

# Rothschild & Co



## Results for H1 2019 – Presentation to analysts and investors

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17 September 2019



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1

Highlights



# Highlights

## Robust results despite less favourable market conditions

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### Key achievements

- Global advisory (GA): resilient M&A advisory - 6<sup>th</sup> globally by revenue and 2<sup>nd</sup> by number
- Wealth & Asset management (WAM): 10% increase of AuM (from €64.8bn to €71.5bn) thanks to strong NNA in Wealth management
- Merchant banking (MB): continuing to grow and deliver significant profit contribution

### Results

- Group revenue: -11% to €898m (H1 2018: €1,007m)
- Net income - Group share excl. exceptionals: -24% of €124m (H1 2018: €164m)
- Earnings per share excl. exceptionals : -21% of €1.73 (H1 2018: €2.18)
- Negative impact of €21m on staff costs relating to deferred bonus accounting (H1 2019: charge of €13m versus a credit of €8m in H1 2018)

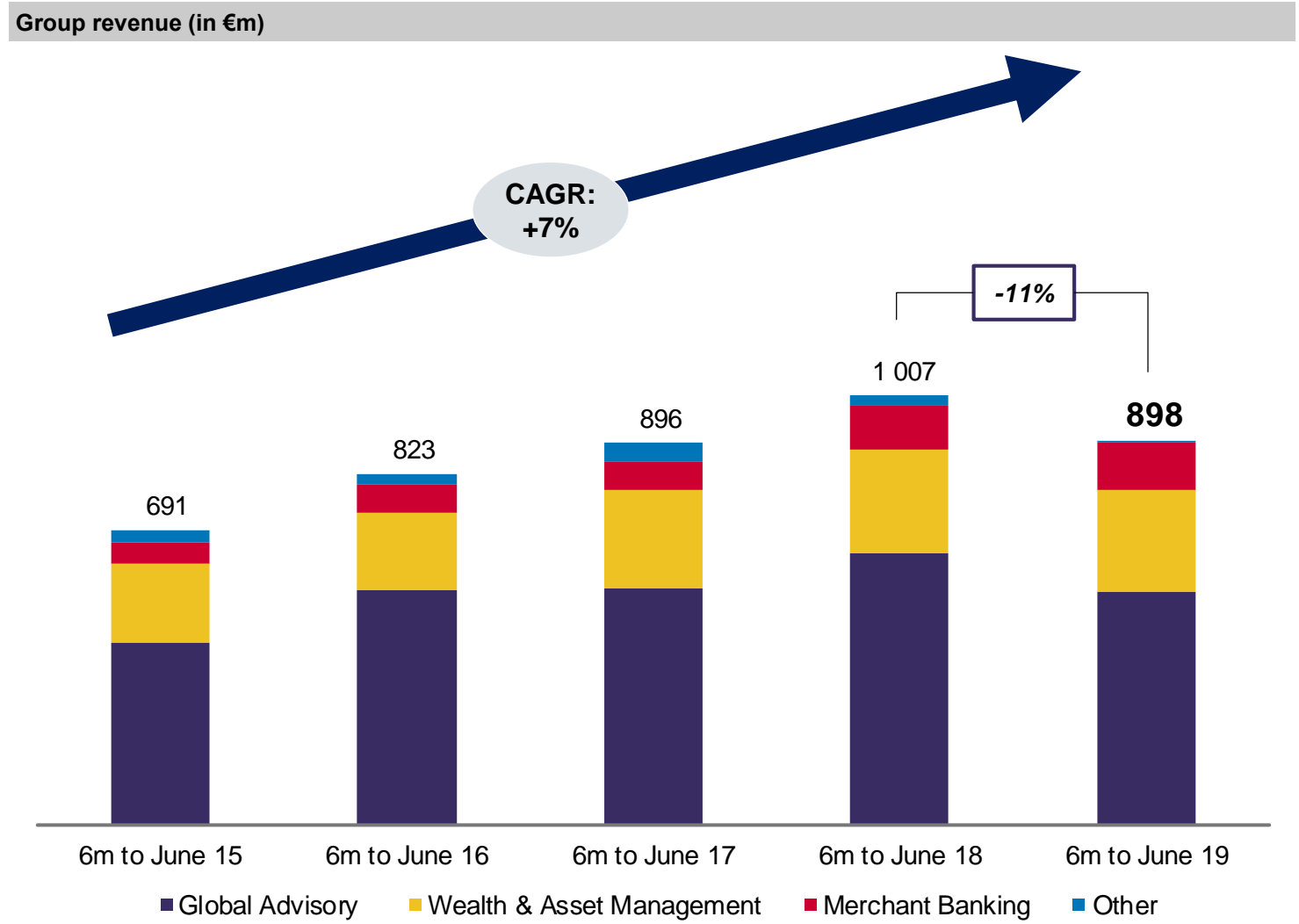
### Strategy on track

- GA: 19 MD promotions, ongoing investment in North America and strengthening of our investor and equity advisory business, with minority investment in Redburn
- WAM : Continued collaboration across the WAM businesses to increase efficiencies
- MB: Active fundraising, notably with the closing of the third generation of European primary private equity fund, well above target

# Group figures



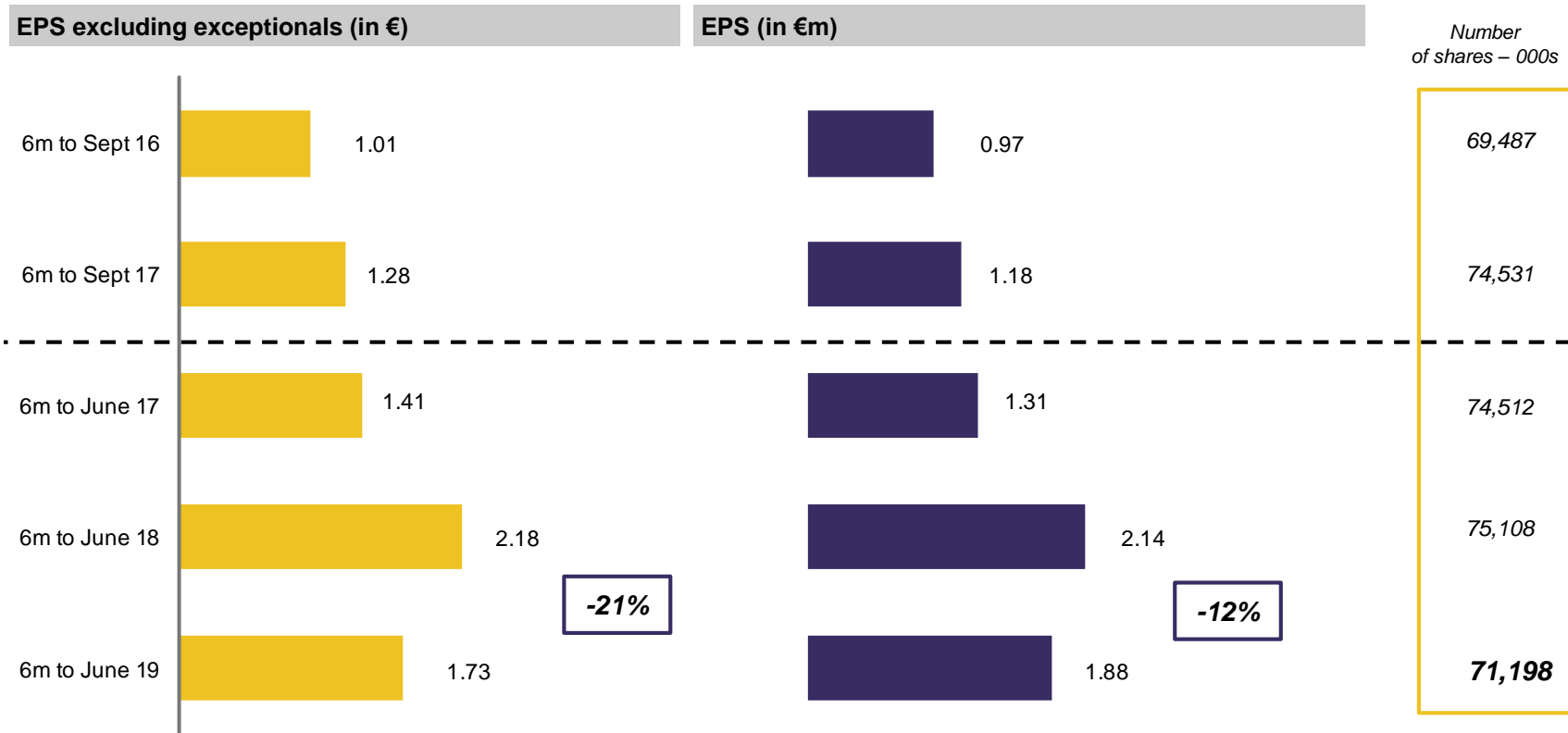
## Revenue down from a record-high in 2018





