Acquisition of Reassure Group PLC by Phoenix Group Holdings PLC

Company Participants

- Clive Bannister, Group Chief Executive
- Jim McConville, Group Finance Director and Group Director, Scotland

Other Participants

- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Ben Cohen, Analyst
- Dominic O'Mahony, Analyst
- Jon Hocking, Analyst
- Ming Zhu, Analyst

Presentation

Clive Bannister {BIO 2183003 <GO>}

Good morning. This is a proud and important day for Phoenix. I'm going to go through the transaction. Jim is going to talk about the financial components. And then I will wrap up at the end.

ReAssure Group plc is a consolidator of heritage life businesses. By acquiring ReAssure, we deliver additional scale to our own heritage businesses in Ireland and the UK. Therefore, this is a wholly logical, intelligent transaction. The acquisition confirms Phoenix as Europe's largest life and pension consolidator. Phoenix has a very clear set of acquisition criteria which guide us whenever we're contemplating or completing M&A.

This transaction meets all of those criteria. It is value accretive. The consideration of 91% of Solvency II on shareholder owned funds, and we expect to deliver GBP800 million of cost and capital synergies from bringing our businesses together over time. Second, it supports our dividend. The GBP7 billion of incremental cash generation delivered from this acquisition supports a 3% dividend increase. And finally, it is consistent with the maintenance of our investment grade rating, so important to us. The funding structure utilizes our leverage capacity without needing to return to existing equity investors.

ReAssure is a remarkable and a very fine business. It has grown through consolidation with 23 transactions. We know the businesses of ReAssure well and respect them as formidable competitors to Phoenix. We are therefore acquiring a well diversified heritage business with GBP84 billion of assets under administration and 4.1 million policies, and this is in an industry which rewards scale, which will include the mature saving businesses of Legal & General and that Old Mutual Wealth Life Assurance.

The key attributes of Phoenix's business are cash, resilience and growth. This acquisition enhances each of these three attributes with GBP7 billion of incremental long-term cash generation, a rise in our Solvency II surplus by 40% to GBP4.2 billion and will deliver significant growth to our Heritage business. The increase in cash generation arises from the -- that arises from the acquisition supports the proposed 3% uplift in dividend per share. This increase will be effective from the 2020 final dividend that we will pay in May 2021. This increase equates to a 10-year dividend CAGR, compounded annual growth rate, of 4.1%. Our annual dividend will therefore rise by GBP144 million to GBP482 million by 2021. Phoenix has a very strong track record of delivering successful integrations.

As we've said so many times, we run a business, not just a balance sheet. The integrations of AXA and Abbey Life businesses were completed ahead of plan and delivered synergies in excess of target. The transition of the Standard Life Assurance business is progressing to plan, and we are on track to meet our GBP1.2 billion of cost and capital synergies for that transaction.

ReAssure is currently undertaking significant integration activity, of which we are very much aware, as they may [Technical Issues] more material savings and the Old Mutual wealth businesses onto their very strong ALPHA platform. We recognize the importance of ensuring that these integrations are delivered successfully and in accordance with their current plans and under their responsibility. We have -- and I will make it very clear -- no intention of changing those plans.

Given the high level of integration activity already underway in both organization, we will take -- and these three words are immensely important -- an aligned approach to the integration of ReAssure with Phoenix, and we will be focused principally on ensuring enterprise stability: alignment, integration, enterprise stability.

So at this point, I wish to hand over to Jim.

Jim McConville {BIO 3743391 <GO>}

Thank you, Clive, and good morning, everyone.

We have set out on this slide the key metrics related to the transaction for the combined business on a pro forma basis. Overall, the acquisition delivers a GBP7 billion increase in our total cash generation, of which GBP2.7 billion will arise by 2023. We see a significant increase in our Solvency II surplus, and the pro forma shareholder capital coverage ratio remains comfortably within our target range. Our outstanding debt rises as we inherit debt from the acquisition and use debt to finance the acquisition, but remains within our target range that is consistent with the maintenance of our investment-grade rating. And finally, we see a significant growth in our assets under administration to GBP329 billion.

As you know, cash is king at Phoenix, and the cash generation remitted to Group from our insurance companies remains our key metric. The acquired operating companies will add incremental cash generation of GBP7 billion over the life of the business, taking the long-term cash generation of the combined Group to GBP19 billion.

The profile of cash generation from this acquisition is more front-end loaded than for example the Standard Life Assurance business acquisition, and we therefore expect GBP2.7 billion of the incremental cash generation to emerge by the end of 2023. This reflects in part the cost and capital synergies that we and the existing ReAssure business expect to deliver over this time period. It is worth remembering that the cash generation guidance we give exclude new open business, new BPA deals and any further M&A. And additionally, it does not place any value on management actions after 2023.

