

Return to profitability

Investor presentation for financial year ended 31 March 2017



Agenda

1. Key messages
2. Strategic update
3. Financial results
4. Competitor benchmarking
5. Outlook
6. Q&A
7. Appendix



Paul Abberley
CEO



Ben Money-Coutts
CFO

Key messages from FY17 – Return to profitability

Group returned to profitability

- Reported PBT £8.8m (2016: loss £0.3m)
- Core business PBT £9.8m (2016: £4.2m)

Core Business operating margin

- 7.1% (2016: 3.1%)

Dividend

- Increased 20% to 6.0p per share (2016: 5.0p)

Balance sheet strengthened

- Year-end cash £58.4m (2016: £48.4m)

Operational highlights – Positive momentum across all divisions

Investment Management Services (IMS)

- Variable reward proposal signed off with 96% team & asset retention

Asset Management (AM)

- Product offering refreshed with IFAs and smaller clients especially in mind

Financial Planning (FP)

- Division restructured and operating processes put in place

Charles Stanley Direct (CSD)

- New pricing implemented and mobile optimised digital website launched

Support Functions

- London office footprint rationalised and overall costs reduced 4.5%

Group

- Non-core assets disposed of
- Client satisfaction 93% (2016: 94%)
- Staff engagement 67% (2016: 56%)
- Strategy progressing well

2018 focus – prospects

Revenue growth

- Organic:
 - Continued transfer to discretionary
 - Increased share of wallet transfer
- Financial Planning:
 - Increasingly used as a tool to retain clients
 - Beginning to get traction winning new clients
- Intermediaries:
 - Increasing focus on needs of IFAs

Operational efficiencies

- Rationalising front office procedures
- Restructuring Operations department
- Introduce end-to-end process management to break down siloed structure

2. Strategic update



Strategic implementation – FY 2017

Group

Completion of detailed divisional strategy implementation plans

Project resource prioritisation agreed

Investment Management Services

New variable remuneration arrangements delivered

Implementation of revised rate card

Invigorate sales and marketing channels

Financial Planning

Revamp customer value proposition

Launch 3rd party marketing programme

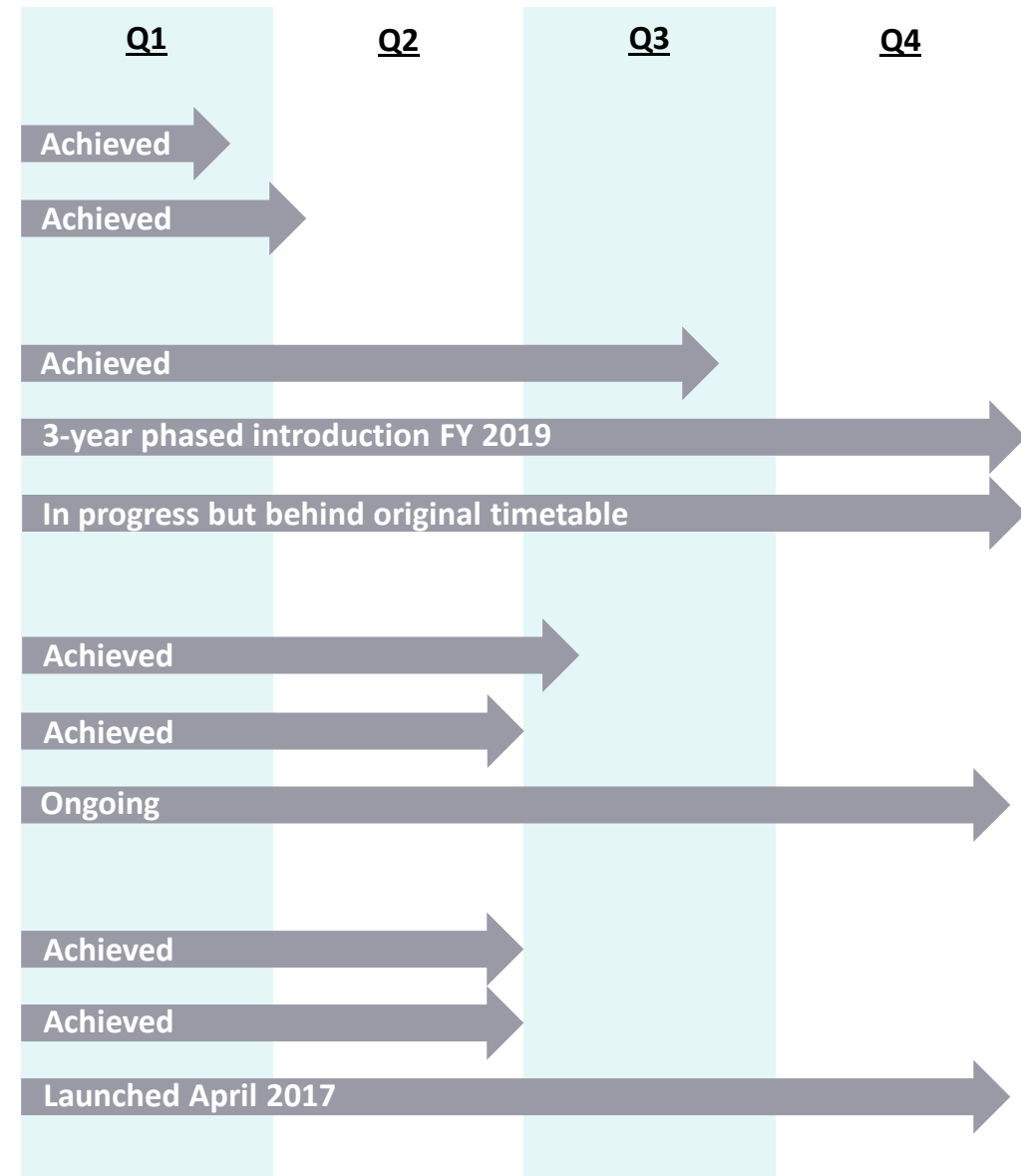
Increase integration between Financial Planning and Investment Management Services

Asset Management

Restructure of investment process

Refinement of product range

Develop and launch Personal Portfolio Service



Strategic implementation – FY 2017

Charles Stanley Direct

New website with streamlined onboarding

Review and implementation of pricing policy

Enhanced digital marketing strategy

Support Functions

Head office move and London offices rationalisation

Focus on process standardisation and scale to improve operating efficiencies and reduce costs

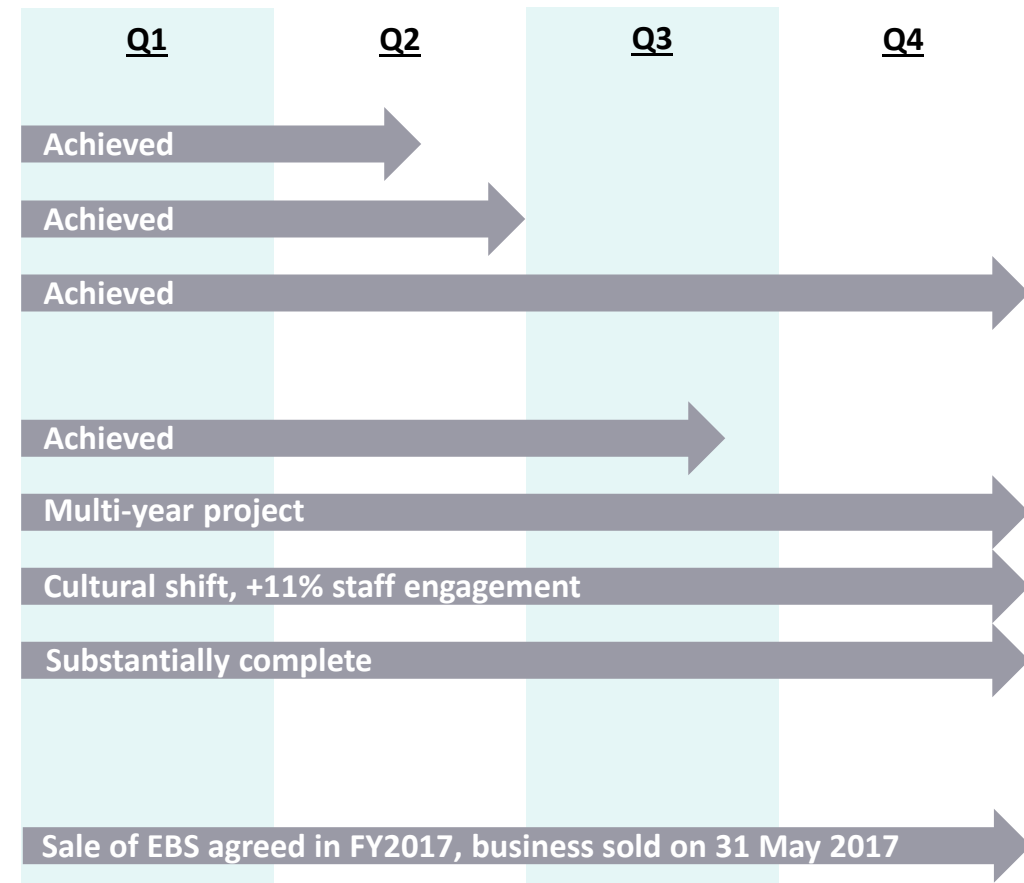
Mobilise the workforce towards full implementation of the strategy