# Group figures

EPS down due to leverage effect of lower revenue despite significantly lower compensation accruals



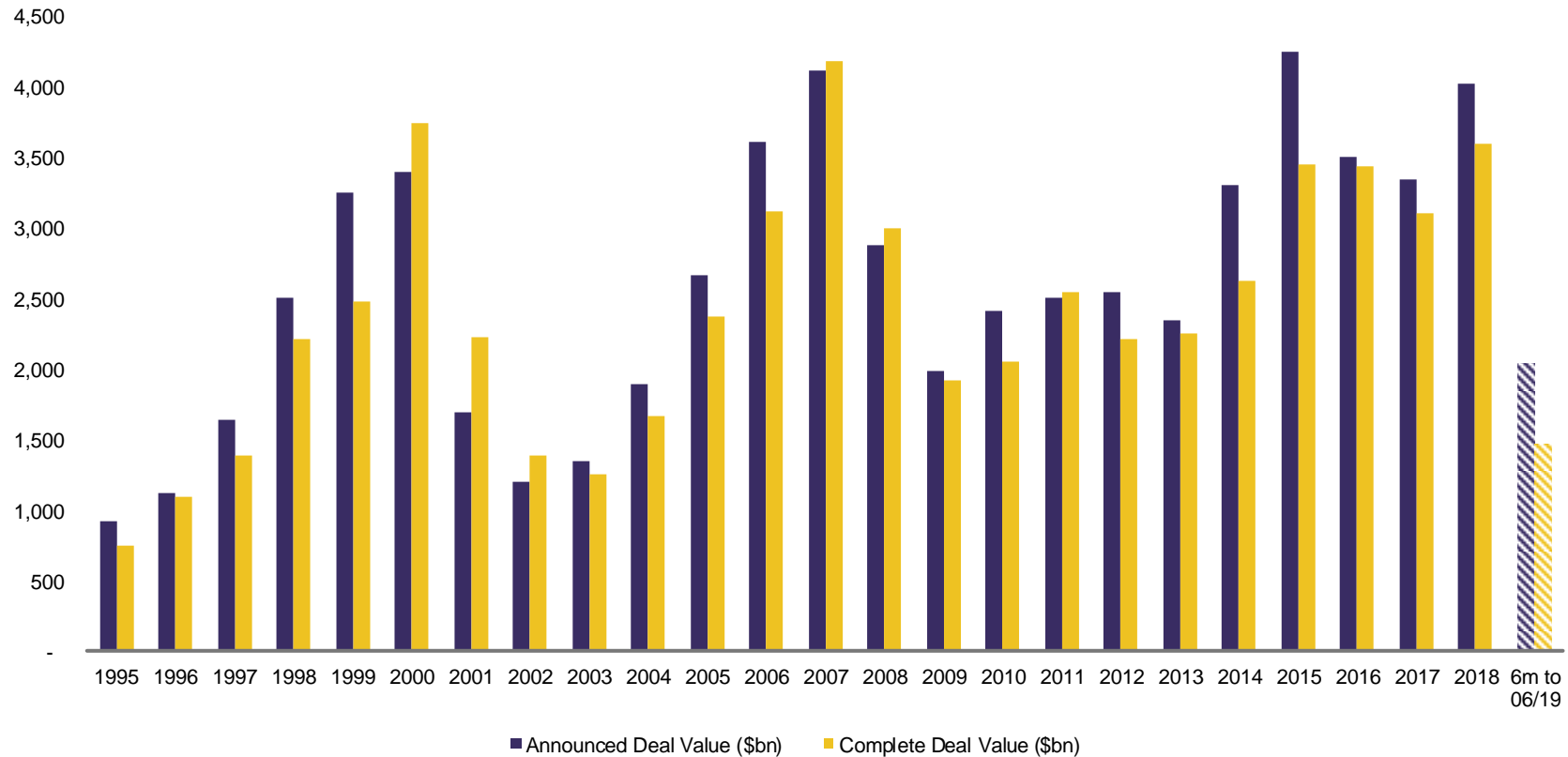
# 2

Business review: Global Advisory

# Global Advisory



## Perspectives on global M&A market



	16 vs 15	17 vs 16	18 vs 17	6m to 06/19 vs 6m to 06/18
% var Announced	(17)%	(5)%	19%	(11)%
% var Completed	(1)%	(9)%	15%	(9)%

