

OLD MUTUAL WEALTH UPDATE TRANSCRIPT

19 December 2017

Operator: Welcome to the Old Mutual Wealth Update. For the first half of the conference, all participants are on listen-only mode, so there's no need to mute your own individual lines, and afterwards there will be a question and answer session. Just to remind you, the call is being recorded. I'm now pleased to present our host, Paul Feeney, CEO, Old Mutual Wealth. Please begin.

Paul Feeney: Thank you. Hi guys, thank you for joining us today. I'm joined here by Tim Tookey, our CFO; and Mark Satchel, our Corporate Finance Director. So, I'll say a few words of introduction, then we'll be happy to take your questions.

First of all, we're pleased to be announcing the sale of our Single Strategy asset management business today to TA Associates for an expected total consideration of £600 million. So, this is made up of cash consideration of £570 million, payable on or before completion, with approximately £30 million anticipated to be payable primarily over 2019 to 2021, as surplus capital is released from the business.

So, this has been a great business for us and we're really pleased with how it's grown under our stewardship. But as we said back at our showcase in November, it's a different business with very different characteristics to the rest of our business in terms of customers, product and distribution. It's institutionally focused; the rest of our business is retail focused. A large part of its economic value comes from performance fees, which are potentially much more volatile than the rest of our business. And it doesn't share distribution with the rest of our business, which is built upon an advice-led proposition. So, simply put, it's less aligned to our business model moving forward.

So, while we would have been happy to own this business long term as a distinctly-branded boutique asset manager, given its very different characteristics to the rest of our businesses, we felt it was in everybody's best interests to consider both internal and external options for the business. And the potential external purchasers included financial buyers, strategic buyers and existing industry players. Against this highly competitive backdrop, TA Associates emerged as the most attractive bidder on a number of grounds, including price and ability to execute. We believe that selling the Single Strategy business today and allowing our management efforts and investment priorities to be wholly focused on delivering on our ambition of building the UK's leading wealth manager will deliver the best outcome, both for Plc's current shareholders and Quilter's future shareholders.

While legal ownership is going to transfer at closing – the timing of which is difficult to predict at the moment, due to the need for regulatory approvals – the actual economic ownership of the business is going to transfer to TA Associates on 1st January 2018. Therefore, accrued profit in the business from the Single Strategy business will transfer with the business when the transaction completes. All profits, however, until the end of December this year will be due to us, to Old Mutual Wealth.

So, importantly, there is no price adjustment for any changes in overall market levels, and this obviously gives us downside protection from market movements which, in the context of the ongoing work regarding the Plc balance sheet and developing the capital needs of our own balance sheet, this is important for us. As you know, we've already started breaking out the financials of the Multi-asset and Single Strategy businesses, with the former an integral part of our business. So, work is well underway to ensure the smooth transition of the businesses, and to ensure that appropriate transitional arrangements are in place to support the Single Strategy business. So, we're pleased with the outcome today. With that, I'm happy to take questions. Let me hand back to the operator.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question please dial 01 on your telephone keypads now to enter the queue. Once your name has been announced, you can ask your question. If you find it's answered before it's your turn to speak, you can dial 02 to cancel. So, once again, that's 01 to ask a question or 02 if you need to cancel.

And our first question comes from Andy Sinclair of Bank of America Merrill Lynch. Please go ahead, your line is open.

Andy Sinclair: Thanks. Morning everyone. Three questions, if I may. Firstly, I just wanted to check if there was any distribution agreements or other responsibilities for either the Group or the Single Strategy business to each other, after this transaction completes?

Secondly, just wanted to check if there was any particular capital being passed across with the Single Strategy business; anything we should be aware of there?

And thirdly, just on liquidity in the Group, and particularly within Old Mutual Wealth, continues to build strongly. Just wondered at what point you think that starts to look excessive? Thanks.

Paul Feeney: Okay, thanks Andy. Mark, do you want to take the first one, any distribution agreements?

Mark Satchel: Sure, yeah. So, Andy, we will continue to work very much with the Single Strategy business going forward. We committed to supporting them and making sure that they have access to our platforms and other things, just like they currently do, and just as other third-party distributors do. So, we expect that we'll continue to have an ongoing fruitful relationship with them along very similar terms to what exists for other top partners that we use on a regular basis.

