Phoenix Group announces record half year 2022 results, delivering growing, resilient cash and a 3% dividend increase

CASH		RESILIENCE		GROWTH
Operating companies' cash generation	+	Solvency II Surplus and SCCR	+	Incremental new business long-term cash generation
£950m		**£4.7bn and 186%**		**£430m**
H1 2021: £872m		FY 2021: £5.3bn and 180%		H1 2021: £206m

Phoenix delivered against all of its key objectives in H1, with a record set of financial results and clear strategic progress made. We have delivered further organic growth and also announced the cash funded acquisition of Sun Life of Canada UK. This will support us in delivering a dividend that is 'sustainable and grows over time'.

Financial highlights

Delivering cash

- Strong first half cash generation[1] of £950m in H1 2022 (H1 2021: £872m); now confident of delivering at the top-end of our £1.3bn-to-£1.4bn target range for the year.

Delivering resilience

- Strong balance sheet with a Solvency II Surplus of £4.7bn[2] at 30 June 2022 after a £450m debt repayment (FY 2021: £5.3bn) and a Solvency II Shareholder Capital Coverage Ratio[2,3] ('SCCR') of 186% (FY 2021: 180%[3]).
- Our hedging and credit risk management approach limited the Solvency II surplus economic impact to just £(0.2)bn.
- Fitch leverage ratio[4] reduced to 27% at 30 June 2022 reflecting active deleveraging (FY 2021: 28%).
- Phoenix manages a high-quality c.£34bn shareholder credit portfolio, which is 98% investment grade and with only 19% in BBB; our exposure to cyclical sectors is low at only c.3% and high quality with an average credit rating of A-.
- Phoenix has no material exposure to inflation, with our key product and cost exposures hedged.

Delivering growth

- Record first half new business long-term cash generation of £430m, more than double H1 2021 at £206m.
- H1 2022 new business long-term cash generation comprises £282m from our Bulk Purchase Annuities (BPA) business (H1 2021: £80m) and £148m from our capital-light fee-based businesses (H1 2021: £126m).
- Strong performance in the first half in BPA, with £1.6bn of premiums contracted, a 280% increase on H1 2021 (£0.4bn). Capital strain reduced further to 6.2% (FY 2021: 6.5%) with £102m of capital invested.
- Investment in our Workplace business has delivered clear momentum with net inflows of £1.7bn in H1 2022 (H1 2021: £0.2bn net outflow), with 42 new schemes won in the first half, compared to 16 in H1 2021.

Announced our first ever cash funded acquisition

- Announced the acquisition, subject to regulatory approval, of Sun Life of Canada UK for £248m, which equates to an attractive price to shareholder Own Funds ratio of 83%.
- Expect to deliver c.£470m of incremental long-term cash generation, with c.£125m of synergies targeted, net of costs.
- Simplified integration with their policy administration undertaken by our strategic outsourcing partner, TCS Diligenta.
- The value and cash flow expected to be generated through this acquisition support a sustainable 2.5% inorganic increase in the Group's dividend, to take effect from and including the 2022 Final Dividend, subject to completion.

Dividend approach

- The Board has declared an Interim dividend of 24.8p per share, equal to the 2021 Final dividend, which is an increase of 3% year-on-year (H1 2021 Interim dividend: 24.1p per share), reflecting the 2021 organic dividend increase.
- Ahead of the 2022 FY results, the Board will assess if organic business growth can fund a further sustainable dividend increase, in addition to the 2.5% inorganic dividend increase proposed for the Sun Life of Canada UK acquisition.
- In future years, we intend to simplify our dividend communications by announcing any potential dividend increase at the time of our Full Year results, which will combine both organic and inorganic growth.

Allocating surplus capital in line with our financial framework

- Our SCCR is currently above our target range of 140-180% and we have surplus cash to invest in line with our strategy.
- This will support us investing a total of c.£300m of capital into BPA across 2022, funding the £248m Sun Life of Canada UK acquisition in cash at completion, as well as enabling us to proactively deleverage including the £450m debt redemption in July.
- Our hedging approach protects both our short and long-term cash generation from the impacts of any market volatility, which results in Phoenix offering a uniquely reliable dividend over the very long term, and enables us to invest into growth with confidence.

Other key financial metrics

- Assets under administration decreased to £269bn as at 30 June 2022 (FY 2021: £310bn) due to £38bn of adverse market movements, however our hedging approach protects our fee income to deliver resilient cash generation.
- IFRS operating profit remained strong at £507m in H1 2022 (H1 2021: £527m).

