Legal & General Group PLC at Deutsche Bank ADR Virtual Investor Conference

Company Participants

- Laura Doyle, Head of IR

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Participant

Hello. Welcome to the Deutsche Bank Depositary Receipts Virtual Investor Conference, dbVIC. I am pleased to announce our next presentation will be from Legal & General from U.K.

Before I introduce our speaker, a few points to note. During the presentation, please submit questions in the Ask a Question box along the bottom of your screen. There is no need to wait until the end of the presentation to type in your questions. Please remember that after the presentation and the Q&A session, lasting around 30 minutes in total, don't log out. You'll automatically be transferred to the group where you can continue the conversation via the chat screen and access additional investor material. On a final note, all of today's presentations will be recorded and can be accessed via the Deutsche Bank website, adr.db.com.

At this point, I am very pleased to welcome Laura Doyle, Head of Investor Relations from Legal & General. Over to you, Laura.

Laura Doyle {BIO 19187205 <GO>}

Thank you. Welcome, everyone. Thank you for joining us today. As you know, Legal & General is not only a top 20 asset manager. But also the U.K.'s largest provider of life assurance and a market leader in managing pension risk in both the U.K. and the U.S.

Today, I am going to give you a quick overview of our 2017 results, the opportunities we see going forward and our ambitions. Minor issue with the slides, they're (inaudible). As our CEO said on the day of our results, our 2017 results were submittable with operating profit up 32% and PBT up 32%, EPS up 50% and an ROE of over 20%.

Our results did include a mortality reserve release of GBP 332 million with post-tax of GBP 274 million and led to an additional dividend to Group of GBP 250 million, proving the lack of trapped cash or capital within our subsidiaries.

Additionally, there was a one-off boost to EPS for the change in the U.S. corporation tax rate. If you exclude both of these, our EPS was up 9%. This brief slide shows how much we've changed over the past decade and how much we've grown. Our AUM is now 3.5x bigger, our annuity asset also is 3.5x bigger. And operating profit has grown from GBP 650 million to GBP 2.4 billion.

This is as a result of a loss of reshaping of the business, focusing on our core businesses which can deliver real earnings growth to shareholders and which are both economically and socially useful for shareholders. This has included decluttering or disposing a subscale legacy of nonstrategic businesses. The last of these was our disposal of our Mature Savings business, which was announced in December, for GBP 650 million. This has allowed a redefinition of our strategy, unchanged overall, straightforward and consistent. But clarified and simplified. The strategy is affected in 3 business areas: the first, investing in annuities; the second, investment management; and the third, insurance.

With our focus on core strengths with modern products, technological innovation and a global footprint for LGEN and a U.K., U.S. footprint for the rest of the group. We have clear goals: global leadership in pension derisking, continuing to build a world-class asset manager and helping customers attain financial security and protection through life events.

Our 6 long-term growth drivers, which you've probably all seen before, are unchanged and still highly relevant today. They drive continued growth throughout L&G. For instance, aging demographics and welfare reform is driving the move from defined benefit to defined contribution pension savings. And whilst highly focused on helping clients derisk the DB schemes, we are now also the largest DC manager in the U.K. with GBP 68 billion of assets. And investing in long-term direct investments can provide the returns required for policyholders and shareholders whilst building a better society.

At our results, we presented these next few slides outlined -- outlining our 3 business areas: firstly, investments and annuities, with LGR here the first of them. This is our largest business. It has exciting growth prospects, with just 7% in the U.K. GBP 2 trillion DB liabilities having moved to buy-in or buyout and just 4% of the U.S. $3.7 trillion DB liabilities. And our individual annuity business has broadened its franchise this year, with further plans to broaden that in the next few years.

And on the investing side, we have a unique capacity and capability to source attractive high-performing direct investments via our LGIM with LGC and lifetime mortgages.

LGC, also within investing and annuities, has 2 goals: firstly, to maximize returns on shareholder capital. And secondly, to support our other businesses by creating debt-like investments with great counterparties for LGR and creating opportunities for LGIM and its clients. An example of which would be the seeding of our Build-to-Rent funds. It focuses on 4 key areas: those who have urban regeneration, U.K. housing, clean energy and SME finance.

LGC takes ownership or equity stakes or funds investments in these areas as long as they meet our return criteria and are consistent with our strategy.