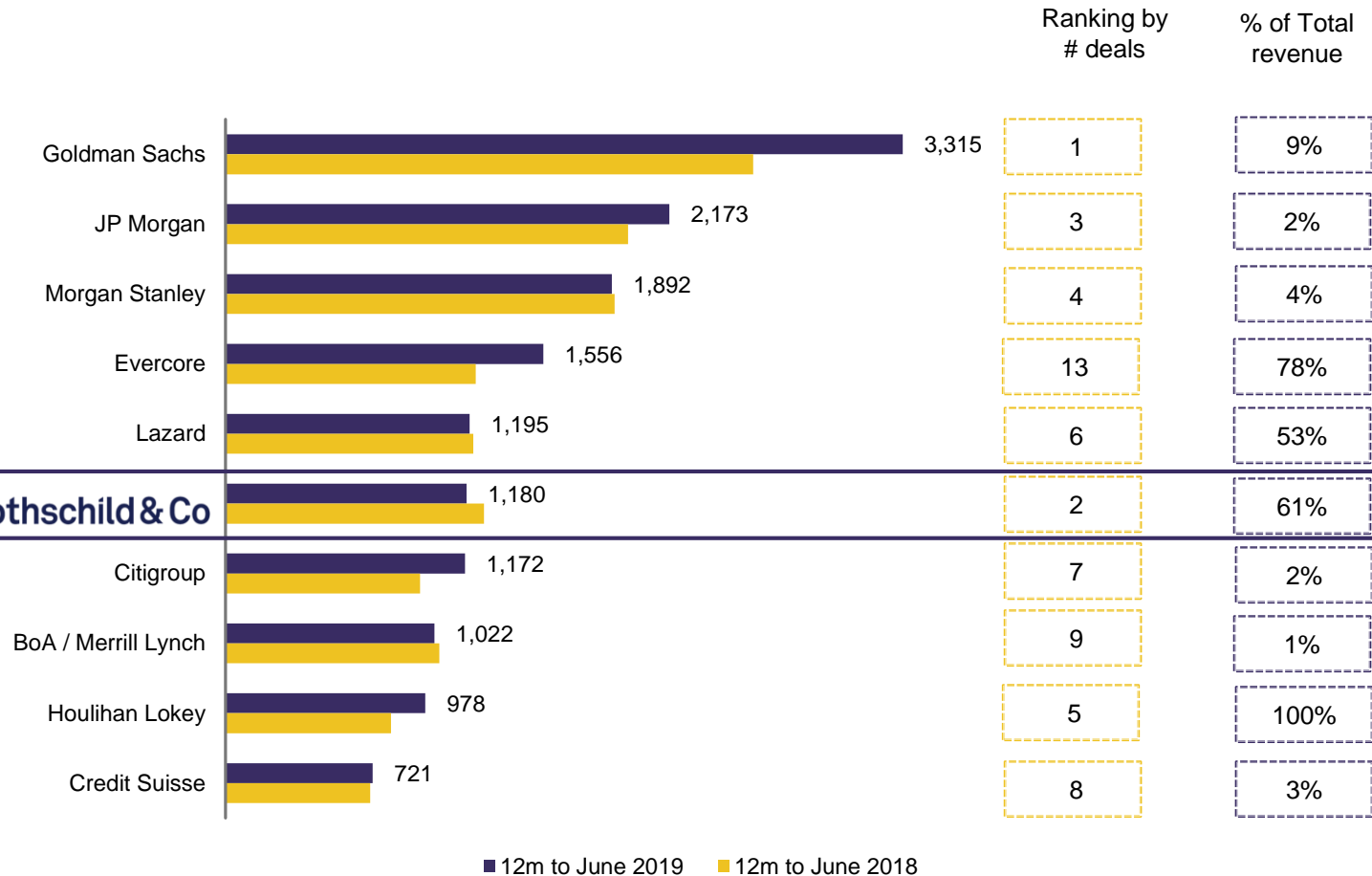


# Global Advisory



## A world leading position by revenue and number of deals

Ranking by advisory revenue (in €m) – 12m to June 2019



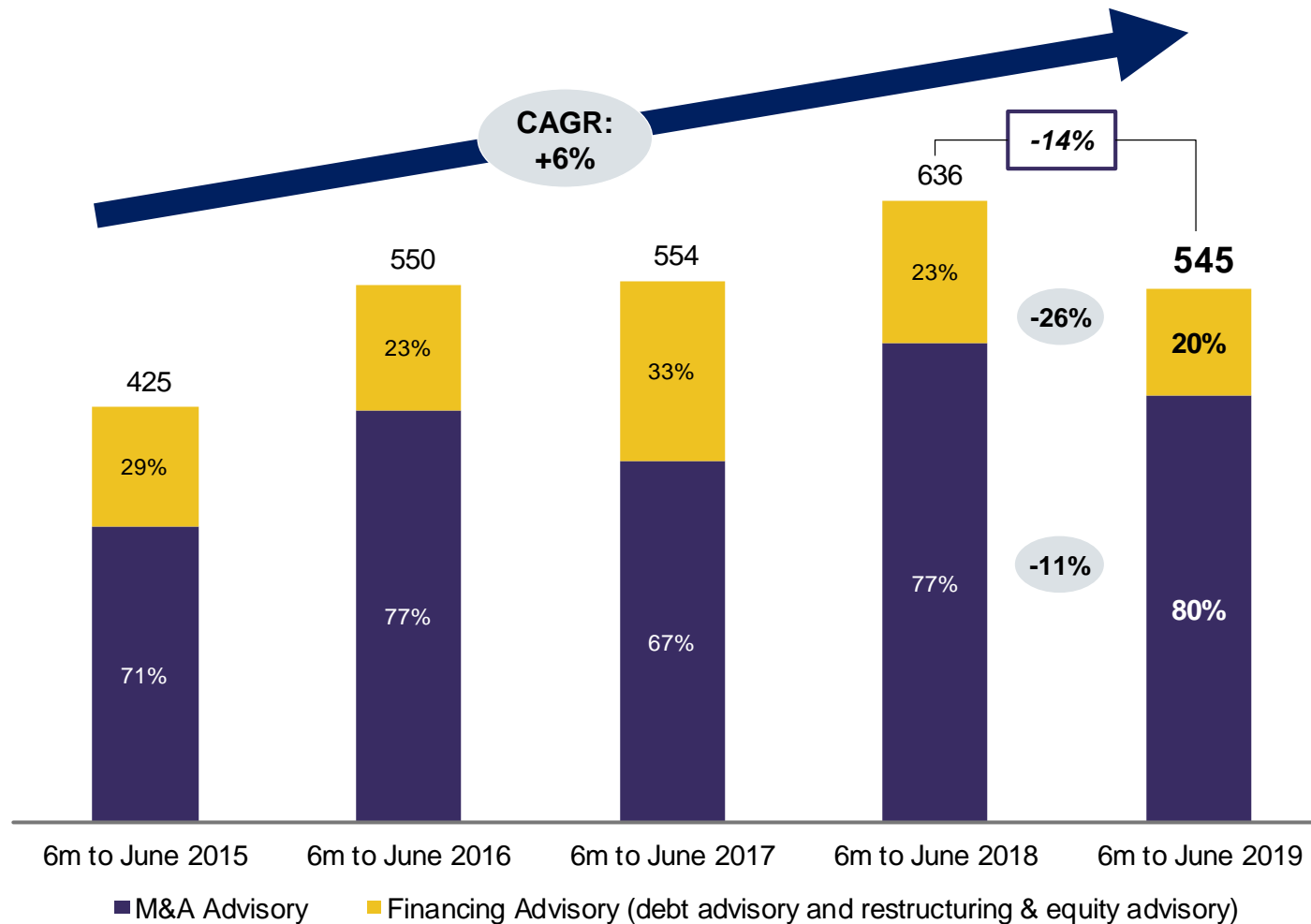
Source: Company's filings, Thomson Reuters, global ranking by # of deals based on completed transactions

# Global Advisory



H1 2019 revenue mainly driven by a resilient M&A advisory performance ...

