

Good progress in the Core Business

Results presentation for six months ended 30 September 2017



Agenda

1. Key messages
2. Financial results
3. Outlook
4. Appendices



Paul Abberley
CEO



Ben Money-Coutts
CFO

1. Key messages



Key messages from H1 2018 – Building profitability

Increased profitability

- Reported PBT £6.9m (H1 2017: £4.5m)
- Core business PBT £5.4m (H1 2017: £4.2m)

Core Business operating margin

- 7.3% (H1 2017: 6.2%)

Interim dividend

- Increased to 2.5 pence per share (H1 2017: 1.5 pence)

Balance sheet strengthened

- Regulatory capital resources increased to £65.0m (FY 2017: £61.4m)

Operational highlights – Progress across all divisions

Investment Management Services (IMS)

- Growth in its discretionary service from upgrades and new business
- Continued restructuring to streamline processes and ensure teams are best placed to serve our clients and grow business

Asset Management (AM)

- Launch of the Personal Portfolio Service (PPS)
- Launch of rebranded Charles Stanley Multi-Asset Fund range

Financial Planning (FP)

- Recruitment of additional, high-calibre financial planners to help accelerate growth
- Implementation of Intelliflo operating system

Charles Stanley Direct (CSD)

- Launch of new iOS and Android apps to improve the customer experience and better engage the next generation

Support Functions

- 1.5% reduction in support costs as operational efficiencies continue to be identified across the back office

Group

- Turnaround programme half way through and focus now exclusively on growing the Core Business and improving operating efficiency
- Successful transition of EBS to Embark following the sale
- Governance overhaul completed

Financial KPIs

		H1 2018	H1 2017
Business growth	FuMA growth	1.3%	9.7%
	Discretionary FuMA growth	6.1%	12.4%
	Core Business revenue growth	9.8%	(3.0%)
Operating efficiency	IMS Managed funds per CF30 (£m)	47.0	41.5
	Revenues per Financial Planner (£k)	351	224
	Core Business staff costs / revenue	65.1%	66.0%
	Core Business total costs / revenue	93.2%	94.8%
Balance sheet strength	Regulatory capital resources (£m)	65.0	53.4
	Net assets (£m)	92.8	82.9
Shareholder returns	Core Business EPS (pence)	7.75	7.06
	Reported EPS (pence)	10.87	6.30
	Dividend (pence per share)	2.5	1.5

Revenue growth

- Revenue growth from:
 - New business
 - Repricing
 - Upselling
- Divisional co-operation:
 - Financial planning proposition
 - Promotion of PPS and OEIC range
- Widening distribution network:
 - Building links with external IFAs
 - Targeted marketing campaigns

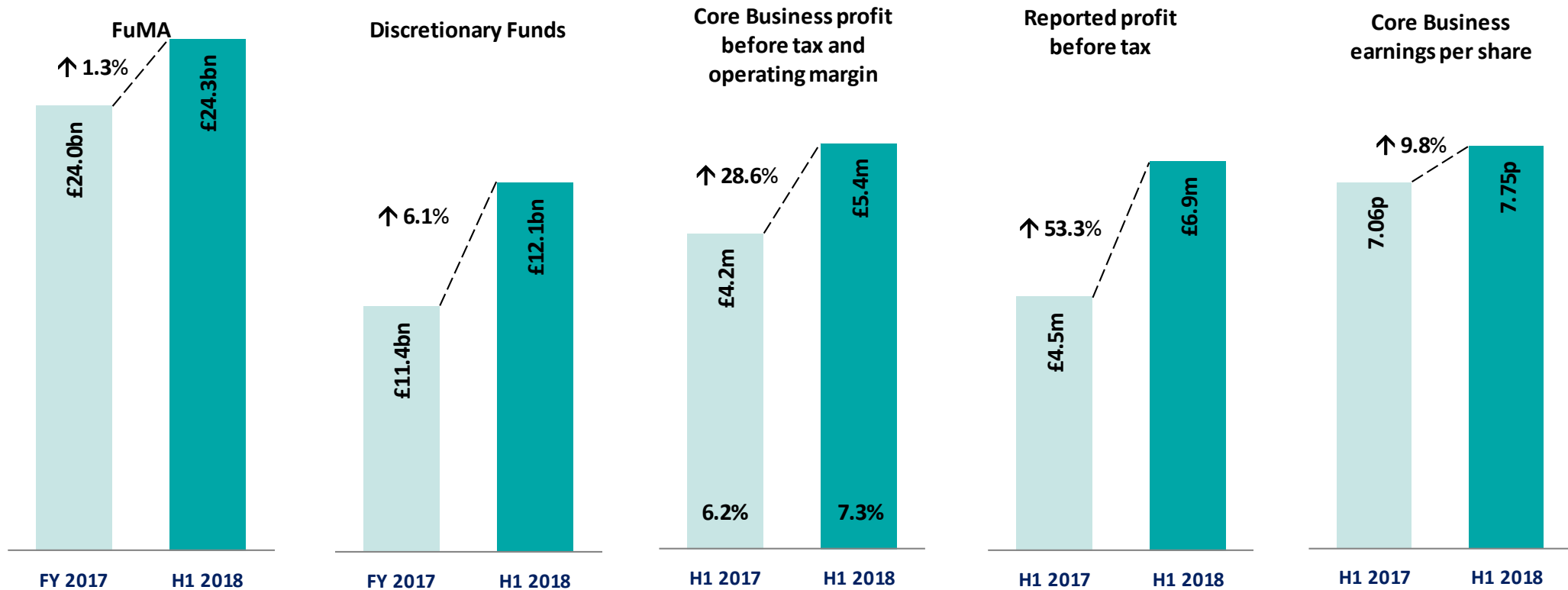
Operational efficiencies

- Appointment of Transformation director
- Attention being given to end-to-end processes to improve both the client experience and reduce the administrative burden
- Upgrading operational systems and standardising tools used in the business

