CHARLES STANLEY

# Charles Stanley

# Interim Results Presentation

## Six months ended 30 September 2020

## 19 November 2020

# Agenda

1. Overview
2. Financial results
3. Business transformation
4. Outlook

Appendices

Paul Abberley
Chief Executive Officer

Ben Money-Coutts
Chief Financial Officer

# Overview

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- Resilient performance in the face of the COVID-19 crisis
  - 12.9% growth of Funds under Management and Administration since 31 March 2020
- Group responded effectively, moving to home working, and maintained normal high level of customer service throughout the COVID-19 crisis
- Transformation programme progressed well although lockdown delayed certain elements:
  - annualised savings to date of £1.2 million
  - still on track to realise annualised benefits of £4.5 million during FY 2022 and into FY 2023
- The Group is well-placed to navigate through the continued uncertainties and take advantage of any opportunities
  - underpinned by a strong financial position

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Ben Money-Coutts
Chief Financial Officer

# H1 2021 – Progress of key financial metrics

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**Recovery of FuMA since year end**

- Increase of 12.9% to £22.8bn since 31 March 2020. This was achieved through a combination of market growth and strong investment performance. However, average FuMA for the period was 9.4% lower than in prior year
- FuMA outstripped investment performance benchmark by 2.7%

**Revenues, profits, and net margin lower.**

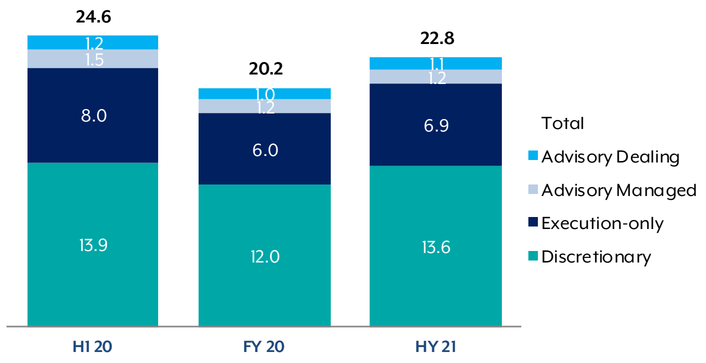
**Dividend maintained**

- Revenue was 4.1% lower at £81.9m (H1 2020: £85.4m)
- Revenue margins improved to 74.3 bps (H1 2020: 69.9 bps)
- 15.4% growth in Financial Planning revenue to £4.5m
- Underlying profit before tax down by 27.5% to £6.6m (H1 2020: £9.1m) resulting in a profit margin of 8.1% (H1 2020: 11.2%)
- Interim dividend maintained at 3p (H1 2020: 3p)

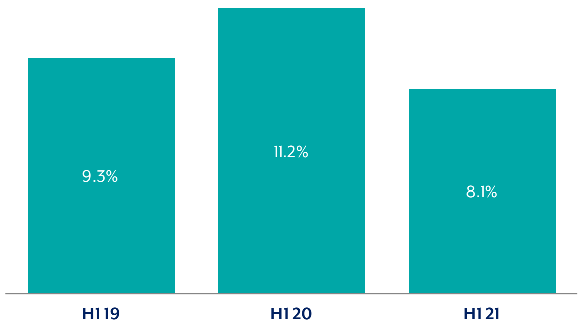
**Robust balance sheet**

- Cash balances increased by 4.1% to £92.1m (FY 2020: £88.5m)
- Net assets steady at £115.4m (FY 2020: £116.5m)
- Regulatory capital resources at 174% of requirement

