AXA 1Q17 Conference call transcript

May 10, 2017

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Operator

Ladies and gentlemen, welcome to the AXA 1Q 2017 Activity Indicators Conference Call. I will now hand over to Andrew Wallace-Barnett. Sir, please go ahead.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Yes. Thank you very much. Good morning, everyone, and welcome to the AXA conference call on our Activity Indicators for the first quarter of 2017. You will have no doubt seen that we made three additional announcements this morning, and obviously, we would like to take the opportunity of this call to address all four topics.

I am pleased to welcome here to the call both Thomas Buberl, our Group CEO; Gérald Harlin, our Group CFO; and George Stansfield, our Group Chief Counsel to the call, and I propose that we handle the call in three parts.

Gérald will give you initially a quick overview of the main figures in the 1Q Activity Indicators press release, and some overview of the share buyback announcement that we made this morning.

And following that, Thomas will of course discuss the announcement of our intention to make a minority listing IPO of our U.S. operations, and the new MC appointment we announced this morning.

And then of course we will open the floor to questions and answers. We'll try to be as brief as we can in the introduction, and as quick as we can so that we can have maximum time for your questions.

And, Gérald, I hand over to you.

Gérald Harlin, Group CFO, AXA

Hello. Good morning to all, and thank you, Andrew. Let's start with some key highlights for the first quarter before moving to the subsequent announcements.

In the first quarter, we saw volume growth in our preferred segments.

In Life & Savings, APE growth was 4% on a reported basis and 1% in the comparable basis with growth across most of the product lines. Protection & Health APE was up 3% with strong sales in Hong Kong, in France, in Japan. Unit-linked APE was up 5% driven by higher new business in the U.S. and in France. G/A Savings APE decline was mainly explained by lower sales at AXA MPS in Hong Kong and reduced sales in Japan following regulatory change in

Q4 2016. NBV margin was up 1 point to 39% reflecting an improved new business mix especially in China. This, along with the growth in APE led to an NBV growth of 4% worth noting that in South-East Asia, India and China NBV was up 63%.

Life & Savings net flows were Euro 2.6 billion as net inflows in our preferred Protection & Health, Unit-Linked and G/A capital light segments were partly offset by outflows in traditional G/A, in line with our strategy. In P&C, total revenues were up 2% mainly driven by our priority Commercial lines segment which grew by 3% on volume as well as price effect. It is important to note that both in commercial lines and personal lines, non-motor portfolio grew by 3%. I would also like to highlight that the health revenues were up 7% for the quarter.

Asset Management now - asset management net inflows improved at AXA IM and AB in the retail channel, and more than compensated the outflows on institutional channel from institutional channel, mostly driven by a loss of large mandated at AB. Revenues for Asset Management business were up 7% due to higher average assets-under-management as well as improved management fee-basis points reflecting improved business mix towards retail channels.

Solvency II ratio was at 196%, down 1 point from year-end 2016, as the impact of net subordinated debt reduction in the quarter was mostly offset by the positive contribution from the operating return net of estimated dividend accrual.

Overall, in the first quarter of 2017, we saw good performance in our priority business segment as communicated in our Ambition 2020 plan.

Now, moving on to the second press release, as Andrew mentioned. We also announced this morning a buyback of AXA shares to meet our obligation to deliver shares and to eliminate the dilutive effect of certain share-based compensation schemes, namely stock options and performance shares plans.

Previously, on an annual basis, we bought back shares each year to eliminate the expected dilution impacts of certain share-based compensation scheme during that specific year. The 37 million maximum number of shares to be bought back by the end of 2017 mentioned in today's press release, however, is based on the maximum number of shares expected to be delivered or issued not only in the current year but also in the future years, under certain share-based compensation schemes already guaranteed.

We believe that current market conditions are appropriate for us to accelerate our buyback program, and it is a reflection of this continued strength of our balance sheet and cash position.

I would like to now hand over to Thomas who will talk to you about the third press release this morning.

Thomas Buberl, Group CEO, AXA

Thank you, Gérald, and good morning to all of you. I would like to draw your attention to the third press release where we have announced our intention to IPO a minority stake of AXA's U.S. operation. This for us is extremely a key strategic decision because it creates additional flexibility on the financial side to accelerate our transformation in line with the Ambition 2020 objective that we have published last year in June.

We see this transaction to be beneficial for both AXA Group and the entity of AXA in the U.S. For AXA Group, it is clearly a lever to generate additional financial flexibility which enables us then to invest into our priority market segments that we have revealed in the context of Ambition 2020 which are Health and Protection and the commercial line P&C business. And at the same time, it reduces our exposure to financial risk.

For the U.S. entity, we also see clear benefits, one being an improved competitive positioning of the U.S. business in its local market. As you know, we are not present in some lines of business that our competitors are present in which means that there is stronger growth prospects for the U.S. entity particularly as the entity would then be listed. Another benefit for the U.S. operation is clearly in combination with the asset manager AllianceBernstein, where we are majority shareholder, is that we have an opportunity together with AB to be really a leading financial services provider in the U.S.

Why do we believe the right timing is now? We obviously have transformed the U.S. entity of AXA significantly in the last years towards new generation of products and towards a very strong distribution sales force and I would really like to congratulate the team around Mark Pearson that has done an excellent job in really getting us to where we are today.

If you look at the market, when we look at the interest rate and the macro conditions, we truly believe that there is a window of opportunity to really go to the next step given also effect that we see a regulatory divergence between the U.S. and Europe and we really want to take care of this to make sure that the entity is best positioned.

When we look at AXA U.S. today as an entity, it is clearly the leading franchise in the variable annuity space and particularly the modern and new variable annuity space, but also in the life insurance and the employee sponsored. I want to remind you that certainly in some areas of the employee sponsored such as the teacher business, we are very, very successful player.