Development of improved governance framework and management information to improve speed and quality of decision making

Business Strategy

Disposal of non-core activities

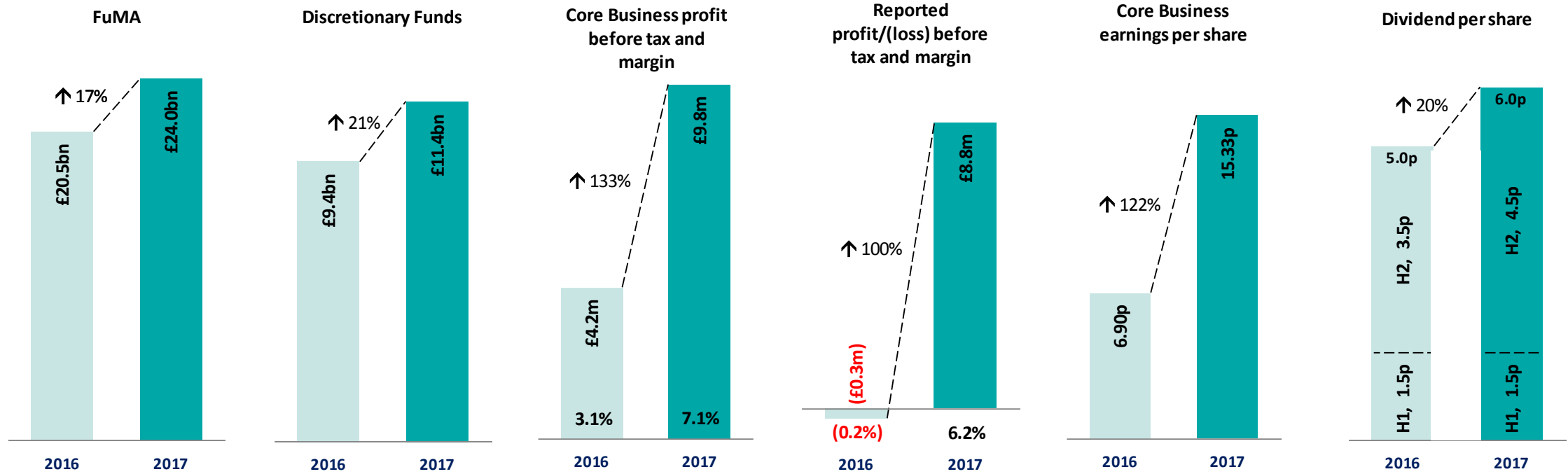
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STANLEY ▲



3. Financial results



Financial headlines



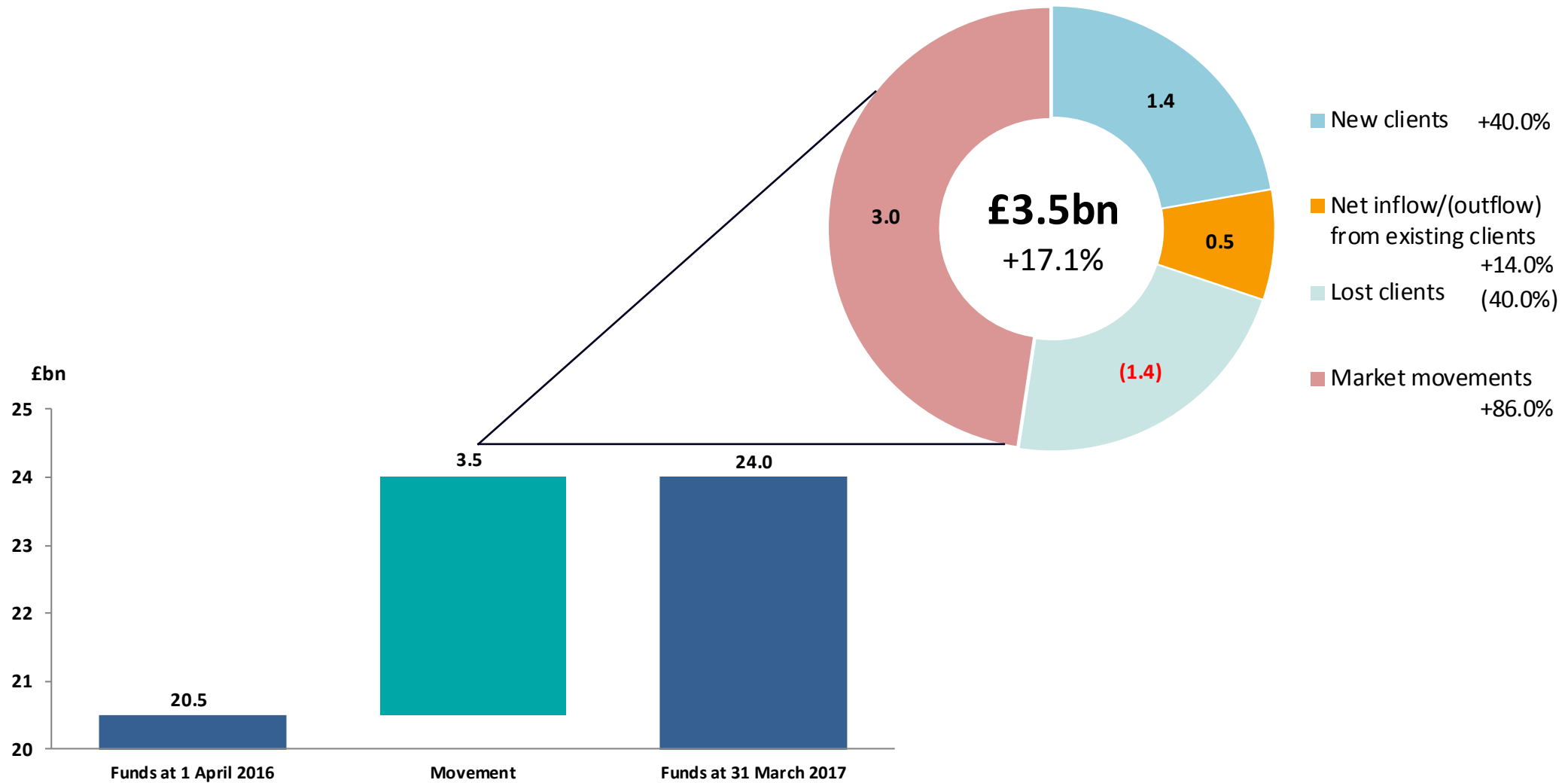
Financial summary

	FY17 £m	FY16 £m
Revenue	138.6	133.5
Expenses	(129.1)	(129.5)
Other income	0.2	0.2
Operating profit	9.7	4.2
Net finance income	0.1	0.1
Loss on sale of business	-	(0.1)
Core Business profit before tax	9.8	4.2
Held for sale	-	(0.5)
Adjusting items	(1.0)	(4.0)
Reported profit before tax	8.8	(0.3)
Core Business operating margin	7.1%	3.1%
Core Business EPS	15.33p	6.90p
Dividend per share	6.0p	5.0p

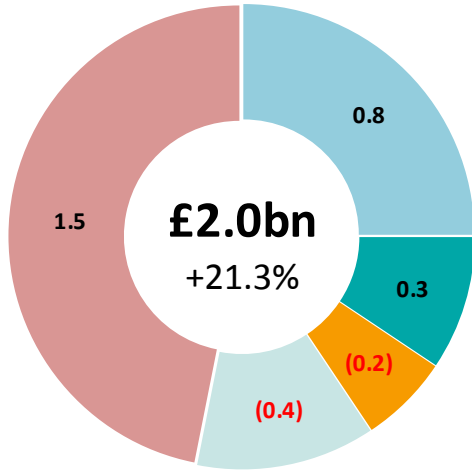
Funds under Management and Administration (FuMA)

