PHOENIX GROUP

Phoenix Group Holdings plc: 2020 Full Year Results 8 March 2021

# Phoenix Group announces record full year 2020 results

***Including new cash generation targets and c.30% increase in ReAssure synergy target***

## 2020 Financial Highlights

**Delivering Cash**

- Record cash generation[1] of £1.7bn in 2020 exceeds upper end of £1.5bn-to-£1.6bn target range (2019: £707m).
- £13.4bn[2] of Group long-term free cash[3] as at 31 December 2020 is available for Group operational costs, interest, growth and shareholder returns (31 December 2019: £14.1bn[4]).
- Recommended final dividend of 24.1p per share reflects a 3% increase on the 2020 interim dividend (23.4p per share) and equates to a 2020 full year dividend of 47.5p per share (2019: 46.8p per share).

**Delivering Resilience**

- Resilient Solvency II balance sheet with a £0.9bn increase in surplus to £5.3bn[5] as at 31 December 2020 reflecting only a £0.2bn adverse impact from economics in 2020 (31 December 2019: £4.4bn[6]).
- Shareholder Capital Coverage Ratio[7] of 164% as at 31 December 2020, comfortably in the middle of the Group's target range of 140%-to-180% (31 December 2019: 152%[6]).
- Leverage ratio[8] of 28% as at 31 December 2020 within 25%-to-30% target range (31 December 2019: 22%).

**Delivering Growth**

- Record incremental Open new business long-term cash generation of £766m in 2020, a 59% year-on-year increase (2019: £483m[9]), and close to achieving the >£800m new business threshold that would fully offset the in-force run-off.
- Retirement Solutions (BPA) new business long-term cash generation increased 122% year-on-year to £522m (2019: £235m) with the external deal capital strain reducing from 9% in 2019 to 8% in 2020.

**Other key financial metrics**

- Group operating profit of £1,199m in 2020 inclusive of the ReAssure business (2019: £810m).
- Assets under administration of £338bn as at 31 December 2020 (31 December 2019: £248bn).

## New cash generation targets and increased ReAssure synergy target announced

- 2021 cash generation target range of £1.5bn-to-£1.6bn.
- 2021-2023 cash generation target increased to £4.4bn (+£0.2bn) primarily due to new business and over-delivery of management actions.
- ReAssure synergy target increased by c.30% from £800m to £1,050m, comprising:
  - Increased capital synergy target of £600m (+33%) following delivery of £479m in 2020;
  - Increased cost synergies target of £500m[10] (+25%) following delivery of £22m per annum in 2020; and
  - Partly offset by integration costs of £50m which are unchanged.

## Continuing to deliver on our strategic priorities

- Met or exceeded all customer satisfaction targets and kept our call centres open throughout the pandemic.
- Continued to invest in our customer and digital propositions with key deliverables including the launch of a workplace ESG default fund, in-scheme drawdown for Master Trust and an enhanced client analytics tool.
- Increased colleague advocacy with our colleague engagement score improving 10ppts year-on-year to 75%.
- £2 million donated by Phoenix to support charities across 2020 including donations, colleague fundraising and supplier contributions.
- £1.3bn Solvency II benefit from management actions includes £479m of ReAssure capital synergies and £75m of SLAL capital synergies.
- Robust, high quality £35bn shareholder debt portfolio is 98% investment grade with only 19% rated as BBB.
- £2.0bn of illiquid assets sourced (2019: £1.3bn) including £888m of investment in ESG assets (2019: £250m).

- £1.8bn of external Bulk Purchase Annuity (BPA) premiums contracted in 2020 (2019: £1.1bn).
- 25% (£0.75bn) initial buy-in of Pearl Pension Scheme's £3bn of liabilities completed; agreement with trustee for future buy-ins for the remaining 75% and to release historic PLAL share charge, which enables a future single LifeCo Part VII transfer with >£100m Solvency II benefit.
- Recently announced the simplification of our Strategic Partnership with Standard Life Aberdeen including the acquisition of the Standard Life brand and with it full ownership and control over marketing and distribution.