2. Financial results



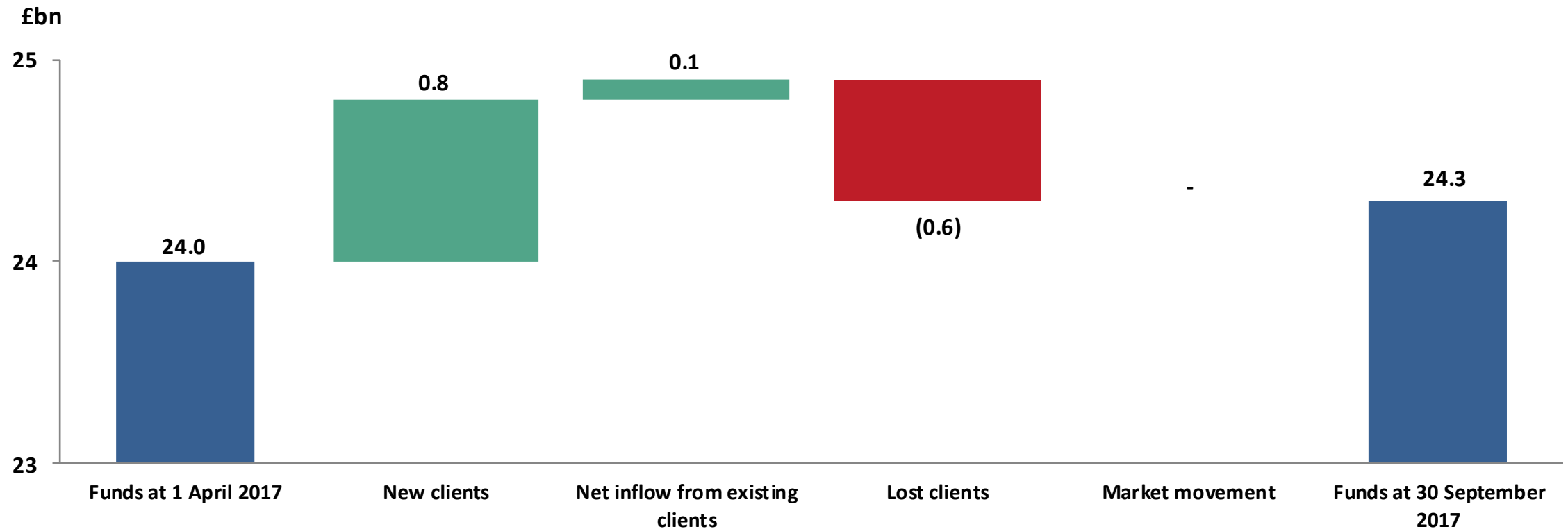
Financial headlines



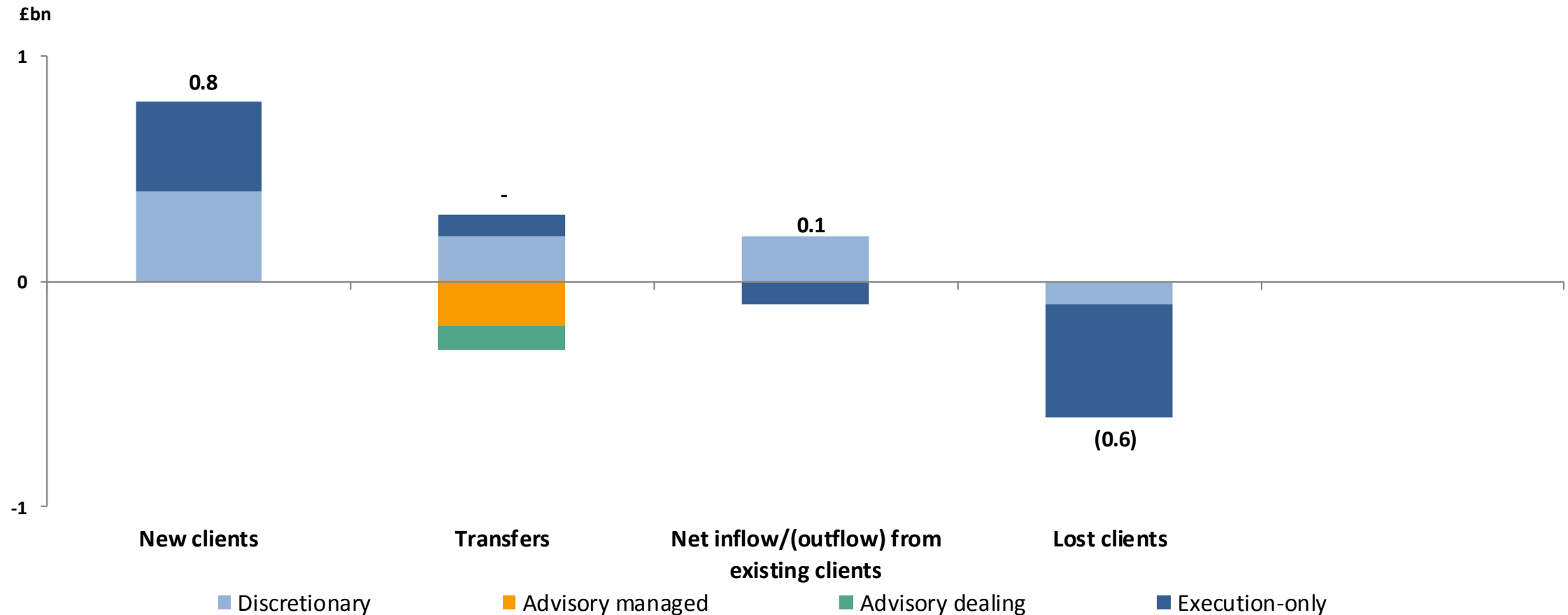
Funds under Management and Administration (FuMA)

