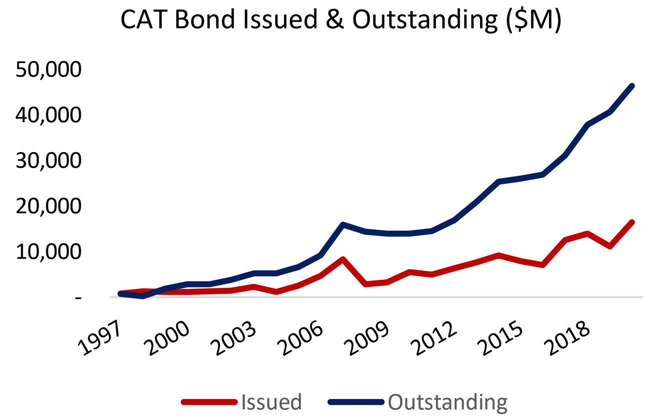
With increased frequencies of extreme weather in North America, P&C insurance providers must adapt their policies in order to adjust for increased risks of claims. To adjust for the effects of climate change, there has been a higher adoption and investment into Catastrophe Bonds (CAT bonds). Since 1997, outstanding CAT bonds have increased from $786 million to $46.4 billion in 2020, with an issuance of $16.4 billion within the year 2020 alone[xxi]. Although the average expected loss from these bonds has gradually increased as a percentage of total bonds outstanding, the average coupon has also adjusted. This trend is expected to continue upward. The Actuaries Climate Index (ACI) which provides several measures to observe changes in extreme weather and sea levels. The ACI combined seasonal index is calculated through percentage of days with temperatures below the 10th and above the 90th percentile; percentage of days in which wind power is above the 90th percentile; monthly maximum consecutive 5-day precipitation amount within a given month; the maximum number of consecutive days during a given year with precipitation less than one millimeter; and sea level values. These figures have been trending upward, and are expected to continue this trend, as the 5-year moving average has reached a new, 10th consecutive quarter high of 1.23 within the United States.[xxii] With these adverse weather conditions expected to increase in frequency as the world grapples with climate change, Insurance companies are forced to consider these implications regarding the potential risks of increased claims as a result of extreme weather.



Source: Actuaries Climate Index, 2021



Source: Artemis.bm 2021



Source: Artemis.bm 2021

Key Trend III | Technological Changes Complimenting Premiums

Technological changes within the insurance industry provide benefits for both the insurance providers and the end consumers. Consumers are able to commoditize their information through insurance providers who in turn provide discounts or lower the policies. Insurers can use data to manage the risks of customers while more adequately being able to reward those who present a lower risk of issuing claims. With insurance issuers competing on a price basis, maintaining the ability of lowering such risks allows the provider to remain competitive. Furthermore, as such programs, for example Allstate's partnership with The Ford Motor Co through Milewise which sends mileage data to the insurer, rewards policyholders for driving less.[xxiii] These programs increase the switching costs as customer profiles are created and enhanced over time. Furthermore, technology adoption through IoT products will be expected to continue its rapid adoption within the industry.

ESG Analysis

Environmental, Social Governance

Industry Overview | Principles for Sustainable Insurance

Within the insurance industry, the United Nations Principles for Sustainable Insurance provide a framework for responsible interactions with all stakeholders of the industry. The PSI aims to expand on ESG factors, prudent for the proper risk management of assets, following the consumer and investor trend of such practices. These principles provide a benchmark for insurance companies with signatories committing their practices to adhere to the principles. Proper management of ESG issues within the insurance industry will allow for greater sustainability and strengthen the industry overall[xxiv].

Principle 1: 'We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.'

This principle incorporates 6 subcategories relating to overarching issues within the industry. These subcategories include company strategy; risk management and underwriting; product and service development; claims management; sales and marketing; and investment management. These categories incorporate ESG considerations into the operations of insurance companies, beginning at a strategy level, moving towards its processes and employees[xxv].

Principle 2: 'We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.'

Two relevant subcategories are included in this principle; clients and suppliers; and insurers, reinsurers and intermediaries. This principle aims to incorporate ESG considerations in the relationships with outside stakeholders. These stakeholders – customers, suppliers, reinsurers – encourage proper reporting on such practices. Through the provision of heightened reporting standards and transparency, relationships between the companies and their respective stakeholders improve.

Principle 3: 'We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.'

Principle 3's focus lies on two subcategories; governments, regulators and other policy makers; and other key stakeholders. Working with the policy makers will reduce the risk of shocks due to new regulatory policies and frameworks. Maintaining an active voice in the participation of setting such policies allows insurance companies to ensure they are capable of adhering to new and constantly evolving ESG regulation. Additionally, providing research and assistance for the academia and scientific communities will lead to further knowledge and capabilities within the context of ESG[xxvi].

Principle 4: 'We will demonstrate accountability and transparency in regularly disclosing our progress in implementing the Principles.'

This principle addresses the continuous evolution and expansion of ESG issues within the insurance industry. Enhancing the monitoring processes companies implement will allow for additional understanding of the importance of ESG practices, ensuring a successful pursuit of best practices.

ENVIRONMENTAL OVERVIEW | ENVIRONMENTALL ORDER

As Intact's businesses rely on the underwriting of property and casualty insurance, climate change impacts are an area of concern and require proper risk mitigation. The industry's broad focus on the environment has led to innovative practices in relation to operations and investments. As of 2019, floods make up approximately 40% of claim losses for personal property claims. As it has been found that developing wetlands can reduce the damage caused by flooding by 40%, Intact has partnered with ALUS Canada which funds projects to create natural infrastructure in over 217 acres of land[xxvii]. Moreover, Intact's investment portfolio of $20 billion AUM maintains policies to integrate climate change considerations into the investment management process for all investment portfolios[xxviii]. The company has made continuous efforts to gradually decrease its carbon emissions over the past 5 years, lowering GHG intensity per million of direct written premiums from 1.88 in 2015 to 1.10 in 2019[xxix].

