Standard Life Aberdeen

Full year results 2018

13 March 2019

Resilient performance against a challenging industry backdrop and weak investor sentiment

- Profit from continuing operations broadly flat at £650m
- Net outflows continued but were concentrated in a small number of strategies
- Broad demand for our wider product suite with gross inflows up to £75.2bn (2017: £72.4bn)
- Ahead of schedule in delivering cost efficiencies of at least £350m with actions already taken to deliver £175m of these savings
- Focus on financial discipline resulting in a further reduction in expenses of £56m during the year
- Offer for sale of up to 4.93% of HDFC Life with expected proceeds of c£0.4bn[1]
- Final dividend unchanged – we intend to maintain the dividend per share at the 2018 level during the period of transformation

Building blocks in place to meet evolving client needs and to capitalise on a rapidly shifting industry

- Growing importance of retail customers and 'new active' investing including private markets, real estate and solutions
- Strengthened position in 'new active' with 32 new fund launches (2017: 22) supplemented by bolt-ons and JVs in ETFs, commodities, Asia real estate as well as private markets including infrastructure
- Platforms attracted £5.3bn of net inflows helping to drive a 33% increase in adjusted profits to £24m
- Enhanced strategic partnership with Phoenix and new joint venture with Virgin Money/CYBG to create a UK retail savings 'eco-system' with access to 16 million potential customers, and scope for further partnerships

	2017 Pro forma[2]	2018
Continuing operations:		
Adjusted profit before tax (£m)	660	650
Adjusted diluted EPS[3] (p)	17.2	17.8
Assets under management and administration (£bn)	608.1	551.5
Gross inflows (£bn)	72.4	75.2
Net flows (£bn)	(32.9)	(40.9)
Total (including discontinued operations):		
Adjusted profit before tax (£m)	1,039	860
Adjusted diluted EPS[3] (p)	28.9	22.5
Full year dividend per share (p)	21.3	21.6

Martin Gilbert commented:

"In a tough year of continued change for our industry, we saw further net outflows – equivalent to about 7% of our starting assets. Yet as we have shown by our increased gross inflows, we continue to develop a business that has the scale and breadth to compete globally – and to continue to get closer to British savers through our growing Platforms."

Keith Skeoch commented:

"We are working hard to deliver what is within our control. Our integration process is running ahead of schedule and is now roughly 75% complete even though we are less than halfway through the original timetable. We are encouraged by improvements in investment performance in key areas, and our 'new active' capabilities mean that we are set up well to capitalise on the trends and opportunities shaping our industry – while continuing to deliver value and returns for our shareholders."

Unless otherwise stated, all figures in this release are on a continuing operations basis excluding the UK and European insurance operations sold to Phoenix. 2017 comparatives are also provided on a pro forma[2] basis.

Creating a world-class investment company

We have made a clear choice to build an investment company that will focus on global asset management and savings and advice services in the UK, as well as on our strategic investments. We are investing to build a modern and dynamic global business which has the talent, scale and high-performing investment solutions to compete against the leading investment companies across the world. We do it to invest for a better future – to make a difference to our clients, the lives of our customers, our people and our shareholders.

Sale of our UK and European insurance operations to Phoenix

The sale of our UK and European insurance operations for £3.3bn to Phoenix on 31 August 2018 completed our transformation to a fee based capital-light business. We received cash proceeds of £2.3bn from the sale (including a dividend from SLAL of £0.3bn) and generated an IFRS gain on disposal of £1.8bn. In addition to the cash proceeds, we also received a 19.98% stake in Phoenix which allows us to benefit from Phoenix's future profitability and growth. As a result of the sale we have classified the UK and European insurance business as a discontinued operation.

As part of the transaction we entered into an enhanced strategic partnership with Phoenix, strengthened by the 19.98% stake, providing us with an additional source of earnings, dividends and AUM growth as Phoenix's asset management partner of choice. We have retained our valuable and fast growing UK retail platforms Wrap and Elevate, as well as our financial planning and advice business 1825.

AUMA – well diversified gross inflows and a good pipeline of opportunities

Assets under management and administration (AUMA)	2017 £bn	2018 £bn
Opening AUMA from continuing operations	**607.9**	**608.1**
Gross inflows	72.4	75.2
Redemptions	(105.3)	(116.1)
Net flows	(32.9)	(40.9)
Market and other movements	36.8	(20.5)
Corporate actions[4]	(3.7)	4.8
Closing AUMA from continuing operations	**608.1**	**551.5**

Total AUMA from continuing operations decreased to £551.5bn (2017: £608.1bn). Assets managed by Aberdeen Standard Investments were £505.1bn (2017: £562.1bn) while Retail assets under administration increased to £54.2bn (2017: £54.0bn).