	FY17	FY16	Change	
	£bn	£bn		
Discretionary funds	11.4	9.4	21.3%	<input type="checkbox"/> FuMA at the end of the year was 17.1% higher than at prior year end mainly due to strong investment performance
Advisory Managed funds	2.4	2.6	(7.7%)	
Total managed	13.8	12.0	15.0%	
Advisory Dealing funds	1.8	1.7	5.9%	<input type="checkbox"/> Discretionary funds performed well, up 21.3%, comprising 16.0% performance and 5.3% net inflows
Execution only funds	8.4	6.8	23.5%	
Total administered	10.2	8.5	20.0%	<input type="checkbox"/> Execution only funds continue to grow, and include a 27.8% increase achieved by CSD
Total FuMA	24.0	20.5	17.1%	
WMA Balanced	4,122	3,556	15.9%	

FuMA Movement – Up 17.1% YoY

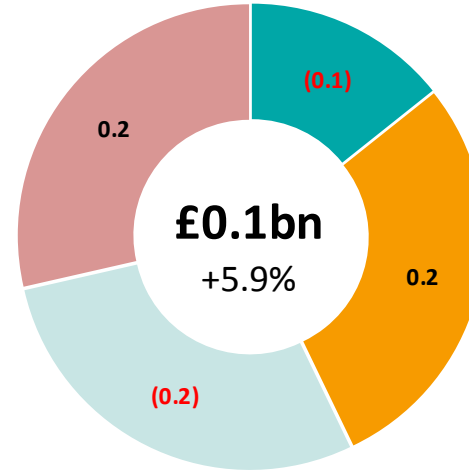


Funds growth by service type



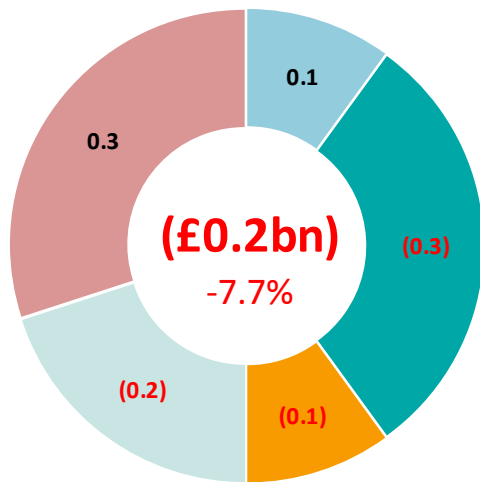
Discretionary

- New clients +8.5%
- Transfers +3.2%
- Net inflow/(outflow) from existing clients (2.1%)
- Lost clients (4.3%)
- Market movement +16.0%



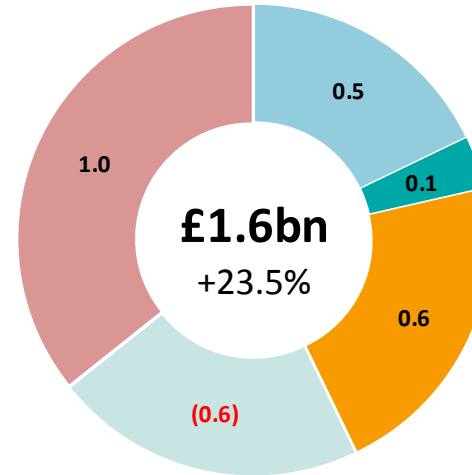
Advisory Dealing

- New clients 0.0%
- Transfers (5.9%)
- Net inflow/(outflow) from existing clients 11.8%
- Lost clients (11.8%)
- Market movement 11.8%



Advisory Managed

- New clients +3.8%
- Transfers (11.5%)
- Net inflow/(outflow) from existing clients (3.8%)
- Lost clients (7.7%)
- Market movement +3.8%



Execution Only

- New clients +7.4%
- Transfers +1.5%
- Net inflow/(outflow) from existing clients +8.8%
- Lost clients (8.8%)
- Market movement +14.7%

Core Business – Revenue

	FY17 £m	FY16 £m	Change
Fees:			
Fee income	88.5	79.3	11.6%
Trail commission	1.0	4.2	(76.2%)
Total fees	89.5	83.5	7.2%
Commission	47.3	46.6	1.5%
Interest income	1.8	3.4	(47.1%)
Total revenue	138.6	133.5	3.8%
Revenue margins:	bps	bps	bps
Investment Management Services	65	66	(1)
Asset Management	59	60	(1)
Charles Stanley Direct	22	28	(6)
Group	64	68	(4)
	No.	No.	
Bargains:			
Commission earning	475,062	445,622	6.6%
Zero commission	381,612	314,624	21.3%
All Commission Types	856,674	760,246	12.7%

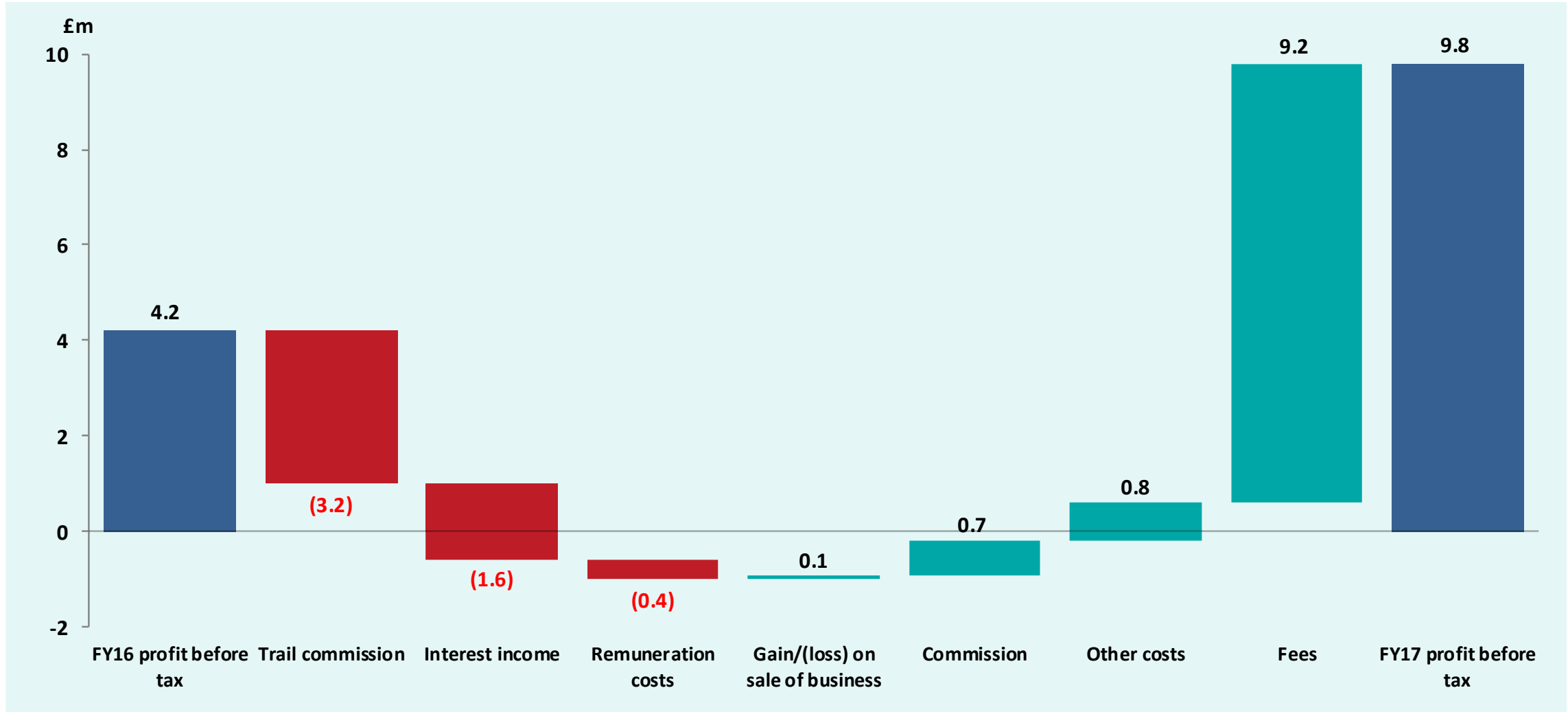
- ❑ Strong improvement in fee income and small increase in commission income more than offset the anticipated fall of trail commission and interest income on client cash. These now represent just 2.0% of revenues
- ❑ Decline in IMS and AM revenue margin attributable to halving of interest turn from 2bps to 1bps
- ❑ Decline in CSD margin due to termination in prior year of the white label trading services provided to Fidelity
- ❑ Repricing exercises by both IMS and CSD are expected to lead to modest improvements in revenue margins going forward whereas there is general downward pressure in the model portfolio sector occupied by AM
- ❑ Overall bargain numbers up 12.7%. Commission income is up less, +1.5%, because of increasing proportion of zero commission trades as more clients adopt pure fee-only tariffs, plus increasing proportion of trades accounted for by CSD