## Sustainability is at the core of our purpose and a key enabler of our strategy

- Net-zero carbon commitment set across the Group's operations by 2025 and its investment portfolio by 2050.
- Phoenix has committed to setting and validating science-based targets through the SBTi initiative.
- On track to have 100% renewable energy contracts across all of our offices by the end of 2021.
- Clear target for reducing our Scope 1 and Scope 2 greenhouse gas emissions from occupied premises by 20% per FTE intensity in 2021.
- Participated in the 2020 IIGCC pilot to build and test Paris Agreement aligned investment portfolios and also became a UN PRI signatory.
- Now baselining and setting reduction plans for the equity and liquid credit asset classes within our portfolios, where we exercise control and influence.

## Commenting on the results, Group CEO, Andy Briggs said:

"2020 was a landmark year for Phoenix during which we completed the acquisition of ReAssure and became the UK's largest long-term savings and retirement business. We delivered record cash generation of £1.7 billion, our Solvency balance sheet remained resilient, we delivered our highest ever year of Open business growth, and we have recommended a 3% increase in our 2020 final dividend.

We are led by our purpose of 'helping people secure a life of possibilities' to deliver for all of our stakeholders and are putting sustainability at the heart of our business. During the year we have focused on delivering better outcomes for our customers, investing in our people, supporting our local communities, and have made a commitment to be net-zero carbon across our operations by 2025 and our investment portfolio by 2050. COVID-19 has challenged each and every one of us and I am very grateful for the outstanding dedication and professionalism of my colleagues which ensured we protected our customers throughout.

Looking ahead to 2021, we will continue to optimise our in-force Heritage business for cash and resilience, while the recent acquisition of the Standard Life brand will support us in accelerating our Open business growth strategy."

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## Enquiries

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## Presentation and financial supplement details

There will be a live virtual presentation for analysts and investors today between 09:00 and 10:30 (GMT).

A link to the live webcast of the presentation, with the facility to raise questions, as well as a copy of the presentation and a detailed financial supplement will be available at: https://www.thephoenixgroup.com/investor-relations/results-centre/

You can also register for the live webcast at: https://phoenixgroup.fy20.virtualhub.events/

A replay of the presentation and transcript will also be available on the website following the event.

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## Dividend details

The recommended final dividend of 24.1p per share is expected to be paid on 18 May 2021, subject to shareholder approval at Phoenix Group Holdings plc's AGM on 14 May 2021.

The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 1 April 2021. The record date for eligibility for payment will be 6 April 2021.

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## Footnotes

1. Cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the holding companies and is available to cover dividends, debt interest, debt repayments and other items.
2. 31 December 2020 position on a pro-forma basis to reflect the impact of the sale of Wrap SIPP, Onshore Bond and TIP products to SLA (£0.2bn) and the impact of the expected increase in the rate of corporation tax from April 2023 to 25% announced in the March 2021 budget (£0.3bn).
3. Group long-term free cash is defined as long-term in-force cash generation from the life companies, less M&A and transition costs, add holding company cash, less outstanding shareholder debt.
4. 31 December 2019 position on a pro-forma basis to reflect the acquisition of ReAssure Group plc.
5. 31 December 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would decrease by £0.1bn and 1% respectively.
6. The 31 December 2019 Solvency II capital position is presented on a pro-forma basis to reflect the acquisition of ReAssure Group plc and assumes the acquisition took place on 31 December 2019. It also reflects a regulator approved recalculation of transitionals as at 31 December 2019.
7. The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes.
8. Current Fitch leverage ratio is estimated by management.
9. 2019 figures have been restated to include Sun Life incremental long-term cash generation of £8m.
10. Cost synergy target of £50m (previous target £40m) is capitalised over 10 years equating to £500m target.

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## Legal Disclaimers

This announcement in relation to Phoenix Group Holdings plc and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'may', 'should', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, initiatives related to the financial crisis, the COVID-19 pandemic and the effect of the European Union's "Solvency II" requirements on the Group's capital maintenance requirements; the impact of inflation and deflation; the political, legal, social and economic effects of the COVID-19 pandemic and the UK's exit from the European Union; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within this announcement. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this announcement or any other forward-looking statements or data it may make or publish. Nothing in this announcement should be construed as a profit forecast or estimate.