

Charles Stanley

Final Results Presentation

For the year ended 31 March 2020

28 May 2020

Agenda

1. Overview
2. FY 2020 Financial results
3. Business transformation
4. Outlook

Appendices



Paul Abberley
Chief Executive Officer



Ben Money-Coutts
Chief Financial Officer

- ❑ Strong results underpin another year of delivering upon our strategic aims with impressive revenue growth across all divisions
- ❑ Transformation programme launched last year is on track to deliver expected savings of £2.6m in FY2021 and £4.5m per annum from FY2022
- ❑ Exemplary response to COVID-19 crisis. High levels of customer service maintained throughout and smooth transition to remote working environment
- ❑ FY2021 profitability is expected to be impacted by lower market values and interest rates
- ❑ **The Group's strong financial position leaves it well-positioned** to navigate the crisis and continue to provide a first-class service to our clients and make further progress

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Reported profit up 57.3% to £17.3 m (FY 2019: £11.0m)

Ben Money-Coutts
Chief Financial Officer

FY 2020 – Progress of key financial metrics

Stable average FuMA
Improved mix

- ❑ Average FuMA was stable at £24.2bn (FY 2019: £24.3bn)
- ❑ Higher-value managed funds at 65.3% of FuMA at year end (FY 2019: 60.6%)
- ❑ Decline in FuMA towards year end due to COVID-19 crisis

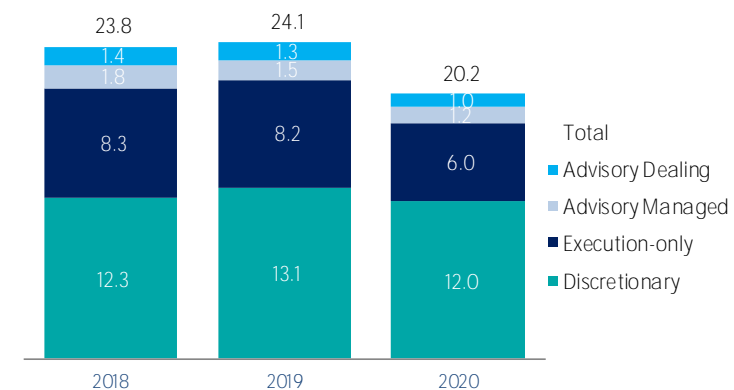
Good growth in revenues, profits, and margin

- ❑ Revenues grew by 11.5% to £173.0m (FY 2019: £155.2m)
- ❑ Underlying profit before tax up 45.1% to £19.3m (FY 2019: £13.3m)
- ❑ Underlying profit margin up to 11.7% (FY 2019: 9.3%)
- ❑ Reported profit before tax up 57.3% to £17.3m (FY 2019: £11.0m)
- ❑ Maintained final dividend of 6p (FY 2019: 6p)

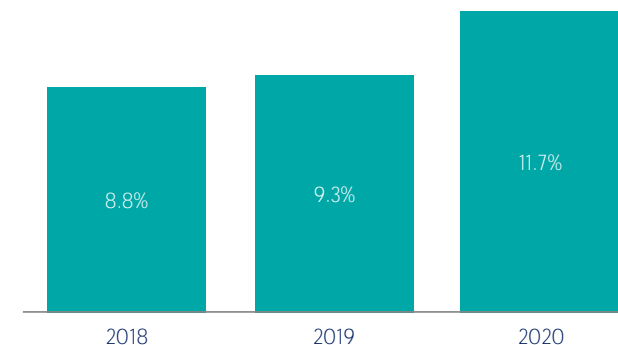
Strong balance sheet

- ❑ Cash balances up 15.1% to £ 93.5m¹ (FY 2019: £81.2m)
- ❑ Net assets increased to £116.5m (FY 2019: £106.4m)
- ❑ Regulatory capital resources at 189% of requirement

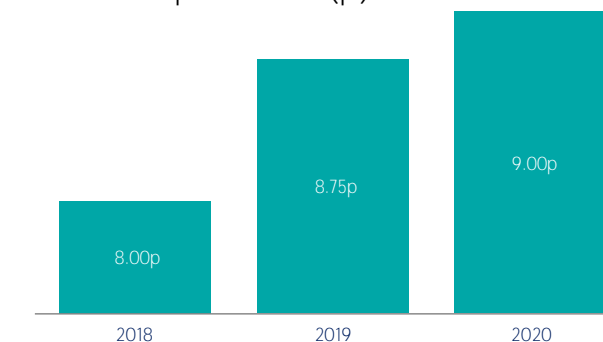
FuMA (£bn)