SOCIAL OVERVIEW | SOCIALLY INTACT

Intact's social impact focus remains pivotal for the company's strategy moving forward. The COVID-19 pandemic did not prove an easy hurdle to overcome for many of Intact's Canadian customers. During the year, through governmental mandates and regulations, $530 million of support was provided for over 1.2 million customers through relief related programs[xxx]. These programs are essential for the PSI to flourish as insurance providers such as Intact seek sustainable relationships with policymakers and customers alike. Additionally, Intact consistently provides funding for charitable partners with $3.6 million to 21 partners since 2017 and a further $1.3 million for 5 Canadian charities announced in the fourth quarter of 2020[xxxi]. Moreover, diversity and inclusion initiatives are an important aspect of the company's ESG strategy. Much like other large Canadian insurance companies, Intact is a member of the BlackNorth Initiative which aims to fight against anti-black systemic racism[xxxii]. As of 2019, 54.1% of managerial positions across the company are held by women. Intact has maintains a program named WoMIN and Allies which is an employee network for and led by visible minority women. Additionally, 36% of positions at the VP level and higher are currently held by women[xxxiii].

GOVERNANCE OVERVIEW| INSURING TRANSPARENCY

Intact maintains a high degree of transparency, offering many supplemental reporting documents to further highlight the company's ESG considerations. For example, annual reporting of social impact procedures is released in March of each year and highlight the company's diversity programs, customer initiatives and community involvement[xxxiv]. The company also highlights its robust investment strategies and provides breakdowns of its investment portfolio. Within the company's board of directors, 11 of the 12 members are independent with 5 of whom are women[xxxv]. As insurance inherently consists of risk management, Intact aims at encompassing this risk with financial and operational risks as well. This allows the company to view these risks under the same umbrella, fostering management's concern for all simultaneous risks of the business and its impact to each respective aspect of the company. Intact maintains a variety of committees including risk management committee; compliance review and corporate governance (CRCG) committee; human resources and compensation committee; audit committee; enterprise risk committee; and other committees. Enterprise risk management within Intact provides risk overviews and the associated appropriate actions to ensure the protection of clients, employees, and other stakeholders[xxxvi].

Management

Management Analysis | Inorganically Sound

Insider Ownership

Insider ownership currently consists of approximately 0.54% of the shares outstanding. Intact's CEO, Charles J G Brindamour currently holds 0.21% of the shares outstanding. The total insider ownership of Intact shares has remained relatively steady over the previous 5 years, with extensive growth on a relative basis since 2011, when insiders held approximately 0.23% of shares outstanding. Moreover, 48.56% of the total shares outstanding are held by institutional investors. The largest institutional investor is Caisse de Depot et Placement du Quebec, which maintains a position consisting of 8.61% of the shares outstanding.

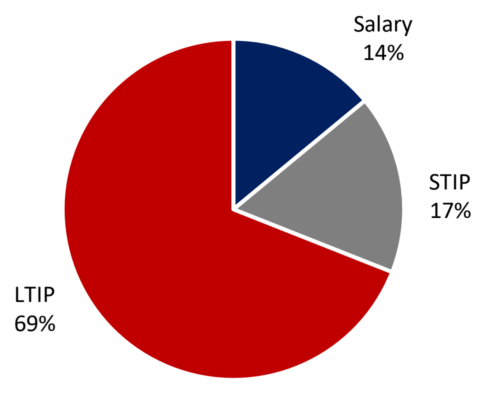
Track Record | RSA Continuation of M&A Strategy

Throughout the past two decades, management has performed 13 acquisitions, with a total of 17 dating back to 1988, to maintain competitiveness within the consolidative insurance environment. Notably, the RSA acquisition, set to complete in Q2 of 2021, is the largest acquisition the firm has conducted, at a value of approximately $12.4 billion between Intact and Tryg A/S. Intact's portion, comprising of RSA's Canadian, UK and international businesses is expected to close at a value of $5.9 billion. As the largest, and essentially only pure-play P&C insurer based out of Canada, Intact has used its ability to issue preferred shares as a financing vehicle along with debt and cash for historical acquisitions. Being the largest acquisition conducted at Intact, a premium of approximately 50% is to be paid as of the share price of RSA on November 4, 2020[xxxvii]. Management expects to leverage RSA's product and distribution capabilities to enhance broker and direct channel offers. Combined DPWs are expected to surpass $20 billion annually, representing an increase of 80% relative to Intact's 2020 figures.

Executive Compensation | Return on Risk Management

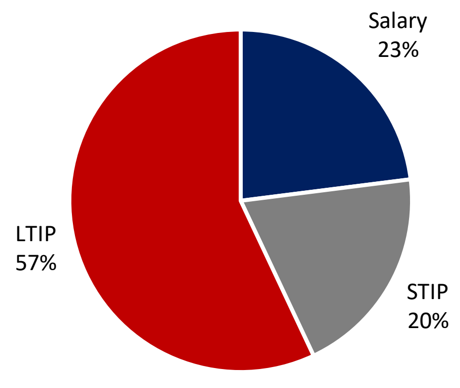
Executives at Intact can eb assumed to have goals which align with that of shareholders. As of 2020, 69% and 57% of compensation was attributed to long-term incentive plans for the CEO and other NEOs, respectively. For the CEO, Charles Brindamour, 86% of total compensation is at risk with 14% paid through a base salary. The executive compensation in the short-term is tied primarily to the combined ratio. This ratio is volatile in nature, providing incentive for management to reduce this inherent volatility to maintain adequate levels of expenses and premium risk management. In the long-term however, compensation is based on the return on equity metric. The ROE serves as a continuing goal for management to achieve as it provides a representation of the overall financial health of Intact.