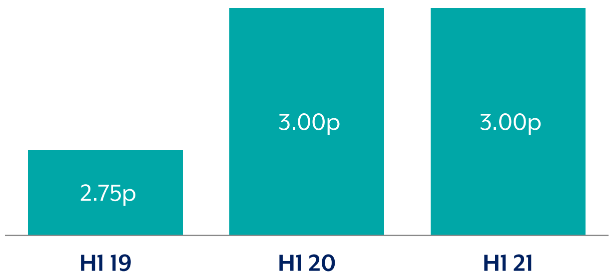
**FuMA (£bn)**




**Underlying profit margin**




**Dividend per share (p)**



# Underlying profit before tax growth record

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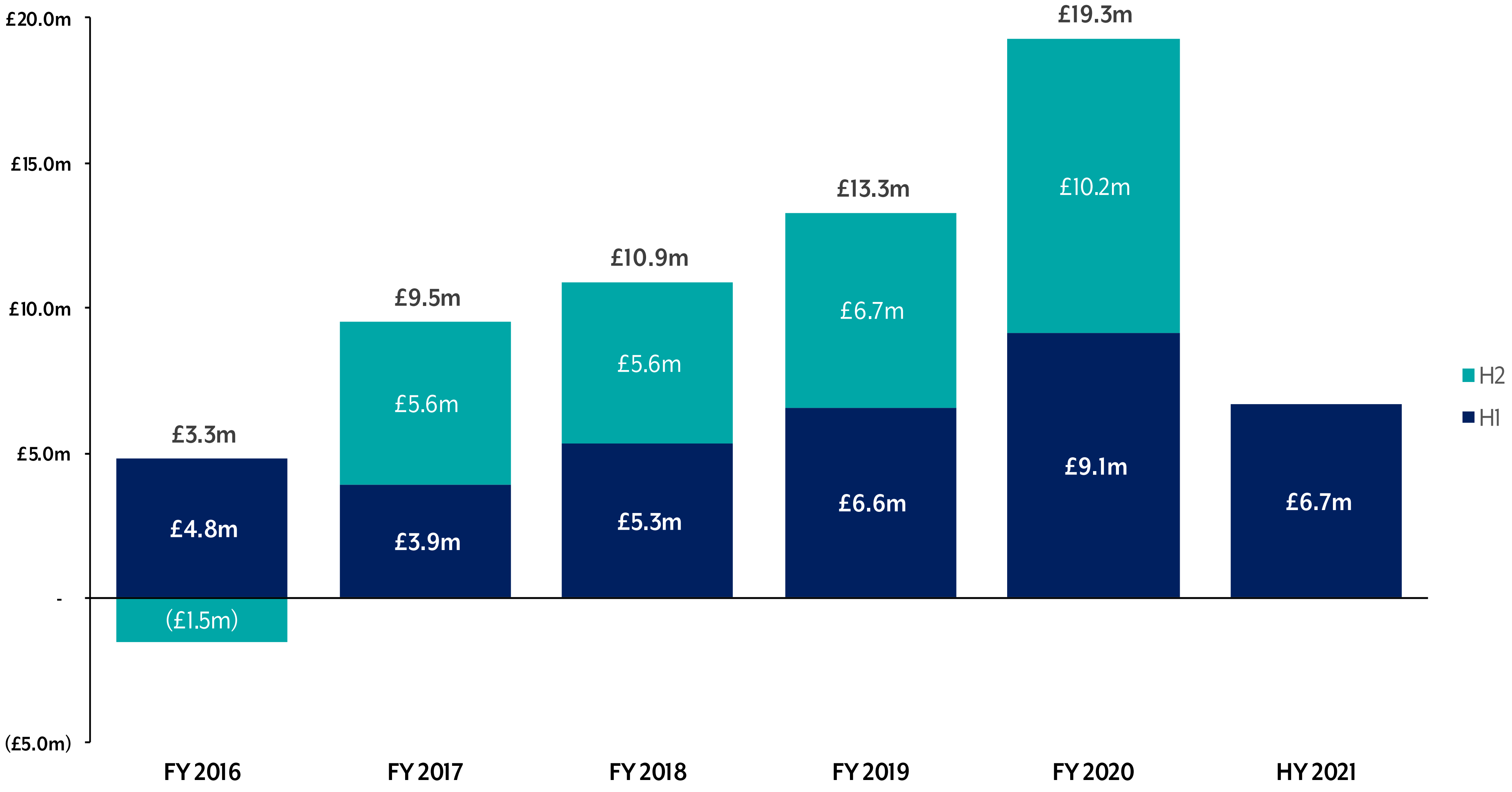