Underlying profit margin

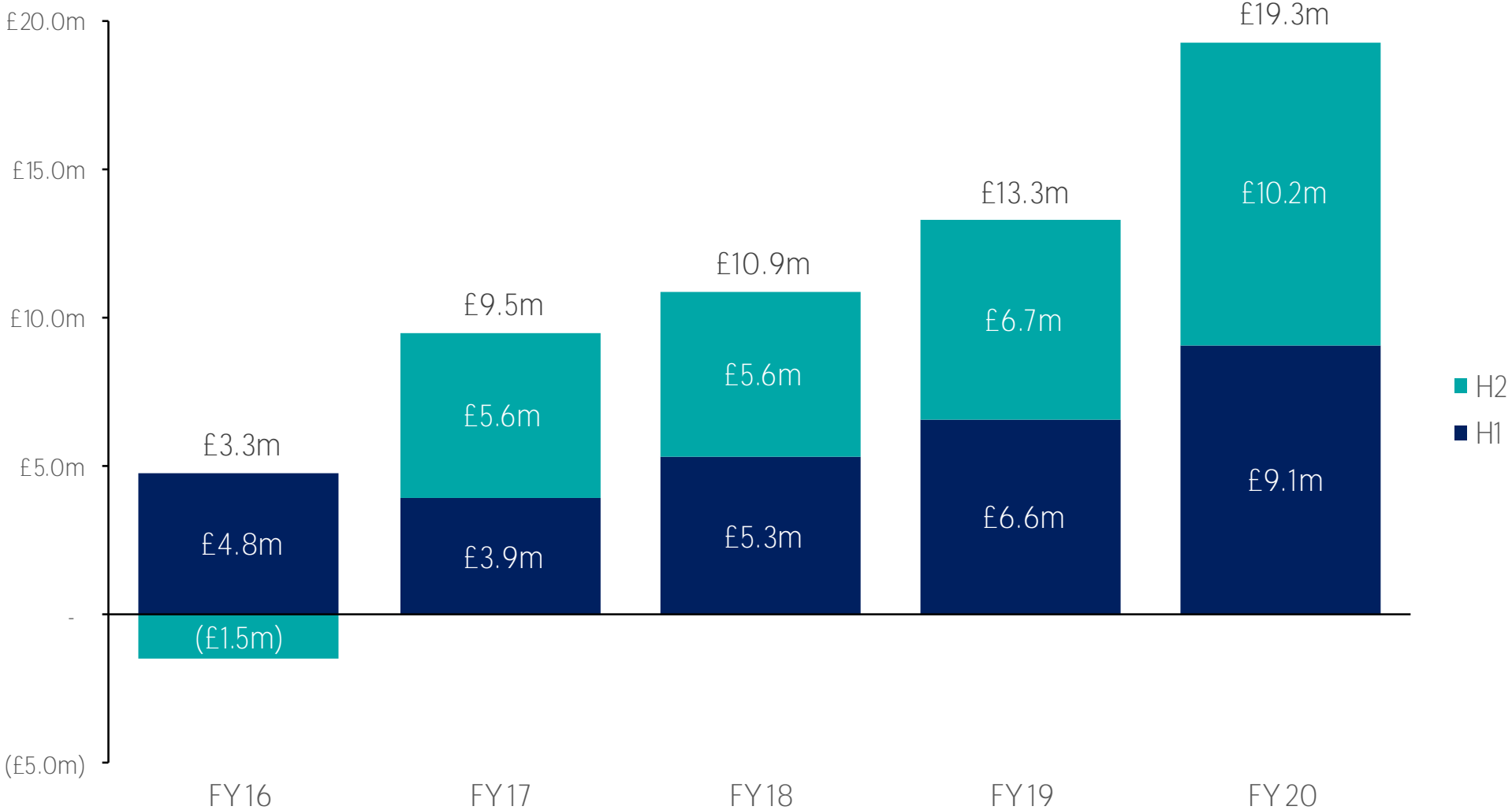


Dividend per share (p)



¹ Cash includes both cash of £88.5m and cash equivalents of £5.0m

Underlying profit before tax growth record



FuMA – stable average FuMA and improved business mix

	Discretionary £bn	Advisory Managed £bn	Advisory Dealing £bn	Execution only £bn	Total £bn
Funds at 1 April 2019	13.1	1.5	1.3	8.2	24.1
New clients ¹	0.7	-	-	0.3	1.0
Service level transfers	-	(0.1)	(0.1)	0.2	-
Net outflows from existing clients ²	(0.2)	-	-	(0.4)	(0.6)
Lost clients ³	(0.7)	(0.1)	(0.1)	(1.2)	(2.1)
Net organic outflows	(0.2)	(0.2)	(0.2)	(1.1)	(1.7)
Market movement ⁴	(0.9)	(0.1)	(0.1)	(1.1)	(2.2)
Funds at 31 March 2020	12.0	1.2	1.0	6.0	20.2
Average funds for 31 March 2020	13.6	1.4	1.2	8.0	24.2
Percentage change in average funds	5.4%	(17.6%)	(7.7%)	(6.0%)	(0.4%)

- ❑ Managed funds now account for 65.3% of FuMA
- ❑ Inflows from new clients of £1.0bn were offset by outflows from existing (£0.6bn) and lost (£2.1bn) clients. Lost clients partially as a consequence of repricing which was planned for
- ❑ Market performance accounted for a negative movement of £2.2bn, largely due to the impact of the COVID-19 crisis in the last two months of the financial year. This impacted non-managed services more than managed

1. New clients represent FuMA of new client accounts established during the year.

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 year.

