L&G Investor and Analyst Event – Q&A

7 February 2025

António Simões:

I will now open up for the lines for questions. The way to do this, if you look at it on the screens, please use the raised hand function on your screen, and then I'll come to you. When I say your name, you'll know to unmute and ask a question. Let's start. The first question is from Farooq. Hi, Farooq. Good morning.

Farouk:

Good morning. I hope you can hear me now.

António Simões:

I can actually, yes.

Farooq:

Thank you very much. I just wanted to ask about the co-investment opportunity in private markets. Can you tell us how much of your asset management business is currently in Japan, and what kind of participation Meiji already has with you, and what is the size of the commitment or some qualitative guide to the commitment that they will be giving to your private markets business? That's question one. Then, question two is on the proceeds you've given us... Thank you so much. The details on the buyback and on keeping 400 million for the PRT business in the US. Can you give a little bit more flavor of what the rest will be used in? You talk about asset management and other growth opportunities. If you could just give us an idea of what things you want to achieve with the remaining proceeds. Those are my questions. Thank you.

António Simões:

Perfect. Thank you. Thank you, Farooq, and good morning. As I said, thank you, everybody, for joining us at 9:00 AM when we did an R&S at 7:00 AM. Thank you for digesting all of this. On your first question, I think it's probably worth just stepping back. As you know, you were here in the room where we're sitting now when I announced the strategy back in June of last year. We talked about asset management as the growth engine for us going forward on top of what is a very strong institutional retirement business and a retail business. When I talked about asset management, a big part of that was moving into areas where we believe our clients want solutions from L&G and that those revenue margins are higher.

A big part of that is our commitment to private markets. If you step back in terms of our overall strategy, we're already very strong in several areas of private markets; real estate, private credits, infrastructure. This is aligned to that. What Meiji Yasuda are saying, as part of this strategic agreement... They are going to co-invest with us in that global private markets business.

The first thing to say, Farooq, is that this is now a global partnership where they will be investing in different aspects. Of course, that is an ongoing commitment over the next few years. But you know that our private markets' business invests in everything from affordable housing, the fund that we launched here in the US, built-to-rent, here in the UK... built-to-rent, what we're doing with Oxford University. There's a series of private markets opportunities that are very key to our strategy, and that we've been showing great momentum. That's the first thing to say.

Second, you mentioned Japan. Japan has been a key market for us for a very long time. Meiji Yasuda are one of our key partners. Of course, they will be even a bigger partner now, but also it's public that we work with GPIF, the largest pension fund in the world, so the Japanese pension fund. We have a series of other clients in Japan. So this partnership with Meiji Yasuda will allow us to make Japan even a bigger part of our business. Of our global AUM, 40% is outside the UK and then a portion of that, roughly, 100 billion or so, is in Asia. Asia is a very important market for us, a very important region and within thatJapan is critical. As you know, we have three offices in Asia, Tokyo, Hong Kong, and the most recent one, Singapore. That's in terms of their ongoing commitment to co-invest with us in private markets. We're very excited about that part of the agreement.

In terms of the proceeds, so Jeff talked about that 400 million. You may want to add to that. In terms of the remainder... First thing to say, we are returning in a share buyback more than 50% of the proceeds. For me, that's important. We said we're going to return more to shareholders, and that's exactly what we're doing.

We then have the growth of PRT, and we have the 400 million that Jeff will elaborate. On the rest, if you think of the remainder, they're absolutely, Farooq, aligned to our strategic priorities. I've talked about growing asset management. I've talked about growing asset management, private markets. What did we do at the end of last year? We did the acquisition of Taurus in the US. They're based in Boston. They're a real estate equity player in the US. That's exactly right at the center of our strategy, so private markets, real estate, US growth. You can expect that type of organic growth and, as I signaled throughout last year, bought on acquisitions that are really aligned with that. Do you want to talk about the 400 million?

Jeff Davies:

Yeah. I mean, I think you guys understand the dynamics of the US PRT business. We're taking some of the enforce, we're replacing some of the capital that we had there that's relatively small. Some of the 400 is not necessarily incremental. We had it in our plan to write US PRT. If anything, we'd hope to write bigger volumes than we had in our original plans before this, making us at least back in the same net position with 80% of the business. That's over our five-year planning horizon that we'd expect to be deploying that capital against the US PRT, mostly through probably Bermuda, places like that, as we work with them to make the business as capital-efficient as possible.

António Simões:

Jeff made a very important point, Farouk, which is every single pound/every single dollar that we're spending has this discipline of capital allocation at 14%, so return on that capital. Therefore, as we did back in December when we did the institutional retirement capital markets event, any capital that we're not spending where we don't see the right opportunities meeting that hurdle, we will return that to shareholders. This is what we believe we will do in terms of growth, but my commitment to you is that every single pound/every single dollar will have that return on capital of 14%. For instance, when we have lower strain, as we said last year in UK PRT, we're returning a part of that to shareholders. Thank you, Farouk.

Second question comes from Rhea from Deutsche Bank. Hi, Rhea. Good morning.

Rhea:

Hi. Morning, António, Jeff. Congratulations on the deal. Just two questions from me as well. The first one... This is just a clarification point perhaps. In terms of Meiji Yasuda's intention to acquire 5% of your shares, is there any timing on this? Will this be post-completion of the deal? Then, the second question, just going back to Farooq's point around where the last 400 million is being reinvested, you've spoken about asset management, so is this incremental to the 50 to 100 million of asset management investment you had already penciled in? Other than private markets, where will this be going towards?

