

CHARLES
STANLEY▲

H1 2019 Interim results

22 November 2018



1. Financial results

2. Strategic update

3. Appendices



H1 2019 – Solid progress made

Steady improvement of FuMA

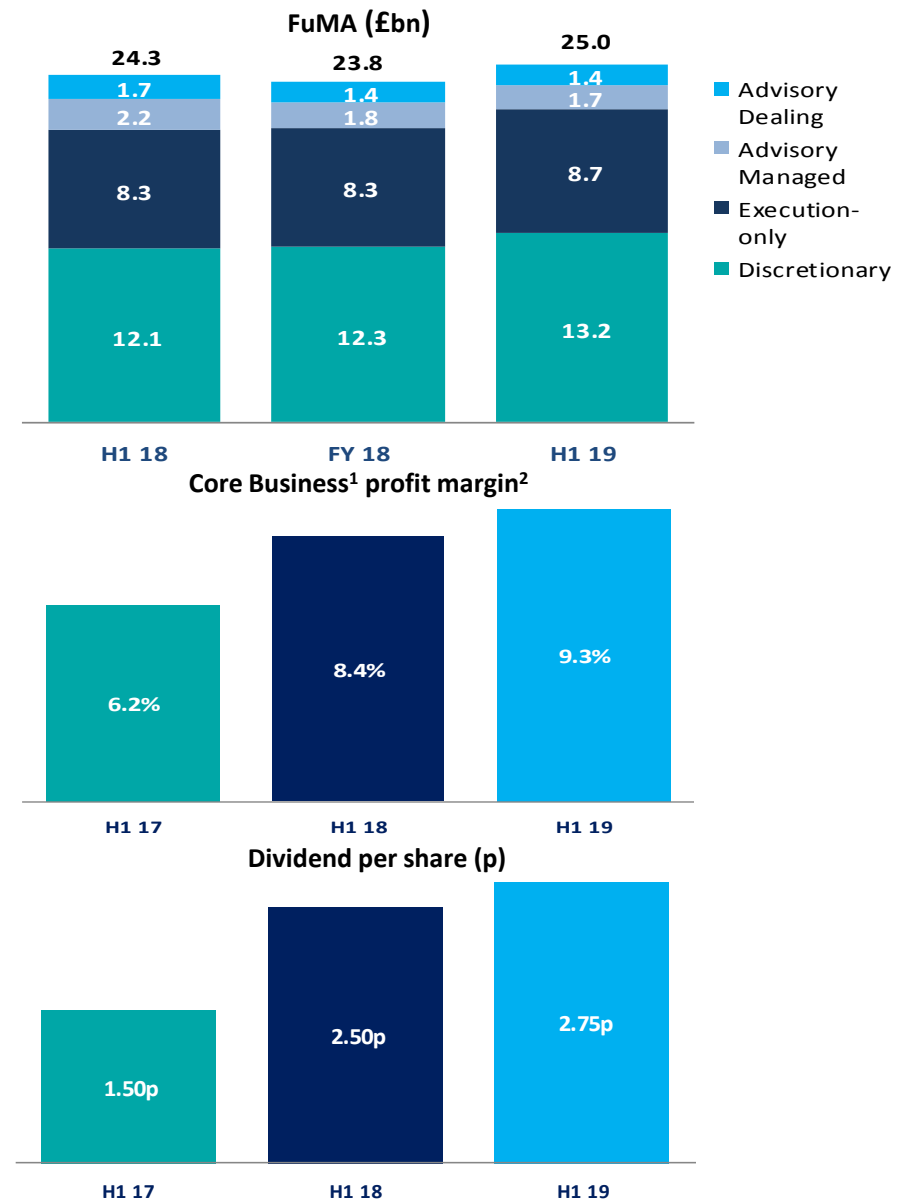
- ☐ FuMA up 5.0%
- ☐ Discretionary funds up 7.3%
- ☐ Advisory Managed down 5.6% and Dealing flat
- ☐ Execution-only up 4.8%; Charles Stanley Direct up 12.4% to £2.6bn

Continued growth of profits, margin and dividend

- ☐ Core Business¹ profit of £5.7m up 5.6%
- ☐ Core Business¹ profit margin² 9.3% (H1 2018: 8.4%)
- ☐ 10% increase in interim dividend per share

Strong balance sheet

- ☐ Net assets £102.8m, of which £67.0m is cash
- ☐ Regulatory capital solvency ratio up to 193%



¹The Core Business figures represent the results of the Group's four main operating divisions, excluding held for sale activities and adjusting items.