4. Market movement represents all other movements

Financial summary

	FY 2020	FY 2019	Change
	£m	£m	
Revenue	173.0	155.2	11.5%
Expenses	(153.2)	(142.7)	(7.4%)
Net finance income and other non-op income	(0.5)	0.8	(162.5%)
Underlying¹ profit before tax	19.3	13.3	45.1%
Adjusting items ³	(2.0)	(2.3)	13.0%
Profit before tax	17.3	11.0	57.3%
Tax expense	(3.1)	(2.0)	(55.0%)
Profit after tax	14.2	9.0	57.8%
Underlying profit margin ²	11.7%	9.3%	
Underlying EPS	31.41p	21.36p	47.1%
Reported EPS	28.03p	17.74p	58.0%
Dividend per share	9.00p	8.75p	2.9%

- ❑ Strong growth in revenues, attributable to the benefits of the repricing exercise completed a year ago, higher fee income from Financial Planning and higher interest income
- ❑ Increase of expenses largely attributable to variable remuneration
- ❑ Net finance expenses increased due to revised accounting treatment for leases under IFRS 16, offset by reduced rental charge
- ❑ Adjusting items represent restructuring costs (£3.5m), impairment of goodwill (£0.3m), share option credit (£3.0m) and amortisation of client lists (£1.2m)

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 appendices for a breakdown of the adjusting items

Revenue up 11.5%

Revenue growth in all divisions

Investment Management Services
Charles Stanley Direct
Financial Planning

	2020	2019	Change
	£m	£m	
Investment Management Services	154.8	140.2	10.4%
Charles Stanley Direct	9.5	7.7	23.4%
Financial Planning	8.7	7.3	19.2%
	173.0	155.2	11.5%

Increase in fees, commissions and interest income leading to improved revenue margins

Fees
Commission
Interest income

	2020	2019	Change
	£m	£m	
Fees	123.1	110.2	11.7%
Commission	39.8	36.7	8.4%
Interest income	10.1	8.3	21.7%
	173.0	155.2	11.5%

Investment Management Services¹
Charles Stanley Direct
Group

	2020	2019	Change
	bps	bps	bps
Investment Management Services ¹	74.8	66.7	8.1
Charles Stanley Direct	30.2	26.3	3.9
Group	71.6	64.0	7.6

¹ The H1 2019 figures have been restated to reflect the amalgamation of the Asset Management division into the Investment Management Services division with effect from 1 April 2019

Underlying expenditure well-controlled

	Front office divisions	Support Functions	2020 Total	2019 Total
	£m	£m	£m	£m
Fixed staff costs	(28.5)	(24.9)	(53.4)	(51.2)
Other direct costs	(20.6)	(21.2)	(41.8)	(40.3)
Total fixed staff and direct costs	(49.1)	(46.1)	(95.2)	(91.5)
Variable staff costs	(48.0)	(10.0)	(58.0)	(51.2)
Total expenditure	(97.1)	(56.1)	(153.2)	(142.7)
Fixed staff cost/income ratio			30.9%	33.0%
Variable staff cost/income ratio			33.5%	33.0%
Other direct costs/income ratio			24.1%	26.0%
Closing headcount			834	853
Non-variable cost/income ratio			55.0%	59.0%

- ❑ Fixed staff cost increased by £2.2m to £53.4m mainly reflecting the recruitment of additional financial planning resource
- ❑ Non-staff cost increased by £1.5m due to higher FSCS levy by £1.3m and increased expenditure on marketing activities. Further substantial increase in the FSCS levy expected for FY 2021
- ❑ Variable staff costs increased by £6.8m to £58.0m primarily as a result of variable pay increases that are linked to revenue and profit levels