	H1 2018 £bn	FY 2017 £bn	Change	
Discretionary funds	12.1	11.4	6.1%	□ FuMA up 1.3% overall compared to flat markets over the period.
Advisory Managed funds	2.2	2.4	(8.3%)	□ Discretionary funds up 6.1% as we continue to upgrade advisory services into the higher margin discretionary services.
Total managed funds	14.3	13.8	3.6%	
Advisory Dealing funds	1.7	1.8	(5.6%)	
Execution-only funds	8.3	8.4	(1.2%)	□ Execution-only book overall down 1.2% primarily registered in the voice-brokered service but with CS Direct recording an increase of 10.4%.
Total administered funds	10.0	10.2	(2.0%)	
Total FuMA	24.3	24.0	1.3%	□ Inflows from new (£0.8bn) and existing clients (£0.1bn) were offset by £0.6bn of lost clients, of which £0.3bn related to departed investment managers. Adjusting for these, the underlying annualised net organic growth in FuMA is 5%.
FTSE UK Private Investor Balanced Index	4,119	4,122	(0.1%)	
FTSE 100	7,373	7,323	0.7%	

FuMA movement – inflows of £0.9 billion in H1 2018



FuMA – flows by service



As noted above, net inflows were primarily directed to the higher margin discretionary service whilst outflows recorded in the execution-only book partly arising from departing teams.

H1 2018 financial summary – Core Business

	H1 2018 £m	H1 2017 £m	Change
Revenue	74.0	67.4	9.8%
Expenses	(69.0)	(63.9)	(8.0%)
Other income	0.2	0.2	-
Operating profit	5.2	3.7	40.5%
Net finance income	0.2	0.5	(60.0%)
Core Business profit before tax	5.4	4.2	28.6%
Core Business operating margin	7.3%	6.2%	17.1%
Core Business EPS	7.75p	7.06p	9.8%

- ☐ Revenue up by 9.8% to £74.0m, driven by an increase in fee income from higher and improved FuMA mix combined with positive markets on prior year. *(For further detail see page 13).*
- ☐ Expenditure increase largely in variable costs in line with uplift in revenues. *(For further detail see page 14).*
- ☐ Core Business profitability up by £1.2m, with an improved operating margin of 7.3% (H1 2017: 6.2%).

Core Business – Revenue

	H1 2018 £m	H1 2017 £m	Change
Fees	51.0	43.1	18.3%
Commission	22.4	23.0	(2.6%)
Interest income	0.6	1.3	(53.8%)
Total revenue	74.0	67.4	9.8%
Revenue margins:	bps	bps	bps
Investment Management Services	63	65	(2)
Asset Management	60	60	0
Charles Stanley Direct	22	22	0
Group	62	65	(3)
Bargains:	No.	No.	
Commission earning	228,480	233,078	(2.0%)
Zero commission	258,382	184,913	39.7%
All Commission Types	486,862	417,991	16.5%