Negative market movements, including lower equity market levels in the second half of the year, impacted year end AUM as well as investor sentiment and net flows across the industry. Within Aberdeen Standard Investments net flows remain a challenge but it is encouraging that these are concentrated in a narrow range of strategies. However, gross inflows are well diversified across our broad range of 'new active' capabilities and our integrated distribution team is fully focused on serving clients and engaging in an encouraging volume of new opportunities. We continue to see strong interest in Credit, Private Equity, Real Estate and multi-asset solutions including MyFolio.

Our industry-leading retail platforms, Wrap, Elevate and Parmenion, continue to grow assets, attracting strong net inflows of £5.3bn representing 9% of opening assets. AUA increased to £59.4bn (2017: £58.4bn) with net inflows largely offset by negative market movements.

We continue to enhance our range of 'new active' investment capabilities and have increased the pace of innovation with 32 new funds (2017: 22) launched in 2018. The build-out of our capabilities in key areas of future market demand was accelerated by targeted bolt-on acquisitions in private markets, closed ended funds and ETF capabilities in the US. We have also forged new strategic partnerships with Phoenix and Virgin Money (now extended to CYBG) which together will give us access to 16 million potential retail customers.

Looking ahead, we have a good pipeline of new business across a broad range of capabilities. We continue to broaden out our capabilities with new product launches as well as a new joint venture with Investcorp targeting social and core infrastructure investing in Gulf Cooperation Countries, and the acquisition of Orion Partners which expands our direct real estate capabilities into Asia.

Profitability – lower revenue largely offset by share of Phoenix profits and reduction in expenses

Profitability	2017 £m	2018 £m
Fee based revenue	2,099	1,868
Adjusted operating expenses	(1,551)	(1,395)
Adjusted operating profit	548	473
Capital management	13	(9)
Share of associates' and joint ventures' profit before tax[5]	99	186
Adjusted profit before tax from continuing operations	**660**	**650**
IFRS profit attributable to equity holders (reported basis)	**699**	**830**

Adjusted profit before tax from continuing operations of £650m (2017: £660m) reflects lower revenue largely offset by a reduction in operating expenses as well as the inclusion of our share of Phoenix adjusted profits from 1 September 2018.

Fee based revenue of £1,868m (2017: £2,099m) reflects the impact of lower AUMA combined with a modest reduction in overall revenue margin to 30.8bps (2017: 33.0bps[6]) reflecting the mix effect of outflows from higher margin products including GARS and equities.

Operating expenses reduced by 10% to £1,395m (2017: £1,551m). This included continued delivery against previously announced targeted annual cost savings of at least £350m (by the end of 2020) as well as a further reduction in expenses of £56m arising from our general focus on cost control. The targeted cost savings reflect merger synergies and the benefits from simplifying our operating model following the sale of the UK and European insurance business. To date, with the integration progressing ahead of the original schedule, we have undertaken actions to deliver £175m of the targeted annual cost savings. These actions have benefited 2018 adjusted operating expenses by c£120m with further benefits still to come. Our focus on efficiency together with the inclusion of our share of Phoenix profits from 1 September 2018, has helped us to improve the cost/income ratio to 68% (2017: 71%).

IFRS profit attributable to equity holders increased by 19% to £830m (2017: £699m) mainly as a result of the £1,780m gain on sale of the UK and European insurance business and the inclusion of full year adjusted profit from Aberdeen (2017 result only included Aberdeen profit from 14 August 2017) which was partly offset by the amortisation and impairment of intangible assets acquired in business combinations which increased to £1,155m (2017: £138m).

This included an £880m impairment of the Aberdeen Standard Investments goodwill which reflects an appraisal of the asset based on the prevailing market conditions at 31 December 2018 and excludes future merger synergy benefits. Impairments also included £228m in respect of our investment in Phoenix reflecting the lower market value of Phoenix as at 31 December 2018 which has subsequently recovered post year end.