2020 CEO Compensation



Source: Intact Financial Corp, 2020

2020 Avg. NEO Compensation

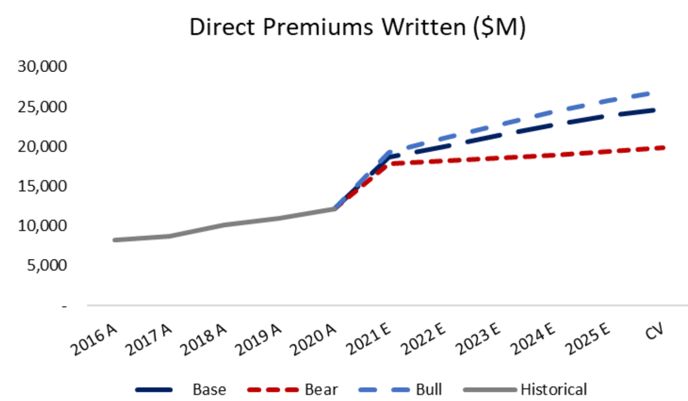


Source: Intact Financial Corp, 2020

Growth and Risks

Growth Factors | RSAccretive

Growth Prospect I | Expanding Market Share Through RSA Acquisition

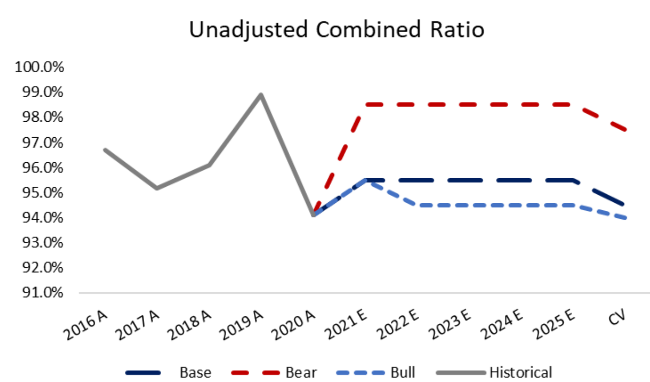


Expected to close in Q2 of 2021, Intact has entered into an agreement to acquire RSA Insurance Group PLC's Canadian, UK, and international operations. As of 2020, RSA held 4.81% of the Canadian P&C insurance market share. This acquisition is not only expected to greatly enhance the Canadian portfolio of Intact but provides an opportunity to expand in international markets and enter the UK and Ireland P&C market. Intact will finance its $5.9 billion portion of the acquisition with 76% common equity, 20.5% cash, and 3.5% other. Management expects this acquisition to surpass the internal rate of return threshold of 15%, whilst acquiring the net assets at 0.9x book value. This transaction is expected to be accretive within the first year representing high single-digit net operating income per share increases, growing to upper teens within 36 months after the acquisition date. $250 million in pre-tax annual run-rate synergies are to be expected within the first 36 months of the acquisition, providing management and shareholders alike with great confidence within this expected accretive acquisition. In turn, this acquisition is expected to be very favourable for the company through the expansion of its Canadian portfolio as well as providing an entry point into overseas markets.

Growth Prospect II | Leveraging Technological Capabilities

Embracing technological compliments within the P&C insurance industry, Intact has positioned itself well to capitalize on the growing integration of technological solutions. The use of AI and big data has accelerated its foothold within the insurance industry and is expected to continue well into the future. AI for example, has transformed the way the industry approaches underwriting, customer service, claims, marketing, and fraud detection.[xxxviii] Through technology-integrated initiatives, management aims to achieve low 90% combined ratios in the long-term[xxxix]. During 2020, 40% of eligible auto claims were appraised digitally through Intact's app, providing downward pressure on the company's combined ratio[xl]. Additionally, Intact has formed a partnership with Resilience Cyber Insurance Solutions in Q4 2020. This partnership is aimed at targeting the cyber insurance market, through Resilience's cyber analytic technology coupled with Intact's risk transfer capabilities. Expanding the company's cyber insurance market will provide further capabilities in mitigating risks related to cyber fraud aimed at mid-market businesses.[xli] The evolving cyber insurance market in poised to grow at a rapid CAGR of 21.2%, expected to reach $20.4 billion USD by 2025. This initiative is in line with management's goal of doubling DPWs for specialty lines of business from $3 billion to $6 billion by 2025[xlii].

Growth Prospect III | Scaling Distribution to Achieve Aggressive Targets



Intact Financial Corporation's aggressive strategy to leverage its distribution network to reach clients directly. The ongoing disruption ecosystems has posed on the insurance industry has forced the larger players to adapt their supply chains. Intact's strategy of consolidating vertically and horizontally has allowed the company to steadily grow its market share within North America. Through consolidation, the company aims to achieve growth of NOIPS of 10% per year as well as an outperformance of 500 bps in ROE. The company's Frank Cowan acquisition has provided a runway to diversify its distribution, placing less reliability on third-party brokerages and allowing customers to reach Intact directly. This business model's resiliency has been tested during the COVID-19 pandemic as the company managed to increase DPWs by 8% and lowering the adjusted combined ratio from 95.9% in 2019 to 85.6% in 2020. Additionally, Intact provided customers with approximately $530 million of support in 2020 through premium reductions of $439 and payment flexibility for 1.2 million customers.[xliii] A consolidated supply chain for Canada's largest publicly traded pure-play insurance company is expected to continue to provide economies of scale while minimizing the effects of large economic disruptors.

Risk Factors | Weather or Not to Scale

Risk Factor I | Weather Impacting Claims Frequency

Canada's average temperature is rising at a higher rate than the rest of the globe. The average temperature in Canada increased by 1.7 degrees Celsius from 1948 and 2016, with the norther regions rising by 2.3 degrees over the period. By the end of the century, the government of Canada has predicted that average temperatures can increase between 1.8 and 6.3 degrees Celsius.[xliv] Increases in temperature can create higher frequencies of extreme weather events such as floods, droughts, and heat waves[xlv]. These events can increase the total number of claims Intact may receive, placing upward pressure on the combined ratio, lowering profitability over the long term. Premiums will have to adjust, but as consumers are typically price sensitive, lower profitability can result.

Risk Factor II | Potential Inability to Scale International Operations

The RSA acquisition will provide Intact an entry point into the UK insurance market. There is a potential for a poor integration between the two companies as the economic climates for the UK and Canada are drastically different. Although insurance tends to be a rather homogenous product, implementation of strategies and methods of underwriting can pose a risk for the company. Being the largest single acquisition Intact has performed, complications may arise due to the sheer size and inability to properly integrate RSA's Canadian portfolio with that of Intact. Additionally, the premium of 50% paid to RSA shareholders for the acquisition can potentially reflect management's hubris of a strong track record of positive M&As, leading to overconfidence in their decisions. Intact's leverage ratio is expected to inflate to 26% at the closing of the RSA acquisition, with management expecting it to return to the targeted 20% threshold within 36 months.