Divisional analysis

	Investment Management Services	Charles Stanley Direct	Financial Planning	Underlying
	£m	£m	£m	£m
Year ended 31 March 2020				
Revenue	154.8	9.5	8.7	173.0
Direct costs:				
Fixed staff costs	(20.9)	(0.9)	(6.7)	(28.5)
Variable staff costs	(49.2)	(0.2)	(1.7)	(51.1)
Other direct operating expenses	(12.4)	(2.9)	(2.2)	(17.5)
Contribution	72.4	5.5	(1.9)	75.9
Allocated costs	(49.0)	(3.9)	(3.2)	(56.1)
Operating profit	23.4	1.6	(5.1)	19.8
Net finance and other income	(0.5)	-	-	(0.5)
Profit/(loss) before tax	22.8	1.6	(5.1)	19.3
Year ended 31 March 2019				
Profit/(loss) before tax	15.6	1.0	(3.3)	13.3

- ❑ IMS profitability improved 46.2% mainly reflecting the benefits of the repricing exercise
- ❑ Financial Planning revenues up 19.2% but losses increased as an expected consequence of hiring more planners. We will continue to grow the division but expect it to move toward profitability as the benefits of the initial investment flow
- ❑ Charles Stanley Direct profit increased 60% marking continued progress

Adjusting items

	FY 2020	FY 2019
	£m	£m
Restructuring costs	(3.5)	-
Investment Management Services non-cash share options	3.0	(1.7)
Amortisation of client relationships	(1.2)	(1.1)
Impairment of goodwill	(0.3)	-
Profit on sale of fixed assets	-	0.3
Recovery of CSFS loan notes	-	0.5
GMP equalisation adjustment to DB pension scheme	-	(0.3)
Adjusting items	(2.0)	(2.3)

Annualised benefits of restructuring programme expected to be of the order of £4.5m by FY22 but implementation costs likely to be lower than initial guidance of £9.5m unless additional opportunities are identified

- ❑ Restructuring costs of £3.5m mainly relate to the outsourcing of IT infrastructure maintenance, creation of the centralised middle office team and reorganisation of parts of the front office
- ❑ Investment Management Services non-cash share options credit relates to a share option scheme for employed investment managers which is no longer expected to vest
- ❑ Impairment of goodwill relates to closure of the Isle of Wight office. Clients transferred to Southampton and London offices
- ❑ Amortisation of client relationships is treated as an adjusting item in common with industry practice

Strong Balance sheet – net assets £116.5m

	FY 2020 £m	FY 2019 £m	Change
Total intangible assets	20.0	18.3	9.3%
Total tangible non-current assets	24.3	14.5	68.3%
Non-current assets	44.3	32.8	35.4%
Cash and treasury bills	93.5	81.2	15.1%
Other current assets	205.4	193.5	6.1%
Total net current assets	298.9	274.7	8.8%
Total assets	343.2	307.5	11.6%
Total equity	116.5	106.4	9.5%
Pension scheme deficit	5.1	6.8	25.0%
Other liabilities	221.6	194.3	(14.1%)
Total liabilities	226.7	201.1	(12.7%)
Total equity and liabilities	343.2	307.5	11.6%
Net assets	116.5	106.4	9.6%
Return on capital employed ¹	13.4%	8.2%	
Regulatory capital resources	94.1	82.9	13.5%
Regulatory capital requirement	49.9	38.7	28.9%
Capital adequacy ratio	189%	214%	

- ❑ Strong trading has led to a 15.1% increase in cash
- ❑ The other principal balance sheet movement was accounted for by the application of IFRS 16 leases for the first time. This resulted in property right-of-use assets of £12.7m being brought onto the balance sheet together with off-setting lease liabilities of £13.7m
- ❑ Pension deficit decreased by £1.7m to £5.1m due to £1.1m increase of Scheme assets and £0.6m reduction of liabilities. Agreed upon flight path to achieve solvency on track
- ❑ Regulatory capital resources increased by 13.5% but capital adequacy ratio reduced due to increased requirements of FCA

¹ Return on capital employed represents reported operating profit for FY 19 and FY 20, divided by capital employed (total assets less current liabilities)

Strategic measures – what we are working towards

Operating Lever

Our target

FY 2020 progress



Grow FuMA

Grow average FuMA. The Group's level of FuMA is a significant driver of top-line revenues

A key driver to achieve the target margin is to grow FuMA from 2019's average of £24.3bn

Closing FuMA was down 16.2% to £20.2bn reflecting the impact of COVID-19 on stock markets, while average FuMA for 2020 was static at £24.2bn

The Group expanded intermediary sales revenue by 33.9%



Increase revenue margin

Achieve a Group revenue margin of 66bps to 68bps

Group revenue margin increased from 64bps to 72bps in FY 2020 driven by:

- Repricing of managed and non-managed books
- Continued growth in Financial Planning
- Improved funds mix
- Improvement in interest turn



