Just Retirement and Partnership Assurance Merger Call

Company Participants

- Christopher Shaw Gibson-Smith
- David Louis Richardson
- Rodney Malcolm Cook
- Simon George Thomas
- Tom Cross Brown

Other Participants

- Andrew J. Crean
- Andrew J. Sinclair
- Andy Hughes
- Barrie Cornes
- Fahad U. Changazi
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Oliver G. Steel

MANAGEMENT DISCUSSION SECTION

Tom Cross Brown {BIO 1648625 <GO>}

Good morning, everybody. My name is Tom Cross Brown, Chairman of Just Retirement. I'm very pleased to say to you today that we are making a recommended all share offer to the shareholders of Partnership, which represents a fantastic opportunity to bring together two very strong businesses together with, as you've heard many times, their particularly special intellectual property.

The next Slide sets out an overview of the key transaction terms. The proposed transaction is indeed an all share merger, as I've said, of Just Retirement and Partnership. Both Boards have unanimously recommended the merger, which will be achieved through the issue of 0.834 new shares in Just Retirement for each Partnership share.

The exchange ratio is expected to result in a split of 60% to Just Retirement and 40% to Partnership shareholders, and I'm pleased to say that the largest shareholders in each of us, because each of us, as you know, have majority private equity shareholders, are fully supportive and have given hard irrevocable undertakings to accept.

A new Board of the combined Group has been agreed, comprising a balance of directors from each company. I'm particularly delighted to say that Rodney Cook will be staying on as Group Chief Executive, with David Richardson as Deputy Chief Executive and Simon Thomas as Chief Financial Officer. I will be stepping down to become Deputy Chairman of the new Group, and I'm very pleased to say that Chris Gibson-Smith, the Chairman of Partnership, will be the Chairman of the combined Group.

The combined Group will be JRP Group Plc. We just couldn't bear to make it Just Retirement Partnership Group Plc. Imagine how long it would take you to type out email addresses, et cetera, et cetera. But there will be no immediate branding changes to our propositions, though the new Board will have the opportunity to conduct a branding review post completion.

Finally, the Board of Just Retirement expects that JRP Group will pay dividends in line with Just Retirement's existing dividend policy for the first year post completion. As you would expect me to say, we are convinced and really do believe that this transaction will make us stronger together, which will be beneficial for both policyholders and shareholders.

With that, I'm very pleased to hand over to Chris. Thank you very much.

Christopher Shaw Gibson-Smith {BIO 13384569 <GO>}

Thank you, Tom. Morning, ladies and gentlemen. Thank you for joining us so early. I'm Chris Gibson-Smith, and as you've just heard from Tom, I'm the current Chairman of Partnership, Designate of JRP Group Plc.

We know that this merger is an exciting opportunity. It has strong strategic rationale, and we'll lay that out before you this morning. It has clear financial benefits. It has better outcomes for customers and it will create enhanced returns for shareholders, and we'll show you all of that.

Within our sector, we're currently facing into significant demographic changes and a range of economic opportunities in the new environment, both in the UK and internationally. And we are convinced that the combination of these two businesses, which both have, as Thomas has said, outstanding intellectual property at their core, will allow us to build on and accelerate each company's existing growth strategy. And we believe that our strengths will be reinforced and that the differences between the two companies are in fact complementary.

The greater scale we create with the JRP Group will enhance our existing standard with trustees in the defined benefit de-risking segment, with these two businesses already accounting for over 5% of UK bulk annuity transactions in 2014 on a pro forma basis.

In the retirement market, JRP will be an important presence with around 280,000 existing in-force annuity customers, and with a total population of 12.3m people over 65 in the UK, both as a future opportunity for the business, as we stand, we are paying the pensions for around 2.5% of all UK pensioners.

This merger brings together the two most customer focused and specialist insurers in the retirement market, and through our combined scale and combined IPs, we'll compete more effectively with the traditional insurers. We will position ourselves as the consumer champion with the intent to further disrupt the markets to deliver yet better outcomes for our consumers and customers. And we will produce a product set, which serves the customer throughout retirement and will be differentiated by our specific expertise.

The financial rationale is compelling. Through this merger, we expect at least £40 million of annual pre-tax synergies. These will drive meaningful earnings per share accretion for both Just Retirement and Partnership shareholders from 2017 onwards. And the merger structure allows both sets of shareholders to share in the value creation equally now and in the future.

Now, JRP plans to raise approximately £150 million of equity as part of the merger. The strengthened capital position will cover expected non-recurring integration and transaction costs, provide further comfort over the transition to Solvency II, and underpin our future growth initiatives and product development, and you'll hear more about that.

And finally, just to say that to this stage, and it will continue, the senior staff of both companies have engaged very constructively. I've no doubt that they will create a new force in the retirement market.

But to hear about that in detail, let me introduce the Chief Executive Designate of the new company, Rodney Cook. Rodney?

Rodney Malcolm Cook {BIO 14008420 <GO>}

Thank you. Thank you, Chris, and a warm welcome to all of you this morning, both here and on the line. It's my pleasure to be joining Chris, Tom, David Richardson and Simon Thomas to present this merger to you. Importantly, we also have with us this morning Partnership's CEO Steve Groves, who's giving this transaction his strong support. I'd also like to acknowledge Steve's significant contribution as the two of us have worked together over the past months to get this deal to fruition.