Generating cash and delivering returns to shareholders

Adjusted cash generation after tax of £453m (2017: £505m) remained strong with 88% of adjusted profit after tax being converted to cash. The Board has proposed a final dividend of 14.3p per share, making a total of 21.6p (2017: 21.3p), an increase of 1.4%.

Our progressive dividend policy is to grow the annual dividend per share at a sustainable rate over the medium term. It is the Board's current intention that the total annual dividend per share will be held at the 2018 level while the business is transformed, cost synergies are delivered and future financial performance confirms the sustainability of this level of distribution and provides line of sight to its future growth.

The General Meeting on 25 June 2018 approved the return of up to £1.75bn in aggregate to shareholders. This included a return of capital of £1.0bn via a B Share Scheme with an ordinary share consolidation, which took place in October 2018, and a return of up to £750m through a share buyback programme. As at 11 March 2019, we have bought back £358m of shares through the ongoing buyback programme.

Transition to CRD IV capital regime with a strong capital position

Following completion of the sale of our UK and European insurance business to Phoenix, we are now regulated under the CRD IV regime for group-level prudential regulatory capital purposes.

We remain strongly capitalised with a CRD IV Group regulatory surplus of £0.6bn. The CRD IV Group capital position is stated after a deduction to allow for the proposed 2018 final dividend of £345m, the first two tranches of the share buyback programme of £375m and a proportion of SLAL separation costs of £0.1bn.

Outlook

Our resilient business and the actions we are taking, allow us to deal with market conditions which remain challenging, as macroeconomic and political uncertainties continue to affect investor sentiment. These uncertainties as well as the trends shaping our investment industry are driving investors to look for innovative and outcome orientated 'new active' investment solutions and these will continue to grow in importance in meeting the needs of institutional and increasingly retail customers. With our broad and diverse range of capabilities, Standard Life Aberdeen is well placed to take advantage of the opportunities and to deal with the challenges that these trends present.

As we look ahead we will maintain our focus on the things we can control. This includes delivering for our clients and customers by focusing on our investment performance and continuing to innovate in areas of market growth. We will also remain focused on driving operational efficiency and cost control as we move closer to completing the integration and the implementation of our simplified global operating model. This combined with our strong balance sheet will allow us to invest for growth, delivering on our strategy of creating a world-class investment company that maximises value and generates sustainable dividends and returns for shareholders.

For further information please contact:

Institutional equity investors		Retail equity investors	
Jakub Rosochowski*	0131 245 8028 / 07515 298 608	Link Market Services*	0345 113 0045
Neil Longair*	0131 245 6466 / 07711 357 595		

Media		Debt investors	
Katy Hetherington*	0131 245 2283 / 07841 344 374	Nick Mardon*	0131 245 6371
James Thorneley*	0207 463 6323 / 07768 556 334		
Iain Dey, John Kiely (Smithfield)	0203 047 2528 / sla@smithfieldgroup.com		

*Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Media

A conference call for the media will take place on Wednesday 13 March at 7.45am (UK time). Participants should dial +44 (0)203 009 5710 followed by the pass code 6979408. A replay facility will be available for seven days after the event. To access the replay please dial +44 (0) 333 300 9785 followed by the pass code 6979408.

Investors and analysts

The full year results 2018 analyst and investor presentation will take place on Wednesday 13 March at 9.30am (UK time). The presentation will take place at Standard Life Aberdeen plc, Bow Bells House, 1 Bread Street, London, EC4M 9HH. There will also be a live webcast starting at 9.30am. To access the webcast visit www.standardlifeaberdeen.com.

Notes to editors

1. Assuming full subscription in the offer and based on the floor price of Rs 357.5 per share.
2. Pro forma results are prepared as if Standard Life plc and Aberdeen Asset Management PLC had always been merged.
3. In accordance with IAS 33, earnings per share have not been restated following the share consolidation as there was an overall corresponding change in resources. As a result of the share consolidation and share buyback, earnings per share from continuing operations for the year ended 31 December 2018 is not directly comparable with the prior year. Refer to Note 11 of the Group financial statements for information relating to the calculation of diluted earnings per share.
4. 2018 corporate actions include bolt-on acquisitions in private markets, closed ended funds and ETF capabilities in the US.
5. Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Life, HDFC AMC, Phoenix and Heng An Standard Life Insurance Company Limited.
6. Adjusted to exclude non-recurring impact from deferred revenue of £7m received in 2017.