²Excluding the charge in respect of share options awarded to certain investment management teams under their revised remuneration arrangements.

FuMA up 5.0%

	Discretionary £bn	Advisory Managed £bn	Advisory Dealing £bn	Execution- only £bn	Total £bn
Funds at 1 April 2018	12.3	1.8	1.4	8.3	23.8
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New clients	0.4	-	-	0.2	0.6
Service level transfers	0.1	(0.2)	(0.1)	0.2	-
Net inflow/(outflow) from existing clients	(0.2)	-	-	(0.2)	(0.4)
Lost clients	(0.1)	-	-	(0.2)	(0.3)
Net organic inflows/(outflows)	0.2	(0.2)	(0.1)	-	(0.1)
Market movement	0.7	0.1	0.1	0.4	1.3
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Funds at 30 September 2018	13.2	1.7	1.4	8.7	25.0
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Percentage change in the period	7.3%	(5.6%)	-%	4.8%	5.0%

- ❑ Total FuMA growth reflects market uplift of 5.5%
- ❑ Discretionary funds grew 7.3%
- ❑ Total Execution-only funds grew 4.8%. Our digital platform, CS Direct, continued to outperform, up 12.4%
- ❑ Growth was offset by the continuing transfer of funds out of Advisory Managed and Advisory Dealing

Core Business revenue up 5.0%

Revenue growth in all divisions

Investment Management Services¹
 Asset Management¹
 Financial Planning
 Charles Stanley Direct

	H1 2019	H1 2018	change
	£m	£m	
Investment Management Services ¹	66.9	65.2	2.6%
Asset Management ¹	3.8	3.3	15.2%
Financial Planning	3.5	2.9	20.7%
Charles Stanley Direct	3.5	2.6	34.6%
	77.7	74.0	5.0%

Increase in fee income
 compensating for declining
 commissions

Fees
 Commission
 Interest income

	H1 2019	H1 2018	change
	£m	£m	
Fees	54.7	50.4	8.5%
Commission	19.7	22.4	(12.1%)
Interest income	3.3	1.2	175.0%
	77.7	74.0	5.0%

Improvement in revenue
 margins due to service mix
 change

Investment Management Services¹
 Asset Management¹
 Charles Stanley Direct

	H1 2019	H1 2018	change
	bps	bps	bps
Investment Management Services ¹	66	64	2
Asset Management ¹	58	56	2
Charles Stanley Direct	24	22	2
	63	62	1

¹H1 2018 figures have been restated to reflect the transfer of an investment management team from Asset Management to Investment Management Services during the second half of FY2018.

Core Business expenditure has increased in line with revenue

	Front office divisions £m	Support Functions £m	H1 19 Core Business £m	H1 18 Core Business £m
Fixed staff costs	(14.0)	(11.1)	(25.1)	(23.4)
Variable staff costs	(23.3)	(4.3)	(27.6)	(24.8)
Other direct costs	(9.0)	(10.7)	(19.7)	(20.8)
	(46.3)	(26.1)	(72.4)	(69.0)
Fixed staff cost/income ratio			32.3%	31.6%
Variable staff cost/income ratio			35.5%	33.5%
Other direct costs/income ratio			25.4%	28.1%
Closing headcount			849	852