The second most important thing is that if you look at the proposition of the U.S. entity, it is a unique combination a VA, variable annuity, and Life insurance proposition plus a very successful asset manager AllianceBernstein, plus a very successful distribution platform AXA Advisors.

It is important that going forward, we continue the direction we have taken in terms of business mix shift and towards those new VA products. We continue – as a strict disciplined in terms of our product development – the hedging, and the reserving, and that we really continue this strong delivery on earnings and cash generation that we have shown in the recent years.

This move will have no impact on the Ambition 2020 targets. On the contrary, we reaffirm our 2020 targets which is our underlying earnings per share will grow between 3% and 7%

depending on the market conditions and as we have shown you last year in June. We will remain with a very strong balance sheet that we are very proud of, and a Solvency II ratio in the range of 170% to 230%.

We are committed to the cumulated cash remitted to the Group holding again between 24 billion and 27 billion over the plan period. And we will also remain committed to an adjusted return on equity of 12% to 14%. I would like to remind you again that both our results of 2016 conclude a very successful first chapter, where we have reached all of these targets. And when you look at what Gérald has presented in terms of Activity Indicators, it is very much in line of the selective growth and the shift towards the priority lines of business.

I would now like to come to the fourth announcement that we have issued today, and I'm very delighted to announce the appointment of Joyce Phillips.

Joyce Phillips will be a member of the Management Committee and the CEO of the business lines that are dedicated to customer innovation and new business models. So, she is also the face that is really focusing on making the Transform part of Ambition 2020 reality. We have very clear views and decisions on which areas we want to realize those business models.

All in all, I would like to put these four announcements, again, into perspective because they have a logical sequence and cohesion.

We have launched Ambition 2020 last year. We are fully committed to this, and you have seen both in the 2016 result and in the Q1 of this year that we are fully in line with it, we are fully committed, and we are well underway to make this happen.

This has given us the confidence to say, look, we need to accelerate. We want to do more. Therefore, we have decided to IPO our U.S. operations to go further in the question around Focus and Transform, liberate or reduce our exposure to financial risk, and have the necessary means to shift our portfolio towards Protection and Health and the Commercial P&C.

In addition to that, we are pushing further on the transformation by now appointing a separate member of the Management Committee fully responsible for developing these new businesses.

I would like now to hand over back to Andrew.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Yes, and thank you very much, Thomas, and, Gérald. We would be happy now to take your questions.

Q&A session

Operator

We have a first question from Mr. Jon Hocking from Morgan Stanley. Sir, please go ahead.

Jon Hocking, Morgan Stanley

Good morning, everybody. Three questions please. Just firstly on the comments about financial flexibility. I think most of us felt the Group had a lot of balance sheet flexibility already. I just wonder if you could comment a little bit on specifically what additional flexibility this will give the Group but presumably, you reduced your reliance on the equivalence calculation, the U.S. company loan et cetera, et cetera. So first question.

Secondly, accelerating the new strategies for health insurance, commercial lines, et cetera. Can you talk a little bit about what that might entail? I mean, are we talking about bolt-ons here, accelerated development of IT platforms, specifically, what will additional capital do in terms of the ability to accelerate the strategy?

And then just finally, if you could give any comments in terms of the potential mix between sort of return of capital and reinvestment? Because it feels from the release that actually it will be more reinvestments rather than return of any proceeds. Thanks very much.

Thomas Buberl, Group CEO, AXA

Thank you very much, Jon for your questions. I would suggest that Gérald take your third question and I'll give you a flavor of answer for the first two questions because I believe they are very much related.

You’re absolutely right in saying that we do today have a financial flexibility, certainly also given our very strong balance sheet. We have taken a very clear commitment to move our business mix and portfolio mix more towards Health, more towards Commercial lines P&C. And this goes very much in line with what we said a couple of months ago. We want to do this, obviously, I want to focus our M&A efforts on these topics. And actually when we position ourselves in the deal range of M&A and not with very small deals and not with very large deals but with deals around 1 billion to 3 billion. We have made a very clear segmentation of countries and acquisitions and have a very clear list on where we want to go.

So, we need those means to really make a shift because of by acquiring a 100 million company, this will not move the needle. Secondly, as you pointed out and this is your second question, we have some very clear targets in moving to new businesses around the traditional insurance coverage. Why do we believe that this key? In the transformation of our business, it is extremely important to get closer to the end-customer.

Today, often the end-customer relationship is with an agent. And we have clearly decided to change the orchestration of the end-customer relationship more towards AXA holding the end-customer relationship, with the agent playing a very important role in this end-customer relationship. Today, when you look, we are serving 20% of our customers happily where we pay claims. 80% of our customers do get bills from us but don't received a claim settlement and I personally wouldn’t like to change it, but we need to redefine the value proposition for those customers. When we look at these customers, those customers want something from us. They want something from us in the area of prevention. They want something from us in the area of care coordination so how can we help them to find the right medical journey and they want something from us in the area of elderly care.

We have clearly said that we are committed and decided to move into these areas. We have successfully completed some pilots in some entities where it is now about rolling out. But we want to go further as well because they are new business models arriving both in itemized insurance when it comes to how can we better serve the digital market of e-commerce where it's about insuring single object versus insuring a whole room, a whole house, a whole car. And in the area of health, of population health management where we can export and sell our expertise particularly in care coordination and chronic disease management, to third party.

Jon Hocking, Morgan Stanley

Thank you. Can I ask you a follow-up, Thomas? I think a lot of your peers also got strategies to as you pursue bolt-on M&A, but as you struggle to find suitable targets and given that you've been very clear that you see the insurance business model being transformed over time, is it right to believe that some of the targets for M&A might not be traditional insurance businesses. They might be businesses of good strength and adjacencies that help you execute the business model. Is presumably you're not going to buy old school insurance businesses with this M&A targets?