Our approach to the integration of the ReAssure business with Phoenix will ensure that we protect the integration work that is already underway within both organizations. We expect to deliver significant cost and capital synergies totaling GBP800 million from this transaction, reflecting the benefit of Phoenix's industry leading operating model and approach to capital management. By combining the groups functions of the two businesses and integrating the financial and actuarial functions, we expect to be able to deliver a reduction in the combined cost base of the Group of GBP40 million per annum. This equates to a capitalized cost synergy net of tax of GBP400 million.

As Clive stated, these synergies exclude any benefits that may arise from the integration of the customer services and IT operations. Our focus will be to safely complete the Standard Life Assurance transition and existing ReAssure integration work. Any benefit therefore will be additional to these targets.

We anticipate delivering capital synergies of GBP450 million, and consistent with previous acquisitions, we will hedge around 80% of the shareholders' exposure to equity risk from the date of announcement and will harmonize the approach to the hedging of interest rate risk from completion.

We also expect to increase the proportion of longevity reinsurance of the acquired annuity business to around 60%, in line with Phoenix's risk appetite. Capital synergies also include benefits from parts and transfers for both the UK and Irish businesses. And it's important to remember that the synergies we anticipate are from similar actions that we have undertaken in our previous deals. It is a road well traveled, and we can take comfort from the experience we have gained.

The consideration of GBP3.2 billion represents 91% of Solvency II own funds as at September 30, 2019. This is an attractive price and is broadly in line with our prior acquisitions of AXA and Abbey Life in 2016 and the Standard Life Assurance business in 2018. ReAssure's own funds are presented on a shareholder basis excluding GBP1 billion attributable to the three hybrid capital bonds that ReAssure has in issue.

On this slide, we show the movement of ReAssure's Solvency II own funds from December 31, 2018 to September 30, 2019 pro forma funds that are being acquired.

ReAssure's own funds have benefited from a number of positive variances over this period over and above the expected surplus emergence. Model and assumption changes have increased surplus by GBP0.3 billion and include a GBP0.1 billion release from changes in the longevity base tables for recent annuity mortality experience. The business has also seen a GBP0.3 billion positive variance from market movements this year.

The September 30, 2019 solvency position also assumes a dynamic recalculation of transitionals, which has contributed GBP0.2 billion to the Solvency II surplus. PRA approval to the recalculation of transitionals will be sought at December 31, 2019 as part of the industry-wide recalculation exercise.

Finally, these pro forma figures anticipate the strain associated with completing the Part VII transfer of the savings business from L&G and the completion of the Old Mutual Life Assurance acquisition. It is worth noting that ReAssure expect to deliver cost and capital synergies on the integration of the Old Mutual business which are not reflected in this pro forma position. The pro forma own funds for ReAssure at September 30, 2019 are therefore GBP3.5 billion.

The total consideration of GBP3.2 billion will be funded through a combination of GBP2 billion of equity and GBP1.2 billion of cash. This efficient financing structure utilizes our existing debt capacity and does not require any primary equity issuance. A total of 277 million shares in Phoenix will be issued to Swiss Re, part of which will be transferred to MS&AD, the current shareholders of ReAssure. This number of shares has been calculated based on a 30 day volume weighted average price of GBP7.213 per share. The GBP1.2 billion cash consideration will be funded through a combination of debt issuance and our own resources. We expect that we will issue hybrid debt of around GBP800 million and use GBP400 million of senior debt. On this basis, the pro forma leverage position remains within our 25% to 30% target range.

At completion, Swiss Re and MS&AD will between them hold around 28% in the enlarged group in broadly equal proportions. Swiss Re and MS&AD will enter into a relationship agreement with Phoenix, with the right to appoint one director to the PGH Board as long as their holding is greater than or equal to 10%. Standard life Aberdeen, our largest shareholder, will see their strategic holding diluted to circa 14.5%. However, this will not change the nature of our strategic partnership. We will work with Standard Life Aberdeen to explore opportunities to strengthen this partnership through the acquisition. And we look forward to working closely with all three of our strategic shareholders in delivering our vision to become Europe's leading life and pensions consolidator.

At completion, we anticipate the combined debt of the Group to be GBP4.7 billion. This is based on the assumption that we raise GBP1.2 billion of debt from the acquisition through a combination of the GBP800 million hybrid issuance and GBP400 million of senior debt. It is anticipated that the senior debt will be repaid in 2021. And whilst it is not possible to be definitive about our actions in respect of the hybrid capital instruments, it is expected that the cash generation profile of the enlarged Group between 2020 and 2023 will support the repayment of bonds at the first call dates. If this were to be the case, the GBP4.7 billion debt stack at completion will have reduced to GBP3.3 billion by the end of 2024. And we therefore expect to remain within our targeted leverage range of 25% to 30%.