Analysis of profit by segment

12 months ended 31 December 2018

	Asset management and platforms £m	Insurance associates and joint ventures £m	Total continuing operations £m	Discontinued operations £m	Eliminations £m	Total £m
Fee based revenue	1,868	-	**1,868**	532	(94)	**2,306**
Spread/risk margin	-	-	**-**	59	-	**59**
Adjusted operating income	1,868	-	**1,868**	591	(94)	**2,365**
Adjusted operating expenses	(1,395)	-	**(1,395)**	(376)	94	**(1,677)**
Adjusted operating profit	473	-	**473**	215	-	**688**
Capital management	(9)	-	**(9)**	(5)	-	**(14)**
Share of associates' and joint ventures' profit before tax	46	140	**186**	-	-	**186**
Adjusted profit before tax	**510**	**140**	**650**	**210**	**-**	**860**
Tax on adjusted profit	(95)	-	**(95)**	(77)	-	**(172)**
Share of associates' and joint ventures' tax expense	(17)	(26)	**(43)**	-	-	**(43)**
Adjusted profit after tax	**398**	**114**	**512**	**133**	**-**	**645**
Total adjusting items	(1,161)	(236)	**(1,397)**	1,519	-	**122**
Tax on adjusting items	52	-	**52**	41	-	**93**
Share of associates' and joint ventures' tax expense on adjusting items	2	1	**3**	-	-	**3**
Profit attributable to non-controlling interests (preference shares and perpetual notes)	(5)	-	**(5)**	(28)	-	**(33)**
(Loss)/profit for the year attributable to equity holders of Standard Life Aberdeen plc	**(714)**	**(121)**	**(835)**	**1,665**	**-**	**830**

12 months ended 31 December 2017

	Asset management and platforms £m	Insurance associates and joint ventures £m	Total continuing operations £m	Discontinued operations £m	Eliminations £m	Total £m
Fee based revenue	2,099	-	**2,099**	800	(136)	**2,763**
Spread/risk margin	-	-	**-**	165	-	**165**
Adjusted operating income	2,099	-	**2,099**	965	(136)	**2,928**
Adjusted operating expenses	(1,551)	-	**(1,551)**	(579)	136	**(1,994)**
Adjusted operating profit	548	-	**548**	386	-	**934**
Capital management	13	-	**13**	(7)	-	**6**
Share of associates' and joint ventures' profit before tax	41	58	**99**	-	-	**99**
Adjusted profit before tax (pro forma[1] basis)	**602**	**58**	**660**	**379**	**-**	**1,039**
Adjust for Aberdeen results pre-merger completion (14 August 2017)	(185)	-	**(185)**	-	-	**(185)**
Adjusted profit before tax (reported basis)	**417**	**58**	**475**	**379**	**-**	**854**
Tax on adjusted profit	(77)	-	**(77)**	(31)	-	**(108)**
Share of associates' and joint ventures' tax expense	(29)	(12)	**(41)**	-	-	**(41)**
Adjusted profit after tax	**311**	**46**	**357**	**348**	**-**	**705**
Total adjusting items	(288)	292	**4**	(44)	-	**(40)**
Tax on adjusting items	49	-	**49**	(7)	-	**42**
Profit attributable to non-controlling interests (preference shares and perpetual notes)	(8)	-	**(8)**	-	-	**(8)**
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**64**	**338**	**402**	**297**	**-**	**699**

Assets under management and administration flows

12 months ending 31 December

	Gross inflows		Redemptions		Net flows	
	2018 £bn	2017 £bn	2018 £bn	2017 £bn	2018 £bn	2017 £bn
Equities	11.8	14.2	(29.4)	(24.4)	(17.6)	(10.2)
Fixed income	6.0	8.6	(8.8)	(11.7)	(2.8)	(3.1)
Multi-asset	9.3	13.9	(25.0)	(20.8)	(15.7)	(6.9)
Private markets	1.1	1.1	(2.4)	(1.4)	(1.3)	(0.3)
Alternatives	0.8	0.8	(1.2)	(1.3)	(0.4)	(0.5)
Real estate	3.8	3.6	(4.0)	(4.6)	(0.2)	(1.0)
Quantitative	0.2	0.2	(0.3)	(0.7)	(0.1)	(0.5)
Cash/Liquidity	7.4	6.4	(8.7)	(8.1)	(1.3)	(1.7)
	40.4	**48.8**	**(79.8)**	**(73.0)**	**(39.4)**	**(24.2)**
Strategic insurance partners	28.6	15.6	(34.1)	(30.8)	(5.5)	(15.2)
Total AUM flows	**69.0**	**64.4**	**(113.9)**	**(103.8)**	**(44.9)**	**(39.4)**
Retail – Wrap and Elevate	8.5	10.7	(4.3)	(3.7)	4.2	7.0
Eliminations	(2.3)	(2.7)	2.1	2.2	(0.2)	(0.5)
Total AUMA flows from continuing operations	**75.2**	**72.4**	**(116.1)**	**(105.3)**	**(40.9)**	**(32.9)**