Thomas Buberl, Group CEO, AXA

No. Jon, you have to revise. I mean, there is no interest in buying old school targets. When you look at new school targets, it is true that in this tradition, in the insurance business as such, it is not an easy phase and therefore, we try obviously to be smart about getting these deals. As you know, AXA has got great history of doing smart deals. We want to continue that history.

And secondly, you're also absolutely right that going into so-called adjacencies which are around the insurance coverage that which are highly linked to insurance coverage. That's a space where we don't see many traditional players. But I don't want to forget your third question, a question which Gérald should answer.

Gérald Harlin, Group CFO, AXA

Yes, Jon. Your question was about the mix of reinvestment. It's far too early to tell you exactly what will be the mix of reinvestment. Keep in mind that the IPO will take place in H1 next year. Nevertheless, what I can tell you is, beyond this, we have a strong commitment and our strong commitment is to say that we will keep our underlying earnings per share growth over the plan period between 3 to 7%, which means that we don't anticipate and we'll do everything in order not to have any dilution coming for this operation.

Jon Hocking, Morgan Stanley

Okay. That's very clear. Thank you very much.

Thomas Buberl, Group CEO, AXA

Other questions?

Operator

Yes. So next question is from Mr. Paul De'Ath from RBC. Sir, please go ahead.

Paul De’Ath, RBC

Yeah. Hi. Thanks. And, a couple of questions please. Firstly, on the U.S. IPO. And, do you see any impact on the minority shareholders at AllianceBernstein as part of the deal - you're looking to sort of reshape the look of those businesses when you put them together. And, that will be the first question.

And then secondly just looking at the cash of the Group, the cash remittances, because I think for a while the U.S. life business has been effectively repaying the intercompany loan which is now converting into equity. So, shall we say this is potentially a delay in cash coming out of the U.S. for until the IPO is done and then you potentially get more cash coming out going forward? Just some thoughts on that would be great. Thanks.

Thomas Buberl, Group CEO, AXA

So, I would suggest I would take the first question, and then Gérald the second one on AB and maybe I have to look at it - would like to comment on this in a larger context.

You have seen that on AB, about two weeks ago, we announced the management change. Those two transactions, so the management change and the IPO, are completely separated, and has nothing to do with each other.

That is clear that obviously the combined propositions of the U.S. entity and AB, we believe it's a very interesting and very compelling proposition, and the minorities at AB should benefit from this because it's a much bigger prospective for them as well.

If behind your question is another question which is how are we going to file out the minorities as a next step, the answer here is clearly no.

As for the second question?

Gérald Harlin, Group CFO, AXA

Yes. Your question was: did you expect any delay before the IPO in terms of remittance? No. As you noticed we reaffirmed our target of 24 billion to 27 billion cumulative cash flow.

Second, I would say that you should keep in mind, and you are right mentioning the fact that we mentioned that we will capitalize around 1 billion. We'll inject 1 billion of capital, which will be through the capitalization of the existing loan for 1 billion, but keep in mind as well, that the 15% of AB, which are not presently held by the U.S. entity will be brought back to the Group. And it's roughly speaking if I take today the stock price of AB, it’s roughly the same amount it’s 1 billion. So, don't consider that this 1 billion is penalizing for us because we have an offsetting element of 1 billion corresponding to the 15%.

Paul De’Ath, RBC

Okay

Thomas Buberl, Group CEO, AXA

Further question.

Operator

The next question is from Mr. Nick Holmes from Société Générale. Sir, please go ahead.

Nick Holmes, Société Générale

Hello. Hi there. I had a couple of questions. The first is looking at Health insurance. Can you share with us which countries do you think you're underweight in, and which would be the top priorities for expansion? And then, second question is with the U.S. IPO, would you be disappointed if you end up returning the sales proceeds to shareholders rather than investing it in the business? Thank you.

Thomas Buberl, Group CEO, AXA

Thank you, Nick. So, we'll keep the tradition of this call. I'll do the first question and Gérald will do the second. On the Health insurance, let's start again with where we are operating. When you look today at AXA and Health insurance, we have an operation of about 12 billion growing very nicely as Gérald pointed out earlier into Q1 indicators. We have six large positions in six countries ranging from Japan to Hong Kong to some European countries: Germany, UK, France to Mexico. When you look at our position on a global level, we are - if you take the U.S. entities away which are only in the U.S. - the dominant Health insurer globally.

There are obviously, as you can imagine markets where we believe it makes sense to be developing our business but those markets have clearly been identified. Those markets are very much linked to the questions “what population growth do you have?” and “what wealth of the population do you have?”. And if you just take this and look at where we are present today, it will most likely strike you that there are some Asian countries that are very strong in population development and the wealth of their population where we are already in a good position today. And where it's clear that we want to grow.

To be very concrete, those are countries like Thailand, like Indonesia, where we have a good position and where we want to grow. It is also true that if you look in China, the critical illness business is a business where 60% of the profit pool is being made. It is clearly an intension to grow in this area as well and given our two joint venture positions both with TianPing and with ICBC, we are in a good position to do it.

But if I go also the other part of the globe, you have clearly a market where we see a lot of potential which is Brazil where we are not present yet on the Health side, and the big question is also around the U.S.

In the U.S., it is clear that we will not get into the classical Health space because it is dominated by a very large actors, but if you go back to what I mentioned to Jon earlier, the new business developing called population health management, which is essentially a fee-forservice business, for traditional providers that is clearly something where I would see ourselves looking as a potential in the U.S. market.

Second question for Gérald.

Gérald Harlin, Group CFO, AXA

Yes. Your second question is: would you be disappointed if we put return on capital to shareholders? I would say that we manage this company in the best interest of our shareholders. If within a year, we consider that returning some capital to the shareholders is the best way in order to keep a high level of - and to keep the best return for our shareholders, we will do it.