The Group's Solvency II surplus will increase by GBP1.2 billion from GBP3 billion to GBP4.2 billion. This results in a shareholder coverage ratio of 148%, comfortably within our target range of 140% to 180%. This ratio does not include the benefit of the hedging action that Phoenix has taken to reduce ReAssure's exposure to equity risk, nor does it include the synergies that ReAssure expect to deliver following completion of the acquisition of Old Mutual Wealth. These actions will have a positive impact on solvency, and we therefore expect the pro forma shareholder coverage ratio to be approximately 5% higher at completion, all other things being equal.

Turning to cash generation. We show here a slide that is very familiar to you. This sets out the sources and uses of cash, including the impact of the proposed transaction. The analysis assumes that the dividend is increased from the time of the 2020 final dividend and assumes that all bonds are repaid at the earlier or first call date and maturity. It illustrates that holding company cash will build over time, and this will be used to fund further BPA and also be available for future M&A.

And then following on from that slide, we show the position here beyond 2023. There is a significant expected cash flow over the longer term, with the acquisition adding GBP4.3 billion to Phoenix's existing expectations of GBP8.2 billion from 2023. This provides additional durability to the dividend. It is again worth remembering that these illustrations do not include any incremental cash generation from the new open business or BPA or from future M&A. We also exclude management actions.

I will now hand you back to Clive to conclude.

Clive Bannister {BIO 2183003 <GO>}

Jim, thank you. I conclude.

The benefits of the acquisition of ReAssure are compelling and confirms Phoenix as Europe's largest life and pensions consolidator. At a price to our owned funds ratio of 91%, this deal is value accretive to shareholders. We see significant potential for cost and capital synergies from the consolidating of consolidators, but we'll take an aligned and integrated approach to ensuring enterprise stability as we move forward subject to the regulatory approval after a change in control program.

The incremental cash generation from the acquisition not only supports a 3% increase in dividend per share but increases the sustainability of our dividend into the future -- long into that future. The resilience the Group is maintained with both solvency and leverage ratios, as Jim has described, remaining within our target ranges. And the Group will have additional cash and capital available to support its growth options, including BPA, and the new Open business, which will deliver incremental long-term cash generation as we described so clearly at our Capital Markets Day on the 28th of this month.

To close, Phoenix is a really remarkable company. Today marks another significant milestone on our consolidation journey. We have and we will continue to deliver cash, resilience and growth. This transaction is wholly logical and intelligent. So I end where I started. This is a proud an important day for the Phoenix Group.

Thank you very much indeed.

Questions And Answers

A - Clive Bannister {BIO 2183003 <GO>}

So now we move into Q&A. Wait for a microphone to arrive. Please give us your name. I hope we know it by now. But anyway, we'll go for the name. Senility sets in at a certain point. We know your name and the institution you represent. We'll do with the questions on the floor, and then if there are any questions on the wire, we will pick them up. And, as always, the hard questions for Mr. McConville. Ashik, can we just wait?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning, Clive. Good morning, Jim. This is Ashik Musaddi from JPMorgan. Just three questions, I would say. First of all, I know you would not like this question, but it's -- it may be too early. So you have done a big deal now. When do you think you'll be back in the market to do M&A again?

A - Clive Bannister {BIO 2183003 <GO>}

So we have a comedic element right at the beginning of today. Fine. Carry on, Ashik, the question number one.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry. I asked this question at Standard Life M&A as well. So you're back in market in less than two years. So just wanted to understand what's going on, how do you think about that. Second thing is what is the magic formula behind the 3% dividend growth? Any thoughts on that? How you arrive at that number? And I think what I'm trying to understand is, let's say, if you don't do a deal for next five years. How should we think about your dividend? Let's say five -- 10 years, instead of five years only. No M&A for 10 years. How should we think about the sustainability of this dividend? It's the second question. And third is, can you give us some sense about macro sensitivities now given that Brexit is coming, elections are coming. How do you feel about the balance sheet...

A - Clive Bannister {BIO 2183003 <GO>}

Brexit is coming and?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Elections are coming. I mean, probably we'll hear in next week what happens with the election results. So if macro moves, then how comfortable you are with your balance sheet? Thank you.

A - Clive Bannister {BIO 2183003 <GO>}

Fine. Okay. I thought there were four questions there: back in the market, magic formula behind our dividend, dividend over the next five to 10 years. I have a crystal ball right here, Ashik, I'll share it with you. And then, Jim, you are going to do with the macro sensitivities. But we've already done the hedging.

