Q2 2018 Earnings Call

Company Participants

- Antimo Perretta, CEO of European Markets
- GÃ©rald Harlin, Deputy CEO & CFO
- Jacques de Peretti, Chairman & CEO of AXA France
- Julien Parot, Unknown
- Thomas Buberl, CEO & Director

Other Participants

- Laurent ThÃ©venin, Analyst
- Lionel Garnier, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Welcome to the telephone conference for H1 2018 AXA Group results. I will now turn the floor over to the Director of Press Relations, Julien Parot.

Julien Parot

Welcome to the press conference, during which we will present the results of H1 2018 for the AXA Group.

Before we begin, I would like to remind you that you can follow the presentation of this press conference live on axa.com. By logging on to this site, you'll have access to the press presentation, which will be presented by Thomas Buberl, CEO of AXA; and GÃ©rald Harlin, Deputy Chief Executive Officer and CFO of the group. This presentation will be followed by a Q&A session, which will also be attended by Jacques de Peretti, Chairman and CEO of AXA France; Alban De Mailly Nesle, AXA Chief Risk Officer; and Antimo Perretta, CEO of AXA Europe.

Thomas Buberl, the floor is now yours.

Thomas Buberl {BIO 16182457 <GO>}

Hello, everyone. Welcome to AXA Group's H1 earnings presentation.

2017 was a year of structuring choices. At the end of these last six months, we can say that 2018 is the year of action: The acquisition of XL Group; IPO of our U.S. business; signing of innovative partnerships with Uber and ING.

During this semester, AXA has clearly demonstrated its ability to implement its strategy. It is, for me, an immense source of satisfaction. And I would like to thank the performance of the AXA teams, because in the global competition we face, I am convinced that the difference will be -- will come from the ability of companies to implement their strategic decisions.

As you can see on Slide 5, this in-depth transformation is based on solid results. During the first half year, we have achieved organic growth of 3%, which, in fact, makes this the first half year that has been more dynamic than all the preceding years over the past five years. We also obtained a very strong operating performance, with underlying earnings and adjusted earnings that are up by 9%. Finally, we have a very solid balance sheet. In particular, our Solvency II ratio has risen by 28 points to reach 233%. All of this results from our actions in our geographies and preferred segments. We are very pleased with the balance we have achieved between performance results and accelerated transformation. This is the spirit of our strategic plan, Focus and Transform.

On Slide 6, you can see that our new organization has already begun to bear fruit. GÃ©rald will give more details on these results later. But when we take the big picture, what do we see? We see the international base of AXA on its 5 geographies, all of which contribute to the group's profitability. I would like also to underline the dynamism of our French and European activities, which points that there is growth potential everywhere, even in mature countries, provided we know where to focus our efforts.

Moreover, on Slide 7, the relevance of our focus on clearly defined priorities is even more obvious. In the preferred segments we chose in our Ambition 2020 plan, we, in fact, enjoy strong sales momentum: Plus 2% of revenues in P&C Commercial lines; plus 7% of revenues in Health; plus 10% new business in Protection. And this growth is profitable, as shown by the improvement in the combined ratio in each of these segments. These strong numbers show that we are accelerating the transformation of our product mix towards more profitable products, with which we can add value to our customers. All in all, we are generating profitable growth. We are accelerating the transformation of our product mix. Our balance sheet is robust. We are perfectly in line with our Ambition 2020. And this can be seen on Slide 8.

You know the 4 main financial objectives of our plan. As you can see, we are in a higher bracket of our objectives, particularly as regards underlying earnings per share, up 6%; adjusted return on equity, which stands at 15.6%; and our Solvency ratio II up 28 points to 233%, a temporary level, of course. And GÃ©rald will also return to this point later. Thus, during H1 2018, we have achieved strong results. But as I told you at the beginning of this presentation, we need to deliver more solid results. And at the same time, profoundly transform the group. In this respect, I believe that the first half of 2018 will remain a milestone in AXA's history.

As you can see in Slide 9, we have successfully completed several major operations to transform the group's risk profile. To reduce our exposure to financial risk, we have IPO-ed a minority share of our U.S. operations. This major operation was a triple success. Why? We have launched and achieved it at the same time within a period of one year only. We secondly, sold all the securities we needed to sell, between 20% and 35%. And thirdly, we have obtained the funds required to finance the acquisition of XL Group.