- ❑ Core Business expenditure increased by 4.9%
- ❑ The increase in fixed staff costs includes the continued investment to expand the Financial Planning division (£0.7m), additional costs across other front office divisions (£0.4m) and a credit on transfers out of the DB pension scheme in the prior period (£0.5m)
- ❑ Variable compensation has risen due to increases in revenue (£1.4m), higher training and contractor costs (£0.6m) and a full period charge for investment managers' share options (£0.7m)
- ❑ Other direct costs reduced 5.3%, primarily due to a reduction in professional fees

Financial Summary – Core Business

	H1 2019 £m	H1 2018 £m	Change
Revenue	77.7	74.0	5.0%
Expenses	(72.4)	(69.0)	(4.9%)
Other income	-	0.2	(100.0%)
Operating profit	5.3	5.2	1.9%
Net finance income	0.4	0.2	100.0%
Core Business profit before tax	5.7	5.4	5.6%
Adjusting items ¹	(0.6)	1.5	(140.0%)
Profit before tax	5.1	6.9	(26.1%)
Tax	(0.9)	(1.3)	30.8%
Profit after tax	4.2	5.6	(25.0%)
Core Business operating margin ²	9.3%	8.4%	
Core Business EPS	9.27p	7.75p	19.6%
Dividend per share	2.75p	2.50p	10.0%

- ❑ Revenues and expenditure up in line with FuMA
- ❑ Net finance income increase as a result of gains on listed investments
- ❑ Core Business profit margin increased to 9.3% (H1 2018: 8.4%)
- ❑ Current year adjusting items represent client list amortisation charge. The prior year also included £2m one-off gains on disposal of non-core business activities
- ❑ The reduction in tax charge is due to lower reported profits and the recognition of deferred tax assets

¹Refer to appendices for a breakdown of the adjusting items.

²Excluding the charge in respect of share options awarded to certain investment management teams under their revised remuneration arrangements.

Core business – Divisional breakdown

	Investment Management Services	Asset Management	Financial Planning	Charles Stanley Direct	Core Business
	£m	£m	£m	£m	£m
Six months ended 30 September 2018					
Revenue	66.9	3.8	3.5	3.5	77.7
Direct costs:					
Fixed staff costs	(9.9)	(1.0)	(2.4)	(0.7)	(14.0)
Variable staff costs	(22.0)	(0.6)	(0.7)	-	(23.3)
Other direct operating expenses	(6.4)	(0.8)	(0.9)	(0.9)	(9.0)
Contribution	28.6	1.4	(0.5)	1.9	31.4
Allocated costs	(21.8)	(1.4)	(1.2)	(1.7)	(26.1)
Operating profit	6.8	-	(1.7)	0.2	5.3
Net finance and other income	0.2	0.2	-	-	0.4
Profit/(loss) before tax	7.0	0.2	(1.7)	0.2	5.7
Six months ended 30 September 2017					
Profit/(loss) before tax	7.3	-	(1.2)	(0.7)	5.4

- ❑ Core business profit before tax increased by 5.6% to £5.7m
- ❑ Investment Management Services has seen revenue growth, which was offset by linked increases in variable staff costs, higher contractor costs and a full period share options charge
- ❑ Charles Stanley Direct and Asset Management both moved into profit driven by revenue growth outstripping cost increases
- ❑ 20.7% growth in Financial Planning revenue but the loss increased due to the recruitment of additional planners and support staff which will add to profitability as higher revenues are generated

Balance sheet strengthened – Net assets exceeded £100m

	H1 2019 £m	FY 2018 £m	Change
Total intangible assets	19.0	19.3	(1.6%)
Total tangible non-current assets	14.1	18.5	(23.8%)
Non-current assets	33.1	37.8	(12.4%)
Cash	67.0	65.6	2.1%
Other current assets	147.6	178.2	(17.2%)
Total net current assets	214.6	243.8	(12.0%)
Total assets	247.7	281.6	(12.0%)
Total equity	102.8	97.8	5.1%
Pension scheme deficit	5.2	6.5	(20.0%)
Other liabilities	139.7	177.3	(21.2%)
Total liabilities	144.9	183.8	(21.2%)
Total equity and liabilities	247.7	281.6	(12.0%)
Net assets	102.8	97.8	5.1%
Regulatory capital resources	75.5	74.0	2.0%
Capital adequacy ratio	193%	177%	