Paul Feeney: Okay, Mark, do you want to take the second one while you're on, any capital being passed across to the...?

Mark Satchel: So, Andy, we're obviously ensuring that the business is well capitalised at the point of transfer. That does mean the business is in growth mode, so the capital needs are increasing. Some of the deferred consideration, or most of the deferred consideration, is in relation to additional capital that we will be putting into the business in a standalone capacity, that we expect to unwind as a consequence of the separation. It takes a while



for it to unwind through the regulatory calculation, which is why it is deferred, and it will be returned to us in due course under the agreement.

Andy Sinclair: So, that £30 million gives kind of a fair quantum for that, is that fair to say?

Mark Satchel: Correct.

Andy Sinclair: Yeah, perfect. Thank you.

Paul Feeney: Okay. Tim, do you want to take the liquidity question?

Tim Tookey: Yeah. I mean, on liquidity, work is still going on, Andy, around what I call the simultaneous equations of Plc's balance sheet and our own. But remember on this one that we don't know yet when legal completion will take place, so it's quite likely that will take place after managed separation is complete. So, we'll be taking all sorts of things into account in that ongoing work.

Andy Sinclair: Thank you very much.

Paul Feeney: Okay.

Operator: Thank you. Once again, if there are any further questions on the line, please dial 01 on your telephone keypads now. And we have a follow-up from Andy Sinclair of Bank of America Merrill Lynch. Please go ahead, your line is open.

Andy Sinclair: If no one else is going, I'll have another shot. Just one more question. Just for the ongoing operational and IT responsibilities for the two-year period, just wondered if you could tell us the revenue and cost implications for the remaining Group?

Paul Feeney: Mark, over to you again.

Mark Satchel: Sorry, Andy, just repeat that. You said ongoing IT...?

Paul Feeney: The ongoing IT.

Andy Sinclair: The release mentioned ongoing operational and IT transitional service agreements for a period of two years.

Mark Satchel: Yeah.

Andy Sinclair: Just wondered on the revenues and expense implications for the remaining Group of that?

Mark Satchel: So, that's all been done at cost under current arrangements, and really it's just a normal TSA that we've set up, similar to what we've done on other disposals in Germany, Switzerland, all the rest of it. Andy, the total amount of all transitional services is something in the region of £9–10 million a year, and that will run off over time, but it's at cost without any sort of mark-up or anything else like that. So, the actual underlying business is neutral in terms of the cost that it's incurring as far as that's concerned.

Andy Sinclair: Understood. Perfect, thank you.

Operator: Thank you. And our next question comes from Johny Lambridis of Prudential. Please go ahead, your line is open.

Johny Lambridis: Morning gentlemen. As recently as six months ago, Old Mutual Wealth got a capital injection from the Plc of £200 million. Just trying to work out now, with you receiving £570,

whether that's going to be repaid or if the £570 will all stay within Old Mutual Wealth into the proposed listing?

Paul Feeney: I'm going to hand that to Tim.

Tim Tookey: Yeah. So, hi Johny, and thanks for joining the call at short notice.

Johny Lambridis: Not at all.

Tim Tookey: So, as I said back in showcase, work is ongoing with the day-one balance sheets of Old Mutual Wealth, as Quilter will be, as well as separation. So, the £200 million that was injected was really just the first stage of that development work; in fact, I think 'first step' or 'first stage' is how we described it in the prelims in August. So, the work is ongoing. Clearly, the timing of completion of the transaction with TA Associates is unknown, so it is quite possible that completion will come through once all the managed separation and the listing of Quilter, as we'll then be, will have been completed. So, on that basis, we have to prepare for listing with appropriate balance sheet and liquidity work, but make sure we're adequately capitalised, taking that potential timing into account. So, there's still work going on on this front.

Paul Feeney: But we will – I think the likelihood is that we'll –

Tim Tookey: The likelihood is that completion will happen after listing.

Paul Feeney: Yeah.

Tim Tookey: So, we're factoring all of this into the balance sheet work that we're doing, and the work that's going on developing the working capital pieces that are necessary for the prospectus.

Johny Lambridis: Okay. So, although profits will pass to the new owners 1 January, completion is expected only, what, third quarter of next year?

Tim Tookey: Yeah. It's difficult to predict the exact timing of completion, but you're right: when completion happens, then we would expect the value that has accrued post 1st January to be for the buyer, that is correct.

