

Market Release

13 August 2024

Challenger announces FY24 results¹

Significant growth and delivering on retirement opportunity

Strong financial performance with earnings above guidance range²

- Normalised net profit before tax (NPBT)³ \$608 million, up 17%⁴
- Statutory net profit after tax (NPAT) \$130 million, down 24%⁵
- Group assets under management (AUM) \$127 billion, up 21%
- Challenger Life strongly capitalised with PCA ratio of 1.67x⁶
- Full year dividend 26.5 cents per share fully franked, up 10%
- Normalised EPS 60.9 cents per share, up 14%
- Normalised ROE 15.6%, up 290 bps and on track to achieve ROE target⁷ in FY25

Life book quality improving through longer duration, more valuable sales

- Life sales \$9.1 billion and Life book growth 3.6%⁸
- Lifetime annuity sales of \$1.5 billion, up 110%
- New business annuity sales tenor 8.5 years (FY23 5.8 years)⁹
- 88% of new business annuity sales 2+ years (FY23 74%)¹⁰

Successfully executing growth strategy

- Diversifying Life sales channels
- Expanded asset origination capability
- Extended MS Primary reinsurance partnership and progressed retirement income partnerships
- Simplifying the business - Bank sale now complete
- Scalable platform and capturing ongoing cost efficiencies

Challenger Limited (ASX:CGF) today announced its full-year financial results for 2024, with normalised net profit before tax of \$608 million increasing by 17%, which is above the earnings guidance range.

Managing Director and Chief Executive Officer, Nick Hamilton said:

“In FY24, Challenger delivered a very strong financial performance, executed on our growth strategy and made strategic investments around the customer and our capability to support our long-term sustainable growth.

“Our Life business performed exceptionally well and demonstrates our expertise in providing guaranteed income to more Australians, with longer tenor term sales and lifetime annuity sales contributing to Life sales of \$9.1 billion.

“The success of our strategy to grow longer tenor, more valuable annuity sales is also supporting stronger returns. New business annuity sales tenor continued to materially improve to 8.5 years, which has led to a reduction in the maturity rate and will support future growth.

“Funds Management continued to demonstrate its investment excellence, with funds under management (FUM) increasing 19% to \$117 billion.

“Funds Management also expanded its offering and capability, launching new investment strategies across Fidante, as well as driving private credit origination in Challenger Investment Management to meet growing demand for higher yielding income strategies.

“Reflecting Challenger’s strong performance this year, the Board determined a fully franked dividend of 26.5 cents per share, an increase of 10% on last year.

Mr Hamilton also noted that Challenger’s strategic investments in FY24 will support future growth:

“This year we made key decisions that will see us further strengthen and broaden the potential of our business. In our core retirement business, we commenced our customer uplift program that integrates technology and experience. This will make it easier to do business with us, enable the delivery of more retirement income solutions and position us for growth with customers, advisers, platforms and institutional clients.

“We also prioritised further expanding our asset origination capability, making investments in our fixed income platform, including launching whole loan servicing.

“As we focus on our competitive strengths in retirement, investment management and asset origination, the sale of the Bank is also now complete.

“We are in a very strong position for FY25 and beyond, with momentum across Life and Funds Management. We have a clear growth strategy that is orientated around the customer and leverages our core capabilities, underpinned by a strong balance sheet.

“Pleasingly, work is now underway in Australia to strengthen the retirement phase of superannuation. At the same time, our country’s ageing population is changing how they think about, and what they want from their growing pool of retirement savings. This creates an incredible opportunity for Challenger to provide even more Australians with financial security in retirement.”

Group financial performance

Normalised net profit before tax (NPBT) was up 17%⁴ to \$608 million, driven by an ongoing strong performance in Life and a disciplined approach to cost management.

Statutory net profit after tax (NPAT)⁵ was \$130 million and includes asset and liability experience. Asset experience includes the unrealised impact of lower commercial property valuations and liability experience reflects changes to UK mortality rate assumptions, which will be supportive of future earnings.

Group assets under management (AUM) increased 21% to \$127 billion, driven by Life book growth and strong Funds Management net flows.

Normalised pre-tax ROE increased 290 bps to 15.6%, benefiting from strong momentum in the Life business.

Life

Challenger Life is Australia’s leading retirement income brand¹¹, with a 30-year heritage in providing customers with financial security for a better retirement.

Life earnings before interest and tax (EBIT) increased 17% to \$634 million, reflecting the business’ focus on driving longer duration, more valuable annuity sales that in turn is supporting higher margins and return on equity. Normalised cash operating margin increased by 30 bps to 3.12% and ROE increased 340 bps to 18.5%.

Total Life sales of \$9.1 billion were supported by longer tenor term sales and strong growth in lifetime annuity sales.

Lifetime annuity sales were \$1.5 billion and included a group lifetime annuity policy with Aware Super. Continued growth in lifetime annuity sales demonstrates Challenger's expertise in meeting growing demand for guaranteed income as more Australians enter retirement and aged care. Retail lifetime annuity sales increased 27% to \$901 million that included CarePlus sales of \$496 million – the highest volume of annual sales since launching in 2015.