LGIM has evolved immensely. Once rooted in U.K. DB pensions, LGIM is now focused on 3 things: broadening our investment capability; growing globally; and expanding our U.K. defined contribution and retail businesses to address the U.K. savings gap.

We've expanded into the white space and built multi-billion pound businesses. On LGIM, we plan to host a capital markets event in June so that we can explain more about the current business model and its future ambitions.

Last but definitely not least, our insurance businesses, where our goal is to be a fully digital and data-enabled insurer using technology to improve operations, reduce costs and improve customer outcomes. A good example of which is SmartQuote. It's an application which gives executable quotes with 5 questions by using big data. And this approach is winning us distribution contracts.

A vital part of our firm's culture is collaboration and it is a key positive differentiator. The synergies between LGIM, LGR and LGC, for instance, is an unique capability. But also we are leveraging our workplace DC customer base to offer a product -- offer products from across the group, creating a single customer interface for over 10 million customers within MyAccount.

Our urban regeneration project in Cardiff is a great example of that collaboration I mentioned between LGIM, LGR and LGC. For a small equity contribution from LGC, we have so far unlocked 2 buildings to back LGR annuity portfolio, with counterparties such as the BBC and HMRC, the U.K. tax authority; and 2 further buildings have been sold to LGIM clients, with the profit being recycled into their next project. We have further phases, 5-10 if you can see on the slide, yet to go.

Our U.S. businesses have shown excellent growth, with LGIM's clients now including some of the largest U.K. defined benefit and defined contribution funds and manages USD 190 billion of funds, not bad considering it started just in 2006.

LGR has now written USD 1.6 billion of pension risk transfer and has a strong pipeline and growing capability.

And our insurance business, Legal & General Insurance America, based in Frederick, Maryland, is well positioned for the many opportunities we've seen in digital deployment and D2C activities. Altogether, these have helped deliver excellent growth in 2017, with operating profit up 12% and EPS up 9% before the one-off U.S. tax benefit and 2017 mortality release.

To help walk you through how we've built in to our 50% growth in headline EPS, we have produced this bridge. But to give you a little bit more color on that mortality release, at half year, we released GBP 126 million of prudence in our reserves in light of the continuing higher number of actual deaths we've experienced compared to those of our expectations.

At the time, we highlighted we will be looking as to whether it will be appropriate to amend our assumptions in respect to future improvements to mortality. We wish to check and review whether or not the recent mortality trends were due to medium; or long-term influences or short-term factors.

As a result, we moved to an adjusted version of the next actuarial model, CMI '15 and released a further GBP 206 million from our reserves. As you can see from the chart, our model still anticipates the same long-term improvement assumptions. But it does adjust the short-term trajectory to get there.

We remain prudent and cautious in our approach to these releases. And we'll assess whether to make further changes. If we do choose to do so, it will be in stages and over several years. In this coming year, we will have a look at CMI '16 actuarial table. Just as an indication, if we were to move to that, it would have a similar source of economic impact as the total release for 2017 (was). So to show how that reflects in our businesses, I thought this pie would be helpful. The key point here is that the growth was not just from 1 division in 2017. And we have the benefits of a diversified business model.

On the back of these results and with regard to the medium-term underlying business growth of the group, including the earnings and cash release, the board recommends a full year dividend up 7% to 15.35p.

And finally, to conclude, this was another great year and in line with our ambition to replicate the 10% EPS growth we saw between 2011 and 2015 out to 2020.

So with that, I will open up to Q&A.

Questions And Answers

A - Laura Doyle {BIO 19187205 <GO>}

Slight IT issues, please hold with us. Let me try. Noâ€¦

(technical difficulty)

Apologies for the delay. We're now back with you. So the first question is, what was the rationale for the CALA Homes acquisition?

For those of you who weren't aware, we have owned 48% of CALA Homes for a number of years. During that period of time, we traveled the revenue within CALA. It has been a very successful investment for us within Legal & General Capital. We did just announced the acquisition of the remainder of that shareholder. So we are now a 100% owner of that business. For us, it is a financial rather than strategic investment. But does fit with our overall portfolio of other housing businesses, for instance, our Affordable Housing, our Build-to-Rent, student accommodation and modular housing business.