Paul Feeney: The profit, yeah. And then the value of the transaction completing will obviously –

Tim Tookey: Be ours.

Paul Feeney: – be ours, Old Mutual Wealth's.

Johny Lambridis: Okay. Perfect, thank you.

Operator: Thank you. Once again, if there are any further questions on the line, please dial 01 on your telephone keypads now. And our next question comes from Asanda Notshe of Mazi Asset Management. Please go ahead, your line is open.

Speaker: Hi guys, it's Asanda here. I just wanted to check: in terms of the metrics of the sale now relative to, let's say, the reported NAV of Wealth overall, what proportion of that reported NAV would you estimate the single manager business would have made up, let's say, at the interims period?

Paul Feeney: Right, that's definitely one I'm going to pass to the finance guys. Mark, do you know what the percentage of the reported NAV is, of our total reported NAV?

Mark Satchel: It fluctuates quite a lot within the asset management business, depending on what sort of dates you take. At 30th June I'm not quite sure what it was then, but at 31st December it's about £100 million in terms of NAV. So, I'm going back to last year, 31/12. I don't have the June number to hand, but that's more or less the amount of the NAV.

Speaker: And, I mean, if possible, would you mind sharing that, if you can, at a later stage, if that's okay?

Tim Tookey: Sure. Yeah, certainly – Asanda, it's Tim – when we get to prelims we'll be able to give more information on this. Of course, there's an element of goodwill that will be attached to this, when we come actually to finalising the numbers. Yeah, we'll be able to give more clarity on this at prelims.

Speaker: Great, thank you.

Operator: Thank you. Our next question comes from Tom Eckett of *Investment Week*. Please go ahead, your line is open.

Tom Eckett: Morning guys. I just wanted to ask: do you think you could provide a bit of colour about the main drivers behind the sale, and just the reasons for doing this at this time? That would be great, thanks.

Paul Feeney: Yeah, sure Tom. I mean the main reason is simply that the business – it's a great business, it's grown very well together under our stewardship, but it's less aligned with our overall business. Our goal is to build the UK's leading wealth management business. We're all completely retail focused, we're advice-based business, and this is a part of our business which is different; it's less closely aligned to that, it's predominantly wholesale institutional based. The nature of the earnings of the business are different to the rest of our business, because it's highly performance-fee based; our business is retail focused apart from this business, it doesn't share the rest of our distribution. So, we thought if we're going to do it, if we're going to look at it, we have to look at it now, and we wanted to make a decision. And as I said a while ago, we'll make a decision on this well in time and well ahead of our managed separation, because people want certainty, obviously. And I think we got a great outcome for everybody.

Tom Eckett: Okay, great. Cheers.

Paul Feeney: Thanks.

Operator: Thank you. Once again, if there are any further questions on the line, please dial 01 on your telephone keypads now. Once again, any further questions please dial 01. And we do have a follow-up from Tom Eckett of *Investment Week*. Please go ahead, your line is open.

Tom Eckett: Yeah, I'll have another stab. Do you think you could provide a bit of a breakdown of ownership on their side, so do you know who's going to be working with TA Associates? Is it going to be Richard, who's also part of this buyout? Yeah, a bit of colour on that will be great as well. Cheers.

Paul Feeney: Yeah. No, Tom, we don't do that, but clearly Richard will be part of it. But thanks for trying.

Tom Eckett: Okay, cheers.

Operator: Thank you. Once again, if there are any further questions please dial 01.

Paul Feeney: Okay. Have we got more questions or...?

Operator: No, no further questions at this time.

Paul Feeney: Okay. Well, guys, listen, thank you very much, we really appreciate you joining the call at such short notice. Obviously, it's short notice for a reason; we had to put the RNS out quite quickly this morning, so appreciate that. We're very pleased with the deal, we think it's a good deal for everybody; it's a good deal for our shareholders and I think it gives the Single Strategy business a good opportunity. I think it gives certainty and clarity to our listing, which is approaching quicker by the day. So, thank you very much, guys. If I don't speak to all of you before the holidays, then have a good holiday, Merry Christmas, see you in the New Year.

Operator: This now concludes the conference. Thank you all very much for attending, you may now disconnect.

[End of Transcript]