- ❑ Regulatory capital resources improved with the capital adequacy ratio increasing to 193%
- ❑ Pension deficit continues to decrease. Impact of Lloyds ruling in relation to GMP equalisation not expected to be material
- ❑ The Group continues to hold a significant proportion of its resources in cash

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Our vision

- ❑ To become the UK's leading wealth manager
- ❑ The broad strategy and underlying financial projections to achieve our vision remains unchanged
- ❑ In the medium term, we believe we can deliver a 15% Core Business pre-tax profit margin

Operational highlights – Progress during H1 2019

Investment Management Services

- ❑ Improved business mix; upgrading clients to a Discretionary service where appropriate
- ❑ Continued progress in repricing our asset book
- ❑ Released a significantly improved website portal and new mobile app for private clients to increase digital interaction with clients

Asset Management

- ❑ Recruited dedicated sales staff to drive our model portfolio offering externally
- ❑ Provided portfolio templates to the firm's investment managers

Financial Planning

- ❑ Continued expansion in capacity with the hire of new planners and support staff
- ❑ Embedded a new operating system; improving our internal processes and delivering efficiency gains

Charles Stanley Direct

- ❑ Successfully re-priced our platform in September
- ❑ Delivered app improvements including the launch of a fund trading function
- ❑ Committed to reinvesting half of incremental revenue gains from repricing into further development

Support functions

- ❑ Continued investment in the Group's technology to enhance standardisation
- ❑ Increased the number of targeted marketing campaigns and events

The journey to a 15% profit margin

Key levers	Medium-term target	Performance and actions	Principal risks of delivery
Grow FuMA	Grow average FuMA by 13-15% from FY18 levels	FY15 – FY18 average FuMA grew 18 % (10% Market, 8% organic) Appointment of a Group Head of Distribution and continued expansion of the intermediary sales team	<ul style="list-style-type: none"> <input type="checkbox"/> Failure to achieve organic growth <input type="checkbox"/> Higher than expected outflows from existing clients <input type="checkbox"/> Sustained negative market performance
Increase revenue margin	Achieve 66-68bps Group blended revenue margin	H1 19 revenue margin 63bps Trend toward higher margin Discretionary service Completion of repricing by 31 March 2019 Growth in Financial Planning offering	<ul style="list-style-type: none"> <input type="checkbox"/> Continued decline in commission income <input type="checkbox"/> Variable interest rates <input type="checkbox"/> Competitive pressures on fees <input type="checkbox"/> Impact of MiFID II
Improve operating efficiency	Reduce non-variable costs as a percentage of revenue to below 55% ¹	H1 19 ratio 57.7% Standardise operating practices to improve efficiency across the Group Central remuneration initiative for central leads	<ul style="list-style-type: none"> <input type="checkbox"/> Below target revenues would impact this ratio <input type="checkbox"/> Continued cultural change required <input type="checkbox"/> Programmes identified fail to deliver <input type="checkbox"/> Unforeseen expenditure required

¹Before any one-off restructuring charges that might arise

Outlook

- ❑ Markets have corrected in October reducing our FuMA back to March levels at £23.8 billion
- ❑ Notwithstanding near term uncertainties, we retain a positive view for world economies and markets over next twelve to eighteen months
- ❑ We expect to make continued progress in the second half and remain fully committed to our vision of transforming Charles Stanley into the UK's leading wealth manager