Revenue by product (in €m)

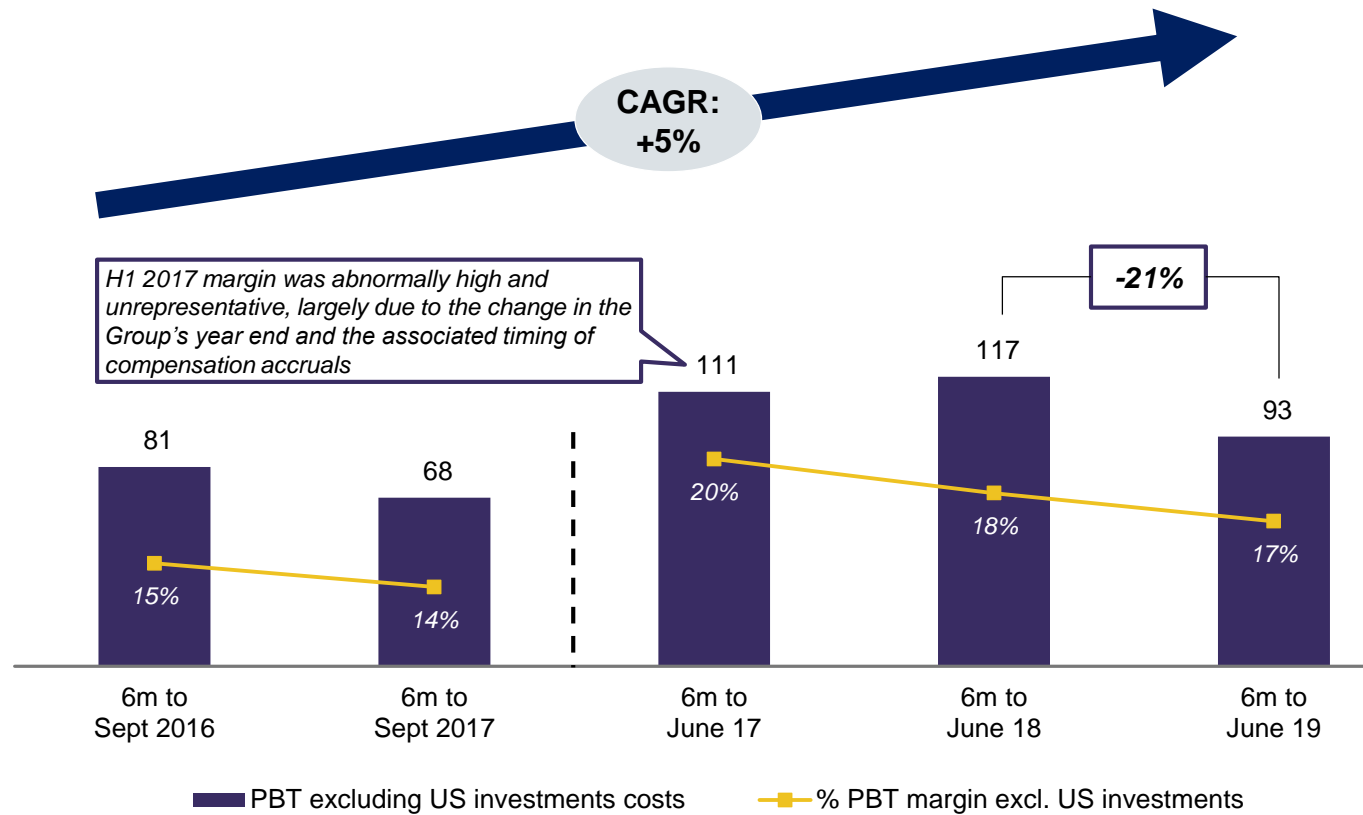


# Global Advisory



... that translates into a solid level of PBT margin

Profit Before Tax (in €m) and PBT margin - pre US investment costs<sup>1</sup>

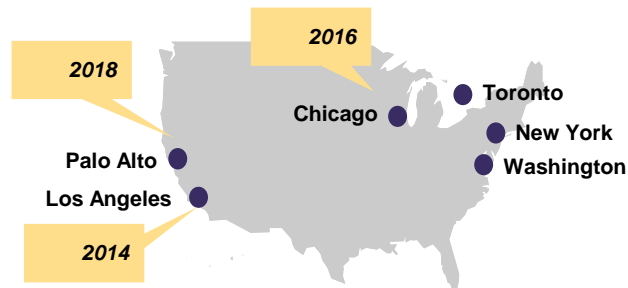


<sup>1</sup> US investment costs were €10m in H1 to Sept 2016, €8m in H1 to Sept 2017, €14m in H1 to June 2017, €10m in H1 to June 2018 and €10m in H1 to June 2019. Our US investment costs are expected to be around 2% of revenue subject to the right opportunities



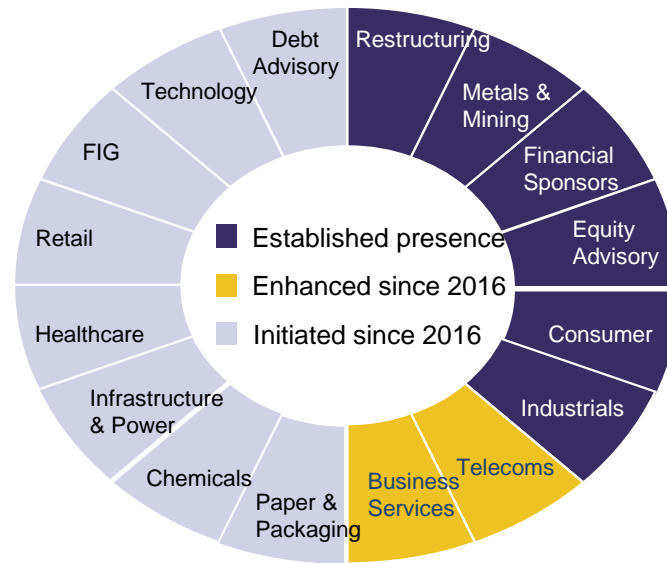
# Update on our North America development

## Overview



- 198 advisory bankers of which 40 MDs
- Recruitment of 28 new hired M&A MDs since 2014
- 2 new MDs so far in 2019 with additional in a new future

## Broadening sector coverage



## Our North American progression<sup>1</sup>

	2014	2018	12m to June 2019
Deal value	\$43bn	\$86bn	\$52bn
Deal number	76	108	99

**Objective to build a sizeable platform in North America resulting in doubling our M&A market share by the end of 2020**

