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Quilter plc 2018 Full Year Results

Tuesday 12 March 2019

Paul Feeney CEO: Good morning everybody, welcome to our first full year results presentation.

As you know, we announced a CFO transition back in November with Mark Satchel succeeding Tim Tookey, so you'll hear from both of them this morning, Tim will talk about the financials and Mark will go through our optimisation plans and future guidance.

I'll also take you through my perspective on the business. But first let me just stop for a second and say wow, because 2018 really was a landmark year for Quilter.

Let's take a look at what we achieved: we listed the business; we completed the sale of our Single Strategy asset management business; and we paid a special interim dividend to return the surplus proceeds from that sale to our shareholders; we've made real progress on our Platform Transformation Programme; we put the FCA investigation into our back book behind us without any regulatory sanction; we have worked up our optimisation plans and begun to implement them, and we delivered record profits.

So it's been a busy year but a good one. I'd like to thank all of my colleagues who made all of that happen.

Right, now let's talk about the business performance. We delivered a strong profit performance in 2018. Our adjusted profit was up 11% to £233 million and adjusted diluted EPS was up by 15% to 12.3 pence.

Our final dividend of 3.3 pence is in line with our guidance and of course that comes after the special dividend.

We ended the year with Assets under Management and Administration of £109 billion and with the rebound in markets this year, that figure was up to around £113 billion at the end of February.

Part of the reason our figures are ahead of expectations is due to how we reacted to the tough environment in the second half of last year.

As Mark will discuss later, when we realised the operating environment was getting harder, we doubled down on costs. And we intend to maintain this rigorous cost discipline and are aiming to keep costs broadly flat in 2019 after or before any acquisitions.

As you know, the flow environment deteriorated over the course of last year, but we were pleased to have delivered NCCF of £4.7 billion excluding Quilter Life Assurance. This is in line with our medium term target of 5%.

Whilst third party direct flows are important to us, we pay particular attention to integrated flows. It is a measure of how well our overall proposition delivers for clients, and our integrated flows were resilient at £4.7 billion, down just 10%.

Although there was less flow to go around, what flow there was, was touching more of Quilter, and you can see the benefits in the improved operated margin now up to 30%.

A few other things I'd call out on this slide: we increased our headcount of restricted financial planners by 4%, that's below our historical growth rate and quite frankly, I'd like to have done better, but positively, more of the growth came through in the second half of the year.

The decline in investment managers reflects the departures that we called out at the interims and as you'd expect, we've been busy hiring. We're now back to 160 today and we've got a good pipeline of new hires as well.

The advice and wealth management industry in the UK is still very much a secular growth story, but of course we're not immune to market dynamics. We're focused on proactively managing though whatever the external environment throws at us. Let me explain.

First there is the impact on sentiment of Brexit and wider global macro concerns, so our advisers are focused on guiding clients through this current period of uncertainty. Now this may not drive flows in the short term, but our clients will remember that we were there for them when sentiment improves.

Secondly, there was a structural undersupply of quality financial advice across the UK market, so we're expanding our advice model to develop a national scale wholly owned advice business and I'm going to say more on this later.

Thirdly, the UK platform market environment will stay competitive, but our new platform will enhance our position in the market with a much better client proposition.

Fourthly, lower average market levels in 2019 could impact our revenues, but our tightened cost discipline will stand us in good stead.

And finally, we make no apology for the fact that we have a conservative balance sheet. In times of business uncertainty and market volatility we see that as a source of strength.

Okay, I'm now going to get into a little more detail starting with flows and advice.

The last quarter of last year was particularly challenging and when looking at the prior year comparison, do remember that there were one-off flows of £600 million into International in Q4 of 2017 which weren't repeated in 2018.

Now, with NCCF of £4.7 billion and integrated flows of £4.7 billion, it looks as if all of our flows are integrated, but it's just a coincidence that they're the same number.

We still benefit from considerable third party flows - £2.2 billion last year, which reflects the strong client proposition that our platform offers to independent advisers.

Now, we will update the market on flow for the first quarter in late April, but I've highlighted in the release today the three reasons why we're cautious on the outlook for flows for 2019, expecting them to be at best similar to late last year.

Let's look at integrated flows in more detail.

Our model is working well. As you've heard me say before, customer choice is core to our philosophy and our UK platform is at the beating heart of our business.

Let me bring that to life for you.

This slide looks at flows into our UK platform, where they come from and where they go to. It also shows you how integrated flows create more value over time. We call these our polo mints – the two circles on the left refer to flow and the two on the right to stock.