António Simões:

Thank you. Thank you, Rhea. Jeff should comment also on the 5%. But if I go back to exactly what I said, I believe this is a great statement of confidence and intent in terms of both our partnership but also their confidence in our strategy and long-term purposes/long-term prospects. This is absolutely up to Meiji Yasuda to decide when to buy the shares. But they have, as we've both signaled this morning, their intention to acquire 5% of our shares. Do you want to talk a bit about timing?

Jeff Davies:

There isn't really anything to add to that. I mean, we clearly can't know when they want to be buying the shares. That wouldn't be appropriate at all. For all we know, they could have bought them all this morning or they might be waiting until after closing. That is entirely up to them. There is an intention from them to build up this 5% over time, which, obviously, we welcome them. But we welcome the signal, in that it gives to the partnership.

António Simões:

I think, Rhea, on your second question, I think... And I said something if you remember back in June. I'm trying to be super consistent here with our strategy, which is, obviously, we have a very strong position from a solvency perspective today. Overall, this gives us strategic flexibility to pursue growth opportunities. Actually, that's what we're saying from a 400 million perspective. Actually, it can be in parts of asset management or other parts of the business. What I absolutely guarantee you is, number one, fully aligned with the strategy that we've outlined and with that discipline on the 14% return on capital and to reinforce this, if we don't spend that money, we will return that to shareholders. Thank you, Rhea.

Rhea:

Thank you.

António Simões:

Next question from Andrew Baker from Goldman Sachs. Hi, Andrew.

Andrew Baker:

Hi, guys. Thanks for taking my questions. The first one... Appreciate you accelerating the surface generation of the US business, but how are you thinking about the dividend cover on an ongoing basis if you look through the 200/250 million of net surface generation when this transaction completes? Second, I think the US balance sheet or the size of the US balance sheet has historically been a constraint for your US PRT growth. Does this transaction increase your capacity to write more in terms of larger deals or just volumes in general? Is there any impact on strain as well? Then, third, the earnings multiple... clearly very strong. Can you just help me think about the capital generation multiple? Because it looks like that's below the group. But are there any nuances around that 200/250 surplus, whether it's solvency to equivalents, US reserving? Just anything there to be aware of? Thank you.

António Simões:

Thank you. Thank you, Andrew. Jeff, I think you should cover all of them including NSG. I think just a point on your second one in terms of the strategic aspects of US PRT. I showed it in one of the slides. I didn't really quite cover it. But you probably saw it, Andrew, which is... I've talked about this global golden year of PRT. I covered that extensively in our capital markets event, back in December, when we did a deep dive in institutional retirement. We talked about a trillion over the next 10 years. I talked specifically about 500 billion in the US over the next 10 years. This, yes, Andrew, gives us the firepower together with Meiji Yasuda to pursue those deals.

We will absolutely have exactly the same capital discipline/exactly the same return discipline. The opportunity ahead of us is the same. But by partnering together tomorrow morning, nothing changes. We are going out to the market. They're the same teams. They're co-located. They're part of Meiji Yasuda and L&G. We have 80% of the business. They have 20%. But yes, we have a stronger combined balance sheet that allows us to go after those opportunities. Jeff, maybe you want to comment on that also in terms of strain, and NSG, and then the multiple of the five times.

Jeff Davies:

Yeah, sure. I think your first point and the last point are actually the same thing, the surplus generation, dividend cover, net surplus generation. I mean, as António said many times, on any basis getting 1.8 billion of cash is a positive for this business. How do we think about specifically dividend cover / net surplus generation? To start with, we have, through everything we've done, probably the most capital-efficient US-term writing possible in the market. Actually, some of the work that we've been doing over many, many months with Meiji Yasuda is to allow them to replicate that structure and continue to deliver growth in that business in a very capital-efficient way, working with us on the PRT side of things.

That is very important because that then is what you're seeing in the metrics. But really what does that mean? What's happening is the surplus generation number was very large because through writing such increase increasing volumes of US-term, we were effectively being able to take credit for the future surpluses of that new business. It was very dependent on writing, continuing volumes of new US-term business, and putting on, effectively, all the future profits/future surplus on our balance sheet because of how efficient we'd structured the internal structure for the term assurance.

Therefore, instead of that, we're now getting that in cash. We get 1.8 billion of real cash, instead of the future surpluses, coming through in our surplus generation. That is still a multiple, even if you look at, then, what does that mean in pure capital terms? We say 1.2 billion after all the moving parts, 1.2 billion of capital surplus, which is around at least five times of the surplus generation of that particular book in tangible assets instead of future surplus generation. Removes that uncertainty/volatility and of course, the solvency goes up by 22% as a result of that. You can see these are big numbers. That is a significant improvement in where we are.

We then get to your point around dividend cover. We've had this cash. We've had 22% surplus. We clearly then have looked at all of the plans and projections with the Board. We're very comfortable to then give back a billion of that surplus that we generate, the cash that we have, because we're very confident in the very predictable surpluses that we have thrown off the remainder of the business. The opportunities for growth beyond that and the capital efficiency of writing, in particular the UK PRT business, all means that we're very comfortable with the dividend cover, the strain dynamics, and where we would end up in terms of surplus generation for that book.

That was the sort of dynamics around it. There's a lot of moving parts. Anyone that wants to, we can talk to people afterwards around US Deduction and Aggregation and Bermuda and everything else, but there's a lot of moving parts within there. But there's some big numbers which are all positive for us and accelerate all this surplus emergence.

In terms of the model and strain, there isn't really any change. We will continue to be very capital-efficient in the way we write the USPRT. We will obviously work very closely with them. To António's point and your point, we'll work on what is the best balance sheet structure for that and how can we make the best possible offering for the market. That will be a lot of the day-two activity, if you like, post-closing and to determine how we best take that to market. But in terms of pure strain for us, it will be very similar to what we've been doing in the past. There's no addition from this. We will optimize it using the entities that we have.

