Legal & General Annual Results 2020, 10th March 2021
Nigel Wilson
Good Morning, welcome to Legal & General's Full Year results presentation for 2020.

This is, again, a virtual presentation.

I hope you and your families remain well.

You will have a chance this morning to put your questions to Jeff and me on the call after the presentation.

…and the usual disclaimers apply.

As we have repeatedly said, Legal & General is strongly positioned for the post-COVID recovery.

Our decade-long Inclusive Capitalism approach to levelling up and building back better aligns us with government policy and the drivers for recovery.

Our global leadership in ESG-investing also places us at the forefront of delivering the government's 10-point climate plan... for renewables, climate-friendly housing and zero-carbon infrastructure.

We are robust, resilient and relevant...
... with a robust balance sheet, resilient sales and profits, and with highly relevant growth drivers and business strategy.

I'd like to thank all my colleagues for the tremendous efforts they made in 2020.

Operating profit from divisions was £2,422m, broadly in line with 2019, and three of our five divisions... LGRI, LGRR and LGIM... had higher operating earnings than in the prior year.

Our Solvency 2 coverage ratio at the year-end was 177%, and Solvency 2 operational surplus generation was up 4%at £1.5bn.

Our Solvency 2 ratio has strengthened further since then and was estimated at 192% as at 5th March.

We delivered a strong return on equity of 17.3%.

Having held the interim dividend flat in what we said would be a "pause year", it should be no surprise that we are recommending the same full year dividend of 17.57p per share as for 2019.

This summary of divisional operating profits shows very clearly where the impact of

COVID was felt across our businesses.

The largest impact... £186m... was to L&G Insurance.

The £186m includes £76m of 2020 COVID experience and £110m of COVID potential future claims reserve.

L&G Capital had a £100m hit from COVID as the result of effectively several months of construction site closures.

The biggest impact was on CALA Homes, which accounts for £84m out of the £100m.

There were offsetting gains in PRT and retail retirement solutions, and no specific COVID impact on LGIM.

The overall impact to operating profit from divisions was £201m.

New business sales in 2020 remained strong despite the background of the pandemic.

Here are last year's new business numbers, with the previous five years for context.

Taken together, these sales figures demonstrate our continued leadership in our chosen markets.

We've got off to a good and positive start to 2021.

New business volume is half the story... on the right of this slide you can also see new business value, which is the other half of that story.

We have not included LGC here as I will cover that separately.

UK and US Pension Risk Transfer both increased in 2020, delivering £876m of combined NBVA on a Solvency 2 basis.

LGIM delivered positive net new revenues.

UK Retail and Group Protection both significantly increased NBVA, to £123m and £37m, respectively.

US Retail Protection was flat at £94m and LGRR's Individual Annuities were slightly higher, at £63m.

Lifetime mortgage profits were impacted by lower activity in the Housing sector, and fell as shown.

Our strategy has for many years been built on six structural growth drivers... the pandemic has only heightened the relevance of these.

We are leaders in ten markets which are responsive to these long-term trends.

We have significant share in growing markets like those driven by ageing demographics, and like UK DC pensions, where we have 24% of a market estimated to grow to £725bn by 2025.

What you do not see on this slide are shrinking markets where we are a major player, or markets where we cannot realistically grow our presence… getting to this position has been an important driver behind our decade-long programme of rationalisation and disposals.

We do, though, have appetite to leverage our expertise and capability in retirement solutions in selected international markets.

As part of our growth ambitions for Asia, I am delighted to announce that Kerrigan will be moving to Asia to become our president of Asia.

“Addressing Climate Change” is a key growth driver for us... climate is not only the most pressing issue of our lifetimes, but also the biggest investment opportunity.

ESG has been embedded in our strategy for many years and we have ambitious targets across the “E”, the “S” and the “G”, with the “S” as a major point of differentiation for Legal & General.

These targets apply to our own balance sheet as a principal investor... for example, to urban regeneration, the provision of affordable and social housing and life science infrastructure... but also to LGIM, where we invest £1.3 trillion as an agent on behalf of clients.