As Tom said, we believe that Just Retirement and Partnership will be stronger together, and this merger of equals represents a truly exciting opportunity for both of our companies to accelerate our current growth strategies. You'll see from the deal details it creates meaningful value for shareholders, with cost synergies driving accretion to earnings, embedded value and also to capital over time.

It is also, as the Chairman said, strategically compelling. The combined Group will have increased scale, efficiency and also standing in the marketplace to accelerate growth in its targeted segments. I would like, of course, to highlight to you especially on that point the greater opportunities we now will have in the defined benefit de-risking segment.

Also, the merger will strengthen the competitive position of our Group in the fast growing UK individual retirement market. The merger creates a powerful consumer champion, well equipped to deliver improved value to consumers in that market.

Importantly, the cultural fit between our organizations is crucial. Both of our companies have achieved what they have to date by putting the customer at the very heart of their strategies, long may it continue.

Thirdly, on a combined basis, our intellectual property will now be outstanding, with our complementary data – mortality datasets and underwriting expertise coming together and driving further progress in improved risk selection.

And fourthly, the combined distribution reach that our Group will have creates significant scope to deepen the relationships in the financial intermediary channel, and to give a better offering to our corporate business partners, and of course to improve our sales efficiencies.

Moving then to the right-hand column, of course I know you'll be very keen to understand in detail the financial benefits of this merger. They are significant, and David will take you through them in detail shortly.

In summary, we are very confident that this is an attractive transaction from both a financial perspective and the strategic rationale. It will deliver earnings accretion post the equity raise for both Just Retirement and for Partnership shareholders, following the complete delivery of at least £40 million of pre-tax cost synergies.

If you now turn to Slide 6, Tom has already covered much of this so I'll just quickly touch on a couple of the more significant transaction terms. So the exchange ratio has been agreed between the parties based on the relative contributions from the two companies to profits, premiums from sales and also capital positions. And importantly, the market share price performance over the last several months. This exchange ratio, as you clearly can see, represents a merger of equals.

You should note, as Tom said, Permira and Cinven continue to be strong supporters of both companies and have agreed irrevocable lock-ins in relation to their shares.

As I mentioned, we expect to generate at least £40 million of annual pre-tax cost synergies, and that the full run rate will be achieved in 2018. Of course, to deliver those significant cost savings there will be some integration costs, and we expect around £60 million of pre-tax costs will be incurred over the first two years post completion.

As Tom also said, as part of this transaction we have decided – the Boards have decided to raise additional equity capital for the combined Group to cover the three aspects: the integration costs, the transaction costs, to smooth our transition to Solvency II that you all appreciate is coming, and importantly to support the strategic growth initiatives that we have in mind. We envisage, therefore, to raise approximately £150 million of fresh equity.

As to dividends, we expect JRP will continue to pay dividends in line with Just Retirement's existing dividend policy for the first full year post the transaction completion, and of course with the capacity to improve those dividends over time as the combined Group realizes its cost and strategic benefits.

Given the timing of this transaction, current Just Retirement shareholders will receive the final dividend later this year based on our performance to June 30, 2015, and existing Partnership shareholders will receive an interim dividend declared today of £0.05 per share for the six-month period to June 30, 2015.

Looking now at Slide 7, I would really like to reemphasize the attractions for us from the defined benefit de-risking segment. As you well know, the UK is one of the world's largest defined benefit markets, with roughly £1.7 trillion of aggregate liabilities across in excess of 6,000 pension schemes.

And you can see in the top left chart that the bulk annuity market and the de-risking activities were unaffected by the 2014 budget, fortunately. And you will note from the forward-looking part of the chart, in the different shading, that recent analysts suggest that the annual defined benefit de-risking sales may reach a colossal £25 billion by 2020.

So this segment has delivered important diversifications for both of our companies, as it now represents approximately 50% of the combined annual new business annuity business for Just Retirement and Partnership. Both of our companies have already established competitive propositions, particularly in the small and medium enterprise sector of this market. Individual underwriting based on medical and lifestyle factors has become an established option for employee benefit consultants advising their mid-sized pension clients.

Now, looking forward from here, we believe we will become a preferred provider in that SME sector and also, importantly, will enable ourselves to more effectively compete for the slightly larger defined benefit cases.

If I could address with you the retail market on Slide 6, the first critical point to make is this. There is an enduring demand for individual retirement products in the UK. Looking at the pie chart, various market studies have indicated that around 7 in 10 customers, when asked, would prefer to receive a pension that was guaranteed for life.

Legislation has also recently been supportive. The abolition of the death tax is applying equally to guaranteed income solutions and also to drawdown. The FCA's positive conclusions that annuities bought in the open market are good value and the recent Dear CEO letter to product providers placed tougher requirements on them to encourage their customers to shop around, and both of these we feel over time will potentially increase our addressable market.

As the bar chart shows, recent quote activity levels have been encouraging over the past four months. Now, this points, in our view, to a potential gradual rise in individual annuity volumes in the second half of 2015. We believe that this merger will create a stronger retirement income specialist and, even better, to serve the constantly changing demands of individual retail customers in and at retirement.

Vesting pension customers all too often have been rolled over into relatively poor value products in the past. We believe our improved market position will enable us to give those customers better value options when they access the open market.