Core Business – Expenditure

	FY17 £m	FY16 £m	Change
Staff costs:			
Fixed	50.9	53.7	(5.2%)
Variable	40.9	37.7	8.5%
Total staff costs	91.8	91.4	0.4%
Other costs	37.3	38.1	(2.1%)
Total costs	129.1	129.5	(0.3%)
Fixed staff cost/income ratio	36.7%	40.2%	(3.5%)
Variable staff cost/income ratio	29.5%	28.2%	1.3%
Total cost/income ratio	93.1%	97.0%	(3.9%)
Headcount (number as at 31 March)	858	901	(43)

- ❑ Fixed staff costs reduced due to overall headcount reduction whereas variable staff costs have risen as a result of improved profitability leading to higher bonuses
- ❑ Implementation of revised remuneration arrangements are expected to lead to further improvement in the total staff cost/income ratio
- ❑ The overall reduction in professional fees of £1.6m more than offset increases during the year in IT & marketing totalling £1.0m (See Appendix for further detail). Scope for further cost savings exist through productivity measures

Core Business profitability – Increased significantly



Reported performance and breakdown of adjusting items

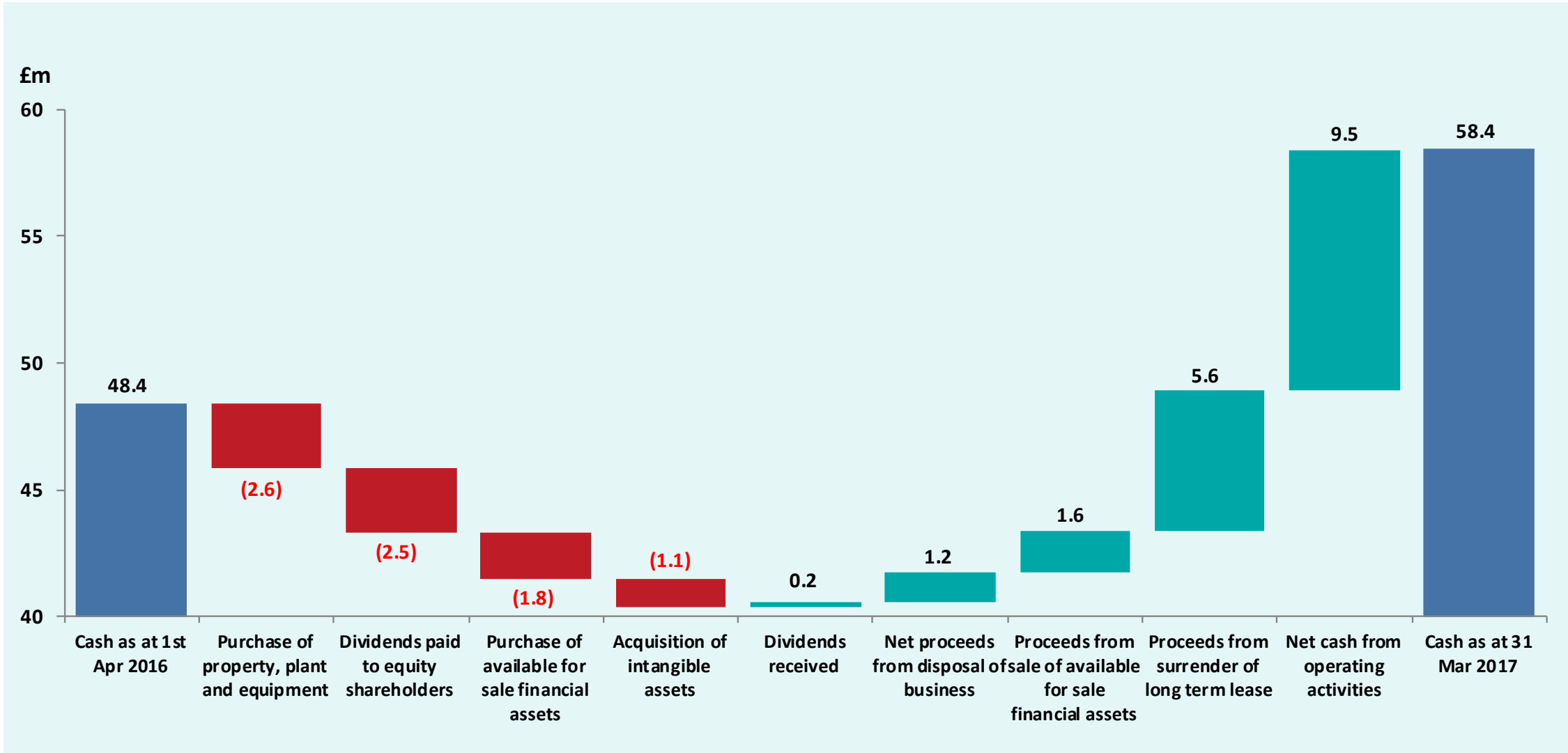


Balance sheet strengthened

	FY17 £m	FY16 £m	Change
Total intangible assets	21.2	25.4	(16.5%)
Total tangible non-current assets	17.5	20.0	(12.5%)
Non-current assets	38.7	45.4	(14.8%)
Cash	52.1	48.1	8.3%
Other current assets	147.2	146.6	0.4%
Assets held for sale	9.0	1.7	429.4%
Total net current assets	208.3	196.4	6.1%
Total assets	247.0	241.8	2.2%
Total equity	89.1	85.4	4.3%
Pensions scheme deficit	10.5	10.1	4.0%
Other liabilities	147.4	146.3	0.8%
Total liabilities	157.9	156.4	1.0%
Total equity and liabilities	247.0	241.8	2.2%
Net assets	89.1	85.4	4.3%
Regulatory capital resources	61.4	55.4	10.8%
Regulatory capital requirement	48.3	38.5	25.5%

- Intangible assets down £4.2m year on year (“YoY”) due to amortisation of client relationships and software (£3.3m) and impairment of goodwill relating to Southampton branch (£0.7m)
- Tangible assets down £2.5m due to rationalisation of London offices
- Year-end cash, including cash in assets held for sale of £6.3m, increased £10.0m to £58.4m (2016: £48.4m). This was attributable to a combination of strong cash conversion and the proceeds from sale of 35 Luke Street
- FY17 assets held for sale relate to EBS the sale of which completed on 31.05.2017 (2016: CS Financial Solutions and CS Securities)
- Defined pension scheme liability relatively constant YoY. Actions taken to reduce risk exposure:
 - Closed to future accruals
 - 5 stage de-risking flight plan adopted
 - Investment portfolio diversified and LDI introduced with an initial liability hedge of 70% of assets