So, we don't have any afterthought on that side. But as explained by Thomas, we will do our best in order to invest in our privileged lines, but I don't believe that there is a contradiction between those, not at all. And we will manage keeping the best interest of our shareholders.

Nick Holmes, Société Générale

Great. Thank you very much. Just a very quick follow up. Thomas, so Health insurance, is it necessary to make acquisitions or could you do it organically?

Thomas Buberl, Group CEO, AXA

No. I think both cards are on the table. If you look at the geographies I have just spoken about, we are looking at all options. I mean, in the countries where we are present, it's the question of expanding our existing franchise but that also needs investment because when we look at the Health proposition, we don't only look at any - launch a business that is, to say, to make a different paying bill. We see Health insurance going further. It is the bill payment, but it's also the propositions around it which is the question about wellness and prevention.

We have launched a successful proposition in the UK in the B2B sector. That is clearly also on the cards when we go into new markets and push in business. And second piece is around care coordination for the question of telemedicine and finding the right doctor. And then the third piece is around elderly care and chronic disease management where we can really leverage the expertise in the six large markets that I mentioned beforehand into new markets. So both is on the table either greenfield, partnership, or acquisition.

Nick Holmes, Société Générale

That's great. Thank you very much.

Thomas Buberl, Group CEO, AXA

Further questions?

Operator

The next question is from Mr. Farooq Hanif from Credit Suisse. Sir, please go ahead.

Farooq Hanif, Credit Suisse

Hi, there. Thank you very much. Firstly, can I just go back to the question on financial flexibility. Could you tell us what the move parts are for us to work out what the Solvency II impact would be of lifting that holding company and lifting AllianceBernstein and those things that has a contribution to the equivalence. Could you please explain how we would work that out?

Secondly, looking at the history of things like in the past and almost inevitably move situation where you lift the whole thing. So, I'm kind of wondering, how much you're thinking of lifting initially, but is there inevitably going to be a withdrawal from ownership of the U.S. in the long-term.

And lastly, could you explain why you think lifting the U.S. businesses supports growth there? Thank you.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

It was quite a poor line, Farooq. Let me see if I can - if I can raise your questions for the people here.

I think your first question was financial flexibility and what the potential Solvency II impact would be if linked equivalence, et cetera. Second question you asked was: do we have in mind further selldown so to reduce our interest in the U.S. business further over time. And the fourth - third question escapes me.

Farooq Hanif, Credit Suisse

It was, why better growth in the U.S. if you left?

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Why we believe that the growth prospect increase with an IPO?

Farooq Hanif, Credit Suisse

Yeah.

Thomas Buberl, Group CEO, AXA

So, I think, Gérald why don't you do the first question and - then I would take the second one on the ownership and then the growth one we leave to Gérald.

Gérald Harlin, Group CFO, AXA

Thank you. So, Farooq. Your question is an important one, because of course the financial flexibility, where will it come from? It will come from the fact that as you know today, we are benefiting from the equivalence. Many times you know, we've got the question about what would be – what does it bring for you the equivalence? And we say, okay, 30-40 points, something around that. What does it mean? It means that from a pure economic point of view, the economic capital that we dedicate to the U.S. is quite sizeable. Meaning that, with a decrease our share in the U.S, we'll get more flexibility from the economic point of view.

So, you understand that at the same time, that even if our published Solvency II ratio which was at 196% at the end of March, some part benefits from the equivalence. From a pure economic point of view, a decrease in our exposure to the U.S. is a way for us to be less dependent from the financial market because this is the part which is the most dependent on the financial market. So, that's mostly it.

Farooq Hanif, Credit Suisse

Can you hear me. Can I have a follow up, please?

Gérald Harlin, Group CFO, AXA

Yes.

Farooq Hanif, Credit Suisse

Are you saying there's no Solvency II positive impact but there is an economic capital positive impact?

Gérald Harlin, Group CFO, AXA

What I mean is that in Solvency II that means that we don't - today you know excluding the U.S., our Solvency II level is around 200%. So what I'm saying is what - it means that indeed we will - I don't expect that our solvency will change a lot. But anyway, I believe that the quality of this Solvency II ratio will be better. That's my point. It's quite simple.

Farooq Hanif, Credit Suisse

Okay.

Thomas Buberl, Group CEO, AXA

Maybe Gérald answers question three of the growth prospects immediately.

Gérald Harlin, Group CFO, AXA

Yes. So, I believe that it's an important point because we believe that it will support AXA U.S. growth. Why? Because first of all we will be - this company will have more access to capital if needed. It will be more visible as a listed company. We should keep in mind that it will be a significant company, that means that in the first ten listed companies in the U.S.

So, it will be more visible. It will be more comparable to peers, and it will be progressively managed based on U.S. solvency. As you know, today, the fact that we are ruled by Solvency II makes that today, we don't have access to some products which are less capital intensive from a local capital, from a RBC perspective but are quite capital intensive from a Solvency II perspective.

So, that's why we believe that it's a way for the U.S. company to benefit, and this will translate according to us into higher growth.

Thomas Buberl, Group CEO, AXA

Thank you, Gérald. So, let's come to the second quarter around withdrawal of ownership. We obviously, I mean, we are announcing today the intention to IPO our U.S. business, which completely means that we are now focusing on the listing of a minority stake in AXA U.S., and intends to continue to fully consolidate after the IPO.

Post-IPO, and this is where your question comes, we have not yet decided what to do, and we will clearly remain opportunistic. It's a question of the U.S. market for us is very important. It's a market that is very innovative, because the U.S. is an important business for us. We need to look at market conditions. We need to look at our financial flexibility but be assured that we will be responsible. Today, we have no timeline. Our full focus is on really placing the listing of this minority stake and then we will see.

Farooq Hanif, Credit Suisse

Thank you very much.