Last year we generated net flow of £3.1 billion into our UK platform and as you can see, 35% of that came from our own advisers and 65% from independent financial advisers.

Where did the money go? Well, the bottom left shows that just over half the flow into the UK platform went into funds managed by Quilter Investors, with the rest into third party funds held on our platform.

That underscores why we think the open and integrated model is so important, not only did our restricted advisers generate flow into Quilter Investors, but independent financial advisers did so as well. And this third party validation provides real endorsement of both our platform and our investment solutions, and remember that this slide is just looking at flows into our own platform; our restricted financial planners also delivered flow to Quilter Investors through other platforms as well.

Now, turning back to stock on the right. You can see that 11% of the stock on our platform has been originated by our restricted advisers, that's up from 9% last year, and 19% of the stock on the platform is managed by Quilter Investors, that's up from 17% last year.

These are encouraging numbers and that's why we've announced the next stage in the evolution of our advice business today.

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This slide shows our Quilter branded advice model.

Everything we do at Quilter begins with advice and we focus on supporting advisers through three key channels.

First, the open market channel where we service third party independent financial adviser. The majority of the assets on our platform, and indeed those managed by Quilter Cheviot come from these advisers. One of the main reasons for the investment we are making into the new UK platform is to service these advisers better. We are going to offer them a broader product suite and we're going to do more business with more of them.

Secondly, we have Quilter Financial Planning. This is our traditional network model. Here an owner-operated firm is an appointed representative of Quilter. We retain around 15 to 20% of their revenues, in return for the services that we provide. We ensure their advice is up to a quality standard and we provide a panel of high quality products they can advise on. This includes third party products as well as our own, so they benefit from our research and our buying power which gives them confidence that their customers are getting a good deal.

Thirdly, back in 2015 we set up Quilter Private Client Advisers, this is a national advice model, while it's modest in scale the strategy is working well.

So, what next? Well, we are now ready to develop our owned national advice model so as I click the slide forward, you can see that we are filling the gap by taking the owned advice model that has worked so well in the high net worth space, and building it out into the affluent and mass affluent markets on the bottom right. And that is why we decided to buy Charles Derby.

The firm was already a part of the Intrinsic network and so we know it well. We are going to transition this business from being an appointed representative, to being an owned national advice business similar to the PCA model. And we'll call it Quilter Financial Advisers to leverage the strength of our brand.

This acquisition brings together Quilter's strengths in solutions with Charles Derby's strength in customer and restricted financial planner growth in an underserved market.

Charles Derby will more than triple the size of our owned national adviser base – it's going to give us real scale.

We aim to become the destination of choice for smaller advice firms who may be struggling with the increasing regulatory burden.

The current more difficult market environment is generating opportunities for acquisitions that simply were not there 12 months ago and I'm very confident that our national advice strategy announced today will add value to our business.

I also want to mention the expansion of our Financial Adviser School. We're increasing our investment to expand the capacity of the school to deliver more RFPs to Quilter. We will be able to accommodate around 100 students per annum and expect this to contribute to growth in adviser numbers from later this year.

Okay, now let's turn to another key project for us, the UK Platform Transformation.

I was delighted that we crossed a major milestone by entering the soft launch phase at the beginning of February. This allows us to validate the functionality, processes and controls of the system in a live environment, with actual customers and real money and it's working well.

So, the programme is pretty much where we expected it to be at this stage. We are working through the usual troubleshooting issues you would expect on a programme of this size and we expect programme costs towards the top end of our £120-160 million range.

The next important milestone is the summer when we expect delivery of the final version of the system code incorporating full adviser functionality and, obviously subject to this passing our rigorous internal testing and quality review, we aim to begin migration by the early autumn.

Since the project started, we've had the opportunity to learn a lot from competitor's migrations and IT projects. That has made us more mindful of the long tail of smaller firms on our platform. These are the firms who are less likely to engage with pre-migration communications, so while it's always been our plan to complete migration by the end of this year, I won't set artificial deadlines on a project where high quality delivery is of utmost importance.

And mitigating these risks is a priority for us, so we are currently considering adding even more call centre capacity on a temporary basis and/or potentially undertaking the migrations in more stages, as well as avoiding obvious market sensitive points for activity like tax year end or Brexit transition dates.

If our work over the coming months suggests that we should take these steps, then of course we will. And should we decide to do that, then the overall programme is more likely to run into the first half of 2020, and costs would then run modestly above the £160 million we're targeting.

Now, we want to complete or substantially complete the project by the end of this year and ensure that it is significantly de-risked from a shareholder perspective.