Risk Factor III | Technological Disruptors Shaking up Industry

Technology integration within insurance supply chains have the ability to reduce the overall costs of claims. It is estimated that automation can reduce the cost of a claims journey by as much as 30%[xlvi] This creates a larger degree of competition within the industry, pushing prices lower for consumers, while allowing firms to tighten their combined ratios. Lemonade, an American insurance company founded in 2015 aims to use technology to disrupt the industry. The company primarily uses AI, handling claims through desktop and mobile apps with chatbots. Lemonade aims to settle claims in 3 seconds through 18 fraud algorithms, reducing the need for the traditional lengthy claims process[xlvii].

Financial Analysis

Ratio Analysis | Improving Marginally

Ratio Analysis | Insuring a Bright Future

IFC - Statutory Adjustments											
ACCOUNT NAME	HISTORICALS					PROJECTIONS					
FISCAL YEAR	**2016 A**	**2017 A**	**2018 A**	**2019 A**	**2020 A**	**2021 E**	**2022 E**	**2023 E**	**2024 E**	**2025 E**	**CV**
Pre-Tax Income	686	942	886	833	1,359	1,335	1,407	1,485	1,564	1,644	1,957
(Increase) / Decrease in Deferred Acquisition Costs	N/A	(134)	(22)	(123)	(63)	(620)	(122)	(130)	(120)	(106)	(82)
Statutory Pre-Tax Income	686	808	864	710	1,296	715	1,285	1,354	1,444	1,538	1,874
Income Taxes	145	150	179	79	277	280	296	312	328	345	411
Preferred Share Dividends	(20)	(27)	(40)	(45)	(52)	(52)	(52)	(52)	(52)	(52)	(52)
Net Income Attributed to Common Shareholders	666	781	824	665	1,244	663	1,233	1,302	1,392	1,486	1,822
Statutory Capital & Surplus	N/A	6,518	7,897	8,046	9,516	9,715	10,694	11,158	11,626	12,073	12,797
Underwriting Income	261	415	383	114	662	790	846	907	962	1,011	1,282
Underwriting Margin	3.3%	4.8%	3.9%	1.1%	5.9%	4.5%	4.5%	4.5%	4.5%	4.5%	5.5%

Primary ratios for a P&C firm include the combined ratio, reserves ratio, and the solvency ratio. The combined ratio is a measure of the expenses directly associated with insurance premiums. These expenses include the loss ratio which includes the claims on the insurance policies written, and the expense ratio, the cost of underwriting. These ratios were forecasted on an unadjusted basis to reduce the biases management may have in terms of the allocation of expenses. The combined ratio drastically fell during 2020 due to lower claims as economic shutdowns were enacted across the globe to curb the effects of the COVID-19 pandemic. Investment portfolios within Insurance companies are geared towards downside protection and capital preservation. As such, lower average investment returns can be expected through the income generated on these investments. Intact's current investment portfolio is heavily geared towards investment grade fixed income instruments.

IFC - Key Metrics and Ratios											
ACCOUNT NAME	HISTORICALS					PROJECTIONS					
FISCAL YEAR	2016 A	2017 A	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E	CV
Gross Written Premiums % Growth	N/A	6.7%	15.7%	8.8%	10.2%	54.0%	7.0%	7.0%	6.0%	5.0%	3.7%
Retention Ratio (NWP/GWP)	97.4%	97.5%	96.1%	96.0%	95.7%	95.7%	95.7%	95.7%	95.7%	95.7%	95.7%
Weighted Investment Returns	2.4%	3.0%	3.3%	4.2%	2.9%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Return on Equity	N/A	11.3%	8.7%	8.6%	11.2%	10.2%	10.3%	10.4%	10.6%	10.7%	12.3%
Loss & LAE Ratio	64.6%	64.7%	64.9%	68.0%	61.2%	62.5%	62.5%	62.5%	62.5%	62.5%	62.0%
Expense Ratio	31.7%	30.6%	31.3%	30.0%	31.8%	32.4%	32.4%	32.5%	32.5%	32.5%	32.0%
Combined Ratio	96.4%	95.3%	96.2%	98.0%	93.0%	94.9%	94.9%	95.0%	95.0%	95.0%	94.0%
Underwriting Margin	3.6%	4.7%	3.8%	2.0%	7.0%	5.1%	5.1%	5.0%	5.0%	5.0%	6.0%
Unearned Premiums	4,573	5,365	5,412	5,960	6,256	6,594	6,932	7,270	7,608	7,946	8,284
Net Technical Reserves	9,570	11,667	11,813	12,707	13,681	18,159	19,367	20,575	21,712	22,755	23,641
Reserves Ratio	120%	137%	121%	120%	118%	101%	101%	100%	100%	100%	100%
Net Written Premiums / Stat Cap & Surplus	N/A	1.3 X	1.2 X	1.3 X	1.2 X	1.8 X	1.8 X	1.8 X	1.9 X	1.9 X	1.8 X
Solvency Ratio	N/A	76.4%	81.1%	76.1%	81.9%	54.3%	55.8%	54.5%	53.5%	52.9%	54.1%

VALUATION | SURPASSING DIVIDENDS MEET

The valuation of Intact Financial Corporation was primarily performed through a Dividend Discount Model (DDM). The DDM provides the investor with an intrinsic value based on the projected dividends of the company. Typically, revenues generally track GDP and inflation growth. With the RSA acquisition set to close in Q2 of 2021, overall direct written premiums for Intact are expected to drastically rise. The loss and expense ratios incurred in 2020 were lower than previous years due to less claims occurring through the COVID-19 pandemic. Slight increases in the combined ratio are forecasted however synergies expected through the RSA acquisition will assist in maintaining these historically lower ratios. This is in line with management's goal of improving its combined ratio.

The cost of equity used for the valuation was calculated using a bottom-up beta. This provides an adequate representation of the risks of the business, incorporating the operating and financial risks present within the company. The peer group used primarily consisted of US based pure-play insurance companies as there are few representative pure-plays operating out of Canada. Intact's historically lower levered beta is expected to be attributed through its operation as the largest market share holder within Canada. This historical beta is shown within the calculation through an average based on comparables and Intact's current capital structure, comparables and the median capital structure, and the historical beta. This provides an average cost of equity of 7.92% which is used for the DDMs. The risk-free rate is the Canadian 5-year bond yield at the time of the valuation. The equity risk premium of 9.83% is the estimated Canadian market risk premium[xlviii].