Q & A



Paul Abberley
Chief Executive
Officer



Ben Money-Coutts
Chief Financial
Officer

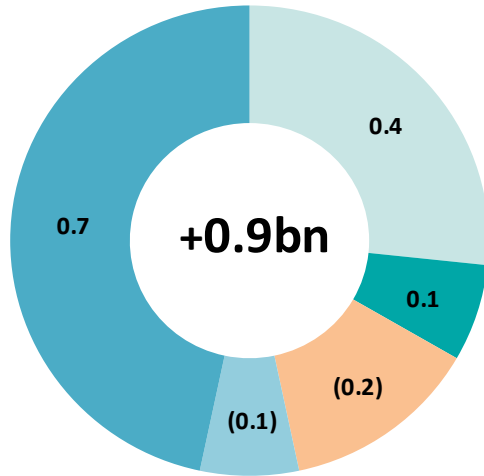
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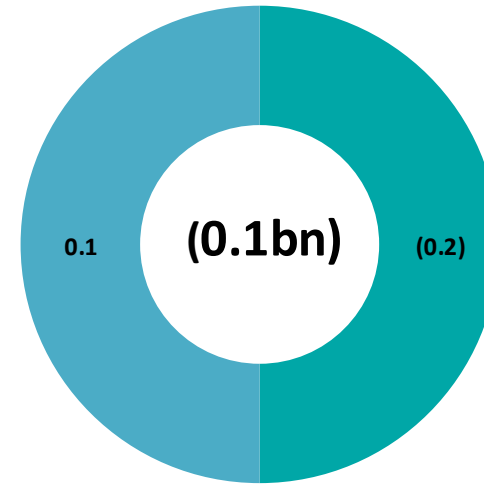


Change in FuMA by service type in H1 2019



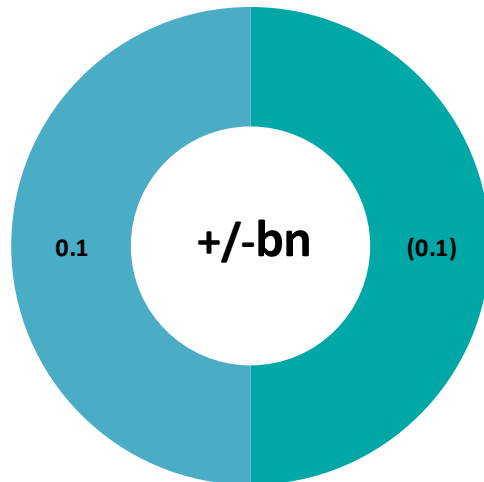
Discretionary

- New clients
- Transfers
- Net inflow/(outflow) from existing clients
- Lost clients
- Market movement



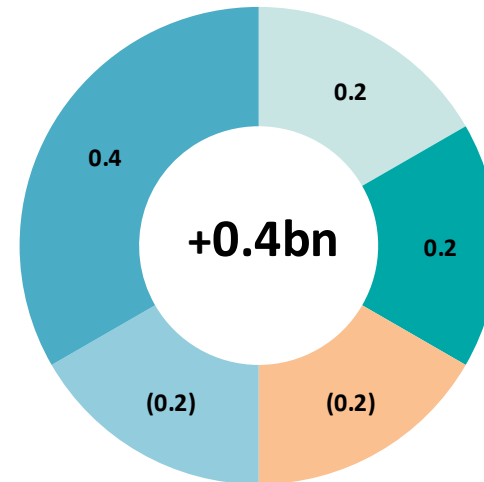
Advisory Managed

- New clients
- Transfers
- Net inflow/(outflow) from existing clients
- Lost clients
- Market movement



Advisory Dealing

- New clients
- Transfers
- Net inflow/(outflow) from existing clients
- Lost clients
- Market movement



Execution-only

- New clients
- Transfers
- Net inflow/(outflow) from existing clients
- Lost clients
- Market movement

