L&G Investor and Analyst Event – Presentation

7 February 2025

Antonio Simoes:

Good morning. Welcome, everyone, and thank you for joining us at such short notice to discuss the sale of our US protection business to Meiji Yasuda and the creation of our strategic partnership, so the usual forward-looking statements apply. This morning. I will run through the key aspects of this transaction and the partnership, and then Jeff will run you through how the transaction impacts our financials before we move into Q&A.

So starting then with the strategic aspects of today's announcement. Last year, I announced a strategy to create a growing, simpler and better-connected L&G that will be more capital light over time, and I described three key aspects of that strategy. If you remember back in June, we talked about three things. We talked about sharper focus, sustainable growth, and enhanced returns. And what we've announced this morning is fully aligned with that strategy and builds on the momentum that we've had executing the strategy over the last year.

So first, in terms of sharper focus, the sale of our US protection business unlocks significant value at close to 30-times earnings. This then allows us to reinvest in our core strategic businesses that are more synergistic. Second, the creation of a long-term strategic partnership with Meiji Yasuda will deliver sustainable growth in our US PRT and asset management businesses. And finally, with regards to enhanced returns, we anticipate a buyback of £1 billion from the proceeds of this sale. And this is incremental to our previous announcements, meaning that we expect to return circa 40% of our market cap over the next three years through a combination of dividends and share buybacks.

So now, taking each one of the three elements in turns and starting with sharper focus, sharper focus is really all about disciplined capital allocation. Last year, we did a forensic review of all of our businesses on their strategic fit and financial performance. This led to the creation of our corporate investments unit, which reports to Jeff, and subsequently to the disposal of CALA, which you can see over there on the slide.

The US protection business is high-performing, so you can see it over there in the charts kind of towards the top of the charts, and it has been growing rapidly in recent years. Strategically, though, it offers limited synergies with the rest of our businesses, and so you can see here on the chart that it's sitting to the left of the chart on the strategic fit axis. This transaction allows us to unlock substantial value for the group at attractive multiples, as I mentioned, and then to reallocate that capital to areas of strategic growth.

So turning to that, to that to the second part of our strategy, which is sustainable growth, the strategic partnership with Meiji Yasuda will help us scale US PRT, fueling our growth strategy in what is a very attractive market. We've been working with Meiji Yasuda for 10 years. They are one of the oldest and largest Japanese life insurers, and the first, they were the first to expand into the US back in 1976. And post the completion of this transaction, they will have $80 billion of US insurance assets.

The partnership will draw on our global PRT experience and strong momentum that we have in our US PRT business. We had record volumes last year in 2024 and over £12 billion written since we started that business back in 2015, as you can see on this chart. But the partnership goes well beyond just PRT. First, three elements of this. First, L&G will continue to provide asset management services to the PRT and protection businesses, therefore generating incremental fee-based revenues in our asset management business.

Second, Meiji Yasuda will co-invest in our global private markets business, which is central to our growth strategy that we announced back in June. And finally, Meiji Yasuda intends to acquire a 5% shareholding in L&G, which reflects their confidence in our strategy and long-term vision for the business.

And finally, enhanced returns, so this is the third aspect of the strategy. We stated at our capital markets event that we intended to return more to shareholders, and this is exactly what we are doing. Over the next three years, we intend to return £3.6 billion in dividends. So you can see here on the chart the normal dividends. On top of that, we have the share buybacks that we set out at the capital markets event back in June. And then since then, we have taken further actions to improve our capital efficiency. For instance, following the CALA disposal, we released £100 million of capital. And then in December, we told you that we intend to increase our share buyback given the lowest strain on our UK PRT business.

And today, and this is what's new on this chart, we are announcing that we expect to return a further £1 billion, which is more than 50% of the total proceeds from this transaction. Altogether, over the next three years, we expect to return over £5 billion to shareholders, which is around 40% of our market cap.

With that, I will now pass over to Jeff to run you through the financials. Jeff.

Jeff Davies:

Thank you, Antonio, and good morning, everyone. The financial elements of this transaction can be split into three key areas. Firstly, the compelling commercials. This transaction together with the intended £1 billion buyback is accretive to our metrics. Secondly, we have used our disciplined capital allocation framework to determine how we use the proceeds for reinvestment or capital return. And lastly, the increased confidence in meeting our group financial targets.

So as mentioned, the agreed commercial terms of the transaction are attractive and generate both immediate and future value for shareholders. The headline price compares favorably with the anticipated 2024 earnings of the business, and we expect to generate more than £1 billion of IFRS profits on completion. This, combined with the buyback, is accretive to our EPS metrics, more than offsetting the dilution of earnings.

And moving on to the capital implications, this transaction will accelerate £1.2 billion pounds of surplus, which equates to around five times the net surplus generation of the business sold. This acceleration of the surplus is a significant contribution to our three-year cumulative capital generation target of £5 to £6 billion. We will disclose the exact figure at completion and include it as we start to monitor progress against that target. And finally, the sale will have a positive impact on the group Solvency II ratio, increasing it by approximately 7% after the intended buyback.

As Antonio mentioned, in line with our disciplined capital allocation framework, we intend to return over 50% of the £1.8 billion proceeds to shareholders with a £1 billion buyback. This is incremental to the group's existing distribution policy. Approximately £400 million of the proceeds will be used to fund the US PRT reinsurance arrangement and support the growth of the business through our partnership with Meiji Yasuda. We intend to deploy the remainder of the proceeds into our asset management business and other growth areas.

In line with the capital discipline we have shown over the last year, future investments will be required to meet our 14% return hurdle. As we showed in December, if these opportunities are not available or we are more capital efficient, we will consider returning more to shareholders.

Through this transaction, we now have even more confidence in meeting the group financial targets. The transaction is accretive to our core operating EPS, post the buyback, and we are on track against our ROE target. And as I mentioned earlier, we have accelerated the surplus emergence of the US protection business, and so I've increased our confidence in achieving our capital generation targets. Now, back to Antonio.

Antonio Simoes:

Thank you, Jeff. So look, in summary, everything we have announced today aligns to our strategy. You can see it here on the slide. Look, this is a highly accretive transaction, which at attractive multiples delivers substantial value for our shareholders and also provides this sharper focus on our growth businesses. Our strategic partnership with Meiji Yasuda will deliver sustainable growth for both our US PRT businesses but also our asset management business globally, including this co-investment commitment to our private markets business.

And finally, we are delivering for shareholders. With an additional £1 billion share buyback, we expect to return around 40% of our market cap over the next three years through a combination of dividends and buybacks. We look forward to working with Meiji Yasuda and to have them as a key shareholder and as a strategic partner. I believe this is a vote of confidence in our partnership and our strategy.