Intact Financial Corporation - Levered Beta & WACC Calculation											
	Ticker	Country	Unlevered Beta	Debt	% Debt	Preferred Stock	% Preferred	Equity Value	% Equity	5 yr Avg. Tax Rate	Levered Beta
Current Capital Structure	IFC	Canada	0.79992	2,382	11.63%	1,175	5.74%	16,922	82.63%	17.43%	0.82293
"Optimal" Capital Structure	IFC	Canada	0.79992	3,471	16.95%	161	0.79%	17,008	83.05%	17.43%	0.80479
Cost of Equity Based on Comparables, Current Capital Structure											**8.99%**
Cost of Equity Based on Comparables, "Optimal" Capital Structure											**8.81%**
Cost of Equity Based on Historical Beta											**5.96%**
Average Cost of Equity Produced by All Methods											**7.92%**
WACC = Cost of Equity * % Equity + Cost of Debt * (1 - Tax Rate) * % Debt + Cost of Preferred Stock * %											
WACC, Current Capital Structure											**8.08%**
WACC, "Optimal" Capital Structure											**7.93%**
WACC, Current Capital Structure and Historical Cost of Equity											**5.57%**
Average WACC Produced by All Methods											**7.19%**

Dividend Discount Model | Income and Go

Two separate dividend discount models were created. One using residual equity above the specific estimated required solvency ratio with the other through a dividend growth rate. The terminal value of the dividend growth rate method was calculated using a 100% payout ratio for the carrying value year. This provides a proxy for the equity value of the company in perpetuity. Dividends are expected to continue its 4-year historical average of 11.8% for the forecast period. Using the dividend growth rate method, an estimated share price of $182.55, representing an upside of 17.5% was calculated.

Moreover, the residual dividend method utilizes a terminal price to book value multiple calculated using the cost of equity, terminal return on equity, and terminal growth rate. Using an estimated minimum solvency ratio of 50%, an estimated residual statutory capital and surplus figure is calculated. Surpluses generated through the solvency requirements of the net written premiums and the net income generated are paid out to shareholders through dividends. This method provides an estimated equity value based on the residual income generated by the company. Through this method, an implied share price of $170.29 was calculated, representing an upside of 9.6% to the current share price at the time of the valuation.

IFC - DDM Analysis						
FISCAL YEAR	**2021 E**	**2022 E**	**2023 E**	**2024 E**	**2025 E**	**CV**
Net Income	**1,003**	**1,060**	**1,121**	**1,183**	**1,247**	**1,494**
Net Income Growth Rate	-2.7%	5.7%	5.8%	5.6%	5.3%	19.8%
Dividends Paid to Shareholders	**531**	**594**	**664**	**743**	**831**	1,494
Dividend Growth Rate	11.8%	11.8%	11.8%	11.8%	11.8%	79.8%
Dividend Payout Ratio	53.0%	56.0%	59.3%	62.8%	66.6%	**100.0%**
Beginning Shareholders' Equity	9,583	10,054	10,520	10,977	11,418	11,834
Plus: Net Income	1,003	1,060	1,121	1,183	1,247	1,494
Less: Dividends	(531)	(594)	(664)	(743)	(831)	(1,494)
Ending Implied Shareholders' Equity	**10,054**	**10,520**	**10,977**	**11,418**	**11,834**	**11,834**
Implied Return on Equity	10.2%	10.3%	10.4%	10.6%	10.7%	12.6%
Net Written Premiums (NWP)	17,896	19,149	20,489	21,719	22,805	23,648
Beginning Statutory Capital & Surplus	9,583	8,948	9,574	10,245	10,859	11,402
Plus: Assumed Stat Net Income	1,003	1,060	1,121	1,183	1,247	1,494
Less: Residual Dividends	(1,638)	(433)	(451)	(569)	(704)	(1,072)
Ending / Required Stat Cap & Surplus	8,948	9,574	10,245	10,859	11,402	11,824
Full Year Discount Period	1	2	3	4	5	5
Mid-Year Discount Period	0.5	1.5	2.5	3.5	4.5	4.5
Present Value of Dividends	**$511.30**	**$529.78**	**$548.94**	**$568.78**	**$589.35**	**$1,059.91**
Present Value of Residual Dividends	**$1,576.35**	**$386.61**	**$372.53**	**$435.47**	**$499.29**	**$760.54**

IFC - Implied Intrinsic Value	
Terminal Growth Rate	3.5%
Minimum Solvency Ratio	50%
Cost of Equity	7.92%
Terminal Value	
Sum of PV of Dividends	$2,748.15
Terminal Value (Growth)	23,971
Terminal Value	26,719
Shares Outstanding	143
Implied Share Price	$ 186.85
Current Share Price	$ 156.78
Potential Upside	**19.2%**
Terminal Return on Equity	12.3%
Terminal P/BV	2.0 X
Terminal Value (Multiple)	23,514
Sum of PV of Residual Dividends	4,031
PV of Equity	**27,545**
Shares Outstanding	143
Implied Share Price	$ 192.62
Current Share Price	$ 156.78
Potential Upside	**22.9%**

Comparable Company Analysis | Market Insights on RSAdded Value

A company comparable analysis of Intact was performed to display the current price of the shares relative to its peer group. Insurance companies generally rely on the residual earnings and the book value of its assets to provide a valuation. Price/EPS and Price/BVPS are used to compare the companies within this peer group. The relative valuation of Intact provided an implied share price of $95.32 based on these two multiples. A significant overvaluation of 38.6% is displayed through this valuation. This company comparable analysis must be taken with a grain of salt, however. Intact holds the largest market share within Canada, a country with more robust regulations surrounding P&C insurance policies. The RSA acquisition has been expected to increase investor confidence of the company, placing upward pressure on the stock price. As this is such a large acquisition, drastic increases in the size of the balance sheet are to be expected for Intact, increasing the estimated book value per share.