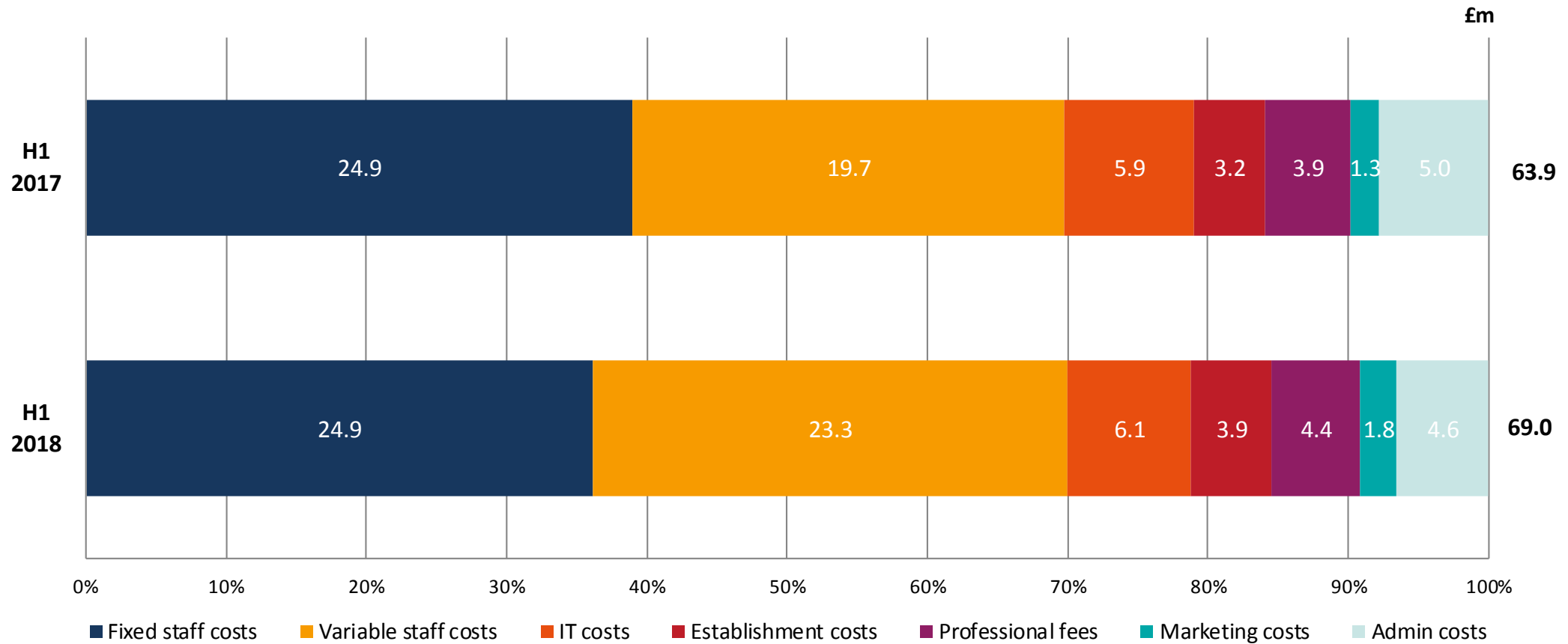
- ❑ Significant improvement in fee income up 18.3% on prior year driven by higher average FuMA and upgrades to discretionary service.
- ❑ Commission reduced by 2.6% as a result of a continuing shift of clients to fee-only tariffs.
- ❑ The drop in revenue margins of 2 bps seen in IMS is exclusively driven by non-fee margin movements, comprising a decrease in commission and interest income.
- ❑ Overall bargain numbers up 16.5% on prior year driven however, there has been a decrease in commission earning bargains for the reasons noted above.

Core Business – Expenditure

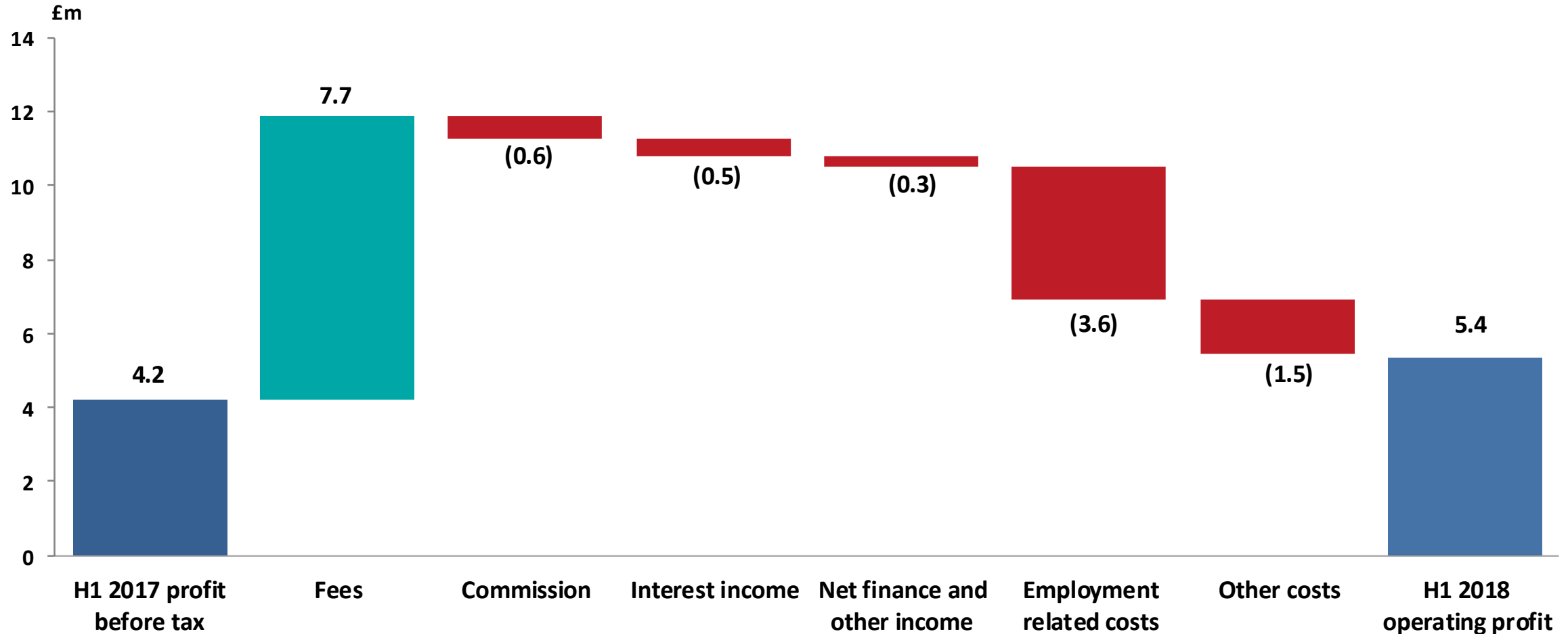
	H1 2018 £m	H1 2017 £m	Change
Staff costs:			
Fixed	24.9	24.9	-
Variable	23.3	19.7	18.3%
Total staff costs	48.2	44.6	8.1%
Other costs	20.8	19.3	7.8%
Total costs	69.0	63.9	8.0%
Fixed staff cost/income ratio	33.7%	37.0%	(3.3%)
Variable staff cost/income ratio	31.4%	29.2%	2.2%
Total cost/income ratio	93.2%	94.7%	(1.5%)
Closing headcount	852	832	(2.4%)