As you know, we always hedge to protect solvency. We use that word resilience beginning with an R. We do it unlike many of our -- the competitors. And yesterday afternoon, even though we don't know, subject to regulatory approval, the change control process, we've already hedged and protected the equity rates [ph] value in the asset that we hope to own sometime in the middle of the year. But would you take the other point of the question on the macros?

So, when are we going to be back in the market? Not for the foreseeable future. We have a lot to do in our own family. But more importantly, we have to work and wait through the change of control process. But let's step back and look at the strategy of consolidation. This is a massive indication of what the Company has believed in for the last decade, and the journey of our industry. So there is a sense of naturalness to this transaction.

Our friends in Swiss Re, a world-class, outstanding company, acquired ReAssure in 2003, and they have built over 23 transactions a formidable business, a really remarkable business in ReAssure. And they were building, as we've been building in Phoenix, a vehicle that anticipates continued consolidation. We mentioned a number which was GBP580 billion, that is the UK market being over 70% of that; Germany and Ireland -- we've reinforced our Irish business by a small amount.

We still believe the largest amount of consolidation will take place in the UK market in the coming years, where we have the greatest amount of relevant skills, transferable skills, and of course the best scale. So, we are going to absolutely focus on what we're doing today, but the market will continue to consolidate. I completely believe that any vendor will come and have a conversation with us. They will see the prices we pay. They'll understand the certainty with which we can complete transaction, and of course the speed. And those three things, price, certainty and speed are attributes that we will bring to a market which will continue to consolidate.

Well, the magic formula as our dividend remains stable and sustainable. It is Christmas time, so I hope that somebody will say, thank you, an early Christmas present. We have asked our equity investors for no money in this transaction. We are leveraging our Company from 23% up to 30% but staying within the trend lines which protect our investment grade, very important, and will remain so for the duration of the numbers put up by Jim, as you saw, the paydown in debt of GBP1.4 billion over the next four years, five years, to protect that investment-grade rating.

So we've done an efficient and, I'm going to use the word elegant financing structure. We've adopted an efficient and elegant financing structure, which allows us the confidence in the future cash flows to raise dividend by 3%. There's no magic on 3%. It reflects what we know now, proportion it and where we find ourselves. We should also say, for a company that has a stable and sustainable dividend policy, if you take the CAGR, the 10-year compounded rate of our own dividend is just over -- it's 4.1%. And I set that against a three or a five year total shareholder return, which is somewhere between 130% and 150%. So there are other ways in which we deliver value to our shareholders that's been proven over the last three and five years in our TSR. So that's the second.

You asked me about the dividend for three -- five and 10 years. Well, I think you have to look to our Board and Andy Briggs, and they will be much more capable than I am in answering that questions. Our dividend policy remains stable and sustainable, and that's what our business model is.

Jim, macros.

A - Jim McConville {BIO 3743391 <GO>}

Yeah. Before that, I would just add to that dividend question. You can see from the cash slide that we put out on the sources and uses to 2023 that the dividend is very well covered over that period, and I'll leave you all to play with your models to work out the period beyond that.

A - Clive Bannister {BIO 2183003 <GO>}

[Speech Overlap]

A - Jim McConville {BIO 3743391 <GO>}

Then, I'm not going to give you a prediction on Brexit. I don't think that's within my gift, nor are the result of the election much as we'd love to. I think the key thing for us is in thinking about this acquisition we're being consistent in how we think of hedging our balance sheet. So, as you know, we seek to protect the surplus. That is our absolute focus in our hedging approach, and the reason we do that is quite simply that that protects the cash generation and that in turn then protects the dividend and the interest payments and so on. So that's a perfectly logical approach that we will adopt.

We see the opportunity to take that same approach with the ReAssure business. Yesterday, we completed a series of transactions in the equity market to take the cover out to hedge 80% of the equity risk within the reinsurance due. That's consistent with the approach that we have taken to previous transactions where we've hedged from announcement. And upon completion, those hedges will transfer into the life company themselves. And we will, post completion, look at changing the approach to interest rate hedging that will bring them in line with our approach within Phoenix.

So a combination of these makes us very comfortable with the balance sheet strength, and we will be moving to, as I said earlier, completion shareholder coverage ratio of 153% which is very similar to the level that Phoenix currently enjoys today. So we are very comfortable with that.

A - Clive Bannister {BIO 2183003 <GO>}

Can we have the microphone (inaudible) why don't we start in the front, and we will come back to Andrew and John.

Q - Ming Zhu {BIO 17001429 <GO>}

Morning. Ming Zhu from Panmure Gordon. Just three questions, please. First is, you just mentioned that you still see the biggest opportunity of M&A in the UK. So what's your plan for Germany? I mean, what's the rationale for holding the German business there, given it's mostly run-off? And second is your wedge. Because this ReAssure deal is good for you in terms of cash generation, very early year cash weighted. But does that mean that wedge is going to run off at a much faster pace over the years and how is your -- what do you need in terms of the Open business to flatten it out without BPA staff?