To reduce our exposure to financial risk, we also reorganized in April our Life business in Switzerland, which allowed us to recover over EUR 2 billion of additional cash. And we announced yesterday the potential disinvestment of our European Variable Annuity vehicle. The proceeds could potentially amount to EUR 1.2 billion. And both operations clearly confirm AXA's financial flexibility.

During H1 2018, the change in the group's risk profile was all the more important that it was supported by a major strategic investment with the acquisition of the XL Group. As you can see in Slide 10, this acquisition allows us to build the leading global P&C Commercial lines. Our 2 groups are very complementary. Our alliance will provide our corporate clients with expertise and value-added offerings, bringing high value added that will, of course, drive AXA's results and growth in the years to come.

For several months, we have been fully focused on the integration process. And I must say that we are moving fast. Financing of the acquisition is now secure, as I mentioned earlier on. The potential impacts of national -- natural disasters in XL have been reduced by 40% relative to 2017. There is a new leadership team. And the brand identity of the future AXA-XL identity have already been announced. The synergies and their objectives have been confirmed. As expected, the closing of the transaction is scheduled for H2 2018. All of these operations are key steps in our transformation process. And therefore, they cannot summarize the entire transformation currently at work at AXA.

The digital revolution also allows us to seize major opportunities. This is why we have signed many innovative partnerships, as you can see in Slide 11. Digital platforms are revolutionizing the way we can reach customers and meet their new needs. They also allow us to exchange more frequently with our customers and not just be stalled in the role of invoice payer. This is why AXA seeks to become the privileged partner of the platform economy. This ambition was materialized this year by strengthening our partnerships with Uber and BlaBlaCar to provide protection for independent workers in the world of digital and to support new types of mobility. We have also signed a partnership with ING to build the future of digital insurance solutions. Via all of these initiatives, we will be able to bring to millions of new customers innovative products that reflect their way of life. That is what AXA has become today, a very solid financial group fully committed to its transformation to build a large insurance group of the 21st century.

I now give the floor to GÃ©rald Harlin, who will go into the details of our results.

GÃ©rald Harlin

Thank you, Thomas. Good morning, all. As you know, the AXA Group has been organized since this year in 5 geographical zones: France, Europe, Asia, U.S.A. and International. You will find on Page 27 of this presentation a list of countries in each geographical area.

I will present the results according to the logic of our new organization, beginning on Slide 13 with France. France has achieved an excellent first half year. Underlying earnings rose sharply by 9% to 1 -- EUR 816 million, mainly reflecting the higher technical margin in P&C despite the increase in expenses related to natural events as well as an increase in Unit-Linked fees driven by a higher average asset base. The combined ratio for P&C improved to reach a strong level of 93.7%, an improvement of 0.6 points. New business margins in life insurance stands at 30.7%, decreased by 4.1 points, reflecting a change in the business mix as regards group health. New Business Value has increased by 5%. Revenues point to very strong growth of 8% to the tune of EUR 13 billion, mainly driven by dynamic sales in capital-light G/A Savings products, plus 25%; Health, plus 12%; and Protection, up 5%. For its share, APE increased by 19%, supported by Health by plus 52%; and capital-light G/A Savings, plus 25%, that are not so capital intensive.

In the Europe zone, Slide 14, underlying earnings increased strongly by 10% to EUR 1.27 billion, mainly due to higher technical margins across all lines, mainly in Switzerland in Life; U.K. and Ireland in Health; and in Spain in P&C. As in France, I see in Europe the very high level of combined ratios all years in P&C, 93.9%, an improvement of 0.6 points. In Health, the ratio improved by 1.2 points to reach 96.2%. On the profitability side, the new business margin is at a high level, 54.2%. For its share, revenues increased by 3% to EUR 21.7 billion. This increase can be explained, on the one hand, by strong recovery in Italy, at plus 21%, with higher sales in capital-light G/A Savings and Unit-Linked; and on the other hand, by the dynamics of our preferred segments, particularly in Commercial lines, plus 3%, particularly in the U.K. and Ireland, Switzerland and Germany as well as in Health, at plus 4%. Lastly, the new business volume rose by 6%, mainly driven by strong growth in Protection, plus 11%, mainly in Switzerland; and higher Unit-Linked sales, at plus 19%, mainly in Italy following the recovery at BMPS.