Valuation Statistics		Capitalization & Assets			Growth and Expenses		Price / EPS		Price / BVPS	
Company Name	Share Price	Equity Value	Book Value	Total Assets	Combined Ratio	NWP Growth	Year 1	Year 2	Year 1	Year 2
Travelers Cos Inc	$ 153.85	39,170	30,976	116,764	95.0%	2.0%	13.8 X	12.7 X	1.3 X	1.3 X
Progressive Corp	$ 96.20	56,527	18,889	64,098	87.7%	62.7%	16.7 X	16.7 X	3.0 X	2.7 X
Cincinnati Financial Corp	$ 104.04	16,896	11,331	27,542	98.1%	6.3%	25.5 X	24.8 X	1.5 X	1.4 X
Hanover Insurance Group	$ 131.10	4,995	3,503	13,444	95.8%	0.4%	14.0 X	13.3 X	1.4 X	1.3 X
Hartford Financial Services Group	$ 65.96	23,785	19,564	74,111	96.4%	2.8%	12.4 X	10.6 X	1.2 X	1.1 X
Selective Insurance Group	$ 73.17	4,412	2,760	9,688	94.9%	3.5%	16.2 X	15.2 X	1.6 X	1.5 X
Kemper Corp	$ 81.25	5,422	4,968	14,342	105.2%	3.5%	13.0 X	11.8 X	1.1 X	1.0 X
Fairfax Financial Holdings	$ 547.23	14,473	13,765	74,054	97.8%	7.4%	8.4 X	8.4 X	0.8 X	0.8 X
Chubb Ltd	$ 160.34	72,705	63,031	190,774	96.1%	4.8%	13.6 X	12.7 X	1.2 X	1.1 X
Aviva Plc	£ 4.01	15,827	3,141	479,857	96.2%	0.4%	7.5 X	7.3 X	5.0 X	5.4 X
Allstate Corp	$ 116.80	36,850	28,753	125,987	87.6%	1.0%	9.2 X	9.3 X	1.3 X	1.2 X
RSA Insurance Group PLC	**£ 6.81**	**7,070**	**4,340**	**20,706**	**91.9%**	**-3.0%**	**17.7 X**	**16.1 X**	**1.6 X**	**1.5 X**
Maximum	$ 547.23	72,705	63,031	479,857	105.2%	62.7%	25.5 X	24.8 X	5.0 X	5.4 X
75th Percentile	$ 136.79	37,430	21,861	119,070	96.8%	5.1%	16.3 X	15.4 X	1.6 X	1.5 X
Median	$ 100.12	16,362	12,548	69,076	96.0%	3.1%	13.7 X	12.7 X	1.4 X	1.3 X
25th Percentile	$ 71.37	6,658	4,131	19,115	94.2%	0.8%	11.6 X	10.3 X	1.2 X	1.1 X
Minimum	$ 4.01	4,412	2,760	9,688	87.6%	-3.0%	7.5 X	7.3 X	0.8 X	0.8 X
Intact Financial Corp		22,209	10,047	38,349	95.0%	19.0%	22.3 X	21.1 X	2.2 X	2.1 X
							$ 95.43	$ 93.82	$ 95.11	$ 96.94
Average Implied Share Price							**$ 95.32**			
Current Share Price							155.31			
Potential Upside (Downside)							-38.6%			

Investment Summary

Buy Recommendation | Price Target $189.73

Investment Positives | Saving Time and Money

Intact remains as the largest pure-play insurance provider in Canada, on a market share basis. The company maintains a focus to ESG considerations, surpassing the requirements set out by the RSIs. The acquisition of RSA's Canadian, UK, and International operating segments will solidify Intact's domestic market share and will allow the company to scale its businesses in foreign markets. This acquisition is expected to be successful due to the integrative capabilities of the Intact supply chain, providing cost-saving synergies for RSA, increasing the value of the combined firm on a relative basis. Management has proven to be capable and have set aggressive long-term targets for themselves within the Canadian P&C insurance market.

Investment Negatives | Exploring the Unknown

Intact is currently overvalued relative to peers. This signals that the market is pricing in the acquisition for RSA's business lines, including potential synergies. This acquisitions still carries significant risks and if synergies are not generated through this large deal, there could be an adverse market reaction. Failure to achieve these synergies can prevent management from achieving its long-term goal of 500 bps in NOIPS outperformance. Intact is not as diversified as other Canadian insurance providers. As intact is one of few pure-play publicly traded insurance firm operating out of Canada, it is more susceptible to fluctuations within the Canadian economy.

Catalyst for Recommendation Change | Acquiring Future Guidance

The valuation of the company should be revisited once the acquisitions of RSA's businesses are finalized. Once further insight is provided regarding the overall outlook of the combined company's financials, the financial model will require an update. The balance sheet is expected to drastically increase in size, but as the asset breakdown in undisclosed, it is difficult to place an accurate value on this increase. If further issues were to develop relating to increased frequencies of catastrophic events or extreme weather conditions in Canada, the combined ratio assumptions will require further development. Due to lack of information of the asset distribution of the RSA acquisition, it remains unclear as to how the balance sheet of Intact will change.

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[xxviii] Intact Financial Corporation MD&A 2020 page 40
[xxix] Intact Financial Corporation, Social Impact Report, 2019 & 2017.
[xxx] Intact Financial Corporation, MD&A 2020 Page 41
[xxxi] Ibid
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APPENDIX 1: BALANCE SHEET