Cash flow – 21% higher YoY

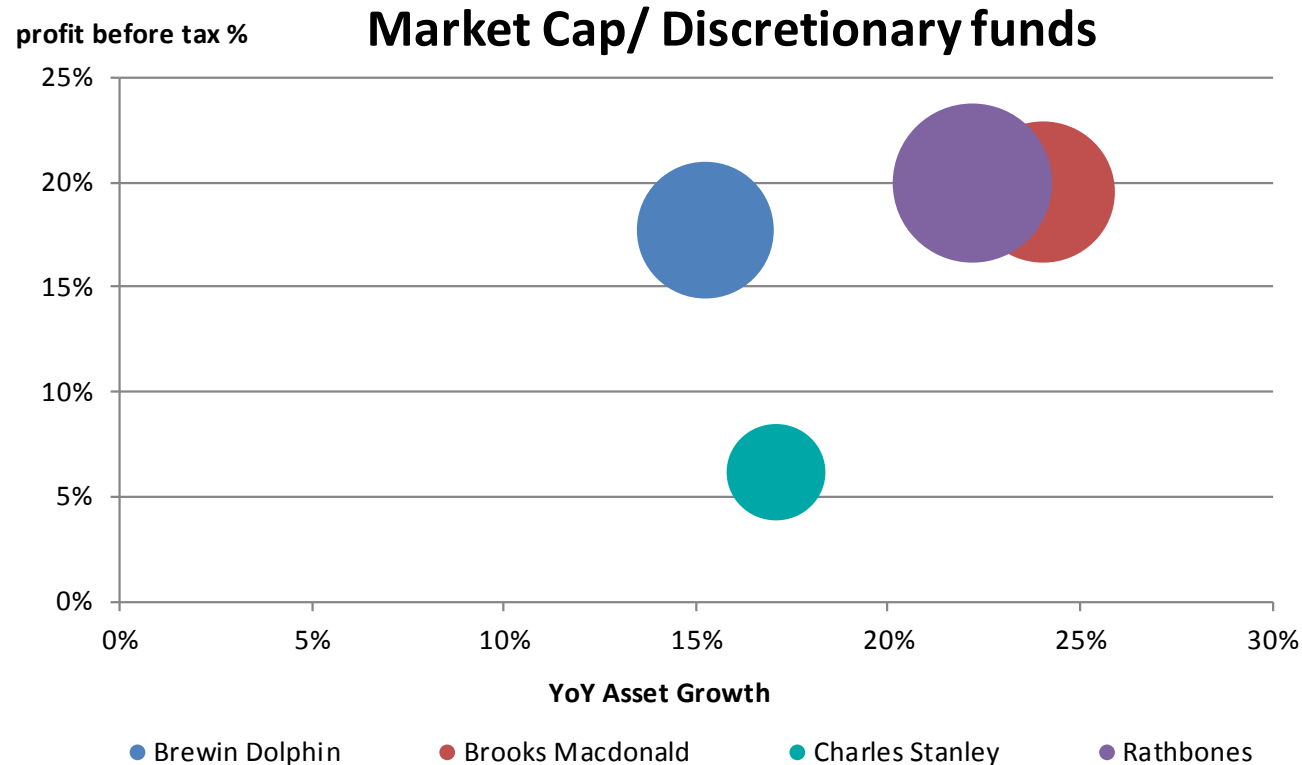


4. Competitor benchmarking



Competitor benchmarking

This chart compares Charles Stanley to other listed wealth management companies and shows their profit before tax margins and FuMA growth. The size of each bubble represents each company's market capitalisation as a proportion of discretionary funds



Source:

- Profit before tax is taken from the latest audited annual results. Brewin Dolphin FY 30.09.2016, Brooks Macdonald FY 30.06.2016, Rathbones FY 31.12.2016
- Assets growth represents the total growth in discretionary assets over the period 31.03.2016 to 31.03.2017
- Market capitalisation is taken as at close of business on 01.06.2017

Competitor benchmarking – Financial KPIs

	Charles Stanley	Selected Peer Group
Reported pre-tax margin	6%	24%
Managed assets per FOP £m	47	71
Managed revenue per FOP £k	394	508
Revenue margin on managed assets	82bps	87bps
Total non-staff costs as % revenue	26.3%	21.4%

Source: Compeer and Charles Stanley

- Charles Stanley data is for FY17
- Compeer data is for the calendar year to 31 December 2016
- Selected Peer Group data is compiled by Compeer and represents the average for a basket of wealth management firms, both listed and unlisted
- FOP – Front Office Professional combination of sales, investment management, research & strategy and other product specialists

5. Outlook



Outlook

Strategy in place to deliver sustainable growth; management are focused on detailed implementation plans and staff engaged to make it happen

6. Q&A



7. Appendix



The Charles Stanley Group – About Us



One of the UK's leading independently-owned investment groups so our interests lie with you and not others



Origins traced back directly to 1792 helping to make us one of the UK's leading wealth management firms



History both of organic growth and growth by acquisition



Group funds under management and administration £24.0 billion



Network of 24 offices across the UK

The Charles Stanley Group – About Us

Charles Stanley Group

Investment Management Services

- Personal investment management
- Advisory managed
- Share dealing – with advice
- ISAs
- SIPP
- Trusts
- Charities

Asset Management

- Matterley funds
- Multi-manager portfolio service
- DFM model portfolios
- Dynamic passive portfolios
- Multi-asset portfolio service
- Personal portfolio service
- IHT

Financial Planning

- Holistic approach
- Pensions and retirement advice
- Estate and IHT planning
- Wealth and family protection
- Tax efficient saving
- Long term care

Charles Stanley Direct

- Charles Stanley Direct – online
- Charles Stanley Investment Choices – with guidance
- Telephone execution only dealing
- Online ISAs
- Online SIPP