Thomas Buberl, Group CEO, AXA

Questions?

Operator

The next question is from Mr. Andy Hughes from Macquarie. Sir, please go ahead.

Andy Hughes, Macquarie

Hi. Thanks so much. A couple of questions if I could. The first one, just want to check on my understanding of what you just said about the RBC in the U.S. So using three times CAL so I get that CAL is probably 800 million euros at the end of the year. And I think you've commented about being 200% ex- the U.S. Are you saying that basically, the U.S. it was at 600% of RBC? i.e. 2 times, 3 times equivalence basis. So the U.S. is broadly similarly capitalized for the rest of the Group.

And the second question is that presumably 1 billion - change to 1 billion from debt to equity changes nothing.

And the third question is I guess, sort of getting my head around the timing of you doing this and why you're doing it. So as you said, this is going to be more equivalent to peers but peers in the U.S. trade at lower P/E ratios than AXA don't they? So wouldn't this be kind of dilutive to the Group? And given the uncertainty about the DRD and the capital treatment of captives. The timing of this is also kind of strange as well. Why would you not wait until those two issues are resolved before going ahead with the sale? Thank you.

Thomas Buberl, Group CEO, AXA

Gérald, I think you have better placed to answer these questions.

Gérald Harlin, Group CFO, AXA

So, your understanding is right. When you say that roughly speaking, the U.S. are capitalized today in the Solvency II framework just like the rest of the Group. We chose to have that, meaning roughly 200 points.

The debt to equity, why? Just because you know, we believe that it's important to have a company which is well capitalized and that's mostly it. So that means that - as you know, today, and many times we got questions about the way we capitalize the U.S. business but most of it was done through debt. And that's why it was quite normal to say part of it will be capitalized just in order to have the right capitalization. Just in order as well to be at a comfortable level compared to the peers.

The third question is around DRD. I would say that, and keep in mind, and remember in December, following the December earnings release we had a lot of questions about this. First of all about the DRD, we should say that in the present project DRD was not mentioned but it could change. For the time being, nothing has been said about the fact that DRD would be revised.

Second, we always said that decline and the decrease in the tax rate in the U.S. is positive for us. So, it will be by definition positive for the U.S. market and for the IPO.

Andy Hughes, Macquarie

And on the captive uncertainty about treatments in AXA Arizona?

Gérald Harlin, Group CFO, AXA

We will see. For the time being it's about the NAIC. We are quite confident. We don't know yet what will happen and we will see at the right time. NAIC is no linked to this operation. So, we will see, but no specific worry on that side and again our company is well capitalized and will be well capitalized.

Andy Hughes, Macquarie

Okay. Just a quick question about P/E ratio, AXA trade in the higher range multiple than U.S. peers that this you think will trade in line with. So is this not going to be dilutive to the Group?

Gérald Harlin, Group CFO, AXA

Okay. No, I don't believe that - it's far too early to give any answer to the P/E. The way it's calculated whether you do it some of the parts or not. So, no. It's far too early to answer this question.

Andy Hughes, Macquarie

Okay. Thank you.

Thomas Buberl, Group CEO, AXA

Thank you, Andy. So, further questions?

Operator

Yes. Next question is from Mr. Michael Huttner from J.P. Morgan. Sir, please go ahead.

Michael Huttner, J.P. Morgan

Fantastic. Thank you and thanks for making today's announcement quite interesting. I think the comments I had on the earnings and on the sales were a little bit boring. I have three questions. One is the - you've talked about window of opportunity and I think with your answer to Andy Hughes is, it has to do with U.S. tax. And I just wondered if there's another angle to this window of opportunity which you mentioned: is that earnings growth or sales growth or some kind of cost saves in the U.S. operations which you see or you've alluded to in which we haven't noticed?

The second is, you've talked about the capital structure of how the U.S. operations are funded. If you could give us some numbers on that. How much the debt, how much is equity currently?

And then the third one is you talked about regulatory divergence. Sorry, there's a lot of noise in the background. But anyway, the regulatory divergence, and I just wondered if you can clarify that a little bit because the answer so far suggests that the U.S. and Europe operate on similar kind of Solvency platform etc? So, I'm not so sure where this regulatory divestment is. Thank you very much.

Thomas Buberl, Group CEO, AXA

Good. I would suggest that I would answer the first question, Gérald the second, and then I would go for the third one again.

The window of opportunity, I think you have to look at this timeline as a sequence from where we are today with our U.S. business, and what has changed in the past and where do we want to go. As I mentioned earlier, in the past years, we have significantly worked on strengthening their business and transforming their business.

When you look today, where we are in terms of our business mix, we have shifted completely away from traditional products, very much focused on the new generation of products. We have launched, in the last - in the recent years, two propositions, one being Retirement Cornerstone, the other one being SCS, which is a structured product where we see a high takeup in the market, and that also reflects what Gérald said earlier, that our sales growth in the U.S. has a very positive momentum.

Thirdly, we see that the macroeconomic environment is a very positive one, with the new administration coming in. One thing to reduce the regulatory barriers but also one thing to push the retirement, and so we said, at this point, it is very important for us to go to the next step. We have obviously, as you saw from our press release, also had a significant and detailed discussions with our regulator, the Department of Financial Services of New York, and their response was also a very positive one and a very supportive one, which made us very confident that this is the right timing to do it.

And as Gérald pointed out earlier, there is many avenues where we believe we can still grow, because, again, we are launching a proposition which is not just a portfolio of life insurance. It is a very comprehensive proposition from a successful life operator as successful distribution platform with AXA Advisors, and a successful asset manager.

If you put the three together, there's many more synergies in terms of growth that we have not yet extracted. I do we believe there is a clear growth momentum going further.