# FuMA – Up 12.9% since year end and mix improved

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| | Discretionary £bn | Advisory Managed £bn | Advisory Dealing £bn | Execution only £bn | Total £bn |
|---|---|---|---|---|---|
| Funds at 1 April 2020 | 12.0 | 1.2 | 1.0 | 6.0 | **20.2** |
| New clients[1] | 0.2 | - | - | 0.1 | **0.3** |
| Net outflows from existing clients[2] | (0.1) | - | - | (0.1) | **(0.2)** |
| Lost clients[3] | (0.2) | (0.1) | - | (0.2) | **(0.5)** |
| **Net organic outflows** | **(0.1)** | **(0.1)** | **-** | **(0.2)** | **(0.4)** |
| Market movement[4] | 1.7 | 0.1 | 0.1 | 1.1 | **3.0** |
| **Funds at 30 September 2020** | **13.6** | **1.2** | **1.1** | **6.9** | **22.8** |
| **Average funds for 30 September 2020** | **13.1** | **1.2** | **1.0** | **6.7** | **22.1** |
| **Average funds for 30 September 2019** | **13.5** | **1.5** | **1.2** | **8.2** | **24.4** |
| **Percentage change in average funds** | **(3.0%)** | **(20.0%)** | **(16.7%)** | **(18.3%)** | **(9.4%)** |

1. New clients represent FuMA of new client accounts established during the period.
2. Net outflows from existing clients include fees paid out of clients' accounts and income withdrawn.
3. Lost clients represent all client accounts closed during the period.
4. Market movement represents all other movements

- Growth in FuMA since 31 March 2020 attributable to market recovery
- Inflows from new clients of £0.3bn were offset by outflows from existing (£0.2bn) and lost clients (£0.5bn)
- Higher value managed fund comprised 59.6% of FuMA (FY 2020: 59.4%)
- Charles Stanley Direct up 18.4%
- Average FuMA for the period 9.4% lower than during the first half last year due to overall market decline that occurred on the outbreak of COVID-19 in Q1 2020 calendar year (FTSE All Share -26% over that period)

# Financial summary

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| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Revenue | **81.9** | 85.4 | (4.1%) |
| Expenses | **(75.2)** | (76.1) | 1.2% |
| Net finance income and other non-op income | **(0.1)** | (0.2) | 50.0% |
| **Underlying[1] profit before tax** | **6.6** | 9.1 | (27.5%) |
| Adjusting items[3] | **(1.8)** | (1.0) | (80.0%) |
| **Profit before tax** | **4.8** | 8.1 | (40.7%) |
| Tax expense | **(1.1)** | (1.3) | 15.4% |
| **Profit after tax** | **3.7** | 6.8 | (45.6%) |
| | | | |
| Underlying profit margin[2] | **8.1%** | 11.2% | |
| Underlying EPS | **9.94p** | 15.04p | (33.9%) |
| Reported EPS | **7.06p** | 13.36p | (47.2%) |
| Dividend per share | **3.00p** | 3.00p | - |

- Underlying profits have fallen 27.5% as a result of the 4.1% decline in revenues but only a 1.2% fall in expenses
- The effective tax rate increased to 22.9% (H1 2020: 16.2%) due to higher non-deductible expenses in the period
- The combination of these two factors have caused the reported EPS to decline 47.2% to 7.06p (H1 2020: 13.36p)
- Maintained interim dividend of 3.0p per share 2x covered in line with policy

[1] The underlying figures represent the Group's results excluding adjusting items

[2] This represents the underlying profit as defined in note 1 above and excludes the charge in respect of non-cash share options awarded to certain investment management teams under the revised remuneration arrangements settled in 2017, expressed as a percentage of the underlying revenues

[3] Refer to slide 11 for a breakdown of the adjusting items

# Revenue

| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Investment Management Services | **72.9** | 77.0 | (5.3%) |
| Charles Stanley Direct | **4.5** | 4.5 | - |
| Financial Planning | **4.5** | 3.9 | 15.4% |
| | **81.9** | 85.4 | (4.1%) |

| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Fees | **60.7** | 61.1 | (0.7%) |
| Commission | **18.8** | 19.1 | (1.6%) |
| Interest income | **2.4** | 5.2 | (53.8%) |
| | **81.9** | 85.4 | (4.1%) |

| | H1 2021 bps | H1 2020 bps | Change bps |
|---|---|---|---|
| Investment Management Services | **78.0** | 73.3 | 4.7 |
| Charles Stanley Direct | **29.5** | 28.9 | 0.6 |
| **Group** | **74.3** | **69.9** | **4.4** |