Source: Refinitiv, any US or Canadian involvement on announced transactions

# 3

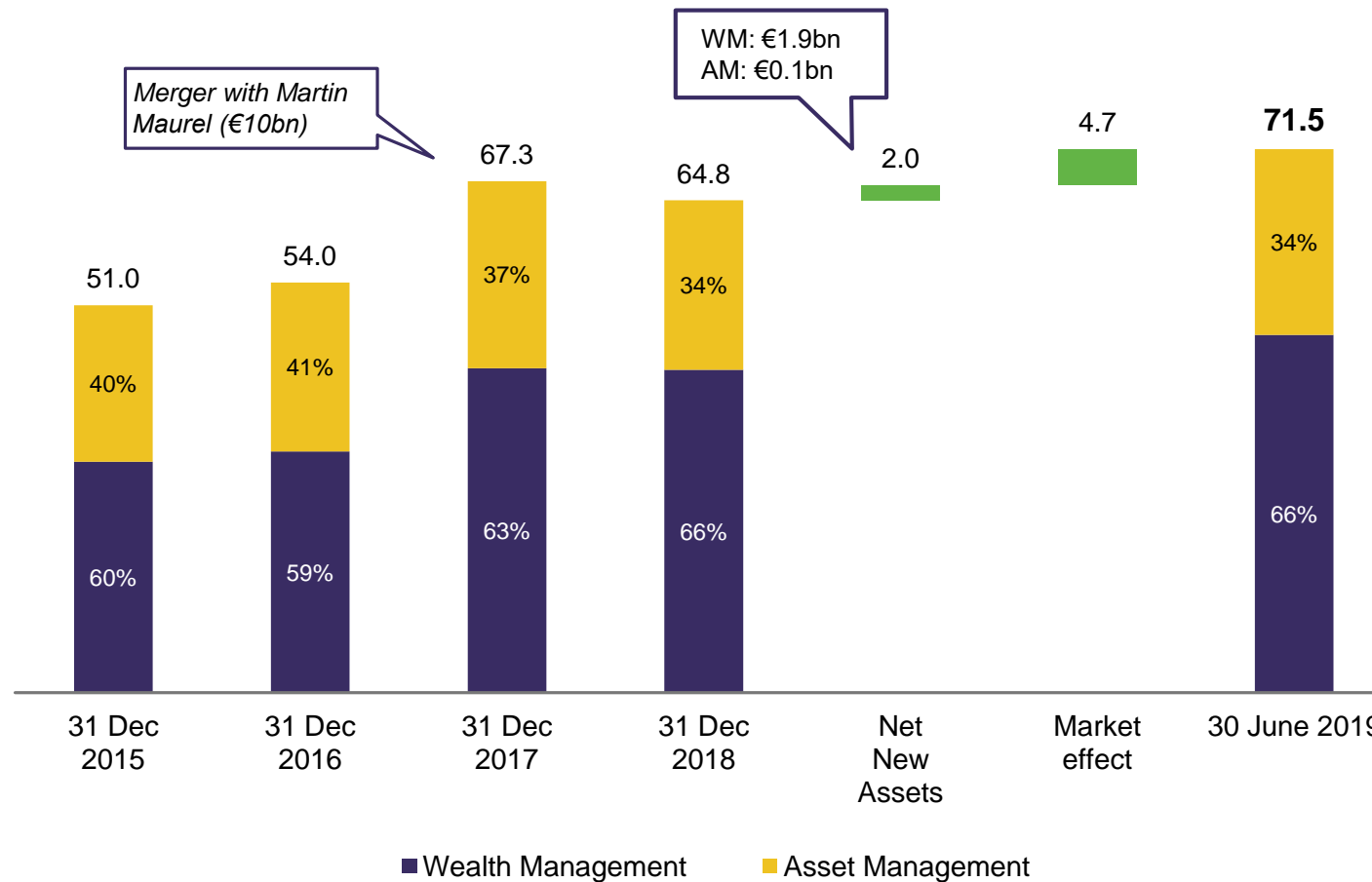
Business Review: Wealth & Asset Management



# Wealth & Asset Management

+10% increase in AuM thanks to strong net new assets and positive market conditions

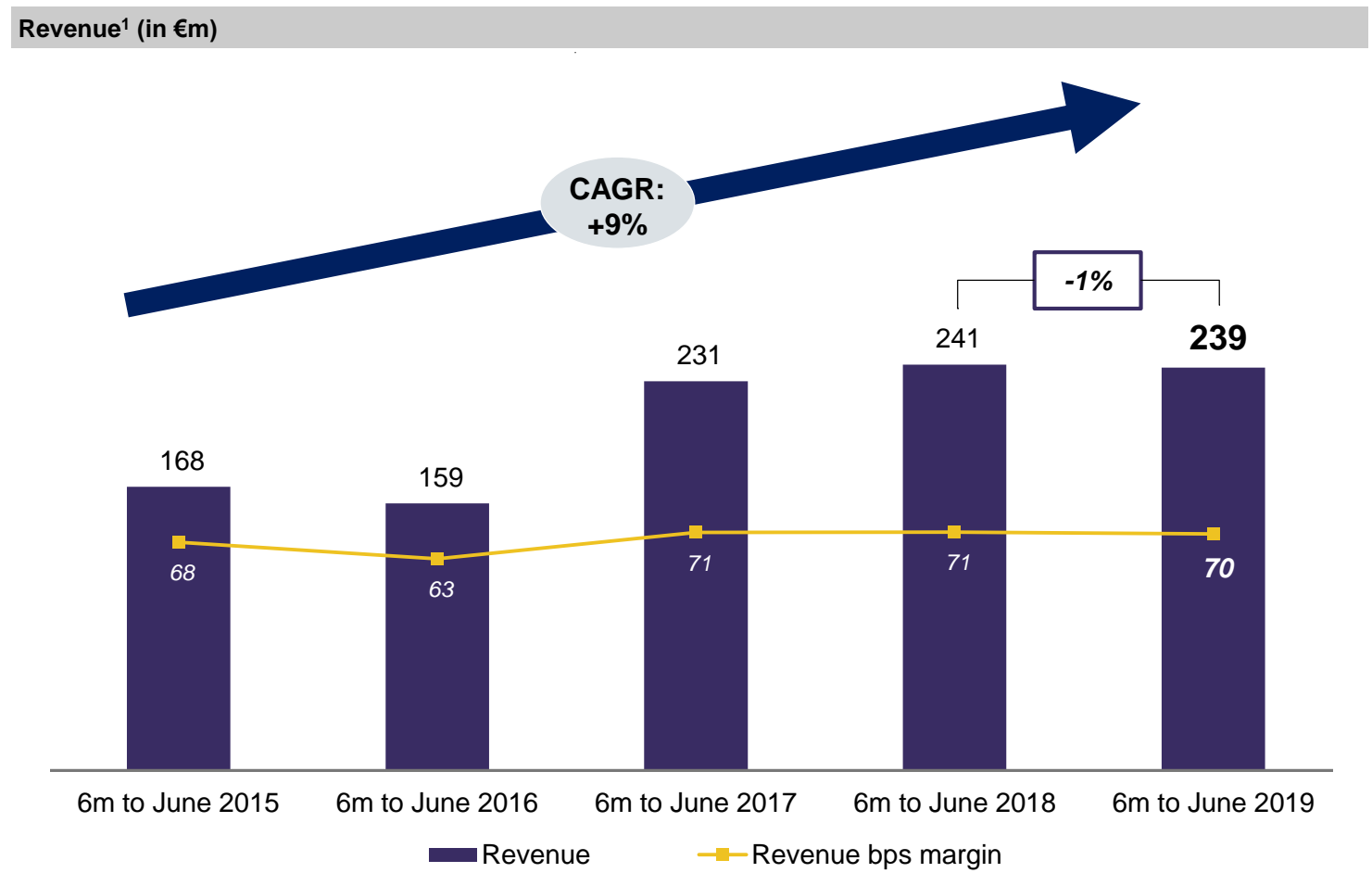
Assets under management (in €bn)