Of course, Just Retirement and Partnership have and continue to be committed to developing new customer solutions, positioning us to maximize the opportunities in the post-budget world. We have launched recently retirement focused regulated advice, a first for the industry. We've extended the TOMAS service to pension scheme members. We've launched a flexible pension plan supported by a state-of-the-art drawdown platform, and we've also both launched modern guaranteed income for life solutions. All of these achieved at around April 7 this year.

Moving to Slide 9, as I said, JRP will continue to be a consumer champion. We will continue to disrupt markets positively to deliver better outcomes to both pension trustees now, through defined benefit, and also continuing to retail customers. We expect to build on the innovation credentials of both of our teams, and through JRP continue to introduce new products and services to drive further growth in 2016 and onwards using, importantly, what will now be our outstanding joint underwriting IP.

Secondly, we are also better placed, having reestablished a strong basis in the UK, to invest in new technology, business capabilities and some geographic diversification, the latter building on our existing initiatives in both the U.S. and in South Africa.

Moving now to the right, let's just remember what it really means for customers in the open market. We've illustrated here a real example to show the superior value we can create for customers. This is a typical 64 year old approaching retirement, admittedly with a moderately impaired medical history.

JRP is able to quote an individually underwritten annuity rate around 20% higher than the traditional life insurer quoting without those medical and lifestyle factors. This is also a better value and securer proposition than other product options for customers facing retirement, such as fixed interest investments and bank account savings.

On Slide 10, one of the key strengths of JRP will be, as I said, our outstanding combined intellectual property. So together, Just Retirement and Partnership will become the more effective competitor in guaranteed for life solutions. We believe we can improve our risk selection that will give greater capital efficiency through individual underwriting based on those medical and lifestyle factors.

Our underwriting capability is increasingly important, both in the defined benefit de-risking sector and of course in the retail market, where we already participate strongly. We believe the significance of this individual underwriting will now accelerate both, importantly, for healthy lives and impaired lives, as the open market option becomes increasingly accessible to more retail customers.

Together, we will utilize the key features of both of our businesses, because we both have long and substantial mortality datasets. Just Retirement, of course, also has a new generation PrognoSys underwriting system and Partnership have years of fully developed mortality curves, and we intend to bring those two intellectual properties together.

We will have around 280,000 in-force customers, as the Chairman indicated, and alongside that a very experienced medical team to support underwriting of the more complex individual cases. The outstanding IP will provide clear commercial benefits across pricing, reinsurance, reserving, and of course future product development initiatives.

So, to my final Slide for the moment. I'd like to talk about distribution. Just Retirement and Partnership have well-established relationships, five-star relationships, in fact, with all the major employee benefit consultants, and we expect this merger will serve to strengthen the quality of our proposition to their clients.

The two companies, as you know, have historically primarily focused on the intermediary channel reflecting of course our greater past focus on individual business. Our intermediate relationships are complementary, and of course they will now encompass the vast majority of national, regional and specialist IFA firms.

Now, aside from deepening these relationships in our core distribution channels, the merger will also be additive to distribution through our corporate partners, as shown in the bottom left, because Just Retirement and Partnership have relationships with a number of blue chip institutions, and they are, as you can see, complementary.

And finally, the combined Group will have the enhanced potential for geographic expansion, levering Just Retirement and Partnership's initiatives in South Africa and the U.S., as noted in the bottom line.

So thank you for being here with us. I hope you are equally excited by that. I'd now like to pass on to David to cover the financials for you in more detail. David?

David Louis Richardson {BIO 18045016 <GO>}

Thank you, Rodney, and good morning, everyone. I'm David Richardson and I am Deputy CEO Designate of JRP Group plc.

There are clear financial benefits to this proposed transaction. I'd like to focus on three of those in the coming Slides, namely earnings per share, accretion, cash generation and capital.

Let me start with earnings per share on Slide 13. We anticipate meaningful earnings per share accretion on a post-equity raise basis for both Just Retirement and Partnership shareholders as a result of the merger. This will be driven by the material expense synergies which we expect to achieve and we expect to be fully phased in by 2018.

These businesses are very substantially similar, and hence the combination creates the potential for pre-tax expense savings of at least £40 million per annum. Those savings would represent approximately 30% of the combined cost base of the two organizations.

We expect those savings to be achieved across a number of areas. First of all, streamlining sales and pricing functions through the removal of duplicate quotes, sales and pricing activity in both the individual and DB de-risking space. Secondly, by reducing the office space utilized by the two groups. Thirdly, by removing overlapping IT systems, development, licenses and support. And finally, by removing duplicate corporate functions.

As I mentioned, we expect those full run rate savings to be achieved in 2018, and expect to incur one-off integration costs of £60 million, over two years to achieve those savings.

Both Just Retirement and Partnership have recently undertaken significant cost management exercises to reduce our standalone cost bases in light of 2014 budget changes. The combined Group's proven expertise in achieving those cost savings increases our confidence in delivering the synergies that we announced today.

It's also worth noting that the £40 million is focused purely on cost savings. We have not taken account of any other potential benefits – across the combined Group, which may be achieved through improved commercial terms with our business partners or improved access to financial markets.