IMS – Divisional performance

	H1 2019 £m	H1 2018 ¹ £m	Change
Fee	46.2	43.5	6.2%
Commission	18.4	21.2	(13.2%)
Interest	2.3	0.5	360.0%
Revenue	66.9	65.2	2.6%
Contribution ²	28.6	29.5	(3.1%)
Profit before tax ²	7.0	7.3	(4.1%)
Investment managers share option charge	1.5	0.8	87.5%
Profit before tax excluding share option charge	8.5	8.1	4.9%
Contribution margin ²	42.8%	45.2%	
Profit margin excluding share option charge	12.7%	12.4%	
Closing headcount	381	411	(30)
Discretionary (£bn)	12.0	11.0	9.1%
Advisory managed (£bn)	1.4	2.0	(30.0%)
Total managed (£bn)	13.4	13.0	3.1%
Advisory dealing (£bn)	1.4	1.7	(17.6%)
Execution-only (£bn)	5.7	5.8	(1.7%)
Total administered (£bn)	7.1	7.5	(5.3%)
Total FuMA (£bn)	20.5	20.5	-
Average discretionary account portfolio size (£000)	320.6	310.7	3.2%
12 month average Discretionary funds per CF30 (£m)	51.2	43.3	18.2%
Revenue margins:	bps	bps	
Discretionary	84	86	(2)
Advisory managed	69	69	-
Managed	83	84	(1)
Advisory dealing	30	35	(5)
Execution-only	23	25	(2)
Administered	24	27	(3)
Total	66	64	2

- ❑ Divisional revenue increased by 2.6%, driven primarily by an increase in the level of higher margin discretionary funds
- ❑ Contribution fell primarily as a result of a rise in variable compensation driven by revenue growth (£0.9m), increased temporary staff costs (£0.3m) and a full period charge in respect of the investment managers' share options (£0.7m)

¹H1 2018 figures have been restated to reflect the transfer of an investment management team from Asset Management to Investment Management Services during the second half of FY2018.

²The calculation of the above ratios makes no adjustment for the investment managers share option charge for the period of £1.5m (H1 2018: £0.8m)

AM – Divisional performance

	H1 2019 £m	H1 2018 ¹ £m	Change
Revenue	3.8	3.3	15.2%
Contribution	1.4	1.2	16.7%
Profit before tax	0.2	-	100.0%
Revenue margin (bps)	58	56	2
Contribution margin	36.8%	36.4%	
Closing headcount	20	20	-
FuM - on platform	0.9	1.0	(10.0%)
FuM - off platform ²	0.5	0.3	66.7%
FuM (£bn)	1.4	1.3	7.7%

- ☐ The division reported a profit for the period, as well as increasing revenue and contribution
- ☐ The division's FUM increased by 7.7%, across model funds, fiduciary mandates and Inheritance Tax Portfolio

¹H1 2018 figures have been restated to reflect the transfer of an investment management team from Asset Management to Investment Management Services during the second half of FY2018.

²Off platform FUM comprises model portfolios on third party platforms and Open Ended Investment Companies (OEICs) or other clients whose assets are held by a third party custodian.

FP – Divisional performance

	H1 2019	H1 2018	Change
	£m	£m	
Revenue	3.5	2.9	20.7%
Contribution	(0.5)	(0.2)	(150.0%)
Loss before tax	(1.7)	(1.2)	(41.7%)
Contribution margin	(14.3%)	(6.9%)	
Margin	(48.6%)	(41.4%)	
Closing no. of financial planners	21	18	3
Revenue per financial planner (£k)	333	319	4.4%

- The Group continues to invest in the Financial Planning division, increasing both the number of financial planners and support staff and investing in operating systems
- The Group has seen the delivery of additional revenue from this enhanced capacity, however, typically it takes between 18 and 24 months for new financial planners to meet target revenue levels

CSD – Divisional performance

	H1 2019	H1 2018	Change
	£m	£m	
Revenue	3.5	2.6	34.6%
Contribution	1.9	0.8	137.5%
Profit/(loss) before tax	0.2	(0.7)	128.6%
Revenue margin (bps)	24	22	2
Contribution margin	54.3%	30.8%	
Profit/(loss) margin	5.7%	(26.9%)	
Charles Stanley Direct	2.6	2.1	23.8%
Charles Stanley Investment Choices	0.4	0.4	0%
AuA (£bn)	3.0	2.5	20.0%

- ❑ CSD's revenue grew 34.6% driven by increasing the division's AuA by attracting new customers and internal fund transfers
- ❑ The division reported a profit for the period for the first time, delivering revenue increases to the bottom line
- ❑ CSD introduced a revised charging structure in September 2018