Let's now go to Asia, Slide 15, where I may -- I remind you that we are the first multiline insurer in the region. Underlying earnings rose 4% to EUR 544 million, mainly driven by higher Unit-Linked management fees in Hong Kong, higher technical margin in Japan and higher profit contribution from China. In terms of P&C, the all-year combined ratio improved by 1.1 points to 96.5%, the lower frequency of automobile claims in Asia direct being partly offset by higher expenses linked to a move towards more profitable products. In Health, the combined ratio improved by 0.7 points to 77.7%, mainly driven by improved claim experience in Japan and an evolution of the portfolio in Indonesia towards more profitable products. The strategy to improve the business mix in China but also in Thailand keeps the New Business Value margin in Asia at a high level of 66%. New Business Value is up 4%. In Asia, revenues have increased by 3% to EUR 4.3 billion. Hong Kong, plus 8%; and Japan, plus 3%, were the drivers of this growth. Both countries also pushed up the volume of new business, which rose by 4%.

Let us now turn to the U.S. on Slide 16. You know that we have burning news in the U.S. this year. As you know, we IPO-ed on the New York Stock Exchange last May, our U.S. Life, Savings, Retirement and Asset Management businesses. This major step in our transformation process has a logical impact on the amount of underlying earnings that I will present to you. The underlying earnings, thus, decreased by 8% to EUR 465 million. It is stable, excluding the reduction in the holding rate following the IPO of AXA Equitable Holdings, Inc. and even up 30% if we exclude the non-recurrence of exceptional tax effects. It is therefore a solid underlying earning level that we have identified in the United States. It was supported by higher Unit-Linked management fees and a higher GMxB hedge margin in Life & Savings and from higher fees and improved cost-income ratio at AB. At AB, net flows amount to EUR 1 billion. On the other hand, I note an increase of 11% in revenues to EUR 1.3 billion and an improvement in the underlying cost-income ratio of 4.9% to 71.6%. Finally, new business volume in the U.S. has risen by 4%. And New Business Value margin stands at 21.7%, down 1.6 points, mainly reflecting a less favorable business mix.

Finally, Slide 17, in the International zone, underlying earnings rose 2% to EUR 210 million, mainly due to higher profits in Russia, Turkey, the Gulf region and Mexico. On the profitability side, the combined ratio in Health improved by 3.1 points to 93 point -- 99.3%. And the New Business Value margin was up 7.7 points to 33.5%, while the value of New Business Value rose by 31% to 33.3%. Finally, revenues rose by 3% to EUR 3.4 billion, mainly due to growth in Mexico, standing at plus 12%, thanks to Health and P&C Commercial lines and thanks to growing business activities in Turkey and Poland.

As you know, in addition to our 5 geographical areas, we have Transversal entities, including AXA IM, whose results are shown on Slide 18. During the first half of this year, our Asset Management subsidiary posted underlying earnings up by 10% to EUR 139 million, supported by the increase in revenues and higher earnings from our Asian JVs. It recorded net inflows of EUR 13 billion, mainly driven by temporary cash inflows linked to the acquisition of XL Group. However, I point out that the net inflows on behalf of third-party clients amounts to plus EUR 4 billion. Revenues are up 5%. And average assets under management increased by 4% to EUR 641 billion. I remind you that AXA IM announced in June a reorganization project to have a simpler structure and to be closer to its customers. We are confident and convinced that this is the right model to continue growing and remain competitive.

I will now present the summary of the results, starting with Slide 20, by presenting the operational result. The group's operational result has increased to EUR 3.3 billion. This is the perfect reflection of our strong operating performance; a solid growth in underlying earnings per share; a dynamic organic growth for all geographies and in preferred segments; and finally, a strong acceleration in the group's transformation. And in view of our choice as regards the future we intend to open up for AXA.

Here, of course, the adjusted earnings has also progressed to the tune of 9% to stand at EUR 3.6 billion as well as an increase in the capital gains realized. And we stand here at EUR 2.8 billion. I would like here to underscore that if we exclude the exceptional impact of our Commercial line portfolio announced in April and the IPOs on our American business, we are up 5% in this area.

Slide 21, I would now like to present our balance sheet indicators that, once again, are testimonials to the robust financial health of the group, down EUR 3.6 billion. The impacts here and the drop in unrealized capital gains and the introduction -- the listing of AXA Holdings in the U.S.