António Simões:

Thank you. Thank you Jeff, and thank you, Andrew. As Jeff said, the moving parts, but this is clearly a creative transaction for us.

And as you can see from our tone, we feel very positive about it.

So next question from Nasib Ahmed from UBS. Hi Nasib. Good morning.

Nasib Ahmed:

Hey, morning guys. Thanks for taking my question.

So firstly, sort of coming back onto the surplus, maybe if you help us understand the duration of the 200 to 250; what's the duration of that business in terms of the surplus? Is it five years and you've just got that up front?

And then the way I was thinking about the five to six billion, why not upgrade that target? You're getting 1.2 billion today. If you invest the 800 million at 14%, you get another 100 million. You're losing, what, 350 million, times that by three. You still get a positive benefit from what you've done today. So why not upgrade the five to six billion?

Then second question on Own Funds. What's the loss of Own Funds of doing all of this on a Solvency II basis?

And then finally on slide six, António, on the gray dots that you still haven't addressed, how are you progressing with those? What's the net asset value of those gray dots that you've got bias to exit?

Thanks.

António Simões:

Thank you. Now Nasib, you were breaking a bit in the second question, I think. It wasn't quite clear. Could you repeat that?

Naseeb Hamed:

It was just the Own funds loss, own funds loss from doing the transaction today.

António Simões:

So let me address ... Actually Jeff is thinking about that, so he'll answer in a second. Let me just answer the first question, which is on the five to six billion.

What we are saying is that we've increased our confidence to deliver the five to six billion. I take your point about upgrading it, but what we have done is that we've crystallized 1.2 billion of that, so we feel more confident to achieve the target. But yes, I like to be ambitious but realistic and then overdeliver, so I'm not changing the target, but yes, we've increased our confidence, and if you think about the range, we're closer to the top end rather than the bottom end. But yes, that is the target and I feel more confident today having announced this than I did yesterday.

On the other two?

Jeff Davies:

Yes, so the own funds, it's actually the opposite. The solvency goes up by 22% and that's a combination of additional own funds..

António Simões:

Before the share buyback, and after the share buyback it's 7%. Yeah.

Jeff Davies:

Yeah. And that's a combination of additional own funds, we've received more than is going off the balance sheet, and a removal of SCR capital requirements from the business. So it's a combination of the two. And so there's an increase from that.

Nasib Hamed:

Sorry, I was just asking about the own funds coming off from the businesses that you sold. 20% of PRT and US protection.

Jeff Davies:

Sorry, yes. Yeah.

Naseeb Hamed:

What was the total Own Funds of that business?

Jeff Davies:

Well, I mean, it isn't the right answer, but if we're getting 1.8 billion in cash, but the capital surplus benefit is 1.2, then some of the difference must be some of the own funds that's gone off. It's more complicated than that because of the way that we consolidate the US business through deduction and aggregation and that we have VIF on our balance sheet in different places. So it's more complicated than that, but it's clearly the difference. We just got the cash in, it would go up by 1.8 billion; the surplus is going up by 1.2 billion. As we say, so some of that difference will have been own funds that went out as part of the transaction, but it's still a net positive overall.

António Simões:

And then on the corporate investments unit, which is slide six, that reports to Jeff. Actually, he and I had the conversation earlier this week where we went asset by asset on ... So-

Jeff Davies:

He wasn't chasing me.

António Simões:

Yeah, no, a lot of good progress actually.

And it's an important point. We have named people for each one of the assets. Of course, as you know, Nasib, they're much smaller assets in CALA, which was the 1.35 billion disposal we did, but ...

Jeff Davies:

Yeah, that's right. So it was around two billion at the time we set it up, so just over half of that at least was sold through CALA. It's a longer list of assets now. Some of those are still material in the sort of hundreds of millions, but it gets smaller and smaller and they vary from a plot of land for 10 million to slightly larger businesses and fintechs. As António says, we have a plan for every single one of those, for them to not be here over the plan period that we have and to not be owning those at the end. Some of those are going faster than we anticipated, others as ever are slower. So we will be updating as we see those, but they won't be the equivalent of large announcements within that. But we're comfortable with the progress we're making.

António Simões:

Yeah, and each time we do our results, we'll give you a bit of an update.

Jeff Davies:

Yeah, absolutely.

António Simões:

As Jeff says, they don't merit a specific one-off announcement because they're small assets, but yeah, we're getting on with it.

And your first question, Nasib, was the 200 to 250 million. Do you want to add to that? He's talking about duration and kind of how we think about that.

Jeff Davies:

Oh, sorry. Yes. The surplus ... Well, it was the surplus.

António Simões:

It was linked to the surplus. Yeah.

Jeff Davies:

Yeah, that's right. Yes. Yeah.

Yeah, well, I mean, it's sort of what you're saying, but as I say, it's very dependent on continuing to write increasing volumes of US protection business. So it sort of happens on day one. We are being paid for you know... I mean, term business normally has a duration of about seven years maximum anyway, and you're being paid for all of that upfront every time within the 200 on your balance sheet. And so they've effectively, if you like, paid us for five years worth of future new business production in the 200 million is one way to think about that.

António Simões:

Thank you.

So thank you, Nasib.

Larissa. Larissa Van Deventer, if I pronounce your surname correctly, Larissa from Barclays. Hi, Larissa. Good morning.

Larissa Van Deventer:

Good morning. And that is a very good attempt. Thank you, António.

Thinking of the balance between the UK and the US PRT markets in light of this transaction, we have two questions. The first one is how should we think about your focus on UK versus US in capital allocation going forward? And the second one is if you can please give a little bit more colour around the 400 million and how exactly that will be applied and what you hope to achieve with that.