And my third question is, you've done a good job in terms getting rid of your biggest competitor by buying them at a discount. So now...

A - Clive Bannister {BIO 2183003 <GO>}

That's helpful, Ming, and that's helpful.

Q - Ming Zhu {BIO 17001429 <GO>}

Now you're the biggest consolidator in the UK. So going forward, what is the regulator -- I mean, are you concerned in terms of the regulator, would they see you as a monopoly?

A - Clive Bannister {BIO 2183003 <GO>}

Okay, fine. So we have three questions. Jim, you will take the second one, the nature of the wedge. We are a tripod [ph]. We have a Heritage business, an Open business and a BPA business. But the question about how we treat the wedge going forward, Jim, will deal with in a second. Well, Jim, why don't you deal with that and then I'll deal with Germany and I'll deal with the CMA?

A - Jim McConville {BIO 3743391 <GO>}

Well, I think most of you will be familiar of the concept of the wedge which we have described for some time now in explaining how our Heritage business runs off. I know the cash generation that we lose from that can be replaced from the Open business that we have with Standard Life. Clearly, with the acquisition of this business, the Heritage business gets better and therefore the gradient of the wedge changes.

So where we stand today? As we've said, our Heritage business runs off broadly 5% per annum, and we would need Open growth of around 4% per annum to offset that decline in cash generation. And we described in our Capital Markets Day and at our half-year results the progress that we've made to-date. We've been very pleased with the progress we've made to-date in the cash generation from Open business and BPA. But we haven't declared victory on the wedge. It's still too early to tell. But very promising start.

The acquisition of ReAssure increases the start point of the wedge from GBP400 million to around about GBP700 million and the rate of decline of the Heritage business in the ReAssure Group is broadly at the same level as the existing Phoenix Group, so around about 5%. So, if you look at the expectations we have for the Open business and you look at the growth that we see coming through from our BPA business, at the current rate, we are doing BPA business of around about GBP1 billion of liabilities per annum.

We would see effectively sufficient cash generation coming through from those two sources of new business to offset that increased Heritage run-off. So, I think with the BPA business running at the level we have, we've still got to position (inaudible) the new business will give us, over the long term, sufficient cash generation to offset the decline in the existing business.

A - Clive Bannister {BIO 2183003 <GO>}

Jim, thank you. So the question was about CMA, Capital Markets -- sorry, Competitive Markets Authority and competition issues. We're not complacent. We thought about this extremely hard. We think there is no case to answer for, and we say that for two reasons.

First of all, heretofore we're dealing with Heritage business. As Heritage business, these are in-force policies, about 4.1 million joining our own Heritage business, so there is no competitive issue. It's about making sure that on a point-of-retirement or availability of alternative annuity options or drawdown, we are as competitive as the rest of the market.

That takes me into the second reason, is when we are in the accumulation side or giving customers choice upon the point of retirement, it is a ferociously competitive market and we have a tiny market share. So we think that this is not an issue. But of course we've done the thinking prior to that.

Then you've gone back -- and I think in Capital Markets Day -- I mean, you asked about Germany. Germany and Ireland are not for sale, period. We believe that the consolidation which has taken place for the last 20 years in the UK is going to take place in Europe. So you can look at VIVAT, you can look at Veridian and the deals done in Germany, it is starting to happen. In a low interest rate environment, it becomes less and less compelling for some of the incumbents to own heritage businesses in the continental Europe.

Who knows when, if ever, we would do a transaction. But right at the moment, through the acquisition of Standard Life, reinforce (inaudible) by about 5% in Ireland through this proposed acquisition, we get a strategic optionality, and optionality has a value. Because to make money, as you know so well, Ming, you have to have a pre-existing asset upon which you can then -- and largely in Europe, we think it will be a cost synergy game rather than a capital synergy or a financing game, and therefore we go to that with something which is important.

We bring all the PLC credentials, with all the governance issues, in a market where there's a lot of private equity, and we believe that will find favor with the regulators, and therefore we state very clearly, it is an opportunity. These businesses, our European businesses, more than contribute and cover their cost of capital and so they will be retained for reasons of strategic optionality, but that does not mean we're about to get our European passports and are going to traveling abroad. We are focused on what we have in the UK right now.

Andrew? And Ben will (inaudible). So Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. It's Andrew Crean at Autonomous. Three questions, if I can. Firstly, are you thinking of committing more capital to the BPA business to prevent the wedge from coming (inaudible). Secondly, the GBP7 billion of additional cash, does that -- that obviously includes the extra GBP0.8 billion of cost and capital synergies. Does it also include the GBP0.2 billion which ReAssure are going to get after the Old Mutual deal?