Then I would straight go to your third question on regulatory divergence, when you look at the regulatory, say, tendencies, and so it became very apparent to me when I was in a meeting the other day with all the international regulators from China to the U.S.

If we have had that same meeting two, three years ago, it would have been very much around how can we find homogenous standards for regulations, particularly for the insurers that are considered systemic. We see, now, a very clear tendency that most of those activities are being put out. So, if you look beyond the designation of being systemic, there is the question of the capital standards for the systemic and one question is around the HLA, the higher loss absorbance. The definition and the framework for this has been pushed time-wise more towards 2023, 2022, which means there is a clear debate on how are the two jurisdictions – or more than two – are positioning themselves.

And if you then look at the developments in NAIC, which is far too early to comment, but if you look at the tendencies, where it's going, it is clearly not 100% aligned with Solvency II. It is more going into a U.S. solution, which has really led us to a conclusion that now is the right timing to both take advantage of where we are in the title of our own entity, take advantage of the market momentum, but also take advantage of the regulatory opportunity that it presents itself.

Gérald, I think on the capital structure.

Gérald Harlin, Group CFO, AXA

Yes. Michael, just take a look at the second page of the press release in IPO one. You will notice that have put down a few figures, and the U.S. GAAP shareholders' equity of AXA Equitable is 13.3 billion on a Group share basis.

Please keep in mind that that is only 29% of AB which is in AXA Equitable, which means that since our global exposure stake is 64%, so that means that there are on top 35% that will come on top of this. So, and you should keep in mind that the capitalization of AB at 100% is 6 billion. So, that's what I can tell you but again let's wait for the S-1 and we'll have time. At the time, it will be done just to give you all the details about the financial structure of the IPOed company but honestly it's a bit premature today.

Thomas Buberl, Group CEO, AXA

Thank you, Gérald. Thank you, Michael.

Michael Huttner, J.P. Morgan

Thank you.

Thomas Buberl, Group CEO, AXA

Other questions.

Operator

Next question is from Mr. Andy Sinclair from Bank of America Merrill Lynch. Sir, please go ahead.

Andy Sinclair, BoAML

Thank you and good morning. Three quick questions if I may. Firstly, as on the debt for the U.S. So, 1 billion of U.S. debt being converted into equity. Just wondering if you can confirm how much debt will still remain to the rest of the Group. What will happen with that residual debt and how it will be treated?

And secondly, just wanted if you could remind us the size of deferred tax asset in the U.S. And thirdly, just on the share buyback. Just wondering if you can give us an update on what you expect your practice to be in this regard going forward after the change this time around. Thanks.

Thomas Buberl, Group CEO, AXA

Andrew, it would be good - if you just clarify Andy's question today because the line was not the greatest.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Yes. Scottish accent is great as well. Sir Andy, if I get it correctly. One was how much our U.S. debt remains, before and today. The second one was on the deferred tax asset in the U.S. And the third was on the share buyback and what would be our practice in the future given that we changed our approach on the share buyback today.

Andy Sinclair, BoAML

Correct.

Gérald Harlin, Group CFO, AXA

Yes. The first one on the debt, we have roughly 2 billion of net debt in AXA U.S. balance sheet versus the Group. On top, we have only very minor part of external debt which would be 0.3 billion and 1 billion in commercial paper. That's roughly what is at stake.

Andy Sinclair, BoAML

Just a follow up from that. I just wonder if you could confirm the expectations for the residual debt to the rest of the Group for the extent not to be retained and how that will be treated going forward? Thanks.

Gérald Harlin, Group CFO, AXA

Yes. Again, what we said today is that, we will have - we will convert 1 billion in equity because it's, again, it's premature to tell you exactly what we will do with the rest. We are not speaking for very large amounts at stake so that's it. And again, we'll give you much more details about this. Let's wait until later on the year and we'll give you all the details.

Thomas Buberl, Group CEO, AXA

Thank you, Gérald. Thanks, Andy for your questions. Further questions?

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Well, just one more on the share buybacks.

Thomas Buberl, Group CEO, AXA

Ah, share buyback yes.

Gérald Harlin, Group CFO, AXA

No, but as of share buyback. I believe that here what we said up to now is that we would - I would say offset the dilutive effect so that's the first. The press release relative to the 37 million shares that we propose to buy until the end of the year illustrate this point.

Also there, we believe that - it would be better to do it in advance. That means that instead as I have explained briefly. And as you can read in the press release, instead of doing it year-after-year, we believe that it's better to take into account the amount at stake and the future dilution taking into account all the already granted benefits. So that's it.

And as far as the rest is concerned, no, I believe that taking into account the facts that we said and that we will keep our commitment to have an underlying earnings per share of the plan period between 3% and 7%, for sure we have to be pragmatic and take into account the fact if for any reason the investment, we wouldn't find the right investment in line with what Thomas explained, then we would proceed to share buyback. That's it.

Andy Sinclair, BoAML

Thank you. And sorry, did I miss you say, the size of deferred tax asset in the U.S.?

Gérald Harlin, Group CFO, AXA

We'll come back to you on this point.

Andy Sinclair, BoAML

Understood, thanks.

Thomas Buberl, Group CEO, AXA

Thank you, Andy. Further questions?

Operator

Next question is from Colm Kelly from UBS. Please go ahead.

Colm Kelly, UBS

Thank you. On the U.S. IPO, is there an expectation that the proceeds that are to be retained will be retained within the U.S. or likely to be utilized across the Group or perhaps redeploy elsewhere into say, Asia. That's the first question. Second question on the operating trends in Asia, some strong growth in their business value and particularly in China.

You mentioned the mix effect. But could you also give clarity on the product margin developments there and how we should be thinking about that 63% growth - quarterly growth in terms of the remainder of this year and perhaps, a little bit beyond that. Thank you.