Overall revenues were down 4.1% but this was considerably less than the decline in FuMA for a number of reasons:

- IMS increased its revenue margins by 4.7bps to 78.0bps. This was achieved through an improved business mix and higher administrative fees
- Charles Stanley Direct did better than expected with AuA up 18.4% and dealing commissions up 70%, compensating for lower interest income
- Continued growth of Financial Planning revenues, up 15.4%, reflecting the successful implementation of that division's strategy

# Underlying expenditure well-controlled

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| | Front office divisions £m | Support Functions £m | H1 2021 Total £m | H1 2020 Total £m |
|---|---|---|---|---|
| Fixed staff costs | (14.6) | (13.2) | **(27.8)** | (26.5) |
| Other direct costs | (10.0) | (13.6) | **(23.6)** | (20.2) |
| Total fixed staff and direct costs | (24.6) | (26.8) | **(51.4)** | (46.7) |
| Variable staff costs | (21.1) | (2.7) | **(23.8)** | (29.4) |
| Total expenditure | (45.7) | (29.5) | **(75.2)** | (76.1) |
| | | | | |
| Fixed staff cost/income ratio | | | **33.9%** | 31.0% |
| Variable staff cost/income ratio | | | **29.1%** | 34.4% |
| Other direct costs/income ratio | | | **28.8%** | 23.7% |
| Closing headcount | | | **830** | **870** |
| | | | | |
| Non-variable cost/income ratio | | | **62.8%** | **54.7%** |

- Fixed staff cost increased by £1.3m to £27.8m mainly reflecting the recruitment of additional financial planning resource
- Non-staff cost increased by £3.4m:
  - IT +£1.5m. This increase will be offset by reduced employment costs in the second half
  - FSCS levy +£1.4m
  - Professional fees +£0.7m
- Variable staff costs decreased by £5.6m
- 5% headcount reduction achieved through transformation programme measures. Main reduction has been from the IT area (-22) following the outsourcing

# Adjusting items

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| | H1 2021 £m | H1 2020 £m |
|---|---|---|
| Restructuring costs | (0.6) | (1.2) |
| Amortisation of client relationships | (0.6) | (0.5) |
| Impairment of client relationships | (0.7) | - |
| Fair value adjustment of contingent consideration | 0.1 | - |
| Investment Management Services non-cash share | - | 0.7 |
| Adjusting items | **(1.8)** | **(1.0)** |

- Restructuring costs of £0.6m mainly relate to the outsourcing of IT infrastructure maintenance, creation of the centralised middle office team and reorganisation of parts of the front office
- Amortisation of client relationships is treated as an adjusting item in common with industry practice
- Impairment of client relationship charge has been made for client relationships associated with the Myddleton Croft cash generating unit due to the reduction of FuMA since acquisition
- Fair value adjustment of contingent consideration payable on acquisition of Myddleton Croft

# Strong Balance sheet – net assets £115.4m

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| | HY 2021 £m | FY 2020 £m | Change |
|---|---|---|---|
| Total intangible assets | 19.0 | 20.0 | (5.0%) |
| Total tangible non-current assets | 21.6 | 24.3 | (11.1%) |
| **Non-current assets** | **40.6** | **44.3** | **(8.4%)** |
| Cash and treasury bills | 92.1 | 93.5 | (1.5%) |
| Other current assets | 199.1 | 205.4 | (3.1%) |
| **Total net current assets** | **291.2** | **298.9** | **(2.6%)** |
| **Total assets** | **331.8** | **343.2** | **(3.3%)** |
| **Total equity** | **115.4** | **116.5** | **(0.9%)** |
| Pension scheme deficit | 6.1 | 5.1 | (19.6%) |
| Other liabilities | 210.3 | 221.6 | 5.1% |
| **Total liabilities** | **216.4** | **226.7** | **4.5%** |
| **Total equity and liabilities** | **331.8** | **343.2** | **(3.3%)** |
| **Net assets** | **115.4** | **116.5** | **(0.9%)** |
| **Return on capital employed[1]** | **11.0%** | **13.4%** | |
| **Regulatory capital resouces** | **92.8** | **94.1** | **(1.4%)** |
| **Regulatory capital requirement** | **53.4** | **49.9** | **7.0%** |
| **Capital adequacy ratio** | **174%** | **189%** | |