IFC - Consolidated Statement of Financial Position

ACCOUNT NAME	HISTORICALS					PROJECTIONS					
FISCAL YEAR	**2016 A**	**2017 A**	**2018 A**	**2019 A**	**2020 A**	**2021 E**	**2022 E**	**2023 E**	**2024 E**	**2025 E**	**CV**
ASSETS											
Investments											
Cash and Cash Equivalents	168	163	442	936	917	3,867	3,942	3,897	3,664	3,208	2,711
Fixed Income	8,801	11,229	11,701	11,826	14,098	15,085	16,141	17,271	18,480	19,773	21,157
Preferred Securities	1,377	1,330	1,165	1,465	1,552	1,661	1,777	1,901	2,034	2,177	2,329
Equity Securities	3,635	3,659	3,295	4,063	3,779	4,044	4,327	4,629	4,953	5,300	5,671
Loans	405	393	294	318	284	304	325	348	372	398	426
Total Non-Cash Investments	**14,218**	**16,611**	**16,455**	**17,672**	**19,713**	**21,093**	**22,569**	**24,149**	**25,840**	**27,649**	**29,584**
Premiums Receivable	3,057	3,351	3,358	3,588	3,822	5,760	6,103	6,530	6,922	7,268	7,537
Reinsurance Assets	482	822	864	1,511	1,533	2,356	2,521	2,698	2,860	3,002	3,114
Income Taxes Receivable	116	24	88	14	7	7	7	7	7	7	7
Deferred Tax Assets	142	124	141	175	179	179	179	179	179	179	179
Deferred Acquisition Costs	747	881	903	1,026	1,089	1,709	1,831	1,961	2,081	2,187	2,269
Other Assets	549	703	841	968	1,201	1,201	1,201	1,201	1,201	1,201	1,201
Investments in Associates and JVs	543	550	600	715	811	811	811	811	811	811	811
Plant, Property & Equipment	139	164	170	538	520	520	520	520	520	520	520
Intangible Assets	1,302	2,161	2,200	2,523	2,514	2,514	2,514	2,514	2,514	2,514	2,514
Goodwill	1,403	2,284	2,399	2,626	2,813	2,813	2,813	2,813	2,813	2,813	2,813
Total Assets	**22,866**	**27,838**	**28,461**	**32,292**	**35,119**	**42,830**	**45,011**	**47,280**	**49,411**	**51,359**	**53,259**
LIABILITIES & SHAREHOLDERS' EQUITY											
Liabilities											
Claims Liabilities	8,536	10,475	10,623	11,846	12,780	19,681	21,059	22,533	23,885	25,079	26,007
Unearned Premiums	4,573	5,365	5,412	5,960	6,256	6,594	6,932	7,270	7,608	7,946	8,284
Financial Liabilities related to Investments	529	167	289	295	89	89	89	89	89	89	89
Income Taxes Payable	10	262	15	150	149	149	149	149	149	149	149
Deferred Tax Liabilities	404	246	239	286	279	279	279	279	279	279	279
Other Liabilities	1,333	1,619	1,864	2,646	2,942	2,942	2,942	2,942	2,942	2,942	2,942
Debt Outstanding	1,393	2,241	2,209	2,362	3,041	3,041	3,041	3,041	3,041	3,041	3,041
Total Liabilities	**16,778**	**20,375**	**20,651**	**23,545**	**25,536**	**32,775**	**34,491**	**36,303**	**37,993**	**39,525**	**40,791**
Shareholders' Equity											
Common Shares	2,082	2,816	2,816	3,265	3,265	3,265	3,265	3,265	3,265	3,265	3,265
Preferred Shares	489	783	1,028	1,028	1,175	1,175	1,175	1,175	1,175	1,175	1,175
Contributed Surplus	129	128	149	170	187	187	187	187	187	187	187
Retained Earnings	3,197	3,520	3,776	3,959	4,547	5,018	5,484	5,941	6,382	6,798	7,432
Accumulated OCI	191	216	41	325	409	409	409	409	409	409	409
Total Shareholders' Equity	**6,088**	**7,463**	**7,810**	**8,747**	**9,583**	**10,054**	**10,520**	**10,977**	**11,418**	**11,834**	**12,468**
Total Liabilities & Shareholders' Equity	**22,866**	**27,838**	**28,461**	**32,292**	**35,119**	**42,830**	**45,011**	**47,280**	**49,411**	**51,359**	**53,259**
Balance Check	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*	*OK!*

APPENDIX 2: INCOME STATEMENT

IFC - Consolidated Statement of Income											
ACCOUNT NAME	HISTORICALS					PROJECTIONS					
FISCAL YEAR	2016 A	2017 A	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E	CV
Direct Premiums Written	8,197	8,748	10,125	11,019	12,143	18,700	20,009	21,410	22,694	23,829	24,711
Premiums Ceded	212	221	393	443	527	804	860	921	976	1,025	1,063
Net Premiums Written	**7,985**	**8,527**	**9,732**	**10,576**	**11,616**	**17,896**	**19,149**	**20,489**	**21,719**	**22,805**	**23,648**
Changes in Unearned Premiums	83	(31)	(33)	301	375	338	338	338	338	338	338
Net Earned Premiums	**7,902**	**8,558**	**9,765**	**10,275**	**11,241**	**17,558**	**18,811**	**20,151**	**21,381**	**22,467**	**23,310**
Other Underwriting Revenues	122	108	110	119	135	135	135	135	135	135	135
Net Investment Income	344	501	542	741	577	712	762	815	872	933	999
Other Revenues	143	158	147	214	327	271	271	271	271	271	271
Total Revenue	**8,511**	**9,325**	**10,564**	**11,349**	**12,280**	**18,676**	**19,978**	**21,372**	**22,658**	**23,805**	**24,714**
Net Claims Incurred	5,108	5,538	6,340	6,989	6,883	10,974	11,757	12,595	13,363	14,042	14,452
Underwriting Expenses	2,533	2,605	3,042	3,172	3,696	5,794	6,208	6,650	7,056	7,414	7,576
Other Operating Expenses	106	117	155	219	346	486	519	556	589	619	643
Operating Income	**764**	**1,065**	**1,027**	**969**	**1,355**	**1,422**	**1,494**	**1,572**	**1,651**	**1,731**	**2,044**
(Income) Loss from Affiliates	(16)	(16)	(25)	(31)	(52)	(28)	(28)	(28)	(28)	(28)	(28)
Interest Expense	72	82	103	110	115	115	115	115	115	115	115
Abnormal Losses (Gains)	22	57	63	57	(67)	-	-	-	-	-	-
Pretax Income	**686**	**942**	**886**	**833**	**1,359**	**1,335**	**1,407**	**1,485**	**1,564**	**1,644**	**1,957**
Income Tax Expense	145	150	179	79	277	280	296	312	328	345	411
Net Income Attributable to Shareholders	**541**	**792**	**707**	**754**	**1,082**	**1,055**	**1,112**	**1,173**	**1,235**	**1,299**	**1,546**
Preferred Shares Dividends	20	27	40	45	52	52	52	52	52	52	52
Net Income Attributable to Common Shareholders	**521**	**765**	**667**	**709**	**1,030**	**1,003**	**1,060**	**1,121**	**1,183**	**1,247**	**1,494**
Basic Shares Outstanding	131	133	139	140	143	143	143	143	143	143	143
Diluted Shares Outstanding	131	133	139	140	143	143	143	143	143	143	143
Earnings Per Share, Basic	$ 3.97	$ 5.75	$ 4.79	$ 5.08	$ 7.20	$ 7.01	$ 7.41	$ 7.84	$ 8.27	$ 8.72	$ 10.45
Earnings Per Share, Diluted	$ 3.97	$ 5.75	$ 4.79	$ 5.08	$ 7.20	$ 7.01	$ 7.41	$ 7.84	$ 8.27	$ 8.72	$ 10.45