Secondly, and moving on to Slide 14, we see high quality stable cash generation across Just Retirement and Partnership's two books of business. The combined Group's cash generation is balanced, with operating profits roughly split 50/50 between new business and in-force. The relatively shorter duration of Partnership's in-force portfolio complements Just Retirement's relatively longer duration book, reflecting the varying severity of impairments within the two portfolios.

In addition, Partnership's 20 years of mortality experience comprises several underwriting years which are fully developed, enhancing the robustness and maturity of the cash generation from the in-force books. This will be enhanced further by the expense savings that we talked about, which will increase JRP's cash generation.

The combination of these factors results in cash generation to support growth initiatives, an expectation that the combined Group will pay dividends in line with Just Retirement's current dividend policy for the first full financial year post completion, and over time the cash generation should enhance the Group's dividend paying capability.

Moving on to capital on Slide 15. As at June 30, 2015, Just Retirement and Partnership's economic capital coverage ratios were 176% and 156%, well in excess of their respective Board minimum targets of 140% and 125%, respectively.

As part of this merger, we have announced our intention to complete an equity raise of approximately £150 million, which will enhance the capital position of the combined Group to support its growth agenda. The capital raise will cover the £60 million of expected one-off integration costs, together with other transaction costs. It will provide further comfort over the combined Group's position under Solvency II and the transition to the new regime and also, importantly, provide additional financial flexibility to pursue the Group's growth initiatives, including product development.

Once the merger has completed, the combined Group will continue to evaluate options to make its balance sheet more efficient, including the potential for accessing the debt capital markets.

In terms of Solvency II, on Slide 16, I'll give you a quick update on progress for both companies. Just Retirement's Solvency II program is on track to deliver its internal model and application was submitted to the PRA on schedule in May. Partnership's Solvency II program is also on track, aiming to deliver a standard formula approach. The option of developing an internal model remains under review, so we can implement that as and when appropriate.

Both businesses submitted their matching adjustment and transitional measure applications to the PRA during June, as intended. And as you would expect, for the areas of the regulations where there are potential risks, both businesses are taking steps to mitigate these, for example, putting in place equity release structuring to ensure they are matching adjustment eligible assets.

Whilst the formal change of control application and process will be made to the PRA in due course, pre-notification discussions have been held with the PRA regarding the merger, including, as you would imagine, the potential Solvency II position of the combined Group. In line with the rest of the industry, we expect final feedback on the Solvency II positions of both companies during Q4 of this year.

The Board – excuse me, the combined Board of JRP is confident that we have the plans and processes in place to safely manage the combined Group in accordance with the Solvency II regime. In addition, once the businesses have been brought together, we believe there is the potential for future capital efficiency within the combined Group.

Next, I'd like to move on to give you a quick update on sales and current trading. Both Just Retirement and Partnership are successfully diversifying their business models, with defined benefit de-risking sales replacing lower individual annuity sales.

Despite the challenges over the past 12 months, the combined business wrote approximately £1.8 billion of new business. That exceeds the best year for either company in their respective histories, so we're showing that we are recovering from the budget announcements last year. As a combined business, we will be a significant player, well positioned to compete with the larger incumbent insurers.

Across Just Retirement and Partnership, over £320 million of DB de-risking sales were generated in the first half of 2015, and market feedback points to growing activity in the second half of the year, which is very much in line with the historic seasonality in the DB de-risking market.

From a Partnership perspective, we expect DB completions to remain lumpy, but the current pipeline provides confidence in our ability to achieve our previously communicated target of at least £200 million for full year 2015. Just Retirement also has a strong pipeline of prospective DB opportunities, with a target of £300 million of further DB transactions in the second half of 2015.

In the DB space, the Just Retirement and Partnership pipelines comprise transactions across a wide selection of employee benefit consultants. This reflects both the increasing recognition by pension scheme trustees of the benefits of adopting a medically underwritten approach to DB de-risking. It also reflects the stronger and broader relationships that both firms have formed with those employee benefit consultants.

On the individual annuities front, since April, across both Just Retirement and Partnership, we have seen a slight increase versus the first quarter of 2015 as advisors and customers slowly start to return to the market. As Rodney mentioned earlier, customer behavior and conversion trends have not yet stabilized, but quote levels for individual annuities have begun to grow encouragingly, pointing towards a gradual recovery in the second half of this year.

Perhaps slightly overshadowed by the merger announcement, but we are also announcing our interim results this morning, so I would like to spend just one slide running through those.

We generated £231 million of sales in the first half and maintained our pricing discipline to ensure that new business covered its own capital requirements before overhead expenses. Our cost management actions have been embedded and we are well placed to achieve our GBP75m target for the full year.

However, as the majority of our operating expenses are new business related, over 90%, new business profits are sensitive to the relatively subdued level of sales in the first half resulting from the continued hangover in the run up to pension freedom changes in April.

As a result, in the first half there was a loss on new business of £2 million. This results from our conscious decision last year to maintain our expense levels out of line with temporarily subdued revenues in order to protect our technical core. Conversely, as sales recover, we expect the benefit of operational leverage will flow through to the new business profits.

The in-force book delivered a strong contribution to profits in the first half of £13 million. This includes positive mortality experience, particularly on our care business, and increasing mortality margins due to the ongoing growth of the back book, together with the relatively lower proportion of longevity risk reinsured on DB business.