António Simões:

And Larissa, the 400 million, you're saying the 400 million ... There's two 400 millions. There's a 400 million which we are applying to the US PRT business, and there's the remainder-

Larissa Van Deventer:

Sorry, that one.

António Simões:

... Which happens to be also 400 hundred million.

Larissa Van Deventer:

So the US PRT 400 million, please.

António Simões:

Oh, okay, okay. Great. Great.

So Jeff will address that. Let me address the first question. Actually, Jeff and I were discussing this this morning.

Of course, this morning we are talking about US protection, we're talking about US PRT, and then global asset management. But if you really step back and everything we've been doing since I took over as CO and the strategy we announced, of course our largest market continues to be the UK and we feel very strongly about the opportunities we have in the UK. We will be talking to you in a few weeks time about our full year results for 2024, but we were very explicit about UK PRT and what we did last year. And the pipeline that we discussed with you back in December, we're very positive about that business.

I keep on talking about asset management globally and I talk about the 40% that are outside the UK, but we are the largest British asset manager and of course 60% of it is in the UK. So the UK continues to absolutely be the growth focus for our business.

And importantly in our third business in retail, there is a very important decision that we've made that this transaction crystallizes. Our retail business is fully focused on the UK. We have 12 million customers in the UK, a very strong brand, been around for 189 years. And this was the one business, US protection was the one retail business we had outside the UK. So again, from a sharper focus perspective, this is the market where we have the brand, where we have the reputation, where we have the credibility to continue to grow and invest in Retail.

So the balance here is ... I've talked a lot this morning about how exciting the US is for us as a growth opportunity, but Larissa, in many ways that balance doesn't change. We are very strong on the UK and the growth there. But if anything, back to the previous question, we want to now with a strong partner continue to grow US PRT, but the strategy I announced in June from a balance perspective doesn't really change. This is an execution of that strategy.

Do you want talk about the 400 million in terms of US PRT?

Jeff Davies:

Yes, sure.

So as I said earlier, some of that is to back the business on day one that we have, and I'll explain that, and the rest is then over a planning period for new US PRT business; not by any means all incremental to our plan. As you can tell by the numbers, it's in the ballpark of the sort of strain we would've had in our plan already for writing that PRT.

So what I mean is on day one we have the US PRT split over the US balance sheet and some of it in Bermuda. You can see all of this from all our various returns that we have and entities. And so some of those net assets will be going to Meiji Yasuda as part of what they're buying, and some of those will be coming to us.

In order to re-insure some of that in force, we will be putting a small amount of the 400 million up on day one to back the in-force reinsurance that we're taking on the rest to get us to 80% where they are taking the net assets. But that's relatively small within the 400 million, and then the rest is to fund the PRT business as we go forward in the entity that we reinsure into, which will probably be somewhere in Bermuda. We're still looking at the optimal structure around those and what it would look like; and so simply backing that.

We would hope in some ways we'd use at least all of the 400 million because we're writing extra volumes with them, but it's still very capital efficient; similar strain levels to what we've seen and similar strain levels to what we would have talked about previously across the whole business. So we don't really see much of a change in that dynamic. The big variable will be the amount of volume that we're able to write over the period.

António Simões:

Yeah.

Jeff Davies:

Thank you.

António Simões:

Thank you, Larissa.

Larissa Van Deventer:

Thank you.

António Simões:

So Mandeep Jagpal from RBC. Mandeep, good morning.

Mandeep Jagpal:

Hey, morning, António, Jeff. Mandeep Jagpal, RBC Capital Markets. Thanks for taking my questions.

There's two left for me please. The first one is on the 80% retention of the economic interest in US PRT, which means that the originating partner has a relatively small amount of skin in the game. How much influence do you guys get over the type of business that will be written by the partner? And I'm thinking here in terms of the nature of the liabilities that are underwritten.

And then also related to the US PRT relationship, the release states it's a long-term partnership. Are you able to let us know if it's an open-ended agreement or does it have a specific end date?

Thank you.

António Simões:

Thank you. And Mandeep, on your second question, you're saying the broader long-term partnership, if it’s ... Was that what you said? If it's…

Mandeep Jagpal:

That's right. Yeah.

António Simões:

Yeah. So I'll start there, and then, Jeff, you should talk about the 80%.

So it is an open-ended long-term partnership. Obviously the different aspects of this are different. We expect to be here ... You know, they're the oldest life insurance company in Japan. We are 189 years old this year. One of the things that over this transaction has been, this partnership has been discussed over a very long period of time, and one of the things I've found is that there's a very strong alignment of values and culture between Meiji Yasuda and L&G. We expect this partnership to be very long-standing and long term, as we've said.

In terms of the 80% economic interest?

Jeff Davies:

Well, actually, the two go together because it's very much a partnership, and I can say, and we'll be telling the people when they get out of bed in Stamford, that nothing changes. They are all going to be sitting together and working in the same way as they have been working. A small number of those will be making some L&G risk management decisions and pricing decisions, and some others will be making some Meiji Yasuda decisions, but we will decide all of that together and how do we optimize that, agree in advance, and then really go to market and see how much we can write and what that can look like. So nothing will change in that way.

Clearly some of this and the setting of the 80/20 was so that there was shared economics within the business and PRT is new to Meiji Yasuda. They want to understand it, they want to grow their understanding, they want to learn from us, they want us to be guiding and steering that business. And the asset management investment side of that is key, as you all know, to the profitability of that business.

So it's very much a partnership, people working together, whether that's on António's level, my counterpart, or whether it is on the ground, the CEO of the PRT business working with our Bermudan operations. And nothing will change in terms of that setup. It's just some will be employed by one, some will be employed by another, but we will absolutely be going to market to push the PRT market as hard as possible.

António Simões:

Thank you.