APPENDIX 3: CASH FLOW STATEMENT

IFC - Consolidated Statement of Cash Flow											
ACCOUNT NAME	HISTORICALS					PROJECTIONS					
FISCAL YEAR	2016 A	2017 A	2018 A	2019 A	2020 A	2021 E	2022 E	2023 E	2024 E	2025 E	CV
CASH FLOWS FROM OPERATING ACTIVITIES											
Net Income						**1,003**	**1,060**	**1,121**	**1,183**	**1,247**	**1,494**
Changes in Premiums Receivable						(1,938)	(343)	(427)	(392)	(346)	(269)
Changes in Reinsurance Assets						(823)	(165)	(176)	(162)	(143)	(111)
Changes in Income Taxes Receivable						-	-	-	-	-	-
Changes in Deferred Tax Assets						-	-	-	-	-	-
Changes in Deferred Acquisition Costs						(620)	(122)	(130)	(120)	(106)	(82)
Changes in Other Assets						-	-	-	-	-	-
Changes in Claims Liabilities						6,901	1,378	1,474	1,352	1,194	928
Changes in Unearned Premiums						338	338	338	338	338	338
Changes in Income Taxes Payable						-	-	-	-	-	-
Changes in Deferred Tax Liabilities						-	-	-	-	-	-
Changes in Other Liabilities						-	-	-	-	-	-
Total Cash Flows From Operations						**4,861**	**2,145**	**2,199**	**2,200**	**2,184**	**2,297**
CASH FLOWS FROM INVESTING ACTIVITIES											
Increases to Fixed Income						(987)	(1,056)	(1,130)	(1,209)	(1,294)	(1,384)
Increases to Preferred Shares						(109)	(116)	(124)	(133)	(142)	(152)
Increases to Equity Securities						(265)	(283)	(303)	(324)	(347)	(371)
Increases to Loans						(20)	(21)	(23)	(24)	(26)	(28)
Changes in Investments in Associates and JVs						-	-	-	-	-	-
Changes in Plant, Property & Equipment						-	-	-	-	-	-
Changes in Intangible Assets						-	-	-	-	-	-
Changes in Goodwill						-	-	-	-	-	-
Changes in Financial Liabilities related to Investments						-	-	-	-	-	-
Total Cash Flows From Investing						(1,380)	(1,477)	(1,580)	(1,690)	(1,809)	(1,935)
CASH FLOWS FROM FINANCING ACTIVITIES											
Changes in Debt Outstanding						-	-	-	-	-	-
Changes in Common Shares						-	-	-	-	-	-
Changes in Preferred Shares						-	-	-	-	-	-
Changes in Contributed Surplus						-	-	-	-	-	-
Changes in Accumulated OCI						-	-	-	-	-	-
Dividends Paid to Common Shareholders						(531)	(594)	(664)	(743)	(831)	(860)
Total Cash Flows From Financing						(531)	(594)	(664)	(743)	(831)	(860)
Cash, Beginning						917	3,867	3,942	3,897	3,664	3,208
Net Changes in Cash						2,950	75	(45)	(233)	(455)	(498)
Cash, Ending						3,867	3,942	3,897	3,664	3,208	2,711

APPENDIX 4: WACC ASSUMPTIONS

Wacc Analysis - Intact Financial Corporation
($ Millions Except Per Share Amounts)

Discount Rate Calculations - Assumptions		
Risk-Free Rate	0.906%	Canada 5-Year bond yield at time of valuation
Equity Risk Premium	9.83%	Bloomberg's Canada Market Risk Premium as of Valuation Date
Pre-Tax Cost of Debt	4.12%	Weighted Average Coupon Rate
Cost of Preferred Stock	4.39%	Weighted Average Preferred Stock Coupon
IFC - 5 Year Average Tax Rate	17.43%	5-year Average Tax Rate

Comparable Companies - Unlevered Beta Calculation:

Name	Ticker	Country	Levered Beta	Debt	% Debt	Preferred Stock	% Preferred	Equity Value	% Equity	5 yr Avg. Tax Rate	Unlevered Beta
TRAVELERS COS INC/THE	TRV	USA	0.949	6,912	15.25%	-	0.00%	38,427	84.75%	19.65%	0.82916
PROGRESSIVE CORP	PGR	USA	0.748	5,575	9.53%	494	0.84%	52,460	89.63%	22.78%	0.68531
CINCINNATI FINANCIAL CORP	CINF	USA	0.933	899	5.08%	-	0.00%	16,807	94.92%	21.77%	0.89553
HANOVER INSURANCE GROUP IN	THG	USA	0.882	781	14.92%	-	0.00%	4,452	85.08%	19.52%	0.77290
HARTFORD FINANCIAL SVCS GRP	HIG	USA	1.422	4,573	18.98%	345	1.43%	19,170	79.58%	47.04%	1.24264
SELECTIVE INSURANCE GROUP	SIGI	USA	0.915	592	11.71%	200	3.95%	4,266	84.33%	23.39%	0.79339
KEMPER CORP	KMPR	USA	1.19	1,173	18.53%	-	0.00%	5,157	81.47%	17.58%	1.00214
FAIRFAX FINANCIAL HLDGS LTD	FFH	Canada	0.505	8,814	40.33%	1,336	6.11%	11,708	53.56%	30.43%	0.30833
CHUBB LTD	CB	USA	0.938	15,773	16.95%	-	0.00%	77,290	83.05%	15.41%	0.79992
AVIVA PLC	AV	UK	1.397	13,220	38.10%	273	0.79%	21,204	61.11%	21.90%	0.93147
ALLSTATE CORP	ALL	USA	0.954	8,336	18.87%	2,025	4.58%	33,807	76.54%	22.00%	0.76185
MEDIAN			**0.938**	**5,575**	**16.95%**	**200**	**0.8%**	**19,170**	**83.05%**	**21.90%**	**0.79992**
Intact Financial Corp	**IFC**		**0.514**								