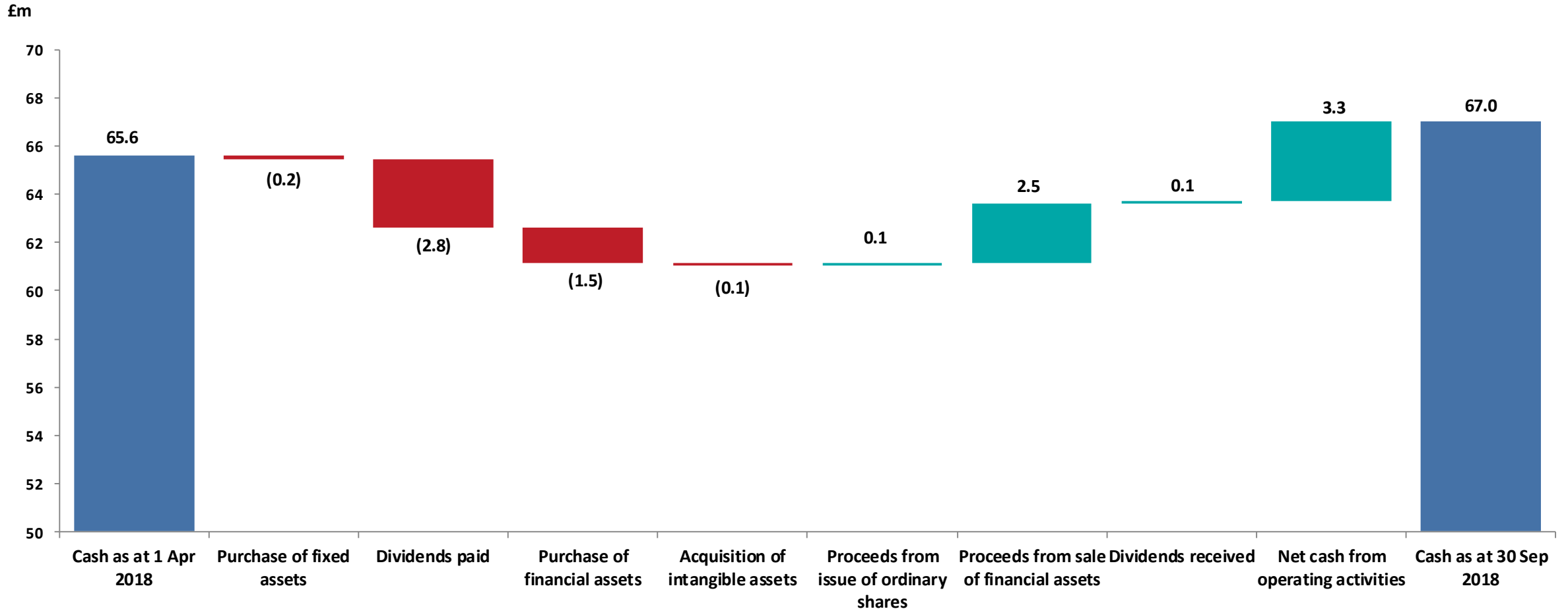
Reconciliation of Core Business and reported PBT

	H1 2019	H1 2018
	£m	£m
Core Business profit before tax	5.7	5.4
Amortisation of client relationships	(0.6)	(0.5)
Accelerated depreciation of leasehold improvements	-	(0.6)
Gain on part sale of shares held in Euroclear plc	-	1.9
Gain on sale of EBS Management PLC	-	0.7
Net (charge)/credit from adjusting items	(0.6)	1.5
Reported profit before tax	5.1	6.9
Core Business earnings per share (p) ¹	9.27	7.75
Reported earnings per share (p)	8.31	10.87