Our Solvency ratio II stands at a higher level than in 2017. This height can be explained by the positive yield, also by the listing of the U.S. business. We should, before the end of the year, after we finalize the acquisition of XL Group, to a rate that would stand at between 290% to 300%, as set within the 2020 Ambition plan.

Also, on July 10, S&P Global Ratings confirmed our AA status minus the different entities of the AXA Group, alleviating their supervision.

Finally, as regards Slide 22, you will see the allegation of invested -- the allocation of invested assets. There are not very many interesting changes in this year. We have here, of course, seen stability maintained in terms of numbers for corporate bonds, for example. And our allocation policy is guided by the need, of course, to respect the engagements we have pledged to our policyholders.

So I would now like to return the floor to Thomas Buberl, who will conclude the presentation of these half year results.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, GÃ©rald. In conclusion, we can say that AXA has, during H1 2018, proven a strong operational performance to solid growth as regards the earnings per share in the upper bracket of the Ambition 2020 plan; also, dynamic organic growth in geographies as well as in preferred segments; and fourthly, the group has strongly accelerated its transformation. As I said in my introduction, this for us is a major source of satisfaction because we are convinced that the difference between economic players will be based on their ability to implement their strategic decisions. During the first half 2018, AXA was able to implement and to maintain its action plans on target.

We are now available to respond to questions.

Questions And Answers

Operator

(Operator Instructions) We have a question by (Mme. Gianna Latini).

Q - Unidentified Participant

Of course, it's a question as concerns Italy. If we could have a little more information on the performance in Italy and also where you stand with the Monte Paschi Banque. Is AXA worried about the change in Italian politics and our position in Europe and also the financial situation in Italy?

A - Thomas Buberl {BIO 16182457 <GO>}

The last part, after having heard the word alleviated, could you repeat, please, the last part of your sentence?

Q - Unidentified Participant

Has AXA reduced or alleviated its presence in the Italian financial activities, particularly as concerns the government?

A - Thomas Buberl {BIO 16182457 <GO>}

We're going to subdivide your question into 3 sections. The first is the Italian situation, which I will comment upon. The second is Italian performance and particularly our JV with BMPS. (Perretta) is going to answer that question. And the third is investment policies and have we changed here our position. And Harlin will give you an answer to that one. So as regards the political situation in Italy, as you must know, we have had elections in a country where the economic aspects remain stable. But of course, this is also something that brings about volatility. And volatility is not the insurer's best friend. So luckily, this -- the situation in Italy is perhaps more stable now than it was at the time of the elections. And the major challenge that you've also mentioned is what the European Union's response would be after the actions of the U.S. and China. And I think we still have much progress to make. Nonetheless, an insurer is always focused towards the long term. And if we look at the market as it stands in terms of its geographies and opportunities, we see strong opportunities in Italy, particularly growth opportunities in the area of corporate risks. And the acquisition of XL will help us increase our expertise in this area. And also in Health, that is still at the embryonic stage in Italy. But now the performance in Italy and particularly the JV with BMPS?

A - Antimo Perretta {BIO 18246589 <GO>}

Thank you, Thomas. Thank you for the question. First of all, I would like to say that Italy is essential to the European Union and for the group as well. And I am happy to hear the growth in Italy. And we were able to post a growth of 36% in H1 2018. And growth for different agencies also stands at above 1%. So this proposal contributes high added value. And the initial issues experienced by our partner are now quite significantly resolved so that we can focus more attentively on client relations. Also, strong growth numbers are important. But Italy also plays an important role in the digital transformation. And we see many innovations arriving on the market via the devices that we use for our automobile contracts. In summary, I must say that I am very satisfied with the improvement and with our relationship with BMPS. GÃ©rald?

A - GÃ©rald Harlin

Yes. Good morning, (Gianna). So on June 30, we had an amount of Italian state bonds to the tune of EUR 20 billion, stable versus 2017. So of course, this is EUR 20 billion that I mentioned at EUR 597 billion. And this allows us to keep these bonds. As you know, they are unrealized capital gain bonds. And they were sold at rates that are above current rates.

Operator

We have no further questions for the moment. (Operator Instructions) We have a question by Mr. L. ThÃ©venin from Les Echos.

