Credit summary

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Life Insurance	Fitch Ratings	Moody's	S&P Global
Phoenix Group Holding	**A**	**NR**	**NR**

Business description

Phoenix Group is a specialist consolidator of heritage life assurance funds in Europe. Its activity is focused on closed life fund consolidation more particularly in the acquisition and management of closed life insurance and pension funds. Alongside this, Phoenix manufactures and underwrites new products and policies to support people saving for their future in areas such as workplace pensions and SIPPs (Self Invested Personal Pensions). This open business is underpinned by a strategic partnership with Standard Life Aberdeen plc following the acquisition of Standard Life Assurance Limited in 2018. It also has a market brand SunLife which sells a range of financial products specifically for the over 50s market. In total, the Group has over 10 million policyholders and GBP230bn of assets. About the geographical diversification, the group have operations in the United Kingdom, Ireland and Germany. The Group has five operating life companies that hold policyholder assets and a distribution business, SunLife. Phoenix's vision is to be Europe's Leading Life Consolidator in this bifurcating market which Phoenix estimate has a market size of GBP540bn across the UK, Germany and Ireland. Phoenix Group Holding is listed in London and has a capitalization of GBP5.06bn (as of 03/07/2019).

PGH — **Recent financial performance (IFRS)**

FYE to Dec-31 (in GBP m)	FY15	FY16	FY17	FY18	YoY
Gross Written premiums	902	999	1 130	2 645	134%
Operating profit	**288**	**52**	**125**	**401**	221%
Net income	249	-100	-27	410	nm
Total assets	64 514	85 999	83 443	229 980	176%
Total equity	3 004	3 333	3 155	5 949	89%
Total debt	1 998	2 036	1 778	2 186	23%
Cash	3 940	1 666	2 245	4 926	119%
Net debt	**-1 942**	**370**	**-467**	**-2 740**	487%
Key credit ratios	**FY15**	**FY16**	**FY17**	**FY18**	**YoY**
Operating margin	31.9%	5.2%	11.1%	15.2%	4.1%
Operating leverage	9.6%	1.6%	4.0%	6.7%	2.8%
Solvency II coverage (%)	130%	139%	138%	146%	8.5%
Shareholder capital (%)	154%	170%	164%	167%	3.0%
Financial leverage	67%	61%	56%	37%	-19.6%
Fixed charge coverage	2.1x	0.4x	0.9x	2.8x	1.9x

Source : Company data + Aurel BGC presentation

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Latest results and forthcoming announcements

- Markets Day and Trading Update (11/29/2018): year to date, Phoenix Group has generated GBP1.3bn of cash since 2017, exceeding the upper end of its target of GBP1-1.2bn for this period. As of 30 September, the Solvency II surplus was at GBP3.1bn and the shareholder capital coverage ratio stood at 164%. The group already delivered GBP400m of capital synergies on the acquisition of the Standard Life Assurance Limited business against a total of GBP440m capital synergy target announced for the transaction.
- FY2018 results (03/05/2019): for the full year 2018, Phoenix has delivered strong results, mainly through the acquisition of Standard Life Assurance Limited completed on 31 August 2018. Gross written premiums surged by 134% YoY to GBP2.6bn and operating profit increased by 221% YoY to GBP401m. Finally, Phoenix published a positive net income of GBP410m, compared to a net loss of GBP27m last year. Solvency II surplus stood at GBP3.2bn at the end of the period (2017: GBP1.8bn). Solvency II coverage was estimated at 146% in 2018 (2017: 138%). Phoenix has a 2019 cash generation target of GBP600-700m.
- Next results: Phoenix has not yet announced the date of publication of its Q1 2019 results.

Latest acquisitions and news

- February 2018: Phoenix announced the acquisition of Standard Life Assurance for a total consideration of GBP2.93bn and the extension of the Strategic Partnership with Standard Life Aberdeen. The enlarged group has GBP240bn of assets under management and 10.4m policyholders. Phoenix expect to generate a total of GBP5.5bn of additional aggregate cash flows from the acquisition, of which GBP1 bn is expected to be generated between 2018 and 2022 and GBP4.5 bn from 2023 onwards. According to the group, this acquisition "*also significantly enhances the new business capabilities within the Group to generate organic growth*". The acquisition was completed on 31st August 2018. About the Strategic Partnership with Standard Life Aberdeen, it supposed to bring new business in the form of workplace pensions, SIPP and drawdown products which is managed alongside its existing new business streams and include vesting annuities and protection products sold by SunLife, a distribution company within the Group.
- May 2018: The first BPA (Bulk Purchase Annuity) transaction of GBP470m with the Marks and Spencer Pension Scheme was completed. Phoenix commented: "*The transaction has been structured under an umbrella contract to facilitate potential future transactions between Phoenix and the scheme, which will allow the parties to move quickly to take advantage of future market opportunities that may present themselves*".
- September 2018: Nicholas Lyons replaced Henry Staunton as Chairman of the Group on 1st September 2018.

Rating agencies' opinions

- Fitch Ratings (A, outlook stable): in its rating action of September 2018, Fitch Ratings affirmed IFS (Insurer Financial Strength) rating at "A+", outlook stable, following Phoenix's announcement that the acquisition of SLAL was completed. Fitch viewed "*Phoenix's capitalization and leverage as very strong*". Phoenix's Solvency II capital requirement (SCR) coverage was 149% at end-1H18 (end-2017: 138%). The rating agency commented: "*Because both the restriction of surplus from strong with-profit funds and the PGL staff pension schemes dampen the S2 ratio, Phoenix also reports the ratio excluding these effects - the shareholder capital coverage ratio - which was 180% at end-1H18 (end-2017: 164%)*". Fitch estimated that Phoenix's regulatory capital position was supposed to remain strong after the acquisition of SLAL. Fitch indicated: "*This is supported by a pro-forma shareholder capital coverage ratio of 147% at end-2017 for the combined group*". Phoenix's Fitch-calculated financial leverage was 25% at end-1H18. This had improved significantly in recent years, having fallen from 40% at end-2013. Fitch expected Phoenix's financial leverage to range between 25% and 30% in the medium term. Fitch regarded "*Phoenix's debt service capabilities and financial* *flexibility as strong*". At the time, this view was supported by Phoenix's strong access to capital markets as evidenced by the issuance of all three S2 tiers of subordinated notes in 2017 and 2018, as well as by new equity issued to fund the acquisitions of Abbey Life and AXA Wealth in 2016 and SLAL in 2018. Phoenix's fixed-charge coverage, based on reported pro-forma operating profit, was good at 4.0x in 1H18 (2017: 3.5x), in line with the group's 2013-2017 average of 3.6x according to Fitch. Finally, Fitch believed the SLAL acquisition was positive for Phoenix's already strong business profile as it was supposed to increase the group's size and scale. Additionally, SLAL's operations in Ireland and Germany provided some geographical diversification and access to potential acquisitions in these countries.

Furthermore, at the beginning of November 2018, Fitch Ratings has assigned Phoenix Group Holdings plc (PGH plc), a UK company that will become the ultimate holding company of the Phoenix group, a Long-Term Issuer Default Rating of "A" with a stable outlook. Accord to the rating agency, PGH plc is planned to replace Phoenix Group Holdings (PGH) as the group's top holding company in December 2018, and will also replace PGH as issuer for PGH's existing subordinated debt and will become a borrower and a guarantor under the group's bank facilities. Fitch Ratings estimated that the ratings "*continue to reflect that Phoenix is maintaining its very strong capitalisation and leverage as well as strong debt service capabilities and financial flexibility, earnings and business profile*".

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