- ❑ Fixed employment costs are relatively flat on prior year as savings achieved from a 2.4% reduction in headcount were offset by costs incurred in connection with restructure costs and temporary contractors.
- ❑ H1 2018 variable staff costs include £0.8m non-cash charge for share options granted to employed investment managers in June 2017 in consideration for accepting revised contracts.
- ❑ The overall rise in other costs of 7.8% comprises increases in marketing costs with more targeted promotional campaigns and higher IT and professional costs incurred in connection with implementation of regulatory changes.

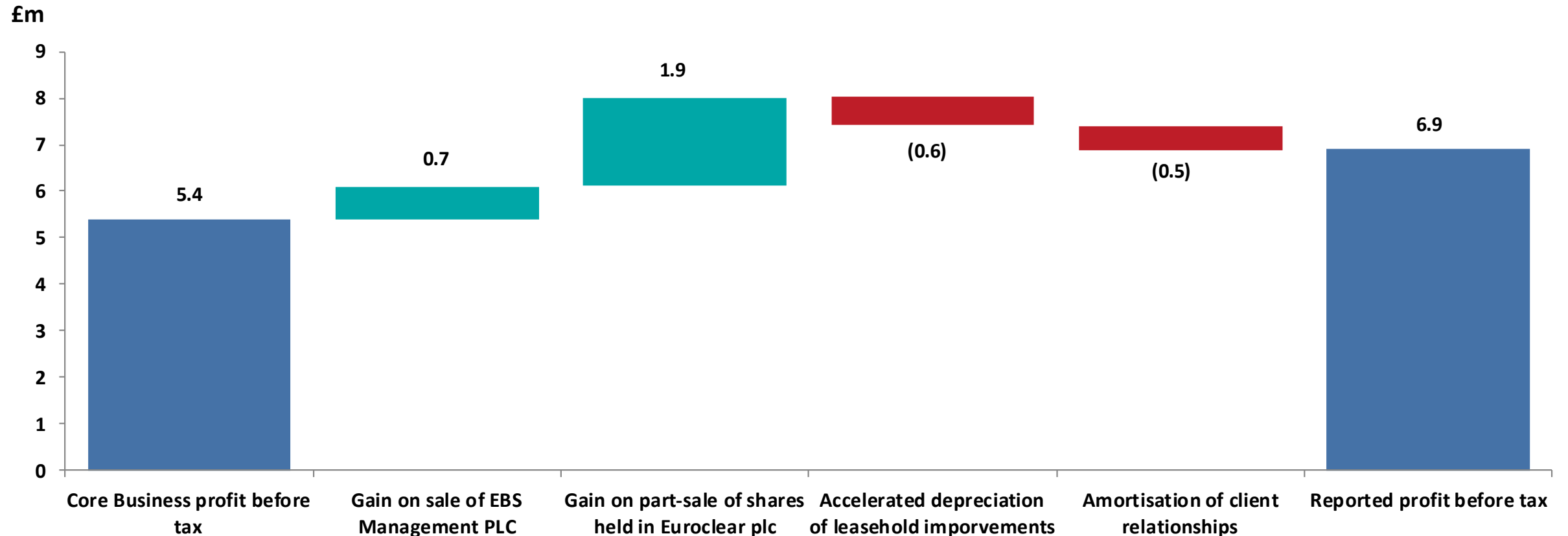
Core Business – Expenses breakdown



Core Business profitability – positive H1 vs H1 increase



Reported performance and breakdown of adjusting items

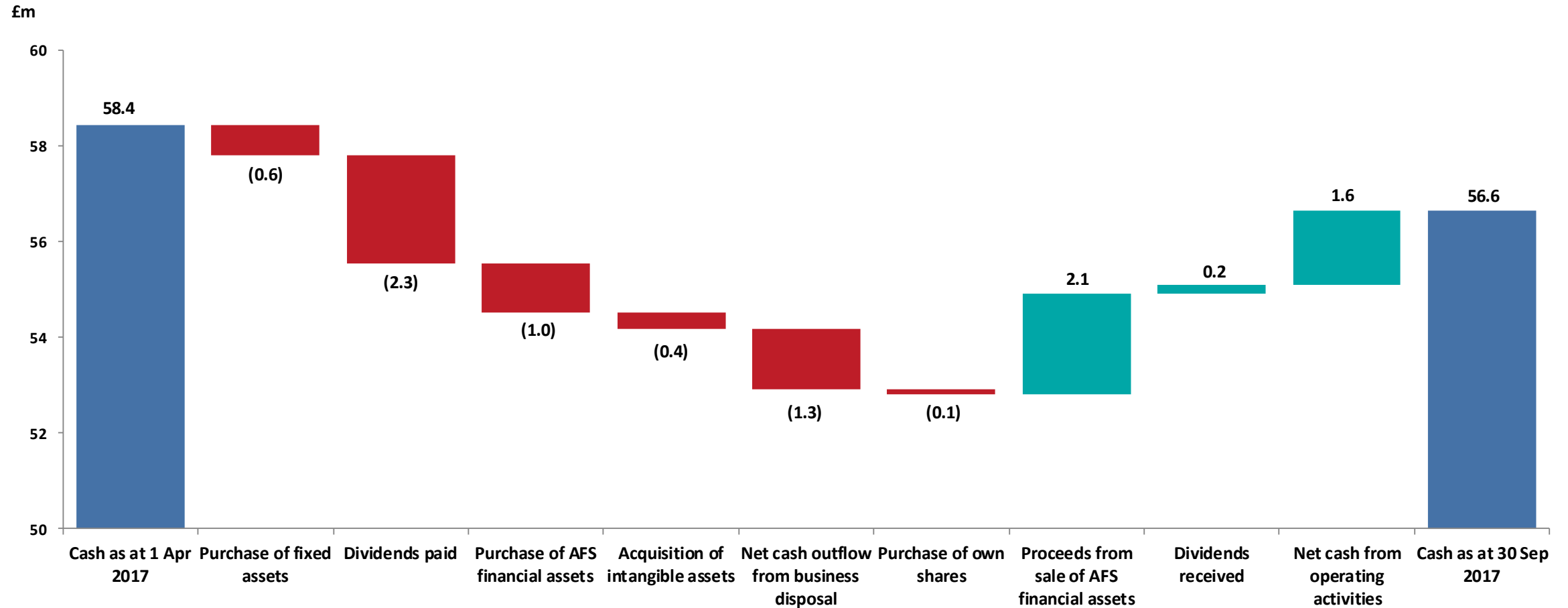


Balance sheet strengthened

	H1 2018 £m	FY 2017 £m	Change
Total intangible assets	20.2	21.2	(4.7%)
Total tangible non-current assets	18.6	17.5	6.3%
Non-current assets	38.8	38.7	0.3%
Cash	56.6	54.9	3.1%
Assets held for sale	-	9.0	(100.0%)
Other current assets	109.8	144.4	(24.0%)
Total net current assets	166.4	208.3	(20.1%)
Total assets	205.2	247.0	(16.9%)
Total equity	92.8	89.1	4.2%
Pensions scheme deficit	8.8	10.5	(16.2%)