# Wealth & Asset Management

Revenue stable despite low interest rate environment



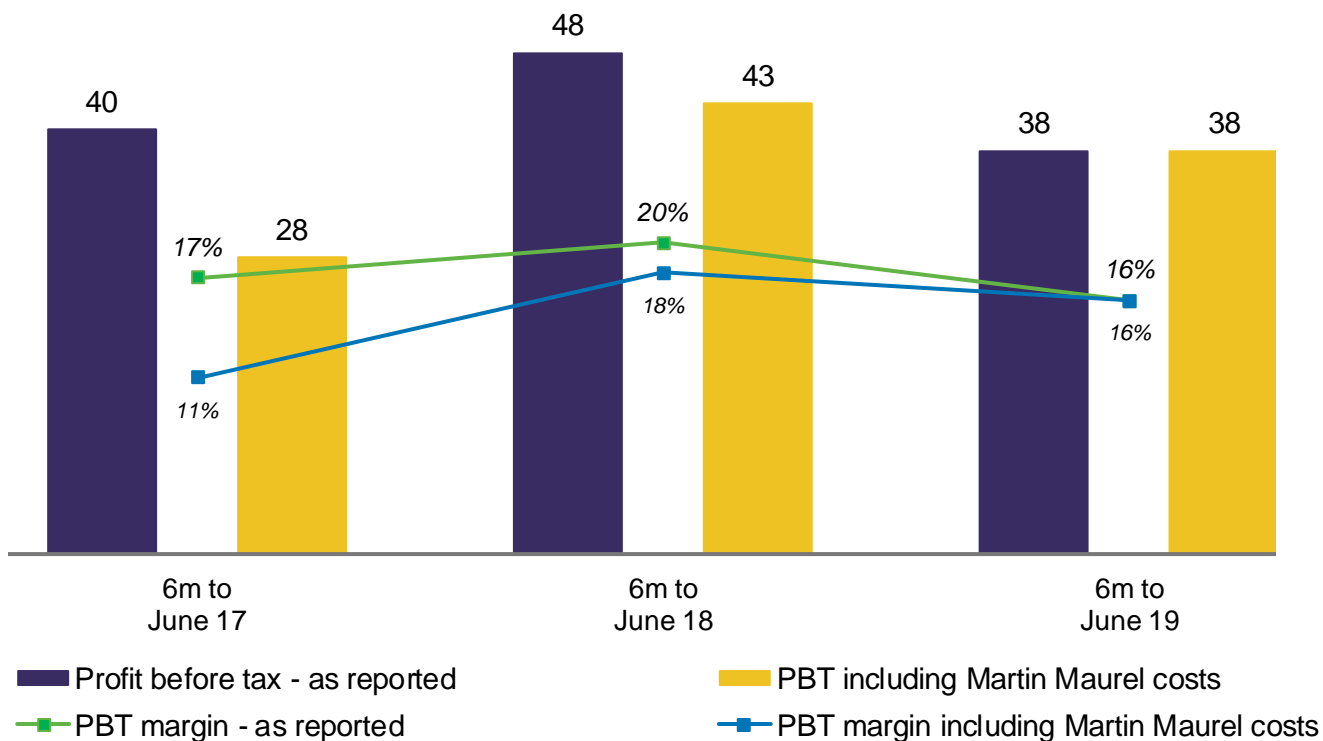
**Note**

1 Revenue are calculated excluding Trust business following its sale in February 2019



# Wealth & Asset Management

Contraction in profitability due to low interest rate environment and higher costs, mainly for regulatory constraints



**Note**

1 PBT are calculated excluding Trust business following its sale in February 2019



# 4

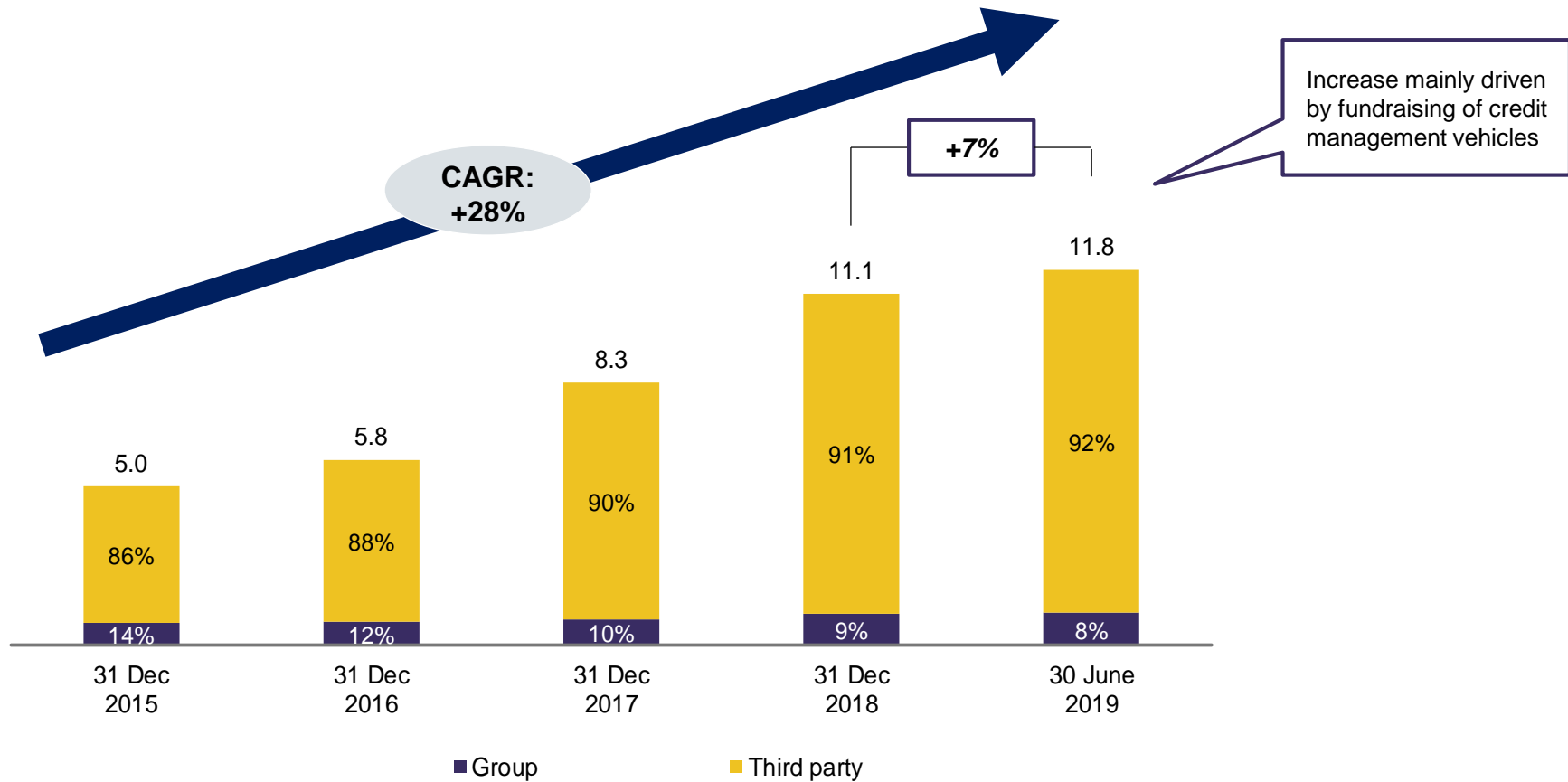
Business review: Merchant Banking



# Merchant Banking

## Continuing growth of AuM thanks to launch of new credit management vehicles

Assets under Management (in €bn)