The first-half return on excess assets of £7 million represents a yield of approximately 3%. As expected, this was lower in the first half as we allocated excess equity release assets to new business during the latter stages of 2014.

That in total gave first-half operating profits of £18 million. The MCEV increased marginally in the first half of the year, from £576 million to £590 million, or equivalently £1.44 to £1.47 per share. This increase was driven by the value of new business written in the period, a reduction in the effective tax rate and partially offset by shareholder dividends paid.

We announced an interim dividend of £0.005 this morning, in line with our 2014 dividend, which will be paid at the end of October.

So, finally from me, to summarize, this merger represents a compelling opportunity to deliver clear financial benefits to both sets of shareholders. At least £40 million per annum of cost savings will drive meaningful earnings per share accretion for both sets of shareholders. High quality cash generation across the combined Group will support growth initiatives over time and enhance our dividend paying capacity of the combined Group.

And finally, the enhanced capital strength will provide increased financial flexibility to pursue our growth opportunities and provide further comfort over the combined Group's transition to Solvency II.

I'd like to hand you back now to Rodney, who can you through next steps and conclusions.

Rodney Malcolm Cook {BIO 14008420 <GO>}

Thank you, David. Moving now to the final section of our formal presentation today. Slide 21, the anticipated transaction timetable. Without reading the detail to you, the key takeaway is we're targeting to complete in December 2015 and now, assuming CMA Phase 1 approval is granted in mid-October, we expect to post documents to our shareholders shortly thereafter and hold general meetings for both sets of shareholders in November 2015.

Of course, the period between now and completion reflects the nature of the regulatory approvals, both with the CMA and the PRA, that we are required to navigate through. Our preparations are well advanced with respect to that.

So, before moving to Q&A, I'm not going to read all of this out, very clearly I believe that we have made a strong case that Just Retirement and Partnership will indeed be stronger together and, as the sign indicates there, onwards and upwards.

So I'll now move to questions. I respect the fact that while we think it's very exciting, the Prudential are holding results just shortly and therefore I respect the fact that people will need to go. But I will start with questions from the room before we move to those on the line, and please take the microphone and state your name and company. And, Greg, we're not allowed to have five questions today.

Q&A

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Andy Hughes, Macquarie. I'm very confused about some of the things you're saying. Obviously, you say both standalone groups have strong capital, great cash flows, and you're raising £150 million of debt. I suspect the primary motivation for this is Solvency II, given that your main competitor L&G has basically said this business model doesn't work anymore and then moving to a reinsurance structure. I appreciate none of this is your fault, but could you comment on the primary motivation for the deal and whether the two businesses, if they didn't combine, would still need to raise capital, and what we should say about capital going forward given that clearly this is to support the capital base of the Company?

The second question, on the cost savings -

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

We're only taking one question. Thank you. David.

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. Well, just to reiterate, what's driving this transaction is actually the strategic – compelling strategic rationale and meaningful financial benefit for both sets of shareholders. It isn't driven by capital. However, both Boards have decided the prudent thing to do in association with the transaction is to raise equity of approximately £150 million, so it's equity, not debt.

That is first of all to meet – there's actually some one-off costs associated with the transaction, about £60 million of integration costs to deliver the £40 million per annum cost saving, so we think that's a good trade-off, together with some one-off transaction costs which aren't nailed down but might be in the region of about £20 million.

The balance of that capital raise is really to support both the acceleration of our strategies, so we view this as an opportunity to accelerate our existing strategies, so having some financial flexibility to support that growth seems like a good thing to have in place. And also, it does provide some further comfort over Solvency II.

I would point out that, in terms of the changes that L&G are making to their business model, we already have that embedded in our business. We have significant longevity risk transfer on both sides of the house at the moment.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Greig.

Operator

Q - Greig N. Paterson {BIO 6587493 <GO>}

It creates a lot of internal tension when you make me only do one question, so - but we'll let that tension happen. Just in terms of bulk annuities, if you listen to the commentary coming out of Legal & General and Aviva on the area that you've started competing in, call it the SME space, both of them are saying margins have taken a serious hit because of you guys. How do you square the circle? You're saying it's profitable; they're saying it's not.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Well, just to be clear, they are actually competing with us in this space, so Aviva and L&G have underwriting capabilities. So we believe that in the small end of the market, where individual characteristics for types of companies exist, underwriting gives a better result than the standard method.

Just so there's no confusion, all of the companies do underwriting, but they don't do individual medical underwriting. So we also have within our combined Group the complete skillset to compete with the other larger bulk annuity de-riskers, if that's an appropriate term, because we do know how to underwrite on the basis of people's pension size, occupation, postcode and so on. So we're bringing together both of those attributes.

David, any other point on the margins on this?

A - David Louis Richardson {BIO 18045016 <GO>}

Well, what we've seen today and we've said publicly before is that the margins we see on DB are actually very comparable to the individual annuity space and we've found it a very attractive segment.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

And one of the other Group added benefits, of course, Just Retirement is an originator of lifetime mortgages. In addition to ourselves there, we wrote another £308 million of lifetime mortgages and we find that is an even more attractive backing asset in the defined benefit space.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. Now, actuarial consultants don't like corporate activity and they're the gatekeepers to defined benefit business in the UK. Just wondering, are you expecting any hangover from them until the deal completes in December?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

I think the obvious answer is we are committed and we have a volume underwritten arrangement for £150 million. So from an actuarial consulting perspective, they're going to be presented with a new, stronger, larger capitalized company with another £150 million of equity. So I think our story just became more compelling for them.