Liabilities held for sale	-	1.6	(100.0%)
Other liabilities	103.6	145.8	(28.9%)
Total liabilities	112.4	157.9	(28.8%)
Total equity and liabilities	205.2	247.0	(16.9%)
Net assets	92.8	89.1	4.2%
Regulatory capital resources	65.0	61.4	5.9%

- ❑ Cash balances up marginally since year-end, with cash inflows from operations and proceeds from disposal of AFS investments offset by FY 2017 final dividend paid.
- ❑ The assets and liabilities held for sale in FY 2017 related to EBS, the sale of which completed on 31 May 2017.
- ❑ The defined benefit pension scheme liability fell by £1.7m since 31 Mar 2017 as a result of marginally higher discount rates and updated mortality assumptions.
- ❑ Regulatory capital resources strengthened significantly.

Cash flow movements in H1 2018



Cash at 1 April 2017 includes EBS balances included within assets held for sale on balance sheet until the disposal date on 31 May 2017

3. Outlook



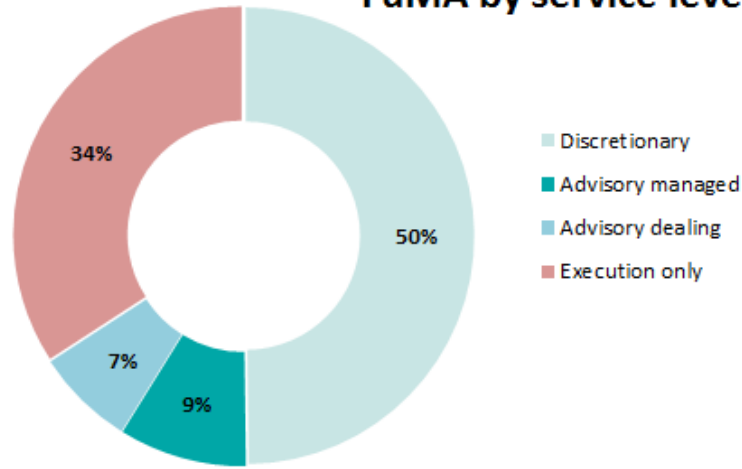
- ❑ Long term trends and current market backdrop remain favourable.
- ❑ Near term headwinds from higher than usual quantum of regulatory change and lower than expected commission income.
- ❑ Focus is now entirely on detailed execution, both to accelerate revenue growth and to improve the efficiency of end-to-end processes.