Improve operating efficiency

Reduce non-variable costs as a percentage of revenue to below 55%

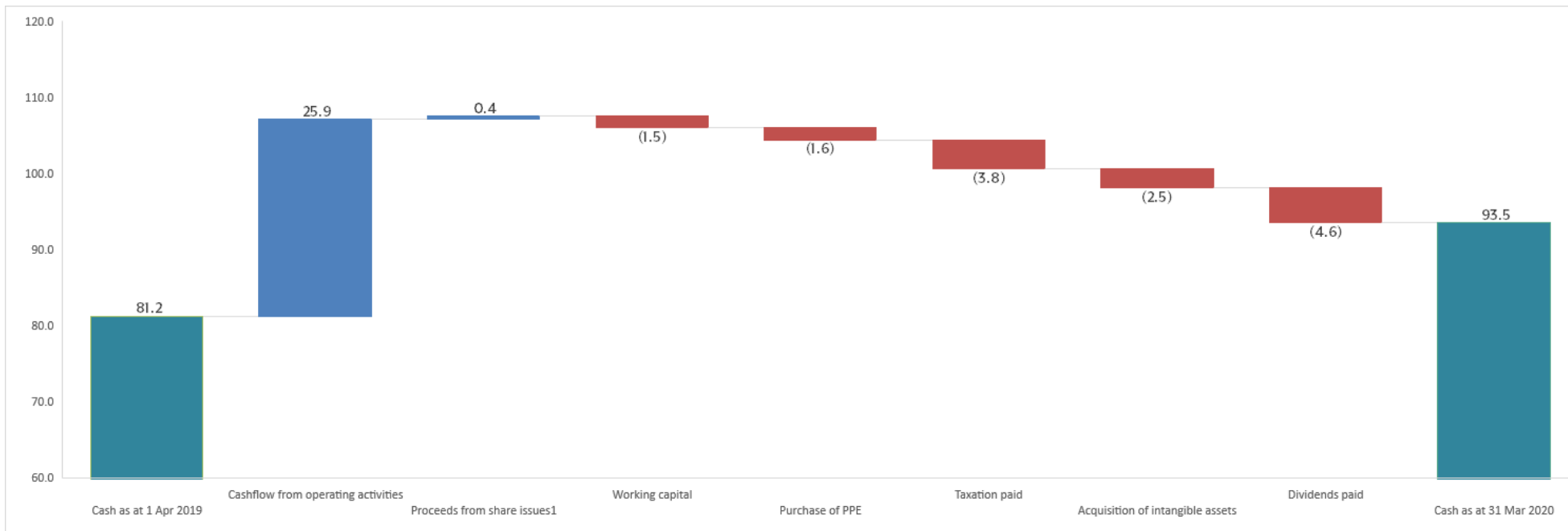
For FY 2020 non-variable costs were 55% of revenue (FY 2019: 59%)

Continued focus on reducing fixed cost

Middle office teams in place

Automation of processes, reducing risk and increasing scalability and efficiency

Cash flow



- ❑ Overall increase in cash of £12.4m
- ❑ Strong cash generation from operating activities
- ❑ Relatively modest spend on working capital and Capex since the business is not capital intensive and most software development spend is expensed
- ❑ Expenditure on intangibles accounted for by acquisition of the client list of Full Circle, Myddleton Croft and asset gathering payments to newly recruited investment management and financial planning teams

¹ Shares issues under SAYE net of purchase of shares

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Restructuring programme on course

Paul Abberley
Chief Executive Officer

Where are we going

Achievements in FY 2020:

- Group sales, distribution and marketing reorganised under new Head of Distribution (appointed March 2019)
- Strengthened our intermediary sales network and profile
- Created a single middle and back office to streamline processes
- Restructured and upgraded our existing IT infrastructure
- Improved profitability of investment management teams
- Growth of Financial Planning division

Objectives for FY 2021:

- Leverage holistic offering across our client base
- Continue to simplify and standardise across the business
- Increase market share in intermediary sales network
- Grow and further integrate financial planning capabilities
- Develop Environment, Social and Governance (ESG) offering
- Continue to invest in digital to augment our existing proposition

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COVID-19 brings challenges but the Group is well-placed to navigate through these and remains focused on delivering transformation and growth initiatives

Paul Abberley
Chief Executive Officer

- ❑ FY2021 profitability is expected to be impacted by the COVID-19 crisis – weaker stock markets and lower interest rates will reduce revenues
- ❑ The Group has a strong balance sheet and substantial cash balances leaving it well-positioned to navigate the crisis and take advantage of opportunities that may arise
- ❑ Main areas of focus will be on:
 - ❑ enhancing the customer experience and meeting changing needs and circumstances
 - ❑ maintaining the momentum of our transformation programme which is progressing at a rapid pace.
We will improve the operating model across the business by strengthening our control environment, centralising areas of expertise and standardising processes and systems
 - ❑ amplifying our digital offer with further improvements to enhance our customer journey
- ❑ The Board remains confident about the Group's medium term prospects