**Note**

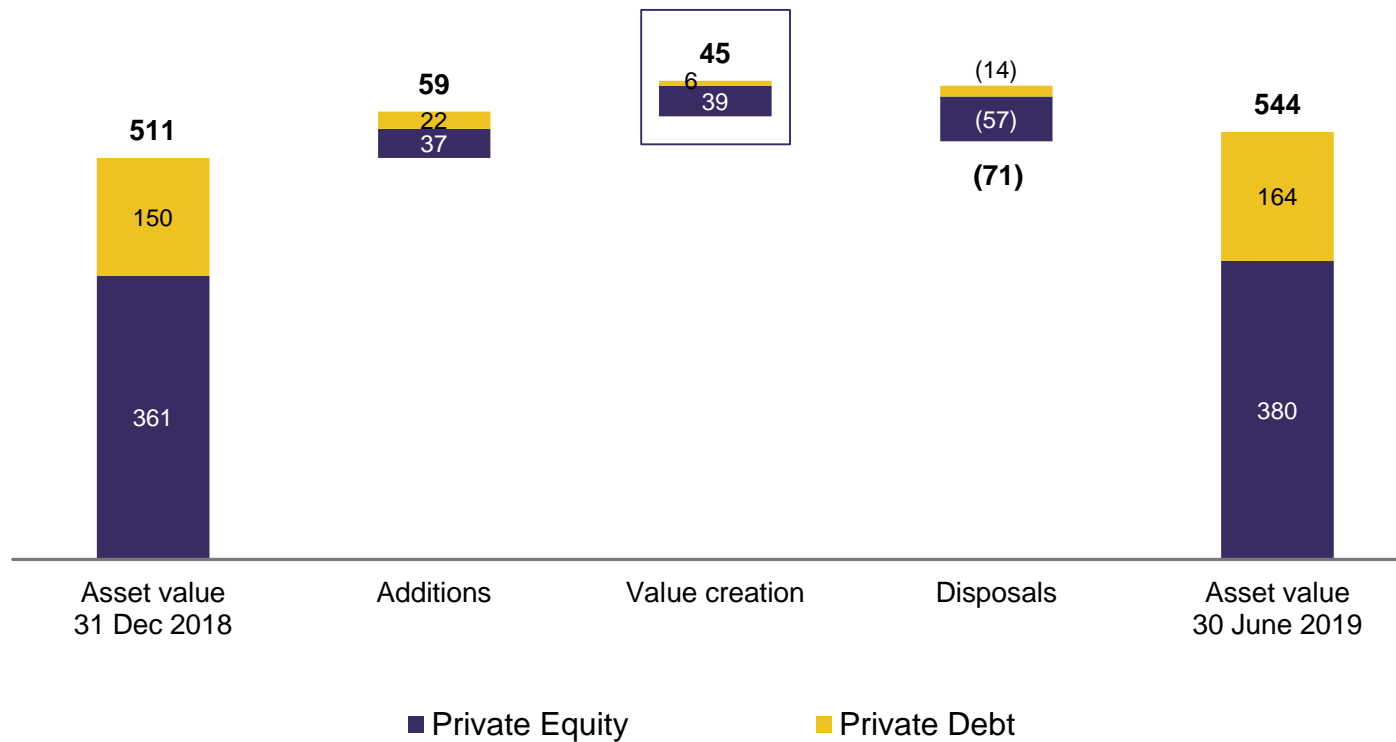
1 At the beginning of 2018, Merchant Banking decided to update its definition of Assets under Management (AuM) to align it with generally accepted industry practices. AuM are now calculated on the basis of the funds' Net Asset Value plus all investors' undrawn/callable capital commitments, according to the rules specified in the funds' prospectus



# Merchant Banking

## Strong value creation in portfolio for Rothschild & Co shareholders

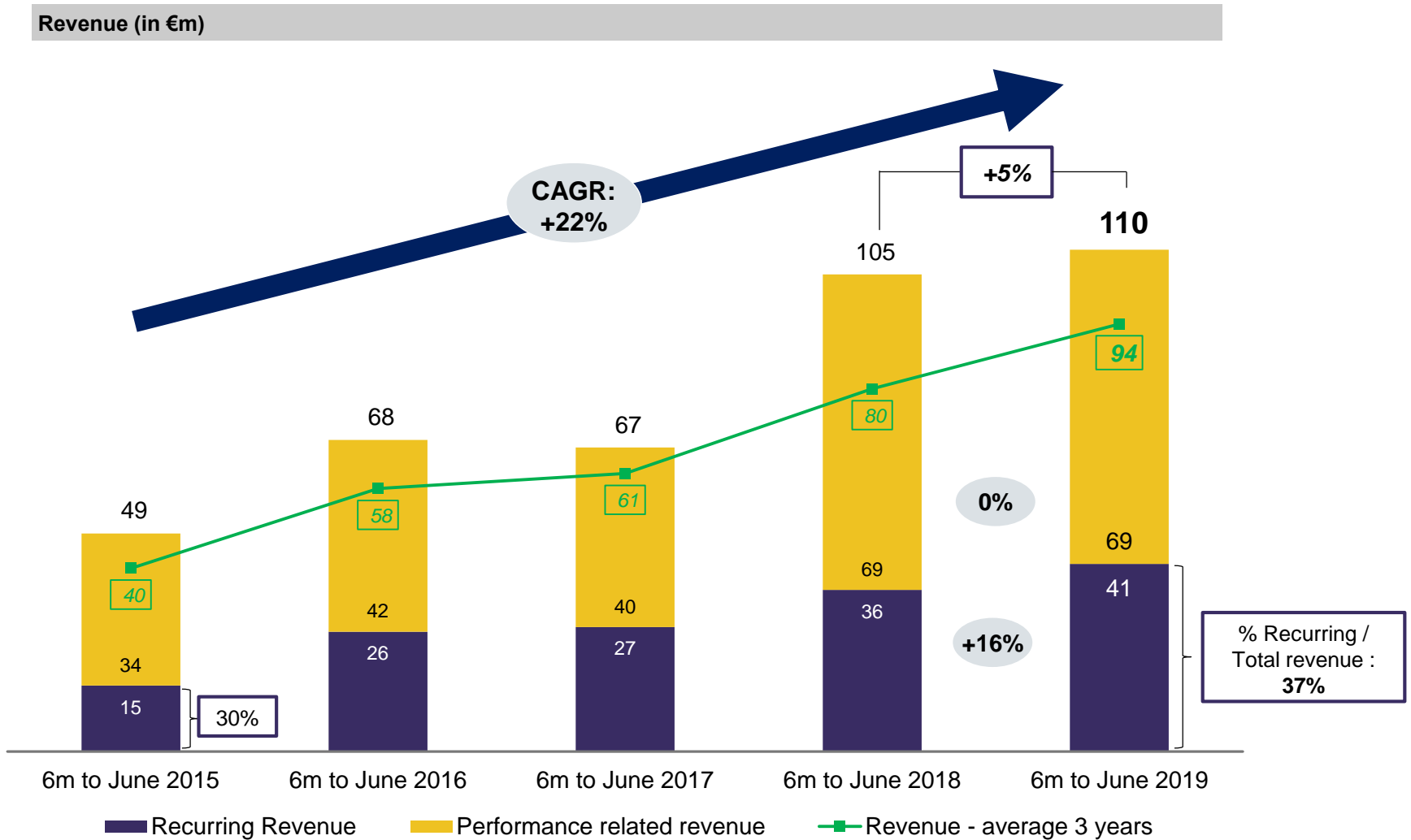
Change in net asset value of the Group's investment (in €m)