- Strong cash reserves maintained at £92.1m
- Regulatory capital resources stable but the requirement has increased, leading to the capital adequacy ratio reducing. At 174% it remains well in excess of the Board's risk appetite level

1 Return on capital employed represents reported operating profit for FY 2020, and a rolling 12 month operating profit for H1 2021 divided by capital employed (total assets less current liabilities as at the reporting period)

# Cash flow

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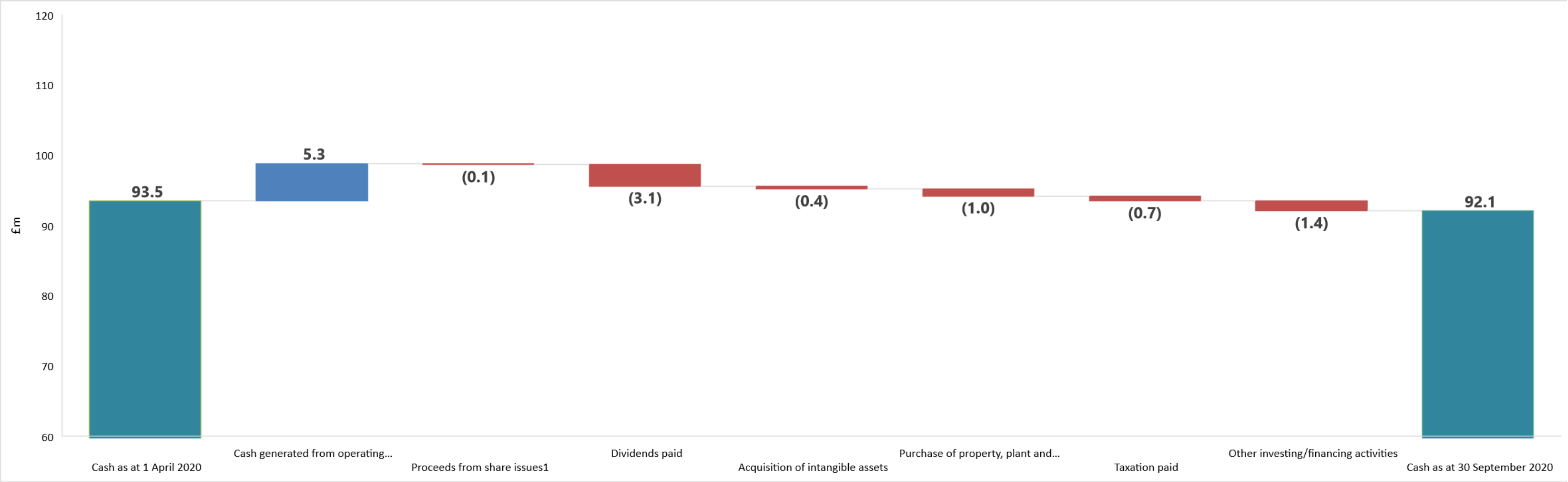


- £1.4m net movement in cash balance for the period attributable to final dividend payment in relation to the prior year

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**Paul Abberley**
**Chief Executive Officer**

# Business transformation

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- Actions in H1 2021:
  - successful transition to outsourcing IT services
  - improving standardisation of operations following the creation of Middle Office
  - consolidation of initiatives to improve productivity and operational efficiency

- £0.6 million of exceptional costs recognised in the first half of the financial year taking total costs to date to £4.1 million. So far this expenditure has generated savings of £1.2 million which will rise to £2.5 million on a fully annualised basis by the end of this financial year

- Focus for H2 2021:
  - continue to simplify and standardise across the business
  - increase market share in intermediary sales network
  - grow and further integrate financial planning capabilities

- Implementation of the programme remains on track. A further £2.6 million of exceptional costs are expected to deliver annualised benefits of £4.5 million during FY 2022 and into FY 2023

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Paul Abberley
Chief Executive Officer

# Outlook

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- Continued challenges ahead but the Group is financially and operationally well-positioned to navigate through successfully
  - supported by a strong balance sheet and substantial cash balances
- Focus is on growth initiatives and transformation programme to
  - improve efficiencies and create a more integrated operation
- The Board remains confident about the Group's medium and long term prospects