And thirdly, can you talk a bit about this equity hedging? Because it looks like free lunch. I mean, on day one, abracadabra, there is no capital, but it does cost money. Could you tell us what essentially the cost of hedging -- what is the coupon on the capital which is created?

A - Clive Bannister {BIO 2183003 <GO>}

Fine. So three questions. I'll take the first one. And Jim, if you would deal with what is involved and what comprises and contributes to the GBP7 billion and then talk about the equity hedging? We believe in BPA. We've said it's proportionate, highly selective. It was Simon who said he looked at 56 transactions and I think completed four in this calendar year. But the maths was compelling. We showed it at the Markets Day. GBP98 million of capital committed to something like GBP240 million very long-term cash generation.

But there is a balance here between the capital we have available versus the availability of high quality liquid assets. And again, Simon was very fluent about the way in which we have not gone down the credit curve in order to be able to just pump up the BPA. Our natural market share is always going to be modest. So we've said somewhere between 3% and 5%. The market this year we think is around GBP40 billion and we will (inaudible) GBP1 billion of liabilities we collect [ph] before the closing of this year. But what this number shows here, so this is such a fundamental slide page 19, you can see we start this period with holding company cash of GBP300 million. We end up having paid all of our liabilities, so net all of our obligations, paid down our debt with GBP1.7 [ph] billion.

And clearly, we now have the scope to deploying more capital to the areas where growth present themselves. But at the moment, we are going to stay at that 5% market share, which is about GBP100 million of capital committed, and we'll see what the future holds. So that would be my answer. But it is a very good business and we are very good at it.

Jim, do you want to take (inaudible)?

A - Jim McConville {BIO 3743391 <GO>}

Yeah. So, as you said, Andrew, we expect from the ReAssure business GBP7 billion of cash, of which GBP2.7 billion comes in the first few years to 2023 and the balance thereafter. That is a slightly quicker return of cash than we see from the existing Phoenix business. I think in the first few years to 2023 in the ReAssure business, we get 38% out compared with 32% in the Phoenix business. And the numbers do include the benefits that reinsurer [ph] anticipate from doing the (inaudible) transaction and they do reflect the synergies that we have announced today.

And on your hedging...

Q - Andrew Crean {BIO 16513202 <GO>}

Free lunch.

A - Jim McConville {BIO 3743391 <GO>}

Free lunch. If everything was a free lunch. Clearly, we'll use a mixture of options and swaps. We anticipate the cost -- the upfront premium cost of the transactions that we have done yesterday to be fairly de minimis. So we don't see a significant upfront strain from those hedges going in. But clearly, we giving away some upside which we've reflected in the cash projections as we go forward. So, there is no free lunch.

A - Clive Bannister {BIO 2183003 <GO>}

John, and then (inaudible).

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Jon Hocking from Morgan Stanley. I've three questions, please. Could you give us some color, please, on the phasing of the synergies you've announced this morning? That's the first question. And then secondly, on the capital synergies, how much of these synergies are effectively things that would have been achieved by ReAssure on a standalone basis from (inaudible) existing plans and how much is incremental?

And then just finally, probably a stupid question. But in terms of the equity consideration, is the number of shares you're issuing to Swiss Re fixed, all [ph] the GBP2 billion fixed? Thank you.

A - Clive Bannister {BIO 2183003 <GO>}

Fine. Okay. So, Jim, you'll deal with the last two in terms of the capital and the equity, the fixed [ph] shares, which is where we are. So I'm going to go back to page 8, I mean, if the technology works with me. Oh, it's not going to work. Sclerotic. Really important, so we do this as a bit -- living and you get it right. We are not going to have any enterprise instability. And therefore -- it's like air traffic control. We have three different phases on this slide, three different colors. We have our own workload, which is well within our bandwidth, and which we are well advanced. And, as you can see we, we will break the back, if I can use that with our financial and actuarial transformation, crucially delivering subject to the agreement and cooperation of the FCA -- the PRA, I beg your pardon, model harmonization, absolutely crucial for us to get that laid down.

This is a spread business, and we have to price our capital against our liabilities and do that within an internal model. We were one of only nine companies to get an internal model in 2016, and this is the first time we or the PRA that have had to merge two internal models. That all has to get done on the 12th of this month. We announced what we were doing in the customer IT and ops area. We've always said that's a two to four -- you take great care when you are migrating immensely complicated systems, and that is what we're doing in our own family with our base -- hybrid base. So we're -- we are a hybrid business. We manufacture ourselves and we outsource with fabulous partners, TCS, and that's going to -- and use Edinburgh as our operational hub for that.