The new platform will be transformational for our business, we can see that now and we see it as it's working in a live environment, we see just what it can do. And it's pleasing that from a standing start less than two years ago, we now have a system working in a live environment with real customers investing real money.

This is a good position to be in at this stage and we're working up our migration plans with confidence. We'll update you again on progress with our interim results.

Let me now turn to optimisation.

Optimisation is ultimately about making Quilter a simpler and better business. It's about improving our operating model and delivering the service our customers expect as efficiently as possible.

We see it as a phased multi-year programme. This is because we have deliberately left those parts of our business that are linked to PTP out of scope and because we want to strike a balance between delivering the optimisation programme and not disrupting our front end revenue generation, or doing anything that could cause risks to the successful delivery of PTP.

But by focusing on middle and back office activities, we believe that we can generate around a two percentage point improvement to our operating margin in 2020 and a further two percentage point improvement by 2021.

That would lift our target 2020 up margin to around 32% and our 21 target to around 34%.

Now, obviously the operating margin is a function of both costs and revenues, so to hit those targets, we are assuming broadly normal market performance from around current levels with steady net flows. Once we've completed the UK Platform Transformation we will look again for further efficiencies.

Right, now let me hand over to Tim to walk you through the 2018 financials. Tim.

Tim Tookey: Thanks very much Paul and good morning everybody.

I want to start with an updated version of a slide that I used back at the interims and you'll remember how this slide works, so let's get straight to the question of how the business performed in its maiden year as a listed group.

Well, as you heard from Paul, headline NCCF reflects the more difficult market environment especially in the second half. Against that backdrop, the multi-channel model has given us a solid outturn which met our 5% guidance.

AuMA, down 4%, was comfortably ahead of the decline in total AuM across the market, according to the Investment Association stats. And indeed, half of that decline is simply the run off of the Quilter Life Assurance back book, including the institutional business which we are exiting and was therefore fully expected.

As you've heard, that year end figure bounced back to around £113 billion at the end of February. Now that is still below the average for last year, but it's somewhat better than we expected it would be back in early January.

So top right revenues are up 8% on a fairly stable revenue margin, which I'll come back to in a minute. And slowing cost growth up 7% despite the headwinds of listing and separation activity, so positive jaws which delivered an operating margin of 30%.

Now, we're delighted with this and it's been hard work. It was slightly better than we guided to at interims and it's nice to be ahead of our promises.

Given some timing differences and our guidance, we wouldn't be surprised to see a modest dip in the operating margin in 2019 and Mark will talk more about guidance later.

All this generated 11% profit growth to give £233 million of Adjusted Profit before tax for the full year and 15% growth in Adjusted Diluted Earnings per Share to 12.3 pence, helped by a low tax charge. So a strong set of results I hope you'll agree and one which delivers in line with or slightly ahead of guidance.

Right, let's dig a little deeper, starting with advice in wealth management.

I've said before that this segment will be the primary engine of our future profit growth and that is what we can see here – profit growth of 24% to £102 million. Now that's obviously an excellent result.

We were pleased with the modest improvement in revenue margins. Quilter Investors has benefitted from continued flows into its higher margin products, Cirilium is now 51% of Quilter Investors AuM, up from 44% last year.

Despite the modest revenue margin improvement in this segment, the overall Quilter level revenue margin guidance we gave at the time of listing remains unchanged.

The other thing that I want to call out is advice fees, which are up 13% year on year to £87 million, much higher than the rate of growth in RFPs and this shows how much the value of advice is recognised by individual customers.

On costs, well, the growth here is a function of the investments that we continue to make. Obviously Caerus was only there for about half of 2017 and so we're seeing the full year impact from that, but also the effect of our continued expansion of private client advisers and the 14 small acquisitions that we made here during 2018.

We've also seen the impact of building out our standalone business in Quilter Investors. Now that process is reasonably advanced – we started 2018 with a headcount of 45 and we finished the year with around 80. We expect to reach steady state at around 100 people this year.

And as we called out at the interims, while we benefitted from a lower than expected FSCS levy, we will be back to a full year's charge this year.

As this segment grows and becomes a proportionately bigger part of the Group's activities, it also bears an increasing allocation of the central costs which has added to the cost base of this segment during 2018. Despite this effect we've achieved strong profit growth and positive jaws or operating leverage of plus 2%. It is just the sort of dynamic that we like to see.

Now let me say a few words about investment performance starting with Quilter Investors.

We've shown here the medium and longer term performance of our biggest ranges, that's Cirilium and Wealth Select, and the reporting format is consistent with how our competitors show performance and how the products are marketed to customers.