# Appendices

# Change in FuMA by service type in HY 2021

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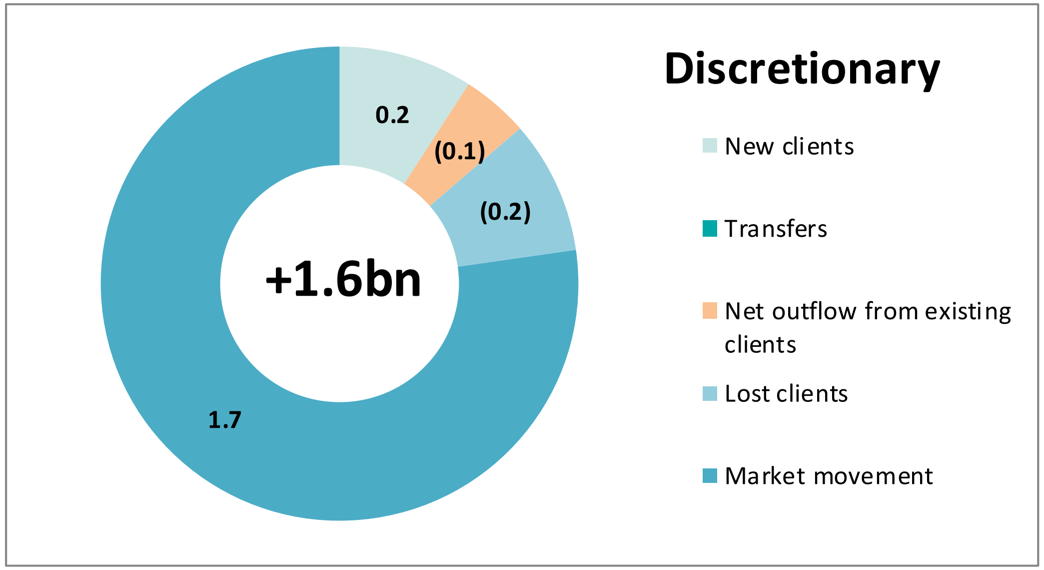