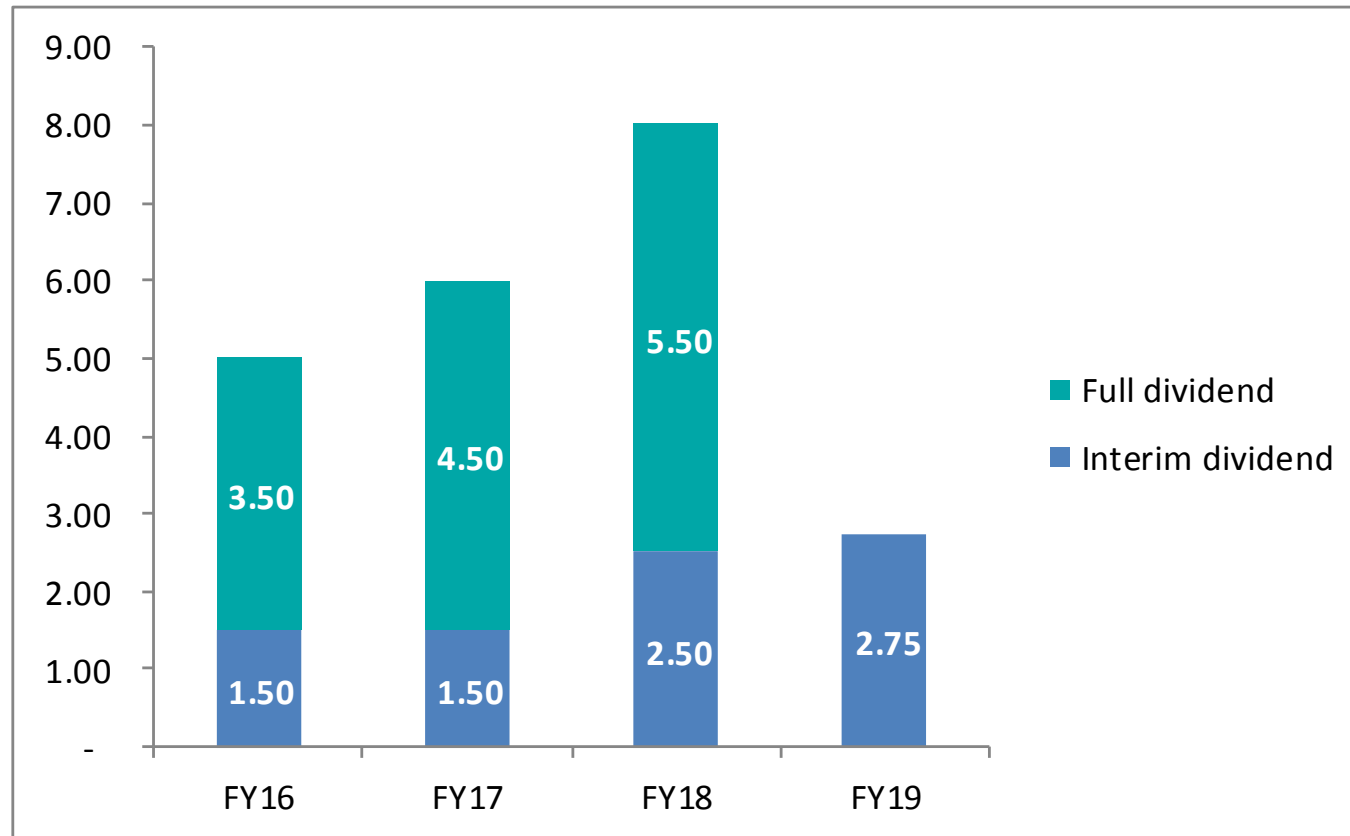
- ☐ The Board considers Core Business profit before tax and earnings per share to be a better reflection of underlying business performance
- ☐ With the disposal of non-core activities completed in FY 2018, the only adjusting item in H1 2019 is the amortisation of capitalised client relationships which remains a significant non-cash charge

¹The calculation of the above ratios make no adjustment for the investment manager' share options charge for the period of £1.5m (H1 2018: £0.8m)

Cash reserves continue to increase



Investor returns – Progressive dividend payments



Disclaimer

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