So Andrew Sinclair from Bank of America. Hi Andy. Good morning.

Andrew Sinclair:

Good morning guys. And I like the transaction. Well done.

So three from me please. First, pretty simply, just could you remind us the total remittances from these businesses over the last few years, just in terms of cash remittance coming out of them?

Second was just, you've sold US protection because I guess it doesn't really fit into the flywheel, per se, the same way. Why keep UK protection? A great business, but are you the best owner?

And third, António, you mentioned a few times about the importance of returning more than 50% of the proceeds for this deal. Why shouldn't we think that more than 50% of the CALA proceeds should be coming back?

Thanks.

António Simões:

Thank you, Andy. You get to ask that question several times, the CALA one.

So look, Jeff should absolutely address the remittances point. Let me address ... He can address the CALA one as well, but let me address the UK. This is an important question. Thank you, Andy, for raising it.

So when I look at the portfolio of businesses and that forensic review that we've done, the size of our presence in the UK overall, so going back to the 12 million customers we have across all of our retail businesses, the size of our presence itself in terms of market share in both individual protection and group protection, and that sort of halo of the brand and then the diversification of us having mortality and longevity risk within our book and the capital benefits of that, absolutely, UK protection is strategic to us. Also it's a big contributor to our dividend payment and it's a very strategic business for us going forward.

It's very different actually. We didn't set out to necessarily sell US protection in this way. We have a partnership with Meiji Yasuda that particularly allows us to sell our US insurance entity, but continue to do PRT. That for us was critical, and as I said, with very attractive multiples. So this is it from a protection perspective.

Remittances and then colour.

Jeff Davies:

Sure. Yeah, the remittances, reasonably straightforward. I mean it's been roughly a hundred million of dividends as we've talked about for many years. We're coming out from the US protection business. Obviously at the same time we've been growing the US PRT business that's either been capital efficient or we have been putting better capital into the Bermuda entities. But the simplest version is you have seen over the years a hundred million dividend coming back from the US protection entity and we've talked about that for actually as long as I've been here. I think it was in the answer. And then yeah, CALA, so I think it's the combination of impacts, this transaction is 1.2 billion of surplus generation, no capital improvement, 22% on solvency, post-closing without the dividend, and then 1.8 billion of cash. Whereas CALA's a hundred million in capital and you get the cash associated for that. If we then arbitrarily chose to pay back the whole amount that we'd received, that would be 15% of solvency even though it had only improved by just over 1% from doing the transaction.

So it would be quite an arbitrary decision to say, we just have extra capital and we're going to give it back because we've got some liquidity. Well, we could do that at any time. We don't have to do that because we have the transaction. So that's how we think about it differently in the dynamics of the two different transactions, and we flag that all along that look, that is what happens from doing the CALA transaction. So I understand where you're coming from, Andy, but that's how we think about the different dynamics of two very different types of transaction.

António Simões:

Also, if you look at what we included on slide nine, which is where I build... So I am actually referring on slide nine to the capital release of CALA. But now you put all of this together, and actually Andy, you and I and many others on this call have had this discussion. We said we would return more to shareholders and that's absolutely what we're doing. We are returning more than 5 billion over the next three years. By the way, that's on top of the 200 million we already did for 2024. So the first share buyback program that we did. And so, I feel that this is striking that right balance between an ambitious growth strategy where we're investing to grow the business but with substantial returns for shareholders.

Speaker 1:

Thank you, Andy. Dominic O'Mahony from BNP. Dom, good morning, how are you?

Dominic O'Mahony:

Good morning. Yes, I'm well, thanks. Hope you're all well as well. So strategy side, very clear, thank you for explaining and this is a real boost to the real assets strategy. Can I ask you a few financial questions? The first is, just on the reinsurance piece, the 400 million that's going in. So Jeff, you were clear that a small amount of this is upfront and the remainder is essentially the flow of strain. So just to be clear, if I were to take that 400 out, the NSG going forward would be slightly higher. I mustn't be double counting those things. Or to put it another way, that 400 million, if I look at your capital disclosure, you said the ratio goes up 22%, 7% after the buyback. Is that 7% before or after the 400 million? So do I have to then spend some of that 400 million after the 7%?

The second question is, just I really want to be crystal clear on the capital generation from the protection book, the 350 to 400 million of gross, 200 to 250 million net. If you didn't sell this business, would we be expecting this on a run rate basis? Jeff, you were really clear on the capital efficiency of it, which makes it sound like a really attractive business. Is it that you were saying that actually that 200 to 250 million is not fully sustainable? Or is that actually the run rate? And then the third question is, just the implication for strain in the UK. I might've thought that US protection was highly diversifying. Does that mean that the SCR written on new UK PRT might be a bit higher on a run rate basis because you don't get the diversification from the US? Thank you.

António Simões:

Thank you. Thank you, Dom. So no is the answer to that third question. So you should be reassured. On the other two, so reinsurance in the 7% and then the 200-250 million.

Jeff Davies:

The total loss of diversification as a percentage of our total SCR is minuscule. So no, it doesn't impact on that, even though you've got mortality and longevity, but just because of the way that we'd set that up and where the different entities are within that. So on the reinsurance and the 7%, so the 22% is what we would have on closing, and let's call it at the end of 2025. So what would be the impact you would see at that point? And at that point we would say, "Well look, the US business is gone, we had some surplus generation from that. It's been replaced and now we've got the money in and the solvency we'd give you would be 22% higher than the day before." The 7% is then the equivalent number if we simply repay £1 billion. So the answer is some of the 400 is already in that, because we'll have written more business in '25 and we'll have put the reinsurance structure in place.

Some of it will be to come. But I think the important point is, it's already in your models because we were already writing US PRT and you were already all assuming we were doing that. So it's definitely not incremental and something new that to be taken off over the next five years that you didn't have in there already. I don't think there's any more on that.