Note that for Wealth Select, while the three year comparison to benchmark is to the end of December, the five year comparison is to end February. Now that hasn't been done to capture the recent recovery in markets, but because this February represented the five year anniversary of the launch of Wealth Select.

Put simply, if we took end December as the performance date then there wouldn't be a five year track record. Generally though, we acknowledge that 2018 was a challenging year for all investors. Most asset classes declined and the broad nature of the decline particularly in the fourth quarter, made it difficult to achieve positive outcomes from Quilter Investors diversified solutions.

Whilst we're conscious that short term performance in certain portfolios was disappointing, remember that these solutions are aligned to the advice process led by well-regarded portfolio managers and with good long-term records and advisers remain comfortable recommending these products.

Our largest multi-asset range, the £8.3 billion Cirilium Active, had a disappointing year but I'm pleased to say it has started this year strongly. Over the three, five and ten year periods the performance continues to be strong.

The £6 billion Managed Portfolio Service compares well against its peer group and met its investment objectives in 2018, defending well in the last quarter of the year.

Delivering strong investment performance over all durations does of course remain a top priority for Paul Simpson and his team.

Turning now to Quilter Cheviot.

Now the historic quartile performance that you've seen before is in the Appendix, but we've aligned the reporting format on this slide with how we have set out Quilter Investors' performance for consistency.

Overall, performance remained good across all time periods and notably remains top quartile on a ten year horizon across all ARC benchmarks.

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Moving on to Wealth Platforms which comprises the more established parts of Quilter; we are really pleased with the overall outcome here. At a segment level, revenue growth was up 1% and costs were flat, which delivered positive operating leverage and 3% profit growth.

Of course, the headline figures reflect the impact of Quilter Life Assurance which is in run-off. If you exclude Quilter Life Assurance where profits reduced to £57 million, the segment profit growth was 14% and the UK platform business was the principle contributor to that.

Let me walk through each of the businesses.

Firstly, Quilter International where we experienced solid revenue growth. As you would expect with the muted flow performance, net management fee income was flat with this supported by the predominantly premium based charging structures within International. So the performance was driven by other income.

Given the repositioning of this business over the last two years which has placed it ahead of peers in terms of adjusting to changing regulatory dynamics, we have a solid base on which to build, but it will take a bit of time to get back to growth momentum.

Secondly, Quilter Life Assurance where the pace of run off was in line with guidance.

Thirdly and most importantly, we have delivered strong revenue growth momentum in our UK platform business Quilter Wealth Solutions. Here we delivered revenue growth of 6% and that growth has been achieved on our existing legacy platform.

As Paul said, there really is a huge opportunity to do much better once the new platform is fully operational.

Now, this slide includes corporate expenses which is the balancing item between the segments and overall adjusted profit, and I've also set out the main items taken below the line.

Head office costs were flat year on year. That is possibly a better result than many of you were expecting and it's down to a combination of two factors.

Firstly, we deliberately spent less as we tightened cost management as part of our early optimisation work.

Secondly we've allocated some of the costs such as the LTIP expense that you may have been modelling as central costs into the segment. We think that gives a better economic perspective on the segment or divisional performance and it makes it even more pleasing to see positive jaws in each segment despite these extra allocations.

Looking at below the line items, each is broadly in line with expectations. You might note managed separation costs where we still have another £12 million to spend, now this is largely related to rebranding costs which we highlighted at the time of the IPO would not all come through in 2018.

A brief look at capital, our Solvency II position after provision for the final dividend is 190% on a proforma basis, and the big movements from the 171% that we discussed at Showcase are of course the completion of the sale of the Single Strategy asset management business and both the final and the special interim dividends. This leaves us in a very strong position.

And that's a great note from me to step aside and hand over to Mark who I know will be a very strong CFO.

But before I disappear, I just wanted to share some brief reflections on how I think Quilter is positioned. It's by no means a perfect business just yet, but it has great potential. Strong market positions in each key business area, a strong executive team and strong secular market growth ahead of you. Mark, it's over to you.

Mark Satchel: Good morning everyone and Tim thank you very much for those kind words.

It's been a pleasure working as a team with you over the last two years or so and I've learnt an immense amount and I wish you all the best for your future.

Now what I'd like to do this morning, is to provide you with a bit more detail on our costs, our optimisation plans, our cash position, the capital philosophy we employ and then say a few words on outlook.

So let's start with costs. This slide shows a high level view of our expense base. I have put them in categories of expense items that we use in an optimisation programme which I think are fairly self-explanatory.