Next.

Q - Jon M. Hocking {BIO 2163183 <GO>}

It's Jon Hocking from Morgan Stanley. I just wondered whether you could comment on the earnings recognition of the two groups and whether there's going to be any difference between the standalone companies just in terms of speed of cash recognition.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Simon, is your mic on?

A - Simon George Thomas {BIO 15219564 <GO>}

Hopefully so. Hello? Yes, it is. Yes. And what I would say is that we've spent a significant amount of time from a diligence perspective working on the balance sheet of Partnership and, to be fair, vice versa as well. And we've looked at the way that things are accounted for and overall I think I'd say we're comfortable. So that's the most important thing to say straight away.

There are differences in accounting. Some of those are driven actually by the way that the reinsurance contracts work on Partnership's side of the fence. And I think it's fair to say until we get the integration process complete and understood, I won't be able to tell you the balance of business that will continue to go through those reinsurance contracts, or if indeed more will go through those reinsurance contracts.

But in essence what we're saying is that overall I don't expect any substantial change. Certainly, our consensus we're comfortable with and I think David is comfortable with his consensus at the moment.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Where's the microphone? You've got it? Barrie.

Q - Barrie Cornes {BIO 2389115 <GO>}

- Cornes of Panmure Gordon. Just one question, then. In terms of IP, over the last few years you've both been talking about your IP being better than the other company's IP. What are you going to do with that? Are you going to try and merge the two IPs? And how long will that take, or will you use one company rather than the other, please?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

As I indicated, it is our intention to capture the full benefit. So from Just Retirement's perspective, it's not like we're merging with a standard annuity writer who has a lot of past data but no matching medical history attaching to it. Partnership has got a full extensive medical history.

And the other exciting thing for us is, as David said, they've got concluded cohorts of business because of their 20 years of history. So, Barrie, it is our full intention. It will take a short while of course, a year or so, but we intend to combine that together and further enhance our PrognoSys system's risk selection accuracy.

Andy. We'll give you another go in one second.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Hi. It's Andy Sinclair from BofA Merrill Lynch. I just wanted to ask really on the outlooks for both DB and individual markets. I noticed, I think, this is the first time that both companies have put DB ahead of individual when you were going through your slide packs. I just really wanted to see if that does signal a change of outlook for both groups, with DB being your main focus going forwards, and equally what sort of outlook you're seeing for the individual annuity market with completions. Thanks.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Right. So we have no interest in abandoning the individual market and, as we indicated, we've invested heavily. We've also built a drawdown platform and we can offer customers the best of both worlds, the combination of guaranteed income and a drawdown proposition. The individual retirement income market, around £20 billion per annum, so strategically we're well placed. We are a consumer champion. So we most definitely want to stay in that market.

Andy, you're a bit too cunning for us. It was deliberate, I'm sorry to say. If we kept putting DB second, you'd think that it was an afterthought. We did put it first, because very clearly, we intend to be a more robust competitor and we believe strategically we can be. And after all, it is 50% of our business, and perhaps that wasn't quite so much in your face as it is now.

Q - Andrew J. Crean {BIO 16513202 <GO>}

It's Andrew Crean at Autonomous. Could I ask who actually is going to raise the equity capital, because that makes a lot of difference to our valuations? And also, given that there is some concern over Solvency II, judging by the questions, could you tell us a little bit about the combined Group's debt raising capacity in order potentially to bolster the Solvency II position from that aspect?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

David.

A - David Louis Richardson {BIO 18045016 <GO>}

Sure. So first of all, on the equity raise, unfortunately I'm going to disappoint you there, Andrew. We're not going to give further details on either the timing or the structure of the equity raise today. And all we wanted to do is give people time to digest the transaction, and then we'll come back to the market in due course with the details on that.

With respect to Solvency II and debt capacity, and clearly Partnership raised £100 million of Solvency II compliant debt in March this year. Just Retirement indicated back in February that it was keeping its options open in that regard and those remain open today.

And where we decided it was the right thing to do, there was material capacity there, because at the moment (00:48:01 - 00:48:06) so the capacity is material. And we don't have a precise figure for that, because you need to know what the Solvency II numbers are for that, but clearly it's material because at £100 million we weren't even getting close to the limit on just the Partnership side.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

And in terms of leverage? Well, it'll depend on the terms of leverage.

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. So to give you - yes, to give you context, we're talking about combined EV of about £1.6 billion pre-capital raise, so you can apply whatever leverage ratio you think may be sensible in the market to that. Currently, the financial leverage across the two groups is probably just over 10%.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Importantly, as you might imagine, we did have calls yesterday with some of our largest shareholders on both sides. They understand the strategic rationale and were positive. Of course, they're all going away to consider it carefully, but they took on board comfortably the fact that the £150 million will be raised and they expect us to communicate. As David says, we want to communicate with prospective new shareholders and existing shareholders.

Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Andy Hughes, Macquarie again. I'm going to ask two because Andrew asked two. The first one is the timing. I'm shocked by why you didn't wait until the internal models were approved before doing this merger. Why do it now, when you have the uncertainty in both cases of the outcome of Solvency II, as you've highlighted? Wouldn't it be much better to leave it until you know the case of the models?