Clear progress made against our strategic priorities as we deliver on our purpose and strategy

Optimising our in-force business

- Continued our track record of delivering Solvency II management actions, with £421m in H1 2022, including recurring illiquid asset origination and proactive deployment into US liquid credit to take advantage of relative spread widening.
- Achieved the regulatory approval of our partial internal model for our European business.

Enhancing our operating model and culture

- Successfully completed our first migration, of all 400k annuities, from the legacy Standard Life platform to TCS.
- Realised further ReAssure integration cost synergies of £15m p.a. during H1 2022; total ReAssure synergies of £1,078m now delivered to date, exceeding our revised target of £1,050m.
- We are delivering on our Diversity & Inclusion ambitions, with the proportion of women on the Group Board increasing to 54%[5] (FY 2021: 33%) and the Group Executive Committee to 42%[5] (FY 2021: 17%).
- Supporting colleagues through the cost of living challenges, including a £1,000 net payment to our colleagues[6].

Growing our business to support both new and existing customers

- Continued to grow organically, delivering strongly for customers, with £1.8bn of net inflows across our Open business in H1 2022, and a strong pipeline of H2 opportunities developed in both BPA and Workplace.

Innovating to provide our customers with better financial futures

- Commenced migration of £15bn of pension assets and 1.5m members to Standard Life's flagship sustainable fund.
- Continued to deliver on our social purpose with the launch of the Phoenix Insights Longer Lives Index and our well-received 'guidance gap' campaign, as we look to champion our customers' interests in support of a better retirement.

Investing in a sustainable future

- Originated £485m of sustainable illiquid assets in the first half (H1 2021: £788m), including £170m invested into affordable housing, £167m into positive environmental impact projects, and £75m into healthcare & education.

Strategic outlook

Despite the uncertain economic backdrop, we are confident about the outlook for Phoenix's growth. Our focused strategy is designed to leverage the major trends in the UK long-term savings and retirement market, across M&A, BPA, Workplace and Individual Pensions & Savings. These offer Phoenix multiple, long-term structural growth opportunities.

2022 guidance

- Expect to deliver cash generation at the top-end of our £1.3bn-to-£1.4bn target range for the year.
- Continue to operate within our target ranges for our SCCR (140-180%) and leverage ratio (25-30%).
- Confident of deploying our target capital allocation into BPA of c.£300m in 2022, with £1.1bn of premiums already contracted in H2, and a further £1.1bn of premiums in exclusive discussions, including the Pearl Pension Scheme.
- Expect to deliver further organic growth in 2022 with incremental new business long-term cash generation of >£800m.
- Progress the regulatory approval process for the Sun Life of Canada UK acquisition, targeting completion in Q1 2023.

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

"Phoenix has performed very strongly in the first half of the year despite the challenging macro environment. We have once again delivered a record set of financial results, which was underpinned by the strong progress we have made across our strategic priorities. We have delivered strong cash generation of £950 million and maintained our resilient balance sheet. We have also delivered both organic growth, with £430 million of new business from our Open business, and inorganic growth, with the announcement of our £248 million acquisition of Sun Life of Canada UK. Our 2022 Interim dividend has increased 3% year-on-year, and we have proposed a further 2.5% increase at our 2022 Final dividend to reflect the value we expect to create with the Sun Life of Canada UK acquisition.

We have been working tirelessly to ensure we can support our customers and colleagues impacted by the increased cost of living - building on our programme of activities for our most vulnerable customers and offering a range of support to our colleagues including a one-off payment. As the UK's largest long-term savings and retirement business, we are driven by our core social purpose."

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Presentation and financial supplement details

There will be a live virtual presentation for analysts and investors today starting at 09:30 (BST).

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-reports-and-presentations

You can also register for the live webcast at: Phoenix Group 2022 half year results

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

Dividend details

The declared Interim dividend of 24.8p per share is expected to be paid on 12 September 2022.

The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 25 August 2022. The record date for eligibility for payment will be 26 August 2022.

Footnotes

1. Cash generation is a measure of cash and cash equivalents, remitted by Phoenix Group's operating subsidiaries to the holding companies and is available to cover dividends, debt interest, debt repayments and other items.
2. 30 June 2022 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies and recognition of the foreseeable 2022 interim shareholder dividend of £248m. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.4bn and 10% respectively.
3. The Shareholder Capital Coverage Ratio excludes Solvency II Own Funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes.
4. Current Fitch leverage ratio is estimated by management. Leverage ratio is pro forma for a £450m debt repayment made in July and allowing for currency hedges over foreign currency denominated debt.
5. Includes known hires and subject to regulatory approval.
6. £1,000 net payment to be made in August to all permanent colleagues excluding our Top 100 leaders.

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As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals, ambitions, outlook, guidance 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 constitutes, nor should it be construed as, a profit forecast or estimate.