As Life drives longer duration, more valuable business, 88% of new business annuity sales were for terms of two years or more, up from 74%. The tenor on new business annuity sales also increased to 8.5 years from 5.8 years and the maturity rate reduced by 7% to 26%.

As Challenger maintained its disciplined approach to pricing and focus on longer duration business, fixed term annuity sales were \$3 billion.

Japanese (MS Primary) annuity sales were \$709 million and exceeded the annual minimum target by ~36%¹². Japanese yen-denominated annuity sales were very strong following the commencement of Japanese yen-denominated reinsurance in November 2023.

Challenger Index Plus sales were \$3.9 billion and included a new \$500 million 5-year investment from an insurance client. Aligned to Challenger's strategy to extend the tenor of business being written, the tenor of Index Plus new business sales increased to 4.3 years from 1.6 years.

Challenger Life Company Limited (Challenger Life) remained strongly capitalised. The PCA ratio at 30 June 2024 was 1.67 times⁶ the minimum regulatory requirement, which provides significant capital flexibility through different market cycles and will support future growth. The higher PCA reflects the impact of diversifying strategies on the Life balance sheet.

Retirement Income Partnerships

Challenger continues to progress its retirement income partnerships with superannuation funds as part of its broader strategy to become Australia's trusted partner in retirement.

In FY24, Challenger formed a new retirement partnership with Commonwealth Superannuation Corporation (CSC), under which Challenger's longevity solution forms part of CSC's broader Retirement Income Strategy.

Retirement income partner TelstraSuper also launched its RetireAccess Lifetime Pension, designed in partnership with Challenger. This provides members with a guaranteed income for life and is a showcase of how Challenger can work with funds to meet their members' retirement needs.

Brand strategy and engagement

In FY24, Challenger implemented a program of initiatives to build its brand and strengthen and expand its relationships with advisers.

Challenger hosted over 230 adviser workshops and webinars attended by thousands of advisers on how they can help their clients in retirement. This included investment symposiums connecting advisers with the capabilities of Challenger and its affiliates.

Challenger also launched its new brand strategy to amplify its brand, showcase the business' capability and engage with more Australians preparing for and in retirement. Challenger has entered partnerships with the Professional Golfers Association of Australia (PGA) and Melbourne International Flower and Garden Show, the largest horticultural event in the southern hemisphere.

Funds Management

Funds Management is one of Australia's largest active fund managers¹³ and provides clients with access to a broad range of investment products across Fidante and Challenger Investment Management (CIM).

Funds Management EBIT was down 11% to \$55 million largely due to changes in business mix that reduced income by 3% and higher expenses which increased by 2%.

Funds Management FUM increased 19% to \$117 billion, benefiting from strong institutional net inflows and positive investment markets.

Investment performance remained strong, with 93% of Fidante affiliates outperforming their respective benchmark over the past five years¹⁴.

Expanding alternative offering

In FY24, Funds Management continued to broaden its offering, adding new alternative investment strategies to meet growing client demand.

Fidante now offers a broad range of capabilities to investors across private credit, real estate, specialist infrastructure, hedge funds, liquid alternatives, and diversified alternatives.

Fidante commenced distributing the Apollo Aligned Alternatives (AAA) strategy in Australia, providing clients with access to a diversified portfolio of private market opportunities, in which Apollo has invested more than US\$10 billion of its own balance sheet capital.

CIM, one of Australia's largest and most experienced private credit managers, established a whole loan servicing platform to help originate domestic whole loans for Challenger Life and third-party clients.

Strategic partnerships

In FY24, Challenger extended its highly successful and collaborative reinsurance agreement with Mitsui Sumitomo Primary Life Insurance Company Limited (MS Primary) for another five years¹⁵ and commenced reinsurance of Japanese yen-denominated annuities, in addition to Australian dollar and US dollar annuities issued in Japan.

Challenger also expanded its strategic relationship with Apollo Global Management Inc. (Apollo) (NYSE:APO) to include an asset origination partnership that provides Challenger Life with access to Apollo's global investment management capability, privately originated global credit and alternative opportunities.

In February 2024, Challenger appointed Accenture as its long-term technology partner, and will deliver Challenger's customer experience uplift program that includes modernising Life's customer technology. This will improve how Challenger integrates its capabilities with advisers, platforms, and superannuation funds and make it easier for customers to do business with Challenger.

Outlook

From FY25, Challenger will reference key metrics, including earnings, on a post-tax basis.

In FY25, Challenger is targeting a normalised net profit after tax guidance between \$440 million and \$480 million, with the mid-point of the range representing a 10% increase on FY24. Based on Challenger's assumed FY25 effective tax rate of 31.3% this equates to a normalised NPBT guidance range of between \$640 million and \$700 million.

Challenger's scalable platform has supported the business to lower its cost to income ratio target range to 32% to 34% from FY25.