4. Appendices

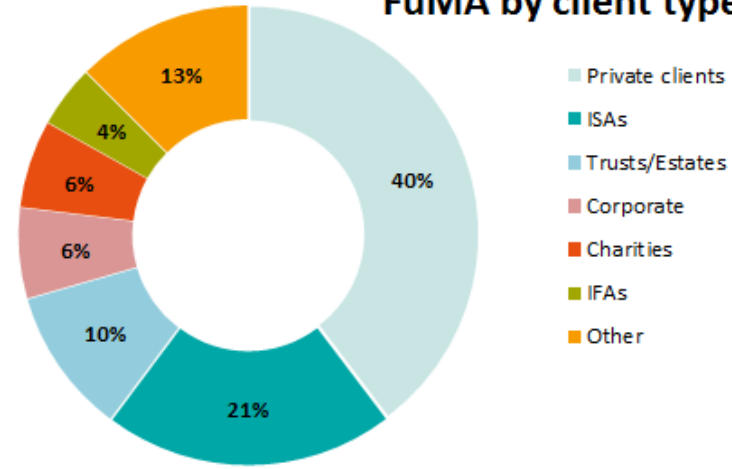


FuMA by service type

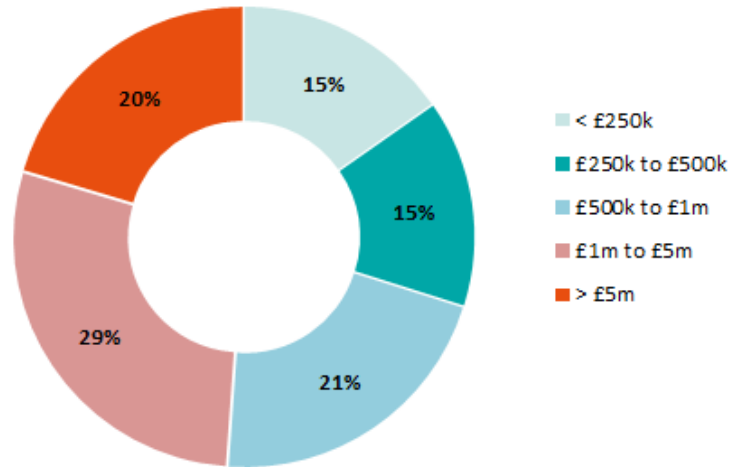
FuMA by service level



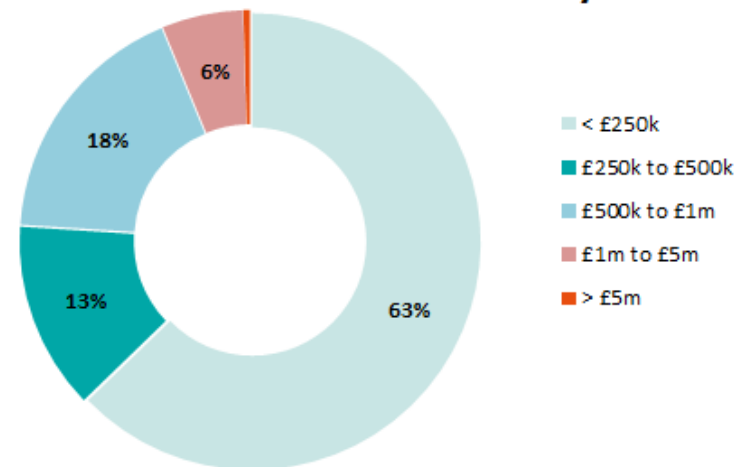
FuMA by client type



Size of clients FuMA by value



Size of clients by number



Core Business – Divisional breakdown

Core Business

	IMS £m	AM £m	FP £m	CSD £m	Core Business £m
H1 2018					
Revenue	64.6	3.9	2.9	2.6	74.0
Expenditure	(58.2)	(3.4)	(4.1)	(3.3)	(69.0)
Other income	0.2	-	-	-	0.2
Operating profit/(loss)	6.6	0.5	(1.2)	(0.7)	5.2
Net finance income	0.2	-	-	-	0.2
Profit/(loss) before tax	6.8	0.5	(1.2)	(0.7)	5.4
H1 2017 profit/(loss) before tax	6.5	0.4	(2.0)	(0.7)	4.2