- ❑ Strategic vision to become UK's leading wealth manager unaltered
- ❑ Good trading performance in FY 2020 reflects progress with transformation and growth initiatives
- ❑ Operational resilience evidenced during current COVID-19 crisis – high customer service levels maintained while staff transitioned to remote working
- ❑ Challenging current trading conditions but underlying strong base leaves Charles Stanley well positioned to continue its transformation programme and thrive over the medium term

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Appendices

Charles Stanley offers a genuinely personal service across the full range of wealth management services, which has led to high levels of trust and overall client satisfaction scores of 88%

Holistic Wealth Management

Investment Management Services

Offering personal Discretionary, Advisory and Execution-only services to private clients, trusts, charities and companies. Our bespoke service creates deep relationships with clients and helps them invest for the longer-term.

This division also provides a range of pooled funds, model portfolios, open-ended investment company (OEIC) funds and segregated accounts, including inheritance tax solutions. Clients include financial advisers, defined benefit pension schemes, institutional investors and high net worth individuals.

Charles Stanley Direct

Our award-winning digital Execution-only platform enables self-directed investors to utilise our dealing, settlement and custody services, covering a wide range of funds, shares, gilts and bonds.



Financial Planning

Our experienced financial planners provide advice to help our clients plan and structure their wealth. As the savings, pensions and inheritance tax landscape becomes ever more complex, they provide a range of personalised solutions.

Our vision is to become the UK's leading wealth manager

We define leading in terms of quality rather than quantity. Focusing on client satisfaction as well as staff engagement and equity market rating, we measure our progress against these targets year-on-year

 **Client satisfaction**

Our objective
We are committed to improving our relationships with our clients and ensuring that our services meet and exceed expectations.

Our results
Client satisfaction surveys were carried out for all our operating divisions during the year. The results of the surveys were overwhelmingly encouraging, with high satisfaction scores achieved by every division and an increase in overall satisfaction to 88% with Charles Stanley.

Client satisfaction by division (%)



Division	Satisfaction (%)
Investment Management Services	92.7
Charles Stanley Direct	88.4
Financial Planning	95.0

 **Staff engagement**

Our objective
Staff engagement is fundamental to our success. In November 2019, we carried out our fourth annual staff engagement survey and had a 75% response rate.

Our results
Charles Stanley's Staff Engagement Index value of 75% remains comfortably in the upper quartile when benchmarked against data from the FTSE 100/250 Employee Engagement Index. For 2019 an upper quartile score is in excess of 69%.