Second question, on expense synergies. £40 million, presumably no EV benefit because this is all acquisition costs, and shouldn't you be cutting a lot more, because you don't need the high level of acquisition costs? Presumably you only need one lot of acquisition costs, where you've had two before, and the acquisition costs are not in the EV and they're very material for both groups. So why are the expense synergies so small? Thank you.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Right. David?

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. I'll take the Solvency II one. You take expense synergies. Yes. So, on Solvency II, we don't think the tail should be wagging the dog here. And this is a strategically compelling transaction. The timing was right for both Boards and both sets of shareholders to go for the transaction. And I think, as we've set out today, both strategically and financially that the rationale is there.

Both companies feel comfortable with where they are for Solvency II. That's just going to be further strengthened by the equity raise of approximately £150 million. So we wouldn't let that be a hurdle to get in the way of something so compelling.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Simon, the EV, because there will be some benefit.

A - Simon George Thomas {BIO 15219564 <GO>}

Yes, there will. But just going back on the synergy side, it's interesting, we've had feedback from other people who are shocked by the size of the synergies in terms of they're so large. So it's interesting that you're suggesting they're too small.

But one thing I would say is that clearly our companies are very similar. There's no doubt about that. Particularly because we're in the businesses of both the IUA and the DB and they're our major business lines. And as part of this process, both David and I have been through a cost center by cost center review to actually establish what we think is a realistic synergy that we can get out of this business.

And David highlighted that it's going to be £40 million per annum as a synergy saving. And just to be clear what we're saying here, we're committed to actually say that we're going to be saving £40 million in the year 2018, so the third year of this business. If so by the end of December 2018, we will have saved £40 million from the addressable cost base.

Now, in terms of where those costs will be saved, and I think you might be aware that I think Partnership, their typical cost base, about 90% of their costs are acquisition related and about 10% back book. It's slightly different for our business. We're about 70% acquisition and about 30% back book.

What I'd say to you is that in terms of the £40 million, you could probably apportion that across on that blended rate, so it might be, say, 80% acquisition and 20% back book. So that would probably give you a bit of a steer as to where we're thinking.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

But once we've convinced the chief actuary that our maintenance expenses and systems rationalization are realistic, then he will be able to provide a reduction in those expenses across the existing book and that will increase the embedded value.

Oliver?

Q - Oliver G. Steel {BIO 6068696 <GO>}

Yes. It's Oliver Steel of Deutsche Bank. Two questions, if I may. First, the £60 million of restructuring costs, why so high? I mean both individually when you were cutting costs and in fact as you are cutting costs, the restructuring costs were actually quite low, so this just seems to be quite a high ratio.

Secondly, whose systems? So not so much the pricing and underwriting system, but whose back office systems will you be using, and do you have enough capacity for both companies' back books?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Simon, the second one, which is I think fairly, easily, given the very substantial growth we've put onto the systems. Comment on that?

A - Simon George Thomas {BIO 15219564 <GO>}

On the system side, I think, Oliver, and clearly as part of the detailed integration planning we'll be looking at that. We'll be looking to take the best of breed from a systems perspective. I can't tell you at the moment as to which systems we're going to be using, but it will be subject to detail implementation and integration planning.

On the £60 million, shall I pick that one up as well?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Yes, because we don't consider that the 150% is...

A - Simon George Thomas {BIO 15219564 <GO>}

Not particularly, no. I think from a market perspective I think 150% of the annualized saving isn't particularly high. And again, though, what I would say to you is I'm not sat here with a complete breakdown of exactly what's in that £60 million. There are effectively areas where we believe there will be costs, including, of course, the IT migration processes, the changes we have to put in terms of the structure of the business, and unfortunately of course there will be some redundancy costs going through there as well.

Q - Andrew J. Sinclair {BIO 17749036 <GO>}

Andy Sinclair from BofA ML again. And you mentioned that you've got quite similar businesses, but your Group capital targets for - the Board capital targets for the two businesses are quite different. And I just wondered if you could talk about what might be the material differences between the calculations and likewise where you might be coming out as a combined Group capital target.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Just be quick on this, because I'd like to take some callers who are waiting.

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. And economic capital, as you know, Andy, is not a - it's not a universal and a uniform standard applied across all companies in the industry, so unfortunately you're not always comparing like for like. I think one of the things which the combined Group will need to focus on once it is formed is setting those capital targets. It's going to be very important. But I think naturally by the time of completion, which we expect to be December 2015, there's going to be much more focus on Solvency II than economic capital measures.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

f I could just ask whether there are callers on the line. I respect the fact that people weren't able to be here at such short notice. They may have already dropped off for...

Operator

We have no question on the line.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

...Prudential. (00:55:19 - 00:55:29) We're not quite ready to usurp Prudential's day, are we? There is someone?

Operator

We have no questions on the phone lines.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Right. Very good. Greig.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Just on the individual side, on the panels for the retail life phase, you're both on most panels. Don't you get kicked off? Isn't there some revenue dis-synergy there?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

We don't believe that there are any material dis-synergies. In terms of our business planning, we've allowed for some small potential downside on the individual market. Importantly, being two new entrants and growing in the DB market, we actually see the positive synergies there more than offsetting any small dis-synergy in the individual space.