Inclusive Capitalism and the ESG approach we have practiced for a decade or more is now rapidly becoming the mainstream.

We have a head start but we have significant further ambitions across each component.

Our ambitions are bold, but they are the cumulative effect of many years’ work in this space.

Public policy and public attitudes are increasingly aligned to our Inclusive Capitalism agenda... both around economic recovery focused on “levelling up” and “building back better”, AND around climate.

It would be right to describe us primarily as a retirement solutions provider.

In the UK, we operate in accumulation and decumulation, in corporate, institutional and individual retail markets, and in PRT we are the only global player.

We have deep, embedded knowledge in all aspects of financing retirement in the UK and we are applying that globally.

The US is obviously an even greater opportunity.

Global DB and DC pensions amount to $24 trillion and $23 trillion, respectively.

The ageing demographic makes the financing of retirement a growth business.

For individuals, that includes growth in DC pensions, annuities and decumulation.

It will increasingly also include the role of property in the "retirement balance sheet", including Lifetime Mortgages and rightsizing to Later Living accommodation.

The extent of the synergies between our business divisions helps drive market share and improve our profitability, enabling us to generate a return on equity averaging around 20% over the last five years.

This is a unique strength, delivering structural and capital synergies, underpinned by a highly collaborative culture.

By bringing relevant businesses even closer together we can increase operational synergies... hence our decision to transfer Workplace Savings from LGIM to our Retail Retirement division.

We are also maintaining focus... hence our decision to sell LGIM's Personal Investing back-book to Fidelity International.

We have described 2020 as a COVID-related "pause year".

You can see that from the ten-year trend in Operating Profit, EPS and DPS.

Last year was not, however, a pause year in terms of RoE or Book Value per Share.

We have demonstrated the solidity of the business in good times and in difficult times.

L&G Capital is central to our success, creating and sourcing assets, and it is also where we have a touchpoint with external third-party capital.

Laura Mason will become the new CEO of LGC, replacing Kerrigan later in the year.

Here you see LGC businesses...
... in specialist commercial property, including science infrastructure through

Bruntwood
... data centres with Kao
... clean energy generation through NTR and electric vehicle charging points through Podpoint
... as well as the range of housebuilding businesses across different tenures
... the growth equity business under ADV ... and the alternative credit business with Pemberton.

Our equity position ranges from 100% for CALA Homes to 22% for Podpoint.

All are growth businesses and all have access to external funding.

As we said at the capital markets day, our ambition is to increase third party capital significantly to demonstrate the value, and also realise the value, of our investments.

The businesses in which we have invested through LGC have performed well.

We have provided two examples on the next two slides.

Pemberton, in which we have a 40% equity holding, invests primarily in European mid-market debt.

Since 2015, it has grown AUM to more than 9bn Euros.

CALA Homes is, I suspect, the most familiar name in the LGC portfolio, a significant UK build-to-sell housebuilder at the foundation of our housing platform, which now extends, as I said earlier, across all tenures.

We took a 46.5% shareholding in 2013 and became 100% shareholder five years later in 2018.

Between 2013 and 2019 CALA's revenues increased more than fourfold, from just under £250m to slightly over £1bn. EBIT in the same period grew from £22m to £111m.

COVID last year forced the temporary closure of construction sites and a pause in sales for several months last spring... a £407m and a £84m impact to revenues and EBIT, respectively... and a reconfiguration of sites for socially-distanced, safe working.

In H2, however, sales rebounded strongly.

Sales are running well ahead of our previous best year, 2019.

Forward orders are, so far, 55% this year compared to 39% last year.

Our five-year ambitions should be familiar from our Capital Markets Event last year.

From 2020 to 2024, we are aiming to generate £8bn to £9bn of cash and the same amount of capital, with both to significantly exceed dividends, which we expect to be £5.6 to £5.9bn in aggregate over the period.

Cash and capital generation of £1.5bn each, both exceeded dividends by £500m, and net surplus generation exceeded dividends by £0.2bn.

In summary, we have performed well in an unprecedented environment... and are strongly positioned for the future.

I will now hand over to our Group CFO Jeff Davies.