86%
of respondents praised Charles Stanley for being a friendly place to work

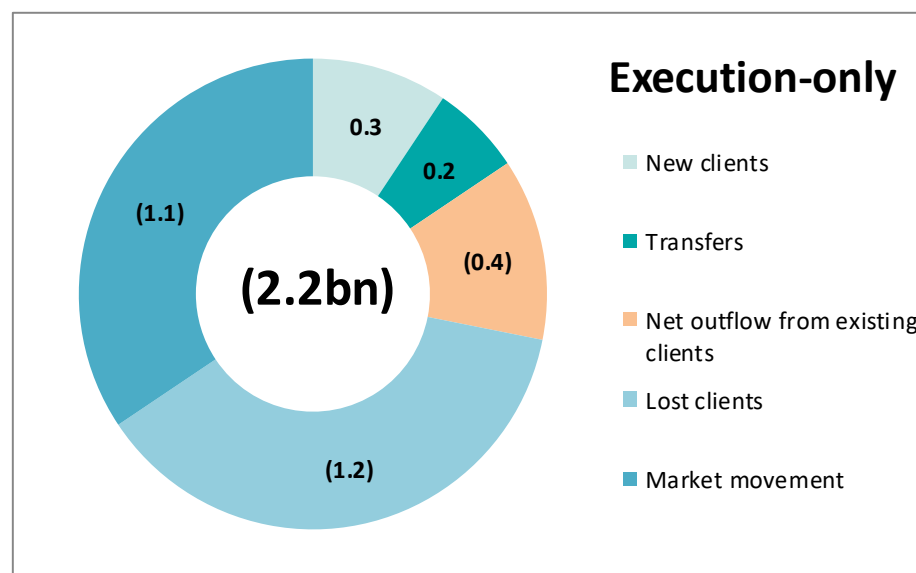
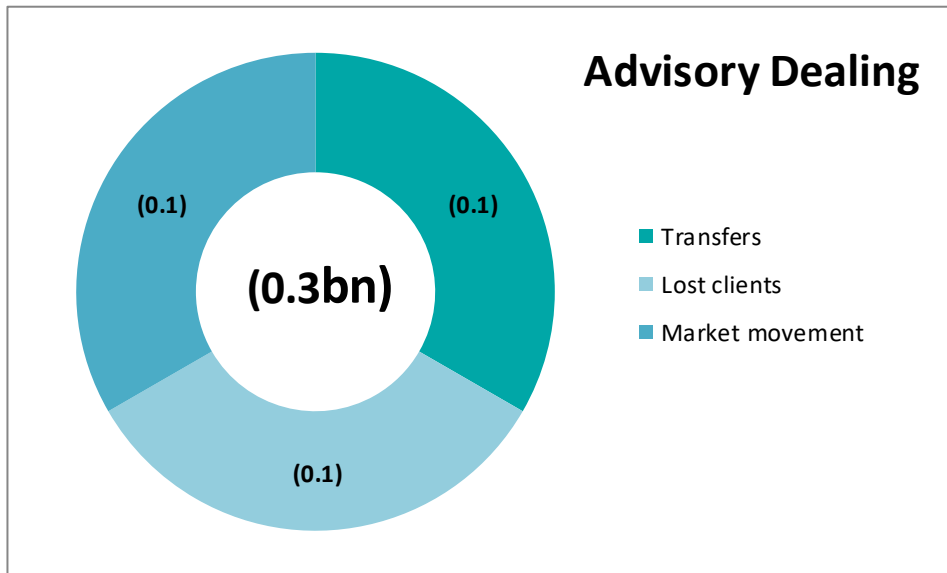
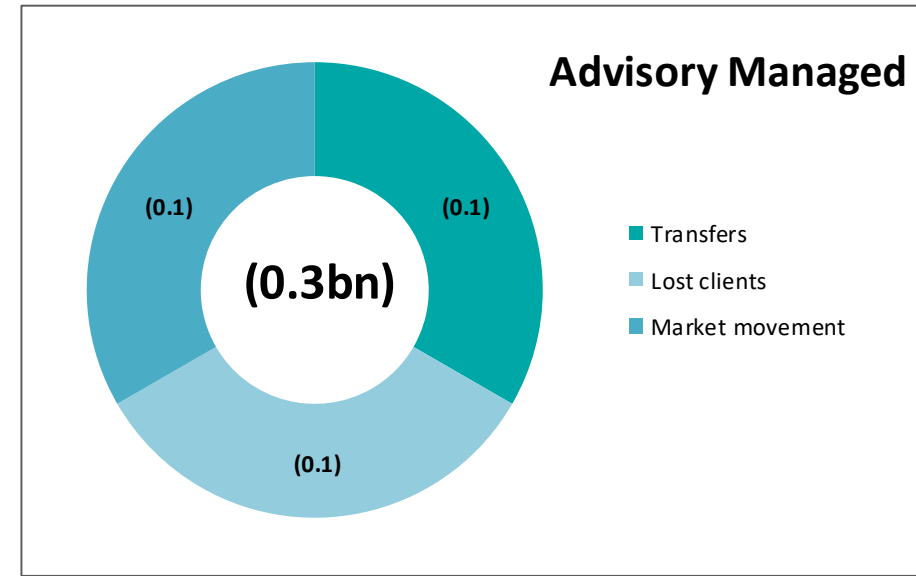
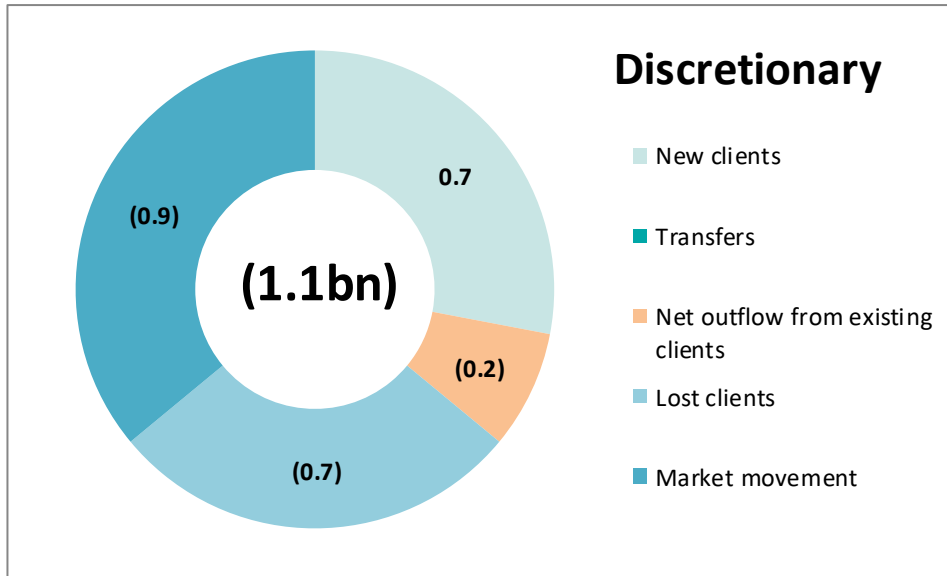
91%
of respondents understand how their role contributes to the success of the Group

 **Equity market rating**

Our objective
The Board is committed to delivering strong shareholder returns over the longer term. The adjacent table illustrates Charles Stanley's three-year total shareholder return (representing the change in share price and dividends paid over the period) in comparison to peer group listed companies.