The Charles Stanley Group – Our network offices

Bath

Guildford

Reading

Beverley

Ipswich

Southend-on-Sea

Birmingham

Isle of Wight

Tunbridge Wells

Bournemouth

Leeds

Wimborne

Cambridge

Leicester

Cardiff

London

Dorchester

Manchester

Eastbourne

Norwich

Edinburgh

Oxford

Exeter

Plymouth

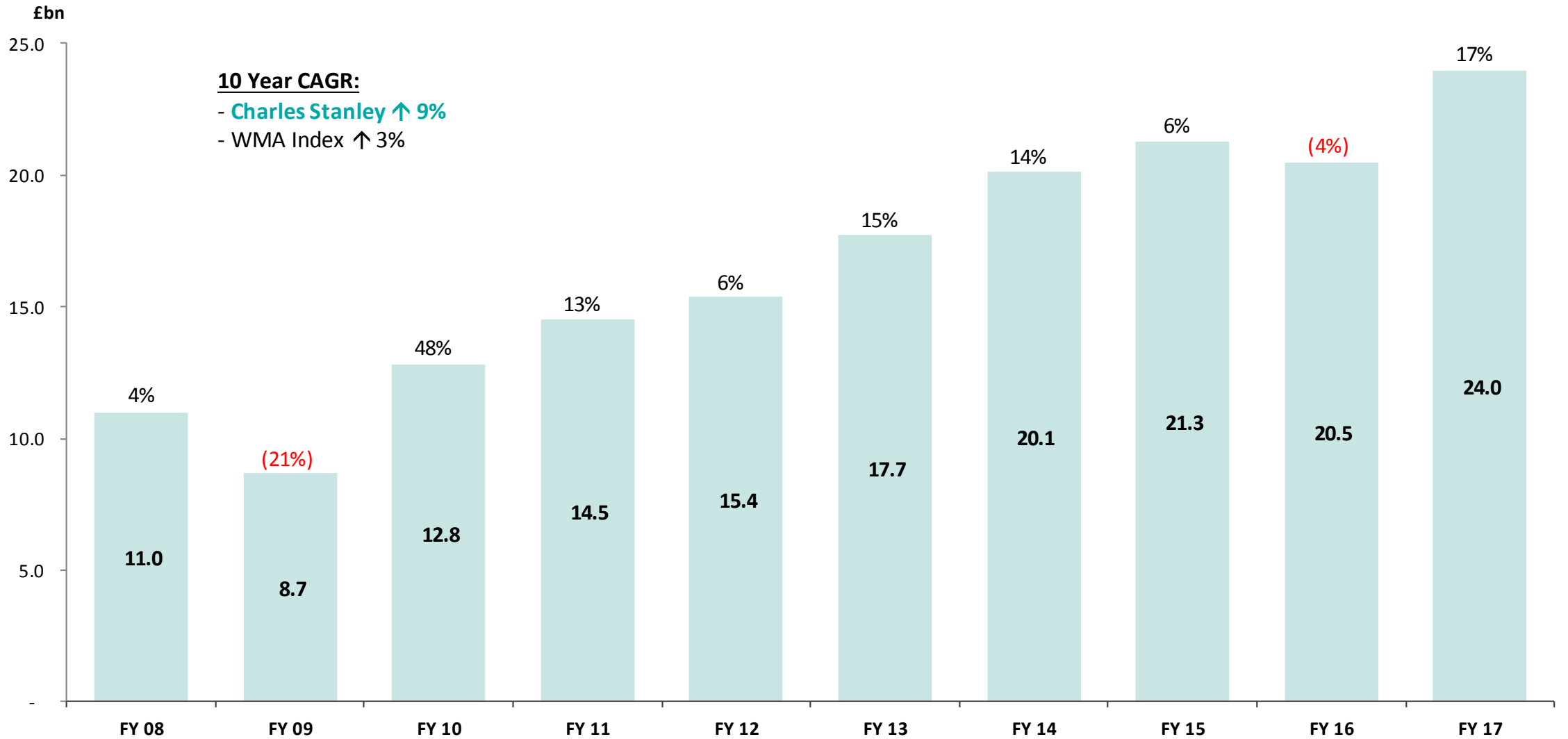


***Network of 24 offices
across the UK***

Financial KPIs

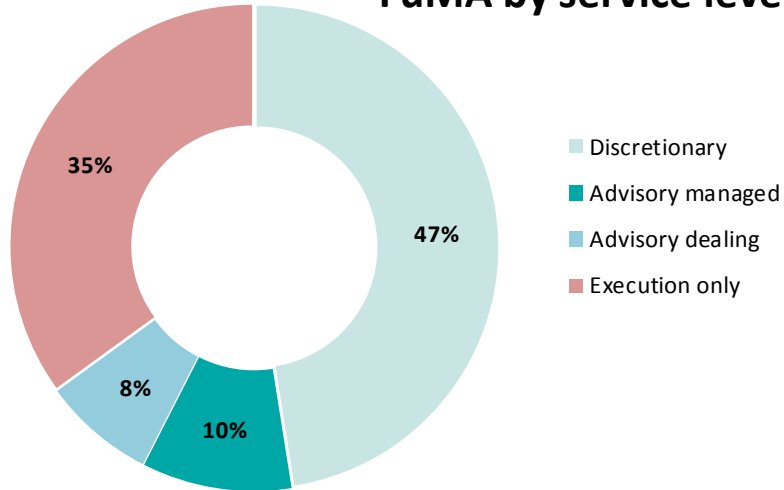
		FY17	FY16
Business growth	FuMA growth	17.1%	(3.7%)
	Discretionary FuMA growth	21.3%	0.8%
	Core Business revenue growth	3.8%	(3.3%)
Operating efficiency	IMS Managed funds per CF30 (£m)	42.6	32.1
	Revenues per Financial Planner (£k)	268	197
	Core Business staff costs / revenue	66.2%	68.5%
	Core Business total costs / revenue	92.9%	96.9%
Balance sheet strength	Capital adequacy ratio	127%	144%
Shareholder returns	Core Business EPS (pence per share)	15.33	6.90
	Reported EPS (pence per share)	12.35	(0.61)
	Dividend (pence per share)	6.0	5.0
	Dividend cover (times)	2.1	(0.1)
	Return on Capital Employed	5.0%	(0.5%)