As you can see, the cost base grew 7% last year to £555 million.

The principle drivers behind that increase were inflation, which added around £11 million, the additional costs associated with being a standalone business and the Quilter LTIP. These totalled £18 million in line with our listing guidance.

And then there were investments also totalling £18 million from the build out of Quilter Investors, full year run cost of Caerus and the various small business acquisitions we made within PCA.

I consider these as being good costs to incur as we continue to invest and grow our business.

We worked hard to mitigate these increases, so I'm pleased that we've achieved an £11 million reduction through managing our expense base more tightly and delivering on early optimisation benefits.

Last year after two years of flat profits, we said that we would focus on delivering profit growth in 2018 and that is exactly what we have done and there's more to come including from optimisation, so let's turn to that.

As Paul set out earlier, we are looking at optimisation as a phased programme.

Our most important task – mission critical if you like – is to deliver a new UK platform. So we have deliberately left out those parts of the business operations that are linked to the platform transformation as being out of scope for now, we don't want to delay or disrupt that project for obvious reasons.

We have also left a large element of front end revenue generation costs out of scope as we don't want to damage that part of the franchise.

So this slide shows you both our total cost base of £555 million in 2018 and what we regard as being the addressable cost base for optimisation which is around £300 million.

The shading on the middle bar here shows you the proportion of each of the key expense categories in the addressable bucket we are focusing on. So practically all of our support services are within scope for optimisation, but by comparison, only about 40% of the front office and operations are within our phase one scope.

The pie chart then shows the breakdown of where the contribution to our optimisation target comes from. So around half of the benefit will come from the Support Services, with just over a third from the Operations areas, and the remainder from IT and development.

You can also see the broad quantum of cost reductions we are seeking to achieve but let me emphasise, we are not holding ourselves to a pound note target but rather to an improvement in the operating margin and that is what we will report on.

Once we have delivered the new platform, we do believe that there will be scope to deliver further efficiencies. But more immediately, we are focused principally on optimising the middle and back office and here we see scope to deliver meaningful savings.

So, let me give you a few examples.

We will be delayering and streamlining the business and we're building centres of excellence to support all of the business from common management areas. It will be a much more efficient model.

We will be automating more of the advice process. This will improve the adviser experience, while also further enhancing our control environment.

Our finance systems are not integrated. We will implement a new general ledger to bring the business onto one common system.

We expect the benefits to deliver a two percentage point improvement to our 2020 target operating margin, taking it to around 32%. And we expect a further two percentage point improvement to our 2021 operating margin to around 34%. And that is despite the investments we continue to make in distribution acquisitions which are a near-term drag on our operating margin.

By way of example, the P&L composition of advice businesses mean that the immediate impact of the Charles Derby acquisition will be to reduce the operating margin by about one percentage point.

The one off costs to achieve optimisation are expected to be approximately £75 million. These are broadly IT and systems development, restructuring costs and programme delivery costs.

I've been responsible for leading the optimisation programme in terms of identifying and scoping initiatives and building early delivery momentum. As you will be aware, Karin Cooke, our new Chief Operating Officer, started with us in January and she has extensive experience in delivering programmes such as this and she now takes on the day to day management of the programme.

Moving on to cash. We said that we would give you more detail on cash at the interims. This slide walks you through the changes in the holding company cash over the course of 2018.

At the start of the year we were still reliant on our former parent for liquidity support and funding and we had £36 million of cash.

You already know about the moving parts in the first section of this slide which takes us up to the £221 million special dividend. So, next we have the business as usual central costs, which include the funding of the head office which includes the one-off listing expenses and the cost of servicing the debt that we have raised during the course of this year.

Finally, there's the capital we inject to fund investment in the business and distribution acquisitions together with the dividends we receive from subsidiaries.

For those of you trying to tie in the £167 million of cash remittances from subsidiaries to our target cash conversion ratio of 80%, note that there will be timing differences between profit generation and remittance.

Cash conversion in 2018 was ahead of guidance at 88% and I'm very pleased with that.

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Also remember that the capital contribution and investments figure includes some net funding requirements for things like the platform transformation programme and for the investments made in PCA acquisitions.

So, on the far right you can see that we finished the year with £416 million of cash in the centre. That obviously sounds like a lot.

Before you get to questions about special capital returns, bear in mind that not all of this cash is free cash. We obviously have to pay the recommended final dividend and we need to ensure that we've got capital, cash and liquidity in place to cover stress and contingent funding scenarios.