Challenger has made significant progress towards achieving its normalised ROE target⁷ and is on track to achieve its target in FY25, which represents the mid-point for the FY25 earnings guidance range.

Key metrics^{4,5}

	FY24	FY23	Change
Total Group AUM (\$bn)	127.1	105.0	21%
CLC PCA ratio (times)	1.67	1.59	0.08
Life net book growth (%)	3.6	5.2	(160 bps)
Total Life sales (\$bn)	9.1	9.7	(6%)
Annuity sales (\$bn)	5.2	5.5	(6%)
Funds Management net flows (\$bn)	10.1	(0.5)	n.a
Normalised NPBT (\$m)	608	521	17%
Normalised NPAT (\$m)	417	364	14%
Statutory NPAT (\$m)	130	171	(24%)
Normalised EPS (cps)	60.9	53.3	14%
Statutory EPS (cps)	19.0	25.0	(24%)
Normalised ROE pre-tax (%)	15.6	12.7	290 bps
Normalised ROE post-tax (%)	10.7	8.9	180 bps
Normalised cost to income ratio (%)	33.8	37.7	(390 bps)
Full year dividend (cps)	26.5	24.0	10%

ENDS

This release has been authorised by Challenger's Continuous Disclosure Committee.

About Challenger

Challenger Limited (Challenger) is an investment management firm focused on providing customers with financial security for a better retirement.

Challenger operates a fiduciary Funds Management division and an APRA-regulated Life division. Challenger Life Company Limited (Challenger Life) is Australia's largest provider of annuities.

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¹ All growth rates compare the year ended 30 June 2024 against the year ended 30 June 2023 (the prior corresponding period or pcp), unless otherwise stated.

² 2024 full year guidance range for normalised net profit before tax of between \$555 million and \$605 million.

³ The normalised profit figures are non-statutory amounts and in Challenger's view better reflect the underlying operating performance of the business. The normalised profit figures exclude asset and liability experience and significant items. Asset experience is calculated as the difference between actual investment gains/losses (both realised and unrealised) and normalised capital growth in relation to assets. Liability experience includes any economic and actuarial assumption changes in relation to policy liabilities for the period, impacts of accounting mismatches within the liability valuation of Life Risk business under AASB 17, and new business strain. New business strain is the requirement to apply the risk-free discount rate plus an illiquidity premium to value annuity liabilities, rather than the actual interest rate paid on annuity liabilities. New business strain is a non-cash item and subsequently reverses over the future period of the contract. The normalised profit also excludes any significant items which represent non-recurring income and expense items for the period. The normalised profit framework has been disclosed in the Operating and Financial Review section of the Directors' Report in the Challenger Limited 2024 Annual Report. The normalised profit after tax has been subject to a review performed by Ernst & Young.

⁴ Normalised metrics including Normalised profit before tax, Normalised profit after tax, Normalised EPS, Normalised cost to income ratio, Normalised tax rate, Normalised ROE exclude Discontinued Operations (Bank) in FY24. Prior periods are not restated to exclude Discontinued Operations (Bank).

⁵ FY23 Statutory net profit after tax, Statutory EPS and Statutory Return on Equity have been restated to reflect the application impact of AASB 17.

⁶ PCA ratio represents total Challenger Life Company Limited (CLC) Tier 1 and Tier 2 regulatory capital base divided by the Prescribed Capital Amount (PCA) and is as at 30 June 2024.

⁷ Normalised ROE (pre-tax) target of RBA cash rate plus a margin of 12%.

⁸ Book growth percentage represents net flows for the period divided by opening book value for the financial year. Book growth calculations prior to adoption of AASB 17 from 1 July 2023 have not been restated.

⁹ Based on new business annuity sales, including term annuities and lifetime sales, excluding reinvestments.

¹⁰ Based on new business annuity sales, including term annuities and lifetime sales, excluding reinvestments and Japanese sales.

¹¹ Plan For Life – March 2024 – based on annuities under administration.

¹² Reinsurance across Australian dollar, US dollar and Japanese yen annuities of at least ¥50 billion (~A\$520m based on the exchange rate as at 30 June 2023) per year for a minimum of five years, subject to review in the event of a material adverse change for either MS Primary or Challenger Life.

¹³ Calculated from Rainmaker Roundup, March 2024 data.

¹⁴ As at 30 June 2024. Percentage of Fidante affiliates meeting or exceeding the performance benchmark, with gross performance weighted by FUM.

¹⁵ In May 2024, the reinsurance partnership between Challenger and MS Primary was extended for a further five years. Under the new agreement, Challenger will receive a quota share of reinsurance across Australian dollar, US dollar and Japanese yen denominated annuities issued in Japan by MS Primary, commencing from 1 July 2024. MS Primary will provide to Challenger an annual amount of reinsurance of at least ¥50 billion per year (currently ~A\$490m) for the next five years, subject to review in the event of a material adverse change for either MS Primary or Challenger Life. Challenger will also support MS Primary with any new reinsurance requirements that MS Primary may have.