But I'd have to say, Greig, you've got two companies with five-star reputations in the IFA market. We're on different panels, as it happens. So I believe that given our outstanding service from each company, we can be retained on all of the panels that we're currently on.

Q - Andrew J. Crean {BIO 16513202 <GO>}

It's Andrew Crean of Autonomous again. Can I take you back to Slide 7 and the projection you've made of the bulk purchase annuity market, because I know when Partnership came to market it was quite heavily reliant on a market forecast of sales, and particularly the 2015 forecasts there because certainly in the first half sales in bulk purchase are significantly down. And Lane Clark & Peacock, who I think are the biggest players in this market, are suggesting that actually sales will fall to about £8 billion or £9 billion this year. So are you confident of that sales projection from the market?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

It's a number of external bodies' views. It's only appropriate for us to represent the supposed experts in the market. The critical issue for us is that we're going to take a growing market share, and I'm happy to take an increased market share in a £10 billion market, quite frankly. And forgive me, if it continues on that trajectory, we will continue to grow with that.

A - Simon George Thomas {BIO 15219564 <GO>}

I think, Andrew, in terms of the 2015 figures, though, I think certainly we're comfortable that for the second half of this year we're expecting something around the run rate of about £300 million, against what we originally for the first half of this year were suggesting about £200 million. So in terms of pipeline, we've got a strong pipeline coming through at the moment.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

So just to remind everyone, Partnership have advised the market around £200 million for the full year, and we're talking about an additional £300 million for July to December on top of the numbers that you have in your pack.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning. It's Fahad Changazi from Nomura. Just a very quick question. In terms of the combined Group's proportion of longevity risk transfer, could you remind us what it is currently and whether you have flexibility to change that going forward, and for example, utilizing more reinsurance for bulk annuities?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Just so that you're aware, Just Retirement has a treaty for bulk annuities with 55% risk transfer. David, perhaps if you could just talk about the treaties?

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. So on the Partnership side, roughly two-thirds of our in-force retirement business longevity risk is reinsured currently. And on open treaties, we reinsure 50% on the individual annuity side. On DB, we adopt more of a facultative approach, so there isn't an open treaty that sweeps up all new DB business as it comes through. We do that on a case by case or we bundle it up. So there's not a uniform percentage on that.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

And so for us, as I indicated, 55% of DB risks are reinsured on a full risk transfer and in the individual space 45%. So I think we'd take it as a compliment that L&G has decided to follow our methodologies.

Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. A question on what happens when you merge the two longevity bases. Obviously, you have different views on different parts of the risk. I remember Just Retirement wrote off a third of their VIF just before the IPO, because you have to re-underwrite the book. Is the potential that when you take on the Partnership business on Just Retirement's basis, you have to take a very aggressive charge to the longevity bases?

And the second question I guess on the IP of Partnership. So we were always told that Partnership had fantastic IP because of the data they've collected. I mean, have you guys learnt anything about each other's respective market positions as a result of this process?

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

David?

A - David Louis Richardson {BIO 18045016 <GO>}

Yes. In terms of IP, one area on due diligence where we do need to be careful on is, as it were, opening the kimono on IP because of the competitive issues. So we have done due diligence on each other's IP, but not on the same level of granularity as you would do on everything else.

But what we've learned from that confirmed what we thought, which is that we actually have very complementary IP datasets. And our heritage is very much in the more heavily impaired end of the market. Just Retirement's is more in the lightly impaired and lifestyle end of the market. And we've always said that consistently, that we've come from different places.

We do overlap quite significantly in the middle. By putting the two IP datasets together we'll actually fill the gaps, and that's why we think we'll have an outstanding IP dataset at the end. It's not a question of one dataset overtaking the other. It is very much a question of bringing the best together.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Right. Just so you know, and there are lawyers in the room, there are extremely strict rules from the CMA in terms of two companies coming together at this point in time. We must remain active competitors until the transaction's approved by both regulators and the deal is concluded, and we do intend to actively compete.

And therefore, in terms of intimate intellectual property, we haven't exchanged that. But critically, we are aware of each other's what we call A-over-E, the actual experience over expected experience. And the two teams have got quite comfortable with how both are performing on that critical measure.

Q - Andy Hughes {BIO 15036395 <GO>}

I guess the key thing that worries me is how fast you assume that wears off over time. I mean...

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

How fast...

Q - Andy Hughes {BIO 15036395 <GO>}

How fast are you seeing that wears off over time towards the population, i.e., the decline in that mortality loading, which is I guess one of the reasons you had to re-underwrite your business.

A - David Louis Richardson {BIO 18045016 <GO>}

Well, yes. I think – so, for example, that's – and this is very much bringing together two relative strengths, but one area where Partnership brings something to the table is we've been doing this for 20 years. So as a result, we've got a number of underwriting years that have been through that full run-off process, and so we actually have very strong insight into that run-off pattern of that excess mortality. So that's something we can bring to the combined Group.

A - Rodney Malcolm Cook {BIO 14008420 <GO>}

Right. I think I need to bring proceedings to a conclusion. I don't want to get a rude call from my old friend Mike Wells from Prudential to say that I held up all of the important people for his meeting.

So a compelling proposition jointly from expense management and savings and also from the strategic rationale for growth going forward. I commend it to you and thank you very much for your attention today.