We've clearly got to cover the remaining costs of PTP and fund the optimisation programme. We also have some cash available for bolt-on acquisitions and finally, there are likely to be some cash costs associated with a London property move which I'll talk about in a moment.

So overall, we consider our position to be conservative, but given the general markets and political uncertainty in the UK right now, having a strong balance sheet feels entirely appropriate.

Turning from cash to capital. This slide shows how I consider the competing priorities for capital and cash returns. Apart from the book ends of making sure we have enough cash to run the business on a day to day basis and returning surplus capital to shareholders as we did with the special dividend last year, the allocation of capital between organic versus in-organic activity shown here is a summary of the comments we made in our listing prospectus.

We are a growth business with a wide range of opportunities, so investing organically in the business to drive our operating margin makes huge sense and is a key priority for us.

We also believe that bolt-on acquisitions support our growth momentum, both of these provide a higher return on investment over time.

As a point on capital returns, we will also be seeking shareholder approval to undertake an odd lot offer to reduce the cost of running our shareholder register, nearly half our register accounts for around just 1% of the market value of the company. It is worth doing.

Now let's turn to guidance. We have given detailed slides on guidance in the Appendix where you will see that very little has changed apart from increasing our operating margin targets.

This slide runs through the changes since our showcase. The key points to note are first as Paul has already mentioned, we expect a subdued flow environment this year and we are considering embedding a high degree of resilience into our platform transformation project.

Secondly, tax rate, the low effect of rates for this year was due to being able to make use of accelerated capital losses. The outcome of the tax rate for 2019 remains more uncertain but we do expect to get back to the 12-14% range that we guided to ahead of listing within a couple of years.

I mentioned earlier costs associated with a potential London property move. Now this is not about the Chairman and Paul getting larger corner offices, rather it has to do with the lease on this property which we were planning on extending coming to an end in 2020.

An extension is no longer possible so we are considering consolidating a number of our London offices into a new location, which is about bringing our people together and allowing for a more effective working environment.

What that does mean is that we are likely to see higher rental costs in time, as well as some one-off costs associated with the move. We will update you further on this once we are in a position to do so.

We are positioning ourselves for a more challenging revenue environment in 2019 so we are looking to hold costs excluding those from acquisitions, broadly flat this year as a partial offset to this. And for your models, the Charles Derby acquisition will add around £15 million to the cost base and a similar amount to revenues.

So, in summary from Tim and me, we are very pleased with the financial performance of the company in 2018 and we are well placed for 2019 and beyond.

We have a prudently capitalised balance sheet which is a good position to be in, we have demonstrated our capital discipline with the special dividend last year and we have demonstrated our expense management credentials through cost containment and this is something we will look to reinforce in 2019.

We have met or exceeded the guidance we gave at IPO and have reaffirmed all key points today.

While 2019 may offer challenges to revenue momentum, we look forward to continuing to deliver positive operating leverage and an improving operating margin over the next three years as the benefits of our optimisation programme come through. Now back to Paul.

Paul Feeney: Thank you Mark.

So, this is a good set of results in what became a more challenging market as the year went on.

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Despite that, our business is very much where we wanted it to be at this stage and we are confident in the direction of travel.

We have always been clear with investors that, while we think the Quilter story is a good one, it isn't a finished one, we've still got more to do.

So, what can you expect from us in 2019?

Well, whatever the market environment, we will remain resolutely focused on growing this business and maintaining tough disciplines on costs.

Market volatility and uncertainty may persist in the short term but we remain well-positioned in a secular growth market and that gives us huge opportunities.

We will deliver on building out the National Advice strategy we announced today, with the aim of positioning Quilter as the go to brand for the affluent and mass affluent segment. We will execute on our optimisation plans and thereby improve our operating margin and we will progress our UK Platform Transformation programme carefully and safely.

We remain confident of meeting the guidance that we set out in our prospectus to the market.

Finally, it would be remiss of me not to take the opportunity to thank Tim myself for all the efforts over the last two years both as a non-exec and then obviously as my CFO. He has made a huge contribution, we've all learnt a lot from him and benefitted enormously from his wise counsel. This will be his last presentation on behalf of Quilter so he has kindly agreed to take all the difficult questions.

Okay, who's going to get us started?

Andy Sinclair: Hi thanks, it's Andy Sinclair from BofA Merrill Lynch, three from me as usual if that's okay?

Paul Feeney: Yeah.

Andy Sinclair: So, firstly just on adviser recruitment just wonder if you can give us a bit more detail on a pipeline after the Charles Derby acquisition, what the pipeline's looking like for 2019?