The OSG, as I say, we've been a victim of our success here in having a hugely efficient term business, which has allowed us to grow this business. And it is something great for Meiji Yasuda to inherit in terms of capital efficiency and what that can do for pricing in the market there.

In terms of is it sustainable? It has some slightly different dynamics, but if we were right in the same volumes increasing, I mean we were record volumes, we've talked about the previous year, we've already said that '24 was a good volume, then you do get close to that 200 million of net surplus generation. But as I say, all you're really getting credit for is all the future profits of that block of new business that you've just written, which that is a risk on your balance sheet that you're writing on an ongoing basis. It would be like me saying, "Well we just won an asset management mandate. Can we put the capital on our balance sheet for the next 20 years of fees, please?" Assuming the market's going to go up at 5% per annum forever.

That's the equivalent of what that 200 represents for the term book. We're saying give us all the future profits now and it happens to be in our balance sheet. So all of this was in what you projected in terms of the 1.8 billion of OSG that most people have and that would now drop closer to the 1.4, 1.5 going forward. And so to cover the dividend and the strain levels that you have, but removing the strain that was already in there for the term book. And so that's where we get very comfortable with the net surplus generation versus dividend and the flexibility we have starting from a very, very strong solvency position that has then increased even after giving back £1 billion.

António Simões:

Yeah, and therefore, as we said earlier, we're more confident today about hitting our OSG targets than that we were before. Thank you, Dom. Abid Hussain. Abid, good morning. You may be muted a bit.

Abid Hussain:

Can you hear me now?

António Simões:

Yeah, we can. Morning.

Abid Hussain:

Apologies. Morning textbook error there. Three questions if I can. The first one is... So three quick questions. The first one is on the transaction multiples. Thanks for sharing the earnings multiple and the net assets multiple and the capital generation multiple. I was just wondering, can you give us a sense of what the multiple will look like on an hypothecated Own Funds basis? From this discussion earlier, it looks like it's suggesting it's around one and a half times, so I just want to get a sense of is my thinking right on the Own Funds multiple? And then the second one is on the reinsurance arrangement specifically. Is there any length of that or is that also indefinite? And is there any terms within the contract that you might want to highlight that the partner could use to exit? So under what arrangements would they exit that agreement? And then the final one is on the share buyback. Look, the share prices up today. If the share price continues to trend upwards towards the end of the year, would you still do a buyback? Is there a level at which you decide not to do a buyback and do something else?

António Simões:

There is. So look just on that, obviously we liked the transaction. Actually I think it was Andy that said that earlier. You can see that and I think the market seems to like the transaction, which is good. I think the share price has a long way to go before we would hit that point. But yes, we always talked about returning more capital to shareholders and if you remember back in June I talked about at this point clearly share buybacks are the best way to do that, but we're still a long way from that. So that would be a good problem to have. Just in terms of the transaction multiples, look, we've looked at it in every single way, meaning every single transaction multiple as I see it is a very attractive transaction multiple. I don't think the calculation you did was actually correct.

Jeff Davies:

No, that calculation, it is not correct and it doesn't work that way because this is a deduction in aggregation entity in the US that is coming into our solvency two calculation. There are restrictions on what we have within our entity and what we're unable to take credit for in our group calculation, we can talk you through it's whatever, it's 250, 275% of CAL is what you have to lock in and what you have bank in it. So we can talk you through that. But that's why we gave.. if you're doing someone's buying a US entity, what is the net assets they're getting on a statutory basis? That's the $850 million. That is what made you assume they were buying a legal entity with an approximate, we haven't finished the calculations yet, $850 million of net assets. That is how people look at the calculation. So the 2.3 is related to that. Clearly there are other moving parts, but those are the net assets that they are getting and those are the net assets that we don't have. But that isn't what is in our solvency calculation, but we're happy we can talk you through that.

António Simões:

I think it's worth doing a follow-up with you specifically the 2.7 times net assets and the 30 times earnings. Those are very clear multiples under any transaction. Those are attractive multiples. We can talk you through in detail for that, the reinsurance arrangements and the partnership with Meiji Yasuda.

Jeff Davies:

Yeah. Well clearly reinsurance is reinsurance forever. It backs the liability to the policyholder. So that is in force forever and we have it there. Clearly if either of us decide we don't want to do US PRT at some point in the future for whatever reason, we'll have a discussion about the best way to go forward and people will be able to stop new business. But that's a completely different conversation too, is the reinsurance there? The US PRT arrangement is seen as ongoing whilst it makes money for both parties and we are long-term partners more generally at the corporate levels. And so we are very excited about that. We think it has great upside opportunities for us in growing PRT, not just balance sheets and everything else, but the alignment around private assets being able to grow into other asset classes, using both our balance sheets in the US as a potential to then be able to grow those and how efficient we can make the pricing as a result of sourcing other different assets with other peoples co-investment as well as our own to grow those.

António Simões:

Great. Andrew Crean from Autonomous. Hi Andrew. Good morning.

Speaker 1:

Is Andrew on mute as well?

António Simões:

I think Andrew might be muted as well.

Andrew Crean:

Um, um, um, um, um.

António Simões:

We can hear you now, Andrew.