Thomas Buberl, Group CEO, AXA

So, maybe I'll take the first question, Gérald the second. The proceeds - I mean since we are a global Group, since we operate in many countries and since we have also spotted our opportunity in the U.S. but also outside the U.S. It is clear that we will re-deploy the proceeds that we will get across the world. Some of it can be in the U.S., but it will be for sure that it will be also outside the U.S., but we have a very clear roadmap on where do we want to invest, in what kind of line business.

Gérald Harlin, Group CFO, AXA

As far as the China is concerned and as far as South-East Asia is concerned, so what we have been doing is that in China, we have this year a growth in APE. It was 7% growth in APE but at the same time, the NBV margin is being increasing quite significantly. If you remember one time, one year ago that there was a kind of a significant emotion amongst you because we had the negative NBV margin in China. Now, we have a margin which is not great, but at 16%. Why? Because we sold much more Protection & Health which is exactly in line with our strategy and that means that with ICBC, we succeeded in selling more business, but at the same time, higher quality business with more protection riders. So, that's it.

We will see how it evolves, but it's clearly what we want to do and across the board I would say. In South-East Asia, India & China, we have an improvement in our NBV margin. It’s the case in Thailand, it's the case as well although more modest in Indonesia. So, that's a global rule, and I could say that it's also the case in Hong Kong, and some of you could notice that if we had a slight APE decline, it's just because we preferred to give up and not to start the product which was a capital-intensive product just because we walk the talk.

And so long as we want to privilege high profitability products, we took the decision to stop this product.

Thomas Buberl, Group CEO, AXA

Very clear. And very much in line also with we presented in June last year where we did not focus on volume but very much on the question of business mix and NBV.

Colm Kelly, UBS

Okay. Thank you.

Thomas Buberl, Group CEO, AXA

Are there further questions?

Operator

Yes. The next question is from Mr. Johnny Vo from Goldman Sachs. Sir, please go ahead.

Johnny Vo, Goldman Sachs

Yeah. Good morning. Thanks very much. Just three questions if I may. The first question, just on the U.S. loan, that's obviously recorded as a receivable in your parent company, and I can see receivable of about 3.5 billion. If you do a debt to equity conversion, then effectively 2 billion remains outstanding. Will that 2 billion be repaid before an IPO or does that stay in the U.S. entity as capital? First question.

The second question is of the IPO, is that all going to be secondary or is there some primary in the IPO? And third question is buybacks look to take precedence over reinvestment in the business given the earnings dilution. Is this a fair assumption or it's not a fair assumption? Thank you.

Thomas Buberl, Group CEO, AXA

Thank you very much Johnny for your questions. So, Gérald, I think you are the best to answer this.

Gérald Harlin, Group CFO, AXA

Okay. As far as the U.S. loan is concern that means that we will see. If I'm telling you, Johnny that we have 1 billion that will be converted into equity it's not more. It is around 1. So, I think that you cannot anticipate that the rest of the debt will be converted into equity.

We will see whether it will be repaid or not and this will be detailed again in the S-1. It will be a secondary offer and not the primary offer. Is that clear?

And your third question is on the?

Andrew Wallace-Barnett, Head of Investor Relations, AXA

The priority of buyback versus reinvestment.

Gérald Harlin, Group CFO, AXA

Yeah, of course, the point you know is, so long, and I believe that it's exactly what Thomas told you this morning. That means that we will try as much as possible to reinvest in our business lines.

But again, we will be disciplined. That means that we don't - we won't invest in business lines which don't correspond to our strategy priorities. And in such a case we would prefer to the buy back. That's the way I can explain it. I believe it's clear.

Johnny Vo, Goldman Sachs

Very clear. Thank you.

Thomas Buberl, Group CEO, AXA

And thank you Johnny for your questions. Further questions?

Operator

The next question is from Mr. Andrew Crean from Autonomous. Sir, please go ahead.

Andrew Crean, Autonomous

Good morning, all. Can I ask three questions? The first one is in Ambition 2020, you said that you would invest about 1 billion a year net, in capital management. And I was wondering whether the forgiving of the internal loan of 1 billion plus fees so 900 million buy back is part of that or outside of that.

The second question is really about cash dividends from the U.S. The company or your company had a record of very high remittance of cash back to Group. And I was wondering as a public entity with a sort of public dividend policy whether you thought that the U.S. business would be returning in the future the same level of cash to Group as it did - as part of you.

And then thirdly, just - I was wanting to understand what the reinvestment rate is on your business this year given slightly higher core yields but narrow spreads. Have you changed much relative to the average for last year?

Thomas Buberl, Group CEO, AXA

Gérald, I think you should take this.

Gérald Harlin, Group CFO, AXA

Okay, the 1 billion, your first question, Andrew is about your Ambition 2020. It’s right that we have 1 billion for investment per year. Is the 1 billion part of it? The answer is no.

The second question is the dividend from the U.S. It's a bit early but indeed, so long as we want to list a company in the U.S., it's important for us that this company is attractive. In order to be attractive, we will do our best in order to have a dividend which is quite interesting and in line with the expectation of the investors.

The second part of your question which is will it represent the same level of cash. As you know, over the last years, we are benefitting from some reimbursement of existing debt which made that our - I would say, our remittance ratio was above the 75% to 85% bracket. And indeed, this is something that was - and that I presented at that time, as non-recurrent.

Nevertheless, and that’s the reason why you noticed why we reiterated the fact that we will have a net remittance on a cumulative basis between 24 and 27, meaning that we keep the same assumption as the one that we presented on the 21st of June last year. Which means that we will stick our guidelines from 75% to 85% remittance.

So, that's what I can tell you. So, in other words, the message here is to say, we don't anticipate that this decision to IPO the U.S. will have a negative impact on our expectations for remittance. I believe that’s mostly it.