Company name	2020	2019
Charles Stanley Group PLC	1	3
Brewin Dolphin Holdings PLC	2	1
Brooks Macdonald Group Plc	3	4
Rathbone Brothers Group Plc	4	2
Walker Crips Group PLC	5	6

Change in FuMA by service type in FY 2020



IMS – Divisional performance

	2020 £m	2019 £m	Change
Fee	109.6	98.8	10.9%
Commission	38.1	35.3	7.9%
Interest	7.1	6.1	16.4%
Revenue	154.8	140.2	10.4%
Contribution	72.4	58.2	24.2%
Profit before tax	22.8	15.6	46.2%
Operating margin ¹	15.8%	11.5%	
Closing headcount	349	396	(47)
Discretionary (£bn)	12.0	13.1	(8.4%)
Advisory managed (£bn)	0.9	1.2	(25.0%)
Total managed (£bn)	12.9	14.3	(9.8%)
Advisory dealing (£bn)	1.0	1.3	(23.1%)
Execution-only (£bn)	3.3	5.1	(35.3%)
Total administered (£bn)	4.3	6.4	(32.8%)
Total FuMA (£bn)	17.2	20.7	(16.9%)
Average FuMA (£bn)	20.7	21.0	(1.4%)
Average discretionary account portfolio size (£000)	293.8	329.3	(10.8%)
12 month average Discretionary funds per Certificated staff (£m)	69.3	59.8	-
<u>Revenue margins:</u>	bps	bps	
Discretionary	87	81	6
Advisory managed	75	69	6
Managed	86	80	6
Advisory dealing	45	29	16
Execution-only	34	24	10
Administered	36	25	11
Total	75	67	8

- ❑ Average FuMA fell marginally by 1.4% to £20.7bn (FY 2019: £21.0bn)
- ❑ Improved asset mix, with Discretionary funds now representing 69.8% (FY 2019: 63.3%)
- ❑ Increase in average discretionary funds per Certification Staff due to a combination of improved asset mix and a reduction in the number of Certification staff as a result of restructuring
- ❑ Division revenue margin+8 bps
- ❑ Revenue increased 10.4% as a consequence of the full year benefits of the repricing exercise, improved asset mix and increased interest turn
- ❑ **The division's overall operating margins increased to 15.8% (FY 2019: 11.5%)**
- ❑ Awarded Investment Week Gold Standards Awards 2019 for Discretionary Fund Management

Charles Stanley Direct – Divisional performance

	2020 £m	2019 £m	Change
Revenue	9.5	7.7	23.4%
Contribution	5.5	4.4	25.0%
Profit before tax	1.6	1.0	60.0%
Revenue margin (bps)	30	26	4
Contribution margin	57.9%	57.1%	0.8%
Profit margin	16.8%	13.0%	4.0%
Charles Stanley Direct (£bn)	2.4	2.7	15.3%
Charles Stanley Investment Choices (£bn)	0.3	0.3	(14.7%)
AuA (£bn)	2.7	3.0	(10.0%)
Average AuA (£bn)	3.1	2.9	6.9%

- ❑ Average FuMA increased 6.9% to £3.1bn (FY 2019: £2.9bn)
- ❑ At the end of December 2019, the **division's assets had grown 8.8%** but then fell 18.0% in the last quarter to £2.7bn at 31 March 2020 as the FTSE All Share index dropped 26.0% in reaction to the COVID-19 crisis
- ❑ Revenues for the year grew 23.4% due to the benefits of the repricing programme, higher interest income and commission due to greater trading activity
- ❑ Overall profits improved 60% to £1.6m
- ❑ Awarded Best Buy rating by Boring Money

Financial Planning – Divisional performance

	2020	2019	Change
	£m	£m	
Revenue	8.7	7.3	19.2%
Contribution	(1.9)	(0.9)	(111.1%)
Loss before tax	(5.1)	(3.4)	(50.0%)
Contribution margin	(21.8%)	(12.3%)	(9.5%)
Margin	(58.6%)	(46.6%)	(11.9%)
Closing number of financial planners	27	21	6
Revenue per financial planner (£k)	330	340	(2.9%)

- ❑ The Group continues to invest in the Financial Planning division as a core component of its wealth management offering to clients
- ❑ Revenues up 19.2% to £8.7m
- ❑ As expected, losses in the period increased 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)
- ❑ Awarded Best Advisory Service and Best Financial Planning by the City of London Wealth Management Awards 2020

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