There are -- that's the blue -- that's us. The blue is in flight and we're not going to interrupt with those. We want the -- ReAssure is very well organized. One of the reasons that this is less risky in certain respects for our business than Standard Life Assurance is because this business was -- I hate using Boris Johnson's phrase, up and ready. It was prepared for an IPO.

That means they have the quality of management, the line strength, the bench strength, and they had done the thinking to be able to deliver the numbers that they had thought about in their IPO document. We're not going to interrupt anything to do with that, and their plans are well advanced for completion (inaudible) Legal & General and the completion subject to regulatory approval, of course, with the acquisition of Quilter and then the realization of their synergies, and Jim will talk about that.

And then finally what happens in the future. First of all, we are going to put this -- because the Heritage business, it is what, 60% percent unit-linked, it's 20% annuities and 20% with profits, everything that we understand, and we understand the methodologies for doing management actions, etc. And then we have a phasing approach. You can see that deliberately, the complicated heavy-lifting is left -- won't even begin until 2022, and that is thinking about customer IT and operations to ensure that there is enterprise stability.

We believe that the capital synergies, as always, can be delivered earlier on and faster and then in progressive way we will deliver the cost synergies, but absolutely making sure that policyholders' interests are delivered and also ensuring -- I'm sorry to repeat it again -- enterprise stability. That's the phased approach that we will adopt. And as you know, it's slide 4, on any full year or half year announcement we say this is what we said we're going to do, this is what we've actually done, and here is the progress to meeting those targets.

I think it's fair, Jim, to say that on the synergy side we have over-delivered on everything we could in the public domain. You have the maths and you may want to comment about that. But anyway, capital and the shares [Speech Overlap]

A - Jim McConville {BIO 3743391 <GO>}

We've already touched. Just pick up on that point on the cost synergies. The cost synergies that we're recognizing today relate to essentially the head office functions and there (inaudible) the PLC costs and the finance and actuarial functions. So we haven't recognized any synergies related to customer service and IT.

And therefore, the percentage of the synergies relative to the cost base for this transaction is relatively low, 12% against the total cost base, and that compares with what we realized in the past, 53% for the AXA deal, 38% for Abbey and a forecast 21% for Standard Life. But that's really recognizing we've got a limited approach to the recognition of synergies thus far.

In terms of your question on capital, John, and whether those actions are available to ReAssure on a standalone basis. There are three key things. One is hedging, and as we see, adopting our philosophy towards hedging. Clearly, that could be available to them if they chose to do something similar. Second is increasing the longevity reassurance, which again could have been done as a standalone action. But the final one is recognition of the Germany. We (inaudible) bringing the life companies together and their internal models together, and the Part VII work and so on that that entails, and clearly, that would only come about as a result of this transaction.

A - Clive Bannister {BIO 2183003 <GO>}

They're on a partial model and will come join our internal model in time. And the shares, it's a fixed number of shares.

A - Jim McConville {BIO 3743391 <GO>}

Yeah. Shares -- based on a 30-day volume weighted average price of the Phoenix shares, which was struck last night, that's resulted in a number of about 280 million shares being issued. So that's fixed, and that takes our total shareholding to 999 million shares.

A - Clive Bannister {BIO 2183003 <GO>}

It was 1.01 [ph] billion but the share price has been strong. So it's now just under 1 billion. These numbers -- Ben, you've been waiting when we will come. Ben?

Q - Ben Cohen {BIO 1541726 <GO>}

Thank you. Ben Cohen at Investec. Two questions, please. Firstly, just to follow up on the synergies point. I just wonder how much work you've done on the ALPHA platform, and whether that's something that you could look to take your business on to, whether you'd be minded to maybe more -- take things off that? I appreciate it's years away, but obviously it would be important in terms of the eventual synergies that you might get to for the combined business.

And my second question was, you're buying your biggest competitor at the moment. In terms of the additional scale that that gives you, how do you think about the risks around the next deal or further deals and the size that those might need to be for us to continue to see sort of dividend uplift on the completion of deals? Thank you.

A - Clive Bannister {BIO 2183003 <GO>}

Fine. Two questions there. Ben, thank you. It's years away. So first of all, we recognize that the ALPHA system, what we know about, it is a very formidable system. It really works, and it's had the ability. It's been invested in. It's been grown, developed, invested in over many years. It has thousands of people who support it. And it has had the ability to absorb and inboard complicated businesses like Legal & General, and I have no doubt, in time, Old Mutual. So this is a working system.

So you're right to point out that this gives us optionality. We are an outsourced and an in-sourced business. We are a hybrid. And the third observation is it is years away. That's why we put up this slide. We want enterprise stability. We're not going to rattle about any cages whatsoever, and our sense is that we have a lot of learning to do to understand what this can bring -- what we can bring to it and what it can bring to us.