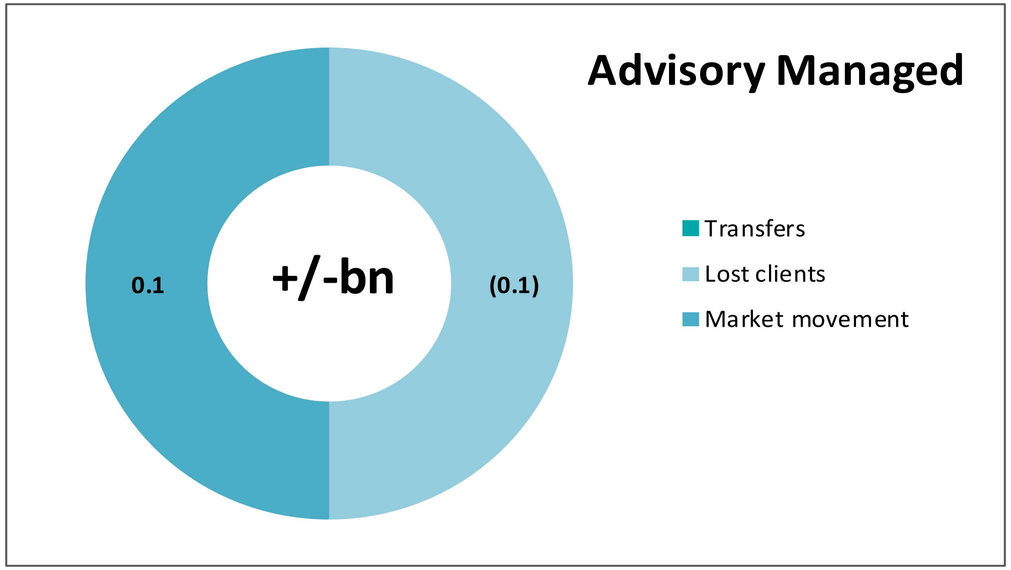


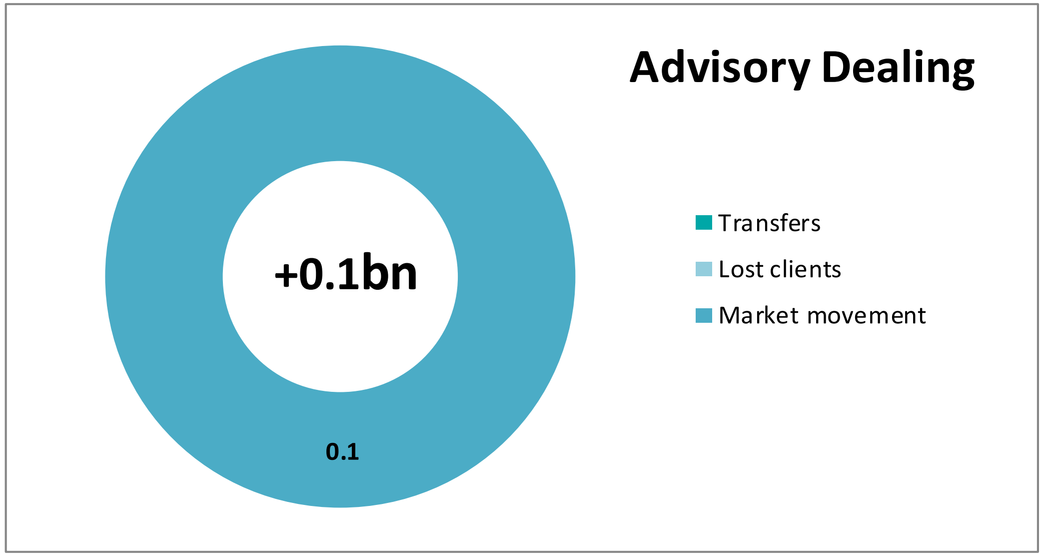


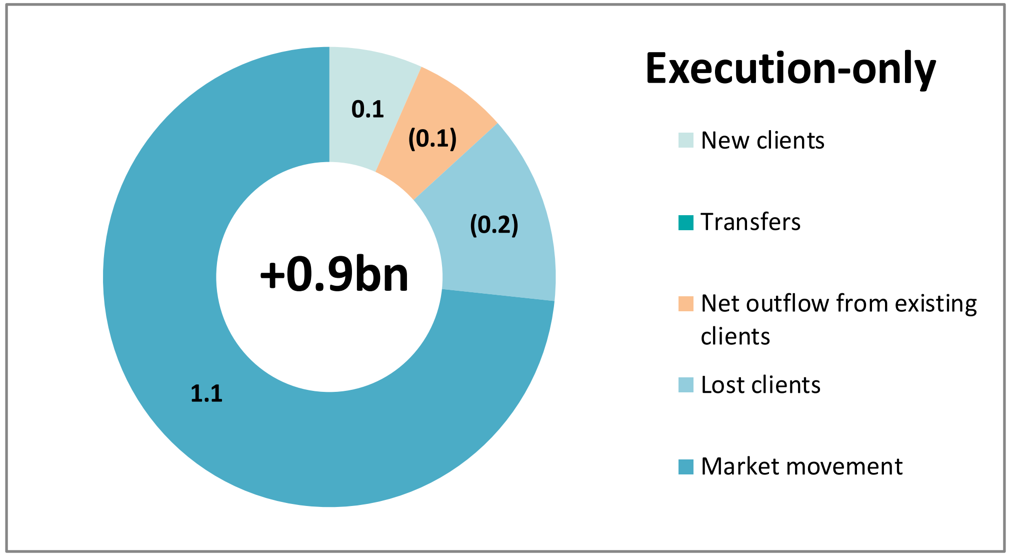

# Divisional analysis

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| Six months ended 30 September 2020 | Investment Management Services £m | Charles Stanley Direct £m | Financial Planning £m | Underlying £m |
|---|---|---|---|---|
| Revenue | 72.9 | 4.5 | 4.5 | 81.9 |
| Direct costs: | | | | |
| Fixed staff costs | (10.5) | (0.5) | (3.6) | (14.6) |
| Variable staff costs | (20.5) | - | (0.6) | (21.1) |
| Other direct operating expenses | (7.7) | (1.4) | (0.9) | (10.0) |
| Contribution | **34.2** | **2.6** | **(0.6)** | **36.2** |
| Allocated costs | (25.5) | (2.2) | (1.8) | (29.5) |
| Operating profit | **8.7** | **0.4** | **(2.4)** | **6.7** |
| Net finance and other income | (0.1) | - | - | (0.1) |
| **Profit/(loss) before tax** | **8.6** | **0.4** | **(2.4)** | **6.6** |
| | | | | |
| **Six months ended 30 September 2019 (restated)** | | | | |
| **Profit/(loss) before tax** | **10.8** | **0.7** | **(2.4)** | **9.1** |