FuMA 10-year trend

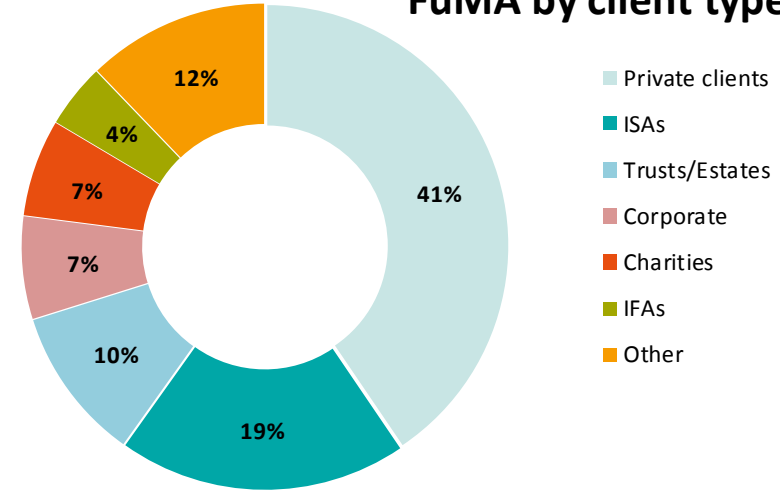


FuMA by service type

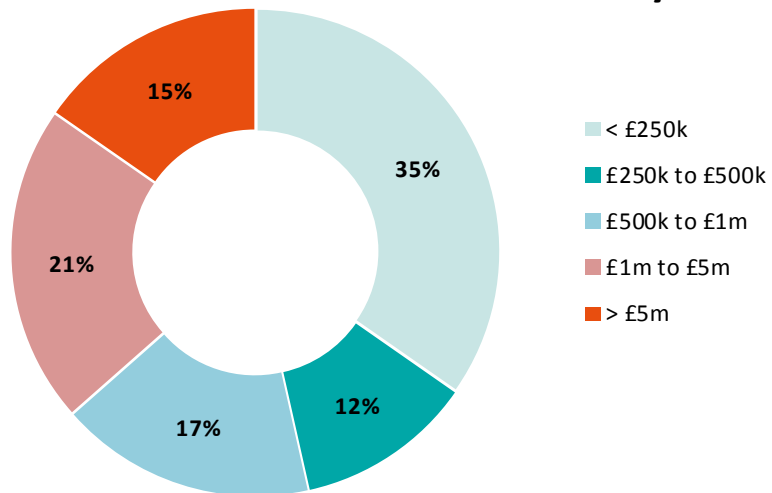
FuMA by service level



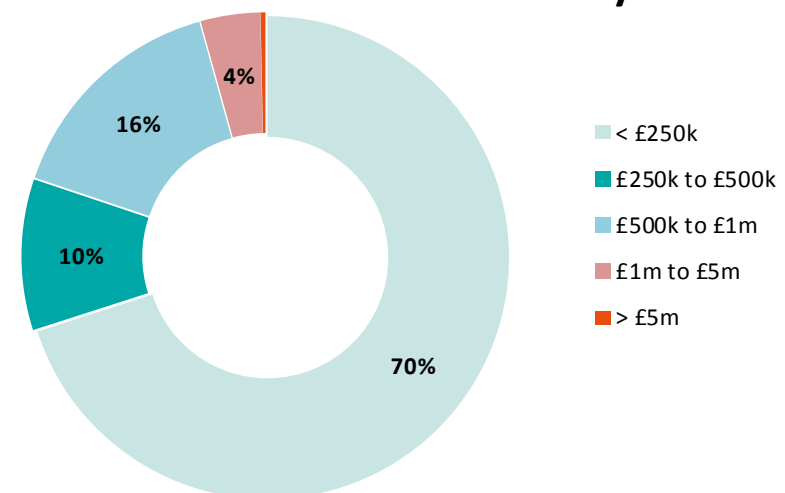
FuMA by client type



Size of clients FuMA by value

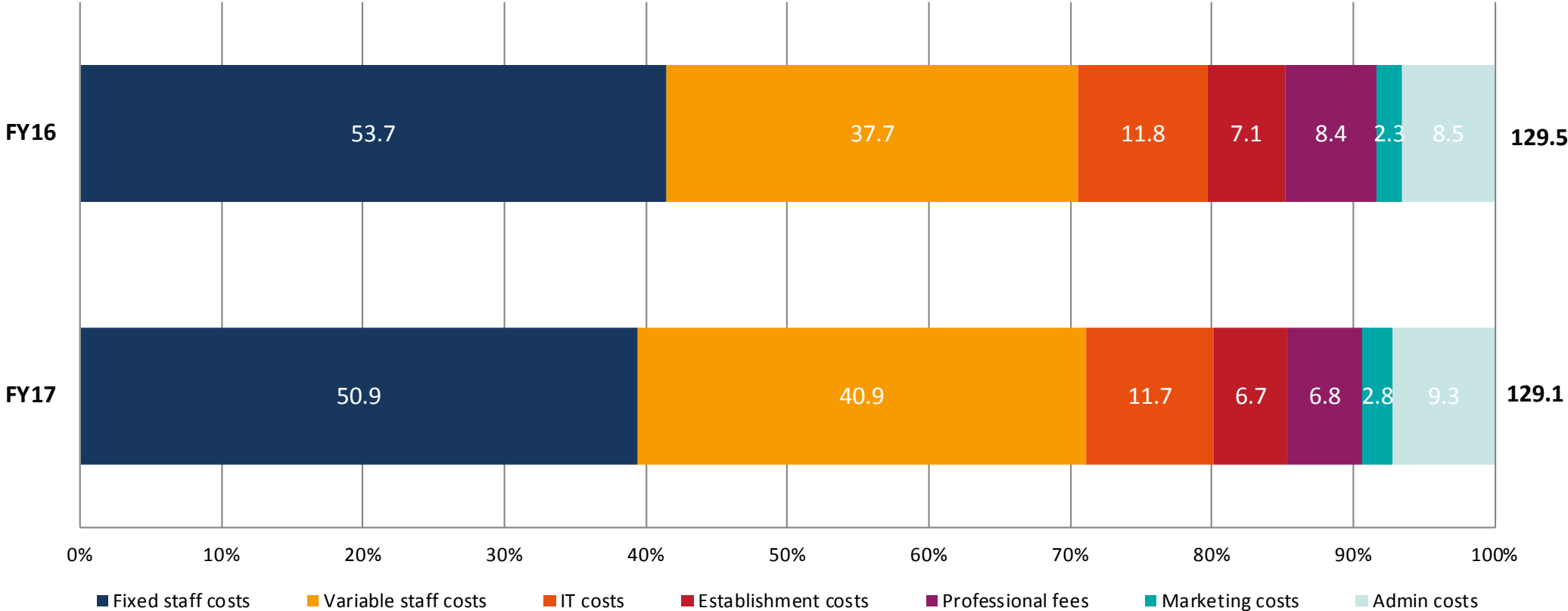


Size of clients by number



Core Business – Expenses breakdown

£m



Core Business – Divisional breakdown

	IMS	AM	FP	CSD	Core Business
	£m	£m	£m	£m	£m
FY 2017					
Revenue	122.7	6.6	5.0	4.3	138.6
Expenditure	(109.0)	(6.1)	(7.8)	(6.2)	(129.1)
Other income	0.2	-	-	-	0.2
Operating profit/(loss)	13.9	0.5	(2.8)	(1.9)	9.7
Net finance income	0.1	-	-	-	0.1
Profit/(loss) before tax	14.0	0.5	(2.8)	(1.9)	9.8
FY 2016 profit/(loss) before tax	7.9	(1.0)	(1.3)	(1.4)	4.2
Change	6.1	1.5	(1.5)	(0.5)	5.6

See following pages for further divisional analysis

IMS – Financial performance

	FY17	FY16	Change
	£m	£m	
Revenue	122.7	117.2	4.7%
Direct Costs:			
Fixed	(19.8)	(20.7)	4.3%
Variable	(35.5)	(35.3)	(0.6%)
Other direct operating expenses	(9.7)	(10.3)	5.8%
Other Income	0.2	0.2	0.0%
Contribution	57.9	51.1	13.3%
Allocated costs	(44.0)	(43.3)	(1.6%)
Operating Profit	13.9	7.8	78.2%
Contribution margin	47.2%	43.6%	
Operating margin	11.3%	6.7%	
Headcount (number)	411	435	(24)

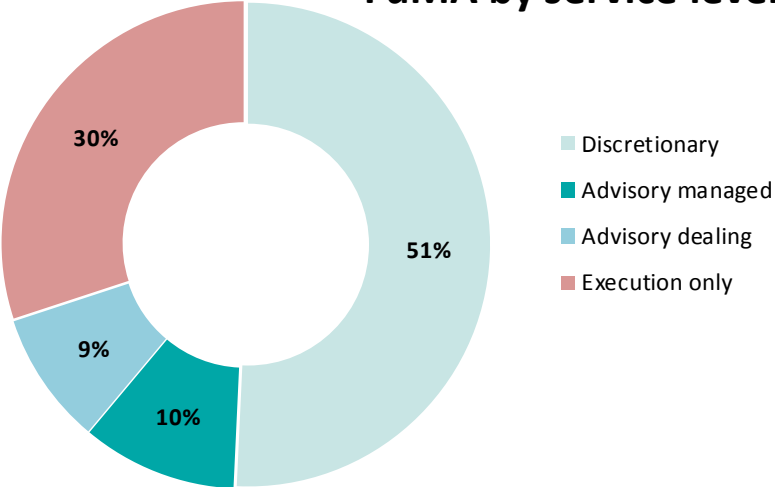
Revenues increased 5% to £122.7m (FY16: £117.2m) predominantly due to increase of fee income more than offsetting decline of trail income and interest earned on client cash balances. The division's direct costs reduced by 2%, due to lower fixed employment costs and lower professional fees. This led to an increase in operating contribution of £57.9m (FY16: £51.1m) and operating profit of £13.9 million (FY16: £7.9m) up 72% YoY. The division achieved an operating margin of 11% against 7% in FY16.

IMS – FuMA and revenue margins

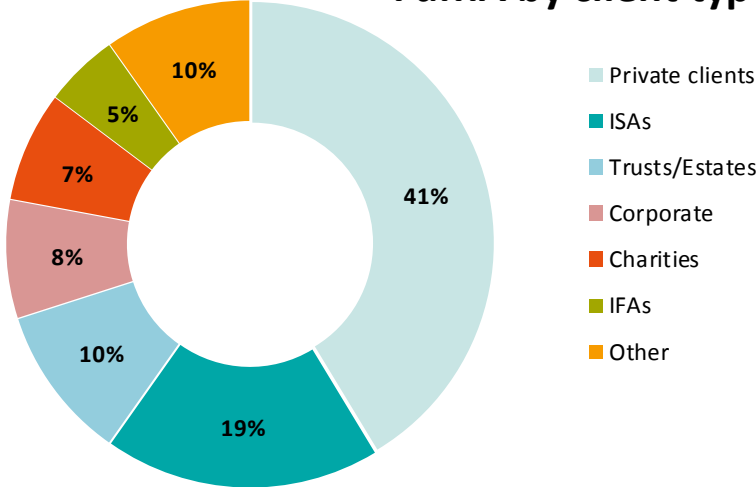
	FY17	FY16	Change
	£bn	£bn	
Discretionary (£bn)	10.3	8.5	21.2%
Advisory managed (£bn)	2.1	2.3	(8.7%)
Total managed (£bn)	12.4	10.8	14.8%
Advisory dealing (£bn)	1.8	1.7	5.9%
Execution only (£bn)	6.1	5.0	22.0%
Total administered (£bn)	7.9	6.7	17.9%
Total FuMA (£bn)	20.3	17.5	16.0%
Avg managed funds per CF30 (£m)	42.6	32.1	32.7%
<u>Revenue margins:</u>	bps	bps	
Discretionary	85	84	1
Advisory managed	69	68	1
Managed	82	80	2
Advisory dealing	34	32	2
Execution only	29	35	(6)
Administered	30	34	(4)
Total	65	66	(1)