Andrew Crean:

Yeah, you got me there. Okay, great. Look, there's been quite a lot of questioning. Can you just actually tell us either now or after, what is the amount that you are losing in terms of the net assets, the CSM after tax, the own funds, and the SCR, just so we're absolutely clear on those factors. Secondly, the 30 times earnings. Is there any depression in the US protection earnings in '24? Because I noticed if you used 2022 numbers under IFRS 4, the multiple will be only 13 times. So there's a bit of a tension here between an extremely high PE multiple in which you're exiting and yet the very low multiple of operating free service generation. And then the third question is a broader question in terms of the portfolio of the business. One thing you could have done with the money is retain it as a war chest to acquire businesses in the UK. And certainly there has been some question about your lack of US/UK asset gathering businesses. Are you really saying, given the fact you are prepared to return so much of the proceeds here, that you are absolutely happy with the portfolio of your businesses over the next five years and you don't think you need to build or acquire something to strengthen the overall UK presence?

António Simões:

Thank you, Andrew. I'll start with that and then I'll ask Jeff to go to the other two. So I think we've reflected a lot on this, Andrew. I think this is exactly the right balance between us returning more to shareholders on the back of what we believe is a very attractive transaction, but also retaining capacity to grow because we are retaining the 400 million, which partially is capacity to grow in US PRT, but the other 400 million gives us additional flexibility to grow. Also, you step back from our overall solvency position. We already have a lot of that strategic flexibility within our current position and our plan before we did this transaction. So it's a judgment Andrew, as you say, we want to reassure people that we are returning more than 50%, but clearly we're not returning all of it because we see those gross opportunities both organically and through bolt-on acquisitions. We have more capacity to do that going forward.

So we had lots of debates ourselves and with our Board, what's the right balance, and I believe the one billion additional share buyback, it strikes that right balance between ambitious growth strategy and returning more to shareholders.

The two other questions, which are actually linked, maybe you can go to multiples first, IFRS 4, IFRS 17?

Jeff Davies:

Yeah, sure. So yeah, CSM, obviously we haven't given that. Again, it would be a very good multiple of that business. We know the duration of this, so you can work out if it runs off at 7 to 10 years duration for term business. And it's a proportion of the profits that we've given. So you can see that. But that's something we'll do when we do the fuller calculations. When we start disclosing these separately, then we'll be able to see that. And so some of that will be at the full year results if we decide to start showing discontinued operations, et cetera. But we probably won't split everything out immediately, but just maybe give some extra disclosure. Because obviously we want people to be able to project the correct answer going forward.

Linked to that, because CSM is IFRS, there's nothing particularly strange in the $90 million. As you say, if you go backwards, you can see what the total protection did in 2023. You wouldn't get an answer out of line, that was more Covid in 2023. So people have to remember that. That would've had more of an impact on the US business in '23. There's only a small amount of adverse mortality claims in '24. And then, as you say, IFRS4, you get a completely different answer if you go back further, just different bases.

Own funds, I'd say it doesn't quite work that way, the proxy is, well, look, 1.2 billion of surplus is what we're better off afterwards, and we've received 1.8 billion of cash. And so some of that is, well, we had 850 million of net assets, we're not receiving those. But we wouldn't take a credit for all of those in our group calculation by any means because they were restricted under the way you took deduction aggregation. And then there would've been some of this VIF capital that we were losing. That gets you back to the difference between the two, which is a reasonable proxy for the amount of actual own funds.

There's obviously capital that has been, capital requirement that's been released, which is why you get such a big improvement in the ratio and how you get to the 1.2 billion. So I don't think it would be wrong, probably get told off that this isn't right, if you were thinking that it's, of the 1.2 billion benefit, half of that is own funds and half of that is capital release if you like. And then, so 1.8, lose 600 of own funds, 1.2 is half of that is own funds, half of that is SCR roughly, if that makes sense. So we lose a third, gain a third and gain another third from the capital requirement.

António Simões:

And what do we do, Andrew, we do two things. Obviously we haven't yet disclosed our full year results.

Jeff Davies:

No, exactly.

António Simões:

Part of this is in four weeks time, as you know, on the 12th of March, we will have the full year results where we have the full 2024 numbers for the US protection business. So we'll do that. But also after this call, we can give more specificity on the calculations.

Jeff Davies:

But I think it's roughly three lots of 600, roughly, roughly. But as you say, we're still doing the calculations for the year-end and the final solvency two position. But 600 own funds, we had 600 of benefit in own funds after the transaction and 600 of SCR release. So that gives you the different numbers, roughly. And the net assets are the net assets. We told you, $850 million.

António Simões:

Yes. That's the 2.7x

Jeff Davies:

That is what they're buying, those are the net assets.

António Simões:

Exactly. And that's the point-

Jeff Davies:

Everything else in any other entity comes to us.

António Simões:

Thank you, Andrew. Thomas Bateman from Mediobanca.

Thomas Bateman:

Hi, morning everybody, hope you can hear me well. I'm just interested in the long-term ambitions for the US PRT market. So could you just remind us what the US PRT strain is? So what does that 400 million capital mean in terms of volumes?

And then I'm also thinking about how you offset that 200-250 million of NSG. So what guidance can you give us on US PRT OSG and maybe any potential tailwinds in terms of the asset management flows?

And then just a couple of other points. So on the 200-250 million of NSG, does that include the 20% portion from US PRT or is it just US protection? So I'm just looking for the breakdown between the two.

And then very final question. What's the return on capital of the US protection business and the US PRT business?

António Simões:

Thank you. Quite a lot of questions there. I normally give a limit of three, but well done fitting them in.

So US PRT. I didn't go through this when I was speaking. But on slide seven we gave some of the attractiveness of the US PRT market, it's a $3 trillion market. Actually different from the UK. There's less of it that's been insured to date, only 11% in the US compared to 16% in the UK. So if you think about it, the US PRT market will take longer to run off if you think about it that way. And therefore there's a bigger opportunity both in terms of absolute number, but also in terms of duration and the length of that opportunity.

We don't disclose separately the strain for the US business.