Secondly, on the operating margin target, really good to see that up today. I just want to kind of connect the two between adviser recruitment and the operating margin target because recruiting more advisers, positive for the business but effectively advice is a zero percent operating margin business so just how you kind of weigh those two up?

And thirdly just on capital and liquidity: 190% is obviously to a ratio of 416 Holdco cash, how much do you think is appropriate in a steady state scenario? I realise you've got a few things going on at the moment we can have a think about but how much you think is steady state Holdco cash? Thanks.

Paul Feeney: Sure. Thanks Andy. Well, I'm going to take the first question on RFPs and the second actually on op margin target with adviser recruitment and ask Mark to address the third question on capital liquidity. Do you want to take that now?

Mark Satchel: I can take it straight away. So, Andy, we haven't given any sort of numbers in terms of targets and what we are targeting with the Holdco cash level and you will be disappointed to know I'm not about to give you a target right now on that.

We have been, or we've consistently set out during our listing as well as now the various factors that we've taken into account in terms of the levels of cash and some of the solvency ratio movements around that that we set out then and we continue to address now and I've addressed a whole lot of them in the presentation today and I'm not going to go through all of those again.

We have also said that over the more medium term we expect to get to a solvency level that's approaching more of what some of our competitors are at, but that's not going to be immediate and that may take time and clearly the Board will deliberate on these things as we go through the normal course of events.

Paul Feeney: Okay, so on RFPs so Charles Derby has about 200 advisers, we expect virtually all if not all of them to come across into our national advice model of 200 RFPs over there.

In terms of growth in restricted financial planners for 2019, you saw we did about 4% growth last year, vast majority of that was in the second half of the year, in fact only two advisers came in through acquisitions because the 14 small acquisitions we made were mainly of client books and client assets so we don't have an actual target for RFP growth, we don't put that out there but clearly our historic average has been somewhat high, a little bit higher than 4% growth.

In terms of op margin target and weighing that against adviser recruitment you're right, in terms of advisers, adviser businesses they tend to be pretty much a break even game in terms of revenue on costs so it does have a drag on your op margin short term until manufacturing profits come through.

However, you know, overall this is where the battle is going to be played out for wealth management in middle Britain in the distribution space and it's happening now. Charles Derby as Mark mentioned will have a short term, about a 1% effect on our op margin short term but overall clearly the profitability… we know the return on investment of these businesses is very good, we're very used to doing this and it ends up as a very profitable part of our business.

Okay, next question. Johnny?

Johnny Vo: Yeah, it's Johnny Vo from Goldman Sachs, just a few questions.

I guess, you know, the platform is still dominated by flows coming in from the IFA so you said about 65%, but yet when we look at the flows in Quilter Investors, north of 80 or 85% is coming from your restricted advice so how do you increase the productivity or usage of IFAs onto Quilter Investors is the first question.

The second question is in regards to, you know, when you make these acquisitions of advisers what do think the payback period is for that?

And the final question is just in regards to ROE I guess, you know, your op margins are improving quite favourably, there seems to be a relationship between ROE and price to book for your stock so how do you square the two? Thanks.

Paul Feeney: Okay, thanks Johnny. I'm going to take the first question, I'm going to ask Mark in a moment to take questions two and three on RFP adviser payback and relationship between ROE and price to book.

So, on our platform at the moment you saw restricted advisers account for 35% of the flow, our restricted financial planners, of the flow they produce we get about 50/55% of it onto our platform which means nearly half of it goes to other platforms that we permit those advisers to use at the moment, okay?

And why do we do that? We do that because it's the right thing for our clients because right now our existing platform can't offer some of the services and products that those clients need like SIP functionality for instance, okay?

So, we either tell our advisers you can't do it, which is the wrong thing to do, or we do the right thing and we allow them to use other platforms, what we do do is we link our investment solutions like Cirilium into those other platforms so that's why you see the flow into Quilter Investors is not subdued but the flow into our platform is because it's the wrapper product, some of those that we can't do at the moment on our platform. So, how do we get more flow from our own advisers onto our platform? We deliver our new platform.

So, Mark if you want to take the other two questions?

Mark Satchel: Johnny obviously the different acquisitions do have different paybacks and ROIs and ROIs is one of the things that we focus on the most, typically we'd expect on the distribution side that the return on investment that overall Quilter achieves within a three year period is anywhere from the mid to high teens plus so you can convert that into a payback period as you wish but that's typically what we'd expect to see after about a three year period.