Q - Laurent ThÃ©venin

I wanted to know the load of -- the financial load of natural disasters in France and particularly as regards droughts.

A - Thomas Buberl {BIO 16182457 <GO>}

Jacques de Peretti, I think this is a question that concerns France.

A - Jacques de Peretti {BIO 18970697 <GO>}

Yes. Thank you, Laurent. As concerns natural disasters in France, we can say this has not been a very positive year, because we have recorded EUR 160 million in natural disasters. Last year, we stood at EUR 110 million. So this year, we stand at EUR 50 million more, which, of course, have had an impact to the tune of 1.4% on our combined ratio, that we have been able to limit because our claims management ratio remained stable for the first half 2018. We have -- as regards predicted droughts, for the soils to be, of course, impacted by these droughts, for the moment, we do not believe that this will have the same impact as the years 2006, 2007, if my memory serves me right. So we are, for the moment, quite attentive and have no rational factors that lead us to believe that there may be an impact due to droughts in 2018 in France.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Jacques. And thank you, Laurent, for your question.

Operator

Next question, Mr. Lionel Garnier.

Q - Lionel Garnier

Lionel Garnier. I would like you to shed light on the reinvestment policy. You're saying that you're reinvesting on rates of 2.4% on average. Does this correspond to what you want? Or could you be a little more aggressive by working with riskier assets, for example? First question. And the second question is the amount of unrealized capital gains. You said that they were down over the half year. What type of unrealized capital gains are -- have lessened in number?

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. I give the floor to GÃ©rald Harlin.

A - GÃ©rald Harlin

Yes. The first question involves the investment rate at 2.4%. We had invested at 2.1% in 2017. So we have here a slight increase, particularly with the increase of spreads. Can we have a more aggressive management? This is not how I would ask the question. You know for us, we are submitted to the Solvency II rule, which means that we must equate all assets to a -- an amount of capital and how this will bring the best ROI. So today, we are at a level that seems to be fairly optimal. We have a bonds portfolio that is a single A portfolio. So it seems to be the right level for us. And we do not, for the moment, seek to increase the risk as regards our global asset portfolio. So you asked a question on unrealized capital gains. And in fact, this is mainly due to the hike in spreads since the beginning of the year. In other words, the spreads have grown, the rates as well, particularly in the U.S.. But this is essentially the spreads that explain that unrealized capital gains have dropped.

Q - Lionel Garnier

GÃ©rald, the amount of your unrealized capital gains today, please?

A - GÃ©rald Harlin

The amount was EUR 16 billion, end of 2017. It is now down to EUR 13.8 billion, EUR 11 billion in gov bonds. And we've gone from EUR 2 billion to EUR 0.8 billion. And add to this, these, of course, are the amounts of capital gains listed in the balance sheet. We are also at historical value as regards loans and real estate mortgages. And there are EUR 1 billion that, in fact, we can see EUR 18 billion in unrealized capital gains on most of our portfolios.

Operator

Next question, (Max) from Reuters.

Q - Unidentified Participant

As regards your position on the markets, the EBC (sic) (ECB), the Central European Bank (sic) (European Central Bank), has said there will be no rate increase to give a little more volatility to rate market. How are you anticipating these events in the management of your investments?

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you for your question. I suggest that GÃ©rald answer this question.

A - GÃ©rald Harlin

So first of all, for us and for our business, this is good news. In other words, the prospective regular hike in rates, we're not expecting a strong hike in rates. But if it is a gradual increase, then it will be a good -- a bit of good news for us. But we are, of course, here at plus over 80% invested in bonds. And of course, we may purchase new bonds. And I said earlier on that we had reinvested to the tune of 2.4%. So this means that this reinvestment rate will be higher. This is good news. It's also good news for our solvency. And you can see in our presentation that we are slightly sensitive. Our solvency is up 5 points, while interest rates stand at 50 basis points. So we're now here at the duration gap between assets and liabilities. And of course, we must not go beyond this level. This is slightly aligned with my answer to the preceding question. Here again, we consider that this is positive management. And with a gap of 1%, yes, we will benefit from the rate increase.

Operator

We, for the moment, have no further questions. (Operator Instructions)

A - Thomas Buberl {BIO 16182457 <GO>}

Well in this case, if there are no further questions, I would like to thank you for your questions, for your attention. And also wish you the best for your August holidays. Thank you very much. And see you soon.