But linking that to your last question, and I'll ask Jeff to answer the other ones, which is every single dollar that we are investing we have a return on capital above 14%. So you should be reassured that the return on capital for our business is above 14%. And that's a discipline that I've put in place for every business, and that's true for the US business as well.

Do you want to talk about the 200 to 250 million and the estimation of flows is probably worth talking about.

Jeff Davies:

Yeah, the first bit is whether the 20% of PRT is within that? It is within that. It is within it, but honestly it's immaterial. It's rounded to the variation within the protection business, so it doesn't really make that much difference if you think of the scale of the book, and it's only 20% of that. And so those numbers are correct with or without it in terms of a range.

In terms of positives and the way we think about the net surplus generation offset. Clearly we're looking to grow asset management fees. We also have seen, hopefully some rates will come down and markets go up, which also increases that. But as we add these higher margin products, we see that come through in higher surplus generation from those businesses. Of course the buyback also reduces the dividend. We gain about a hundred million at least in net surplus generation just from cumulative buybacks in our models as well. And so we are very comfortable with that.

And then the growing position from there, we would look certainly be looking to grow OSG faster than the dividend is growing at 2%, which gives us upside. And you've seen it, we're very capital efficient on our key business, which is really UK PRT. That's where most of our capital goes. We apply the same discipline to individual annuities and make that very capital efficient. And so we will continue to do that. And lots of optionality around that to write very capital efficient volumes.

And don't forget, if you add up all the numbers, we're starting from a very high solvency position. And we've always said we're comfortable in the short term if we want to write even more volume to eat into that and reduce that over time whilst returning considerable amounts to shareholders.

António Simões:

And on the asset management point, we have committed, as you've seen, to do a capital markets event, similar to the one we did in December for PRT for institutional retirement, we're going to do one in the first half for asset management. And this is where we really will be talking about the detail of our strategy and the execution of what we announced last year in terms of asset management.

And yes, the asset management profits goes straight into OSG, so that's the nature of that business. And the more we improve the margins, as Jeff says, and we continue to grow the volumes including the partnership with Meiji Yasuda, those will be fee revenues that we'll have into asset management and that also flows through to OSG.

Thank you. Michael Huttner from Berenberg. How are you, Michael? Good morning.

Michael Huttner:

Good morning. Thank you so much. I only have one, well, two. One is the closing, I think you indicated end of the year, but maybe some precision?

And then the leverage. Can you remind us where you are now and how much does it change?

António Simões:

Yes, thank you. On the closing, we expect to close towards the end of this year, yes. Leverage?

Jeff Davies:

Yeah. Well, we were in the mid-twenties on a Solvency II basis. We're under 30% on most of the key rating agency metrics. I think we need to finally land with them how they do the IFRS 17. And clearly with a higher solvency position, retaining a few hundred millions of cash, then that position reduces and so looks even healthier.

António Simões:

And as you know, for us, Michael, it hasn't been a particular concern compared to other insurance companies.

Jeff Davies:

No.

António Simões:

Thank you. And I think the last question is for Marcus Rivaldi from Jefferies. Marcus?

Marcus Rivaldi:

Good morning everybody. Two questions for me. One more strategic. So the growth opportunity from this partnership in US PRT, is it really mainly from Meiji Yasuda providing 20% capital support to new business going forward? Or is there opportunity to leverage their existing insurance assets in the US and relationships in the US?

And then secondly, another leverage related question please. Given there is a movement in the SCR down, does this create any implications for how you're managing the mix and amount of debt outstanding on a go forward basis? I note you've got a call in October, later on this year, does it change your plans around that for example? Thank you.

António Simões:

Thank you. Thank you, Marcus. On PRT, and actually it's a good question for us to finish on, because if you think about the opportunity here, it's a very attractive multiple, multiples, different multiples, on US protection, but we're very excited about the partnership with Meiji Yasuda and how we grow US PRT. We're bringing our own expertise as the best PRT player in the world with the additional balance sheet that we have from them, which I mention post-closing they will have 80 billion US dollars of insurance assets. And that's really it in a way.

So as Jeff says, the team that sits in Stanford, Connecticut is the same team, they will be co-located with the people that are working for Meiji Yasuda and people that are working for L&G. So in many ways, nothing changes if you think about it that way.

And what I've said strategically in terms of growth of that business is exactly the same as we said in June of last year. And then we reinforced that in our December capital markets event.

Jeff, on SCR?

Jeff Davies:

Yeah, no, obviously it's a good spot. As in we are very conscious of it. We monitor it over various interest rate scenarios, which is really the biggest driver of the SCR. There's not a huge reduction as a result of this, will come down. But we've modeled all the different scenarios. It doesn't cause a constraint or cause us to think about those differently. We'll make the decisions on an economic basis around leverage and the different capital tiering.

António Simões:

Great. Well, thank you everybody. Thank you for joining us today. As you can see, we are very happy with this transaction. I think Andy said… We like it and we're very happy not just with the transaction, but particularly with the strategic partnership with Meiji Yasuda. This allows us to keep on growing, particularly in the US, as we were just saying in several of the questions you've asked us.

This is for me another proof point of our strategy. This is our strategy in action and the value creation for shareholders. And go back to we're returning 40% of our market cap in a combination of dividends and share buybacks. And we're doing that while retaining the strategic flexibility of growing the business. It's really that balance that Andrew Crean was asking earlier.

I hope that the strategic benefits are clear to you as well. It's great that we spent quite a lot of time on Q&A. But after this discussion, if you have any further questions, please contact me, Jeff, or our investor relations team, very happy to get into the numbers and really explain what has been for us, we've been living with this transaction for a while, so I appreciate, we've just announced it at 7 AM this morning, we're very positive about it.

If we don't talk, we look forward to seeing you actually in four weeks or so on the 12th of March for our full year results. Thank you.