The second one is about the biggest competitor, what about the next deal. I think that is too futuristic. There has been a trajectory in the deals. They still happen about once every calendar year, once every 18 months. Size is not the criteria. It is about the quality of the cash flows and where we can transfer relevant skills. We've always said that. Just because something may be small does not mean that we won't take it very seriously, etc. As is well known in this family here, we were involved in looking at the Quilter transaction earlier this year.

So, I can't answer that question about what next. But our dividend policy remains stable and sustainable until there is a reason for changing it, and that can come in a multiple of ways, one of which is another transaction and/or aspects of the wedge are proven out and our solvency ratio moves. As we've said, we operate between the trend lines of 140 [ph] and 180 [ph], and we've always said that as we get towards 180 [ph], we would have to -- it's not our money, it's earned by our shareholders, and we have to think about policies then. As I said right at the beginning, that's for the next generation of management and the Board to decide upon.

Right.

Q - Dominic O'Mahony

Thank you. Dom O'Mahony, Exane BNP Paribas. Three questions from me as well, if that's all right. Just the first two on the structure of the deal. So, in terms of the debt, how sort of cost line is underwritten? Is the pricing of that debt totally fixed (inaudible) political outcome in a week. I wanted to understand that piece.

The second is, you're raising GBP1.2 billion of debt, and the cash consideration is GBP1.2 billion. So it doesn't look like you're using any of the cash on your current balance sheet. Is that an option? If so, how much could you use, and would you be willing to use that instead of raising more debt? Or are there any other dynamics I should be thinking about that in that regard?

And then finally, just I guess another -- coming at this question about the operating synergies, which you've very clearly not put into any targets here. At first glance, one would expect that the operating synergies, if they are however available might be quite small because we have two very lean consolidating platforms. Would there be anything to stop you using ALPHA for Diligenta? Will Diligenta be able to use any of the tools, techniques that ReAssure have? Is there anything to block that? Thank you.

A - Clive Bannister {BIO 2183003 <GO>}

Fine. Jim, I think the first two question is for you about the nature of the deal and the pricing of our debt. And then the second part of that question is, of that GBP1.2 billion, how much are we using our own resources, our own RCF, and then going into the subordinated market in time.

A - Jim McConville {BIO 3743391 <GO>}

So, the GBP1.2 billion of debt that we have underwritten is a volume underwrite. So the price of that will be determined by the market conditions at that time whenever we issue that debt. In terms of what we expect to happen is, upon completion, our expectation is that we would issue roughly GBP800 million of hybrid debt and use GBP400 million from our revolving credit facility, and our expectation is that GBP400 million can be repaid pretty quickly, given the cash generation that will result from this deal. So GBP800 million hybrid, GBP400 million short-term senior debt.

A - Clive Bannister {BIO 2183003 <GO>}

[Technical Issues] are hybrid. We have just over GBP2.5 billion is just 5 and a bit percent. And on the RCF, it's 30 bps?

A - Jim McConville {BIO 3743391 <GO>}

35 bps.

A - Clive Bannister {BIO 2183003 <GO>}

35 bps. That's the price of our money.

Perfectly fair question about the what ifs. I don't know. There is a mature operating platform in ALPHA of real quality, and there is a formidable platforms -- platforms within our friends at TCS. And this is all in the future. But again, there is a value to optionality I know we'll talk about over the next, as we said, two or three years.

Any more questions? If not on the floor, are there any questions on the wire?

Fine. So I'm going to end. I started by saying this is an important and proud day for Phoenix. Why do we believe in this transaction? It's strategically 100% on message. It's what you would expect us to do. It brings very substantial additional cash flow coming to our reservoir value of GBP19 billion. It maintains our balance sheet strength, and it's very important. It drives our surplus to GBP4.2 billion.

The opportunity for significant synergies. We've been (inaudible) number, 12% of cost base, of around GBP330 million today. It has attractive pricing at 91% of UT1 [ph]. The last time we did a deal at this price was Abbey Life at 89%. That's proved a remarkably successful transaction for Phoenix, for our shareholders and our policyholders.

FINAL

We've used an efficient financing structure. We haven't asked for money from the equity holders, and therefore we are delighted to be able to give back the dividend with a 3% uplift. And we think that this supports our growth. The nature of these cash flows where there is a degree of front-ending but then a long trail matches so comfortably our existing cash flows and therefore it will allow us to consider additional growth in BPA in the open market.

So, I want to thank everybody in this room -- many of our advisors are here -- and the immensity of the hard work that has gone in in the last few months and recognize that this is a logical, intelligent deal for Phoenix. Thank you very much indeed.

Operator

This presentation has now ended.