So, reinvestment yield for the time being, globally we are investing at around 2%, slightly above 2% on a year-to-date basis. We will see because it's quite early. But we could expect these rates, that rates seems to be slightly higher these days at 40 basis points for the bonds and 240 yesterday on the T-bond 10 year in the U.S. We could be slightly higher. But we should remain cautious because at the same time, the spread tends to compress. So, that's the plus and minus each but for the time being, we are around 2.

Andrew Crean, Autonomous

Thank you.

Thomas Buberl, Group CEO, AXA

Further questions. Are there further questions?

Operator

Yes. And so, the next question is from Mr. Oliver Steel from Deutsche Bank. Sir, please go ahead.

Oliver Steel, Deutsche Bank

Good morning. I've got three questions. The first is I'm just trying to work out what the primary motivation is for this announcement today. It is that you've actually found the needs or indeed more opportunities for bolt-on acquisitions, and therefore, the U.S. is a convenient operation to sell or is the decision mainly driven by something that's changed your view on the U.S. because this does seem to be a very different outcome from what was in your five-year plan?

Second question I've got is on solvency. As I understand it, the Solvency II ratio will reflect the U.S. on an equivalent basis for as long as you own a majority stake, is that right? And if that is true, you are going to be spending money on acquisitions, which may well involve some goodwill, you might be returning some cash, the U.S. operations meanwhile will be investing more on a U.S. regulatory basis, which is presumably therefore negative from your perspective. And I'm just wondering, does that all imply that the Solvency II ratio will naturally come down over the next couple of years as all of that happens?

And then, the third question I've got is on M&A, sort of threshold in terms of IRRs or ROEs or timeframes. Historically, you've taken quite long view of the payback period for M&A and I'm just wondering whether you're prepared to give some more near-term thoughts on IRRs and payback periods?

Thomas Buberl, Group CEO, AXA

Thank you, Oliver, for your questions. I'll take the first one and will suggest that Gérald takes two and three. Our primary motivation is a very simple one. We want to accelerate on Ambition 2020. What we have presented to you last year was a very clear commitment to say "Look, we want to shift our portfolio more towards Health and Protection, more towards Commercial P&C and want to reduce our dependence on the financial markets". You have seen in the Q1 results but also in the Full Year result of last year that we are fully committed but that we have also delivered on this, and this will continue.

We are confident that given the climate in the U.S. and given the situation that our U.S. entity is in, that we can accelerate those Ambition 2020. So, you should be happy that we're going in that direction in order to do even more of the shift. What makes us confident? It makes us confident that we had a look market by market on a very detailed level, where are the targets that are interesting for us and how can we get to them, and be assured that we will be very active now to pursue those targets.

Again, I want to remind you that when we speak about Health & Protection, and Commercial P&C, Health & Protection is a market where we don't find so many other companies being in since we are one of the very few that is focused on Health. And on the Commercial lines P&C business, we are not talking about the large risks where we find many players being active. We are talking about the SME market where again we are one of the very few who have very dedicated focus.

And now, Gérald, if you could comment on the Solvency II question of Oliver and the M&A.

Gérald Harlin, Group CFO, AXA

Yes, Oliver. As far as Solvency II is concerned, I would say that - so you have understood our explanation consisting in saying that progressively, we will have an economy capital which will be less dependent from the equivalence. So, the quality of our capital would be higher. But at the same time, we don't revise - we have no intent to revise the 170% to 230%. So, don't expect us to change, I would say, our state of mind relative to this, and we can stay within this range and comfortably within this range while having the quality of capital which is quite good and improved.

About the M&A threshold, you noticed that among our four main indicators we have the ROE. And the return on equity will stay within the 12% to 14% threshold. We got a 13.5% last year. So, you can imagine that while investing we cannot invest, we shall take this into account. In other words, it means that we have to stick to this ROE because we believe it's important for us, it's important to keep a good valuation of our stock and that's why we don't give and we don't intend to give up on that line.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

We probably got a time, I would say we're a bit of overtime. I think we probably got time for one more question if there is one.

Thomas Buberl, Group CEO, AXA

Any further questions?

Operator

Yes. Next question is from Edina Rozinka from Deutsche Bank. Please go ahead.

Edina Rozinka, Deutsche Bank

Hi there. Edina from Deutsche Bank from the debt side. Two questions, please. You mentioned that your M&A budget is up to 3 billion, would you consider looking to use only the IPO proceeds or would you consider a mix of IPO proceeds and that for financing?

And the second question you mentioned that you are looking to do the IPO in the first half 2018. Would you consider prefinancing with that if you find a good M&A opportunity before that?

Thomas Buberl, Group CEO, AXA

So, thank you for your question. To clarify again, the M&A part that you mentioned, the 3 billion, are mis-explained. So, our M&A budget is 1 billion per year, net 1 billion, over the period of Ambition 2020 from 2016 to 2020. So, in total, 5 billion net.

What that means is that we will always take this money, plus the proceeds from the IPO, to invest in midsized deals in our target segments: Health and Protection and Commercial and P&C. We would like to focus on these in the order of magnitude between 1 billion and 3 billion.

As you pointed out in your second question, the IPO is roughly in a year. So, if we find a target beforehand that is so attractive that we need to make a move beforehand, be assured that we will do everything to find a solution to realize that acquisition. But, in general, we really want to stick to what we said last June, 1 billion net every year. And as soon as the proceeds arrive from this IPO, we will then go and use them. But obviously the time to prepare yourself for this does start now or has already started.

Edina Rozinka, Deutsche Bank

Okay. Thank you.

Andrew Wallace-Barnett, Head of Investor Relations, AXA

Thank you Thomas. And I think we probably need to finish off. We're a bit overtime. Thank you, all, very much for joining the call and wish you a very good day.

Thomas Buberl, Group CEO, AXA

Thank you very much.

Gérald Harlin, Group CFO, AXA

Thank you.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.

End of the call