Now, on your question on ROE and op margin and the price to book and all the rest, if I understand it all correctly I think what you need to be remembering in all of that is we have goodwill that a large part of acquisitions is goodwill and that distorts both your equity position because you're capitalising all of that in your balance sheet and you've got all of that coming through and I think that that effectively ends up becoming a differentiating factor between the items that you are asking about.

Paul Feeney: Next question? Greg?

Greg Simpson: Hi, morning, it's Greg Simpson from Exane. Three questions if I may.

The first would be on cash conversions, it was 88% I think in 2018, the guidance was 80% IPO so just what's the longer term outlook around cash conversion? Do you think it improves over time as the life book runs off?

Second question would be on the platform project, be interested to hear what's the feedback from the independent advisers using the platform at the moment? Are they committed to keep using the platform or are they holding off, you know, before the thing completes?

And thirdly, the final question would be on costs so there's, you know, a lot of talk around cost focus and improving the efficiency, do you think you're investing enough to keep level with kind of competitors in the space particularly when there's the likes of one of the largest retail banks in the UK wanting to become a lot bigger in the advice space? Thank you.

Paul Feeney: Okay. Well, actually I'm going to take the first one obviously PTP and then I'm going to take the second one on costs and in terms of investing. Mark, do you want to talk about cash conversion rates?

Mark Satchel: Yeah. Our guidance on cash conversion at 80% remains, I think we had a good year this year at 88% where we didn't have as much of a capital strain associated with some of the businesses what we'd originally anticipated. That rate will fluctuate depending on the mix and where profits arise in the different parts of our business going forward but our longer term view is we'd still guide towards an 80% cash conversion rate.

Paul Feeney: So, Greg in terms of PTP, feedback from our IFAs is, look, our platform works, it does what it does, we do the basics very well and we service, quite frankly we over service our financial adviser and client base at the moment, however, our IFAs are also aware that there is things that our platform can't do.

They have been very loyal to us, very supportive of us but that's why we need to get our new platform in, so in terms of, you know, flow once we're into migration clearly we are expecting some intermittent potential effect on flow during that period of time as you'd expect, for a short period of time but overall they've been very supportive, they just want the new platform.

In terms of costs and are we investing enough? First of all, just standing back I think behind the question, sure, we've seen the Lloyds Schroders tie up and Lloyds saying they want 700 financial advisers, they want to be the third largest wealth manager in three years, you know, presumably behind us and another wealth manager out there.

But, look, that's good competition, I've been in the industry for 30 years, I've seen the banks come in, I've seen the banks go out and the banks come in and banks go out but they come in and they do it the right way it's going to benefit everybody.

There's a huge financial advice gap in this country and I think that will help everybody and quite frankly, good competition makes our business a better business. Are we investing enough? We believe we're ahead of the game, you know, in a way we started a lot of the competition in distribution in this market, we know the business very well, this is not a periphery business for us, this is not something outside of the core, this is our core business, it's what we do.

Next question please? Gurjit?

Gurjit Kambo: Hello, good morning, Gurjit Kambo, JP Morgan. Just two questions.

Firstly on the revenue margin it ticks up a little bit in 2018 by a basis point, just trying to understand what products sort of increase that margin because I would have thought, you know, in a more challenging market backdrop perhaps people would be going more risk off and maybe the margin would go down but it's good that obviously it's increased.

And then second just in terms of the costs, if you can just clarify the flat costs in 2019, is that excluding Charles Derby, the £50 million?

Paul Feeney: Okay. As I say, I'll take the first one and ask Mark to take the second one.

Revenue margin increased overall by one basis point is really just a function of mix, our product mix so clients have chosen within Quilter Investors some of our higher margin product but don't forget if you take Cirilium, Cirilium operates off a number of risk profiles so from conservative right through to more aggressive but there was more flow to products such as Cirilium in 2018, that could change, it could stay the same, it depends on our clients. Mark?

Mark Satchel: Maybe I'll just add to the revenue margin, we've also obviously got a slightly bigger book of integrated assets now where we're generating revenue from more than once place which also helps contribute towards that, but our revenue margin guidance remains unchanged from what we said at the time of our listing and the showcase then.

In terms of the costs, the costs do exclude any acquisition businesses so Charles Derby is excluded from that as well as any other of the small bolt-on PCA type acquisitions that we made, we made quite a few of them late towards the back end of last year and some of those who might still be making this year will also have an impact on that so we're trying to really guide broadly on a like for like sort of expense base from the business.

Paul Feeney: Further questions? [Silence] No? Okay, excellent. Thank you very much everybody, we're very pleased with our maiden set of annual public results and hope you and your investors will be too. Thank you.