# IMS – Divisional performance

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| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Fee | **53.7** | 54.9 | (2.2%) |
| Commission | **17.6** | 18.4 | (4.3%) |
| Interest | **1.6** | 3.7 | (56.8%) |
| **Revenue** | **72.9** | 77.0 | (5.3%) |
| Contribution | **34.2** | 36.4 | (6.0%) |
| Profit before tax | **8.6** | 10.8 | (20.4%) |
| Operating margin[1] | **11.8%** | 14.0% | |
| Closing headcount | **354** | 386 | (32) |
| Discretionary (£bn) | **13.6** | 13.9 | (2.2%) |
| Advisory dealing (£bn) | **1.1** | 1.2 | (8.3%) |
| **Total FuMA (£bn)** | **19.3** | 21.0 | (8.1%) |
| **Average FuMA (£bn)** | **18.7** | 21.0 | (10.9%) |
| Average discretionary account portfolio size (£000) | **337.1** | 344.7 | (2.2%) |
| 12 month average Discretionary funds per Certificated staff (£m) | **65.6** | 64.2 | - |
| **Revenue margins:** | **bps** | **bps** | |
| Discretionary | **88** | 87 | 1 |
| Advisory managed | **78** | 73 | 5 |
| **Managed** | **87** | 86 | 1 |
| Advisory dealing | **47** | 42 | 5 |
| Execution-only | **39** | 31 | 8 |
| **Administered** | **41** | 33 | 8 |
| **Total** | **78** | 73 | 5 |

- Improved asset mix, with Discretionary funds now representing 70.5% (H1 2020: 66.2%)
- Division revenue margin increased by 5 bps
- Revenue down slightly by 5.3% but remain in a healthy profit of £8.6m

1. Excluding the charge for the investment managers' share options. The credit is in respect to the 60% of the non-cash share options which are no longer expected to vest

# Charles Stanley Direct – Divisional performance

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| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Revenue | **4.5** | 4.5 | - |
| Contribution | **2.6** | 2.6 | - |
| Profit before tax | **0.4** | 0.7 | (42.9%) |
| Revenue margin (bps) | **30** | 29 | 1 |
| Contribution margin | **57.8%** | 57.8% | - |
| Profit margin | **8.9%** | 15.6% | (6.6%) |
| Charles Stanley Direct (£bn) | **2.9** | 2.8 | 15.3% |
| Charles Stanley Investment Choices (£bn) | **0.3** | 0.4 | (7.1%) |
| **AuA (£bn)** | **3.2** | 3.2 | - |
| **Average AuA (£bn)** | **3.1** | 3.1 | - |

- ❑ AuA remained stable £3.2bn (H1 2020: £3.2bn)
- ❑ Revenues remained flat for period
- ❑ The division remained in profit of £0.4m, a decrease on the prior period of 42.7% as a result of increased allocated costs

# Financial Planning – Divisional performance

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| | H1 2021 £m | H1 2020 £m | Change |
|---|---|---|---|
| Revenue | **4.5** | 3.9 | 15.4% |
| Contribution | **(0.6)** | (0.8) | 25.0% |
| Loss before tax | **(2.4)** | (2.4) | - |
| Contribution margin | **(13.3%)** | (20.5%) | 7.2% |
| Margin | **(53.3%)** | (61.5%) | 8.3% |
| Closing number of financial planners | **30** | 29 | 1 |
| Revenue per financial planner (£k) | **304** | 312 | **(2.5%)** |

- The Group continues to invest in the Financial Planning division as a key component of its wealth management offering to clients
- Revenues up 15.4% to £4.5m, exceeding the current market conditions
- Losses in the period maintained due to recruitment of financial planners and absorption of a larger share of central overheads
- Target revenues per financial planner £350k per annum (excluding investment management fees)

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