IMS – FuMA analysis

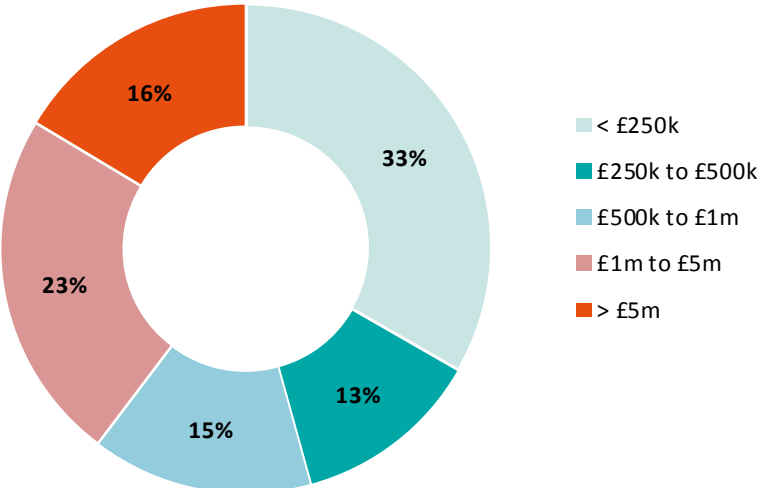
FuMA by service level



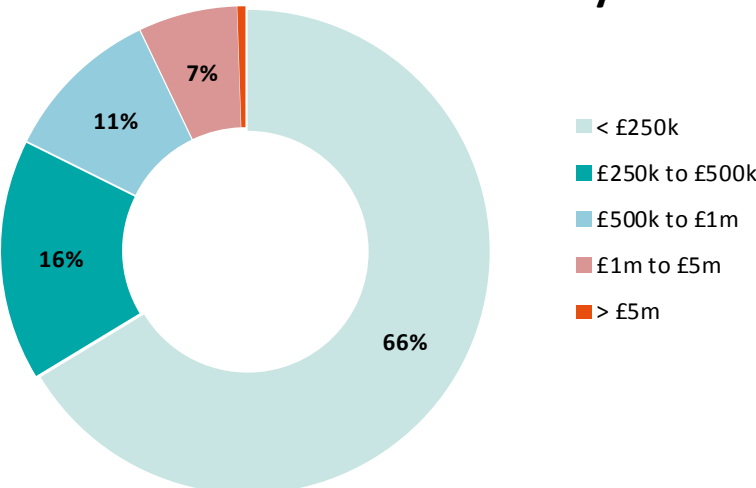
FuMA by client type



Size of clients FuMA by value



Size of clients by number



AM – Financial performance

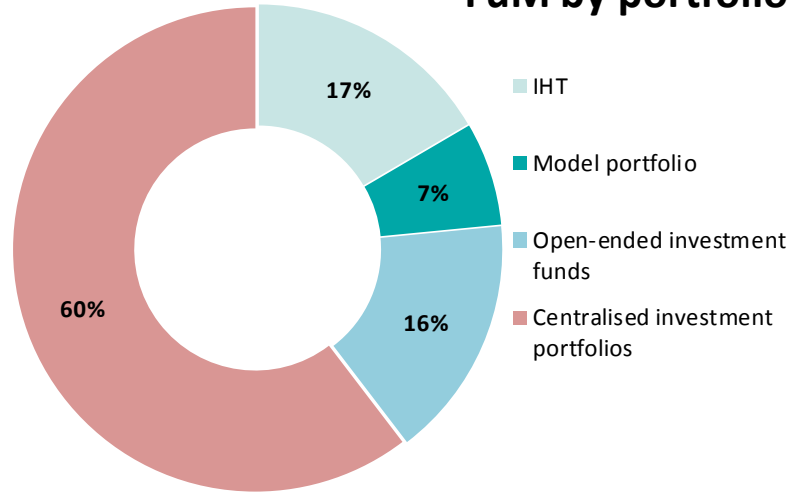
	FY17	FY16	Change
	£m	£m	
Revenue	6.6	5.5	20.0%
Direct costs	(3.6)	(4.6)	21.7%
Contribution	3.0	0.9	233.3%
Allocated costs	(2.5)	(1.9)	(31.6%)
Operating Profit/(loss)	0.5	(1.0)	150.0%
Revenue margin (bps)	59	60	(1)
Contribution margin	45.5%	16.4%	
Operating margin	7.6%	(18.2%)	
Headcount (number)	19	14	5
FuM - on platform	1.1	0.8	37.5%
FuM - off platform*	0.2	0.2	0.0%
FuM (£bn) as at 31 March	1.3	1.0	30.0%

*Off platform FuM comprises model portfolios on third party platforms and Open Ended Investment Companies (OEIC's) or other clients whose assets are held by a third party custodian

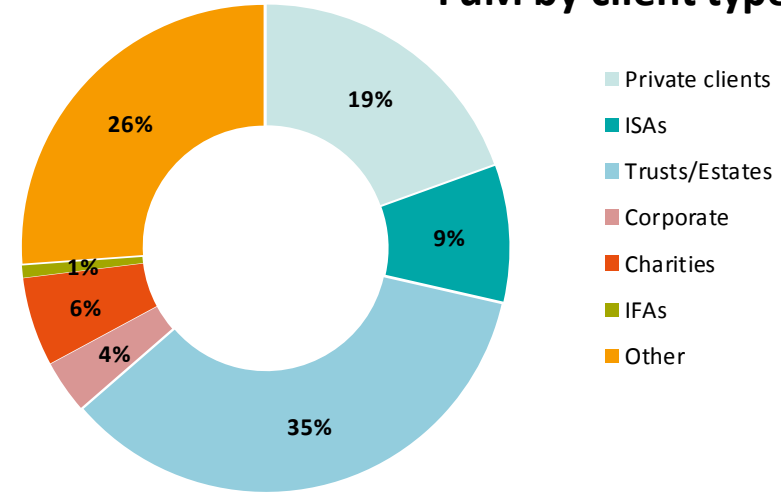
Asset Management's FuM increased to £1.3bn in FY17 (FY16: £1.0bn). IHT and Institutional business within the division has grown strongly. Revenues grew 20% to £6.6m (FY16: £5.5m) whilst direct costs reduced 22% leading to an 8% operating margin, a significant turnaround on prior year.

AM – FuM analysis

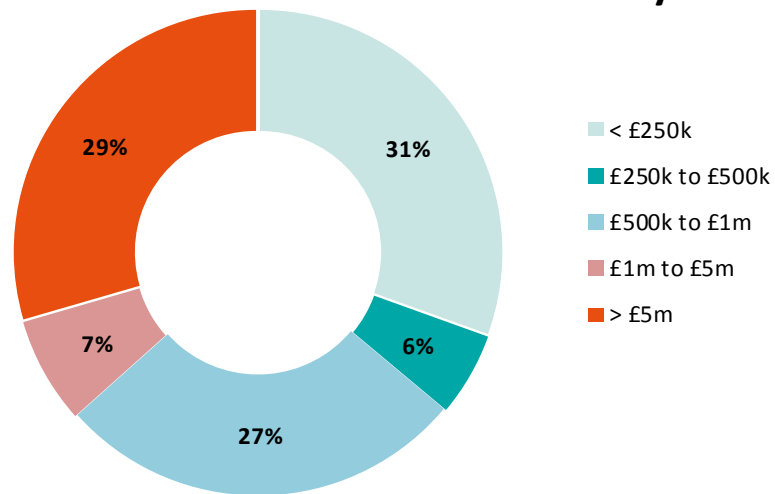
FuM by portfolio



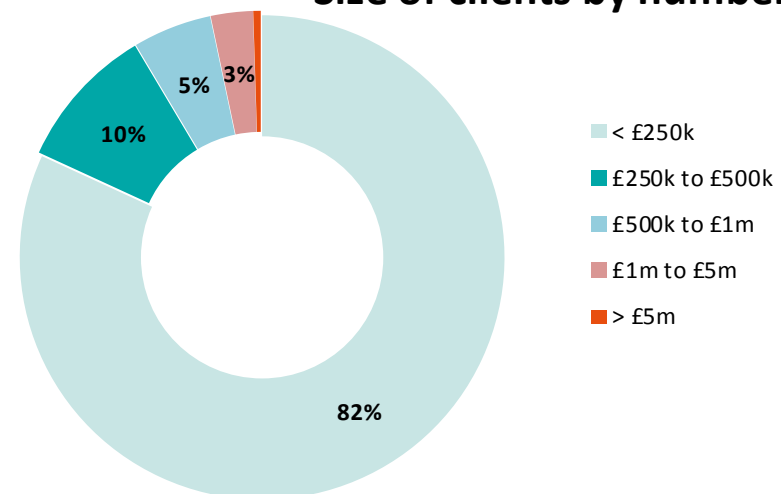
FuM by client type



Size of clients FuM by value



Size of clients by number



FP – Financial performance

	FY17	FY16	Change
	£m	£m	
Revenue	5.0	6.0	(16.7%)
Direct costs	(5.2)	(5.1)	(2.0%)
Contribution	(0.2)	0.9	(122.2%)
Allocated costs	(2.6)	(2.2)	(18.2%)
Operating Profit/(loss)	(2.8)	(1.3)	(115.4%)
Contribution margin	(4.0%)	15.0%	
Operating margin	(56.0%)	(21.7%)	
No. of Financial planners Headcount	19	23	(4)
Revenue per financial planner (£k)	268	197	70

Financial Planning was reorganised during the year, with a number of investment managers transferred to IMS and some under-performing financial planners released. Whilst this resulted in lower revenues and some redundancy costs which affected the operating result, revenues per financial planner have increased. Management is in the process of replacing the division's business processing system, rolling out an updated value proposition and pricing model and seeking to recruit additional planners. The medium-term target annual revenue per financial planner is £300k.

CSD – Financial performance

	FY17	FY16	Change
	£m	£m	
Revenue	4.3	4.8	(10.4%)
Direct costs	(3.0)	(2.8)	(7.1%)
Contribution	1.3	2.0	(35.0%)
Allocated costs	(3.2)	(3.3)	3.0%
Operating Profit/(loss)	(1.9)	(1.3)	(46.2%)
Revenue margin (bps)	22	28	(6)
Contribution margin	30.2%	41.7%	
Operating margin	(44.2%)	(27.1%)	
Charles Stanley Direct	1.9	1.4	34.3%
Charles Stanley Investment Choices	0.4	0.4	(0.7%)
AuA (£bn) as at 31 March	2.3	1.8	26.8%
Client accounts as at 31 March	47,089	39,867	18.1%

Charles Stanley Direct AuA grew 27% from £1.8 billion at the end of FY16 to £2.3bn at the end of FY17, driven by positive market movements and new client accounts of 7,224 in the year. Client take on up some 18% with the platform now servicing 47,089 client accounts. However, overall revenues declined due to the loss of the Fidelity platform in February 2016 which contributed £0.9m the prior year. Operating margin was -44% due to the decrease in revenues YoY.

CSD – AuA analysis