The next question is, how confident are you on delivering your 5-year 10% per annum EPS growth?

Well as that last slide shows we have already delivered appropriately on that trajectory with 13% CAGR so far, 2015 to 2017. And yes, we are very confident that we have a very great number of opportunities within each of our businesses. And the balance sheet to back up the investment for those -- for achieving those growth trajectories.

The next one, to what extent have we benefited from the U.S. tax regulation changes?

So the one-off U.S. tax benefit we saw at an EPS level was equivalent to GBP 246 million. That is a one-off. It is regarding our deferred tax liability. So in some ways, it is a (inaudible) dollars benefit. We don't see further particular benefits going forward.

The next one, what is the long-term strategic plan for EPS following the Canvas acquisition?

For those of you who aren't aware, we acquired Canvas probably through 2017 and that provides us with the distribution by EPS into Europe primarily, right now, for our index providers. So for us, we view this as expanding our distribution channels, particularly. In the short time that we -- since the announcement of that acquisition, Canvas' assets have increased to 25%. So we are very happy with the current trajectory of that investment.

The next question. What should shareholders expect in 2018 with regards to dividends and buybacks?

The board has been very clear regarding its dividend policy. You could see on the slide that the group has committed to a progressive dividend policy that reflects the medium-term underlying business growth, including the net release from operations and operating earnings. Several years ago, 2 earnings release -- 2 full-year earnings releases ago, our Chairman was willing to -- he quoted on the front of our RNS, stating that in line with that thought process, reviewing the medium-term trajectory of the business and under scenario analysis, the board has been comfortable to recommend a 7% growth that year. You can see that this year was a further 7%.

And regarding buybacks, at this point, I'm sorry, I'm going to add this to the question which has come in. It says any plans to your excess cash?

If you were to look at the cash at group and in our Legal & General Capital division, there has been a growing quantum of cash, CCA, cash and cash-like asset. So we are seeing. And in total, that is 4 -- sorry, GBP 3.4 billion at the year-end. So we see 3 timely uses for that cash. Firstly, as our CFO would like to call it the good old-fashioned (we) business. Primarily, the one aspect within our business divisions that uses capital is our Legal &

General Retirement business, although the strain is less than 4% of premium. So we see very strong opportunities going forward in both the U.K. and the U.S. PRT businesses and the resurgence in the U.K. individual annuity market. Next, we are looking at investment within our businesses to help continue with the operational efficiencies as well as customer experience with technology primarily within our businesses. This is things like the use of robots as well as applications like SmartClaims. So we do see and anticipate a certain level of investment within that. And finally, we will flag that there are a few areas where we would consider potential bolt-on M&As. To be clear, management hasn't been convinced on the value of some transformational M&A. Our preferred strategy is to use bolt-on M&A to accelerate an organic strategy. So for instance, it could have taken us something between 2 to three years to get all the regulatory licenses and operations up to scratch for a lifetime mortgage business within the U.K. Instead, what we did was, we acquired what was their new lifetime finance for GBP 5 million, spent a small amount on IT and have grown that business to market-leading position with 33% market share within just a couple of years. Now you're at our full year results, there's one area in the U.S. asset management, particularly, where we still see a gap in our capabilities and that's regarding Real Assets. We would look at potential Real Asset bolt-on acquisition should it be at the right price and should it fit with our culture and values. So at this time, we're seeing significant amount of other uses for the cash that we hold. And so I don't believe share buybacks are on that first list in the board's view. And whilst we are achieving an over 20% ROE, management is currently content to pursue that strategy.

We've had another question come in regarding the overseas mandates that LGIM has been winning.

One of the areas that we are most proud of within this financial year's results was LGIM's performance achieving a 9% growth in operating profit. It had GBP 43.5 billion of external net flows in 2017. GBP 33 billion of those flows came from overseas territories, U.S., Europe, Asia, et cetera. Within that, one of the particular standouts interestingly was Europe, where we grew flows from GBP 2.5 billion in 2016 to GBP 12.6 billion in 2017. We're seeing strong overseas growth in all of those regions. This is going to be something we will speak more of in June at the Capital Markets event. And we will be circulating the date for that very soon.

Q - Unidentified Participant

Thank you, everyone, for listening. We'll now move to the chat booth.