See following pages for further divisional analysis

IMS – FuMA and revenue margins

	H1 2018 £bn	FY 2017 £bn	Change
Discretionary (£bn)	11.0	10.3	6.8%
Advisory managed (£bn)	2.0	2.1	(4.8%)
Total managed (£bn)	13.0	12.4	4.8%
Advisory dealing (£bn)	1.7	1.8	(5.6%)
Execution-only (£bn)	5.8	6.1	(4.9%)
Total administered (£bn)	7.5	7.9	(5.1%)
Total FuMA (£bn)	20.5	20.3	1.0%
Average managed account portfolio size (£000)	263.8	274.4	(3.9%)
	H1 2018	H1 2017	
Revenue margins:	bps	bps	
Discretionary	85	85	-
Advisory managed	69	68	1
Managed	83	81	2
Advisory dealing	35	35	-
Execution-only	25	31	(6)
Administered	27	32	(5)
Total	63	65	(2)

IMS – Financial performance

	H1 2018 £m	H1 2017 £m	Change
Revenue	64.6	59.8	8.0%
Direct Costs	(34.7)	(30.6)	(13.4%)
Other Income	0.2	0.2	0.0%
Contribution	30.1	29.4	2.4%
Allocated costs	(23.5)	(23.4)	(0.4%)
Operating Profit	6.6	6.0	10.0%
Contribution margin	46.6%	49.2%	
Operating margin	10.2%	10.0%	
Headcount	404	418	(14)

- ❑ As noted on the previous slide, the division's FuMA increased to £20.5bn since March 2017, with the discretionary service up 6.8% (£0.7bn).
- ❑ Revenues increased 8% on last year to £64.6m predominantly due to the increase in fee income more than offsetting the decline in commission income and interest earned on client cash balances.
- ❑ The division's direct costs increased by 17.0% mainly due to a rise in variable compensation driven by a growth in revenues (£2.0m), the accounting charge for the investment managers' share options granted in June 2017 (£0.8m), increased marketing spend (£0.4m) and additional project-related costs (£0.5m).
- ❑ Notwithstanding the net increase in expenditure, the division maintained its operating margin at around 10%.

AM – Financial performance

	H1 2018	H1 2017	Change
	£m	£m	
Revenue	3.9	3.1	25.8%
Direct costs	(2.2)	(1.5)	(46.7%)
Contribution	1.7	1.6	6.3%
Allocated costs	(1.2)	(1.2)	-
Operating Profit/(loss)	0.5	0.4	25.0%
Revenue margin (bps)	60	60	-
Contribution margin	43.6%	51.6%	
Operating margin	12.8%	12.9%	
Headcount (number)	20	18	2

- ❑ Asset Management's FuM increased by 6.4% (£81.4m) to £1.3bn since March 2017.
- ❑ Revenues increased by 25.8% over the year with inflows seen primarily in the Inheritance Tax Portfolio service and the pension and institutional business.
- ❑ Costs have also risen in the period, particularly in connection with the launch of the Personal Portfolio Service and subsidisation of the associated OEICs total expense ratio until they reach critical mass, estimated to be approximately £100m.
- ❑ The division recorded an operating margin of 12.8% in line with that achieved in H1 2017.

FP – Financial performance

	H1 2018	H1 2017	Change
	£m	£m	
Revenue	2.9	2.4	20.8%
Direct costs	(3.1)	(2.5)	(24.0%)
Contribution	(0.2)	(0.1)	(100.0%)
Allocated costs	(1.0)	(1.9)	47.4%
Operating loss	(1.2)	(2.0)	40.0%
Contribution margin	(6.9%)	(4.2%)	
Operating margin	(41.4%)	(83.3%)	
No. of Financial planners	16	21	(5)
Revenue per financial planner (£k)	351	224	127

- ❑ The Financial Planning division continued to be restructured with a number of new planners recruited during the period. The division is actively seeking to expand further.
- ❑ Revenues were up by 20.8% (£0.5m) over the period as a result of the improved productivity arising from the division's restructure.
- ❑ Expenditure also increased due to higher recruitment costs and redundancy payments arising from the restructure. The division has also stepped up its marketing activity and is undergoing a major project to replace its current operating system with Interlliflo. These initiatives have resulted in higher expenditure compared to H1 2017.

CSD – Financial performance

	H1 2018	H1 2017	Change
	£m	£m	
Revenue	2.6	2.1	23.8%
Direct costs	(1.8)	(1.2)	(50.0%)
Contribution	0.8	0.9	(11.1%)
Allocated costs	(1.5)	(1.6)	6.3%
Operating loss	(0.7)	(0.7)	-
Revenue margin (bps)	22	22	-
Contribution margin	30.8%	42.9%	
Operating margin	(26.9%)	(33.3%)	
	H1 2018	FY 2017	
Closing AuA (£bn)	2.5	2.3	8.7%
Client accounts	53,205	41,071	29.5%

- ❑ Charles Stanley Direct's AuA grew by 8.7% to £2.5bn since March 2017 driven by positive market movements and new client take on, up 29.5% with the platform now servicing 53,205 client accounts.
- ❑ Revenues increased by 23.8% to £2.6m on the prior year as a result of the increased business activity.
- ❑ Total costs increased 17.9% with the main increases being to marketing and client service spend combined with project costs incurred in connection with the launch of the mobile application.

Recent awards and recognitions