	Gross inflows		Redemptions		Net flows	
	2018 £bn	2017 £bn	2018 £bn	2017 £bn	2018 £bn	2017 £bn
Institutional	19.3	24.3	(47.0)	(44.0)	(27.7)	(19.7)
Wholesale	18.4	22.1	(30.5)	(27.7)	(12.1)	(5.6)
Wealth/Digital	2.7	2.4	(2.3)	(1.3)	0.4	1.1
	40.4	**48.8**	**(79.8)**	**(73.0)**	**(39.4)**	**(24.2)**
Strategic insurance partners	28.6	15.6	(34.1)	(30.8)	(5.5)	(15.2)
Total AUM flows	**69.0**	**64.4**	**(113.9)**	**(103.8)**	**(44.9)**	**(39.4)**
Retail – Wrap and Elevate	8.5	10.7	(4.3)	(3.7)	4.2	7.0
Eliminations	(2.3)	(2.7)	2.1	2.2	(0.2)	(0.5)
Total AUMA flows from continuing operations	**75.2**	**72.4**	**(116.1)**	**(105.3)**	**(40.9)**	**(32.9)**

Assets under management and administration

12 months ending 31 December 2018

	1 Jan 2018 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions £bn	31 Dec 2018 £bn
Equities	97.5	11.8	(29.4)	(17.6)	(8.2)	1.2	72.9
Fixed income	48.0	6.0	(8.8)	(2.8)	0.6	0.9	46.7
Multi-asset	72.4	9.3	(25.0)	(15.7)	(2.8)	-	53.9
Private markets	16.5	1.1	(2.4)	(1.3)	0.8	-	16.0
Alternatives	8.0	0.8	(1.2)	(0.4)	2.6	2.1	12.3
Real estate	28.5	3.8	(4.0)	(0.2)	0.8	0.6	29.7
Quantitative	2.2	0.2	(0.3)	(0.1)	-	-	2.1
Cash/Liquidity	17.2	7.4	(8.7)	(1.3)	0.6	-	16.5
	290.3	**40.4**	**(79.8)**	**(39.4)**	**(5.6)**	**4.8**	**250.1**
Strategic insurance partners	271.8	28.6	(34.1)	(5.5)	(11.3)	-	255.0
Total AUM	**562.1**	**69.0**	**(113.9)**	**(44.9)**	**(16.9)**	**4.8**	**505.1**
Retail – Wrap and Elevate	54.0	8.5	(4.3)	4.2	(4.0)	-	54.2
Eliminations	(8.0)	(2.3)	2.1	(0.2)	0.4	-	(7.8)
Total AUMA from continuing operations	**608.1**	**75.2**	**(116.1)**	**(40.9)**	**(20.5)**	**4.8**	**551.5**

	1 Jan 2018 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions £bn	31 Dec 2018 £bn
Institutional	192.5	19.3	(47.0)	(27.7)	1.9	-	166.7
Wholesale	86.6	18.4	(30.5)	(12.1)	(6.8)	4.8	72.5
Wealth/Digital	11.2	2.7	(2.3)	0.4	(0.7)	-	10.9
	290.3	**40.4**	**(79.8)**	**(39.4)**	**(5.6)**	**4.8**	**250.1**
Strategic insurance partners	271.8	28.6	(34.1)	(5.5)	(11.3)	-	255.0
Total AUM	**562.1**	**69.0**	**(113.9)**	**(44.9)**	**(16.9)**	**4.8**	**505.1**
Retail – Wrap and Elevate	54.0	8.5	(4.3)	4.2	(4.0)	-	54.2
Eliminations	(8.0)	(2.3)	2.1	(0.2)	0.4	-	(7.8)
Total AUMA from continuing operations	**608.1**	**75.2**	**(116.1)**	**(40.9)**	**(20.5)**	**4.8**	**551.5**