# Merchant Banking

High level of revenue with increasing recurring revenue stream

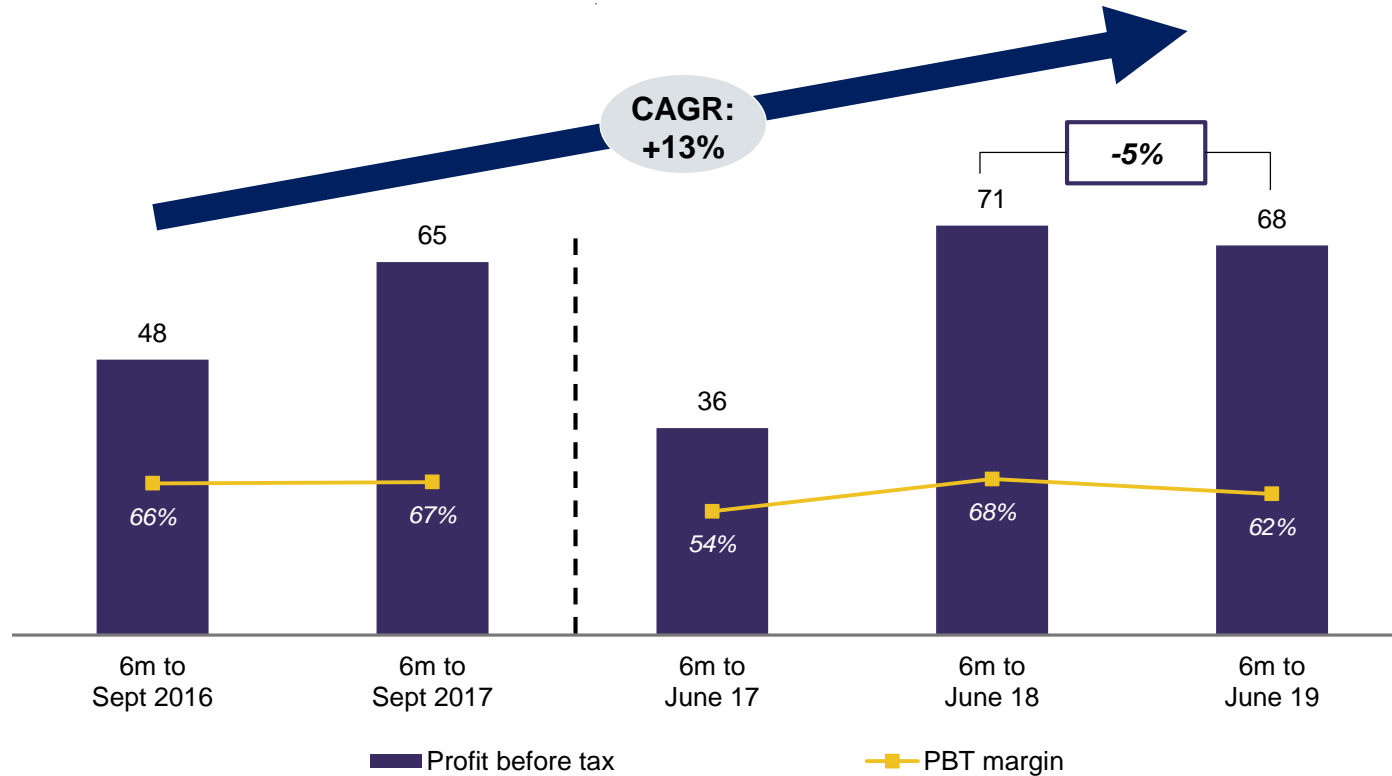




# Merchant Banking

## Robust level of profits

Profit Before Tax (in €m) and RORAC<sup>1</sup>



3 year average RORAC <sup>1</sup>	24%	25%	24%	28%	28%
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<sup>1</sup> RORAC stands for Return On Risk Adjusted Capital – an internal measure of risk capital invested in the business, being adjusted profit before tax divided by risk weighted capital

# 5

Financial review



# Summary consolidated P&L

<i>(in €m)</i>	H1 2019	H1 2018	Var	Var %	FX effects
<b>Revenue</b>	<b>898</b>	<b>1,007</b>	<b>(109)</b>	<b>(11)%</b>	<b>12</b>
Staff costs	(520)	(583)	63	(11)%	(10)
Administrative expenses	(134)	(150)	16	(11)%	(2)
Depreciation and amortisation	(31)	(14)	(17)	121%	(1)
Impairments	2	1	1	100%	0
<b>Operating Income</b>	<b>215</b>	<b>261</b>	<b>(46)</b>	<b>(18)%</b>	<b>(1)</b>
Other income / (expense) (net)	18	1	17	N/A	1
<b>Profit before tax</b>	<b>233</b>	<b>262</b>	<b>(29)</b>	<b>(11)%</b>	<b>0</b>
Income tax	(36)	(36)	0	-	0
<b>Consolidated net income</b>	<b>197</b>	<b>226</b>	<b>(29)</b>	<b>(13)%</b>	<b>0</b>
Non-controlling interests	(63)	(65)	2	(3)%	0
<b>Net income - Group share</b>	<b>134</b>	<b>161</b>	<b>(27)</b>	<b>(17)%</b>	<b>0</b>
Adjustments for Exceptionals	(10)	3	(13)	(433)%	0
<b>Net income - Group share excl. exceptionals</b>	<b>124</b>	<b>164</b>	<b>(40)</b>	<b>(24)%</b>	<b>0</b>
<i>Earnings per share</i> <sup>1</sup>	1.88 €	2.14 €	(0.26) €	(12)%	
<b>EPS excl. exceptionals</b>	<b>1.73 €</b>	<b>2.18 €</b>	<b>(0.45) €</b>	<b>(21)%</b>	
<i>Return On Tangible Equity (ROTE)</i>	15.2%	19.0%			
<b>ROTE excl. exceptionals</b>	<b>14.0%</b>	<b>19.4%</b>			

<sup>1</sup> Diluted EPS is €1.85 for H1 2019 (H1 2018: €2.10)



# “Exceptionals” reconciliation

(in €m)	HY 2019			HY 2018		
	PBT	PATMI	EPS	PBT	PATMI	EPS
<b>As reported</b>	<b>233</b>	<b>134</b>	<b>1.88 €</b>	<b>262</b>	<b>161</b>	<b>2.14 €</b>
- Martin Maurel integration costs	-	-	-	(5)	(3)	(0.04) €
- Net profit on legacy assets	18	10	0.15 €	-	-	-
<b>Total Exceptional (Costs) / Gains</b>	<b>18</b>	<b>10</b>	<b>0.15 €</b>	<b>(5)</b>	<b>(3)</b>	<b>(0.04) €</b>
<b>Excluding Exceptional</b>	<b>215</b>	<b>124</b>	<b>1.73 €</b>	<b>267</b>	<b>164</b>	<b>2.18 €</b>

- **Exceptional items** in H1 2019 comprise net gains on property transactions and on legacy assets including the sale of the Trust business in February 2019
- Exceptionals items in H1 2019 are all included in “Other income / (expense)” in the P&L





# Performance by business

(in €m)	Global Advisory	Wealth & Asset Management	Merchant Banking	Other businesses and corporate centre	IFRS reconciliation <sup>1</sup>	H1 2019
<b>Revenue</b>	<b>545</b>	<b>239</b>	<b>110</b>	<b>14</b>	<b>(10)</b>	<b>898</b>
Operating expenses	(462)	(202)	(42)	(28)	49	(685)
Impairments	-	1	-	-	1	2
<b>Operating income</b>	<b>83</b>	<b>38</b>	<b>68</b>	<b>(14)</b>	<b>40</b>	<b>215</b>
Other income / (expense)	-	-	-	-	18	18
<b>Profit before tax</b>	<b>83</b>	<b>38</b>	<b>68</b>	<b>(14)</b>	<b>58</b>	<b>233</b>
Exceptional profits	-	-	-	-	(18)	(18)
<b>PBT excluding exceptional charges / profits</b>	<b>83</b>	<b>38</b>	<b>68</b>	<b>(14)</b>	<b>40</b>	<b>215</b>
<i>Operating margin %</i>	<i>15%</i>	<i>16%</i>	<i>62%</i>	<i>-</i>	<i>-</i>	<i>24%</i>

(in €m)	Global Advisory	Wealth & Asset Management	Merchant Banking	Other businesses and corporate centre	IFRS reconciliation <sup>1</sup>	H1 2018
<b>Revenue</b>	<b>636</b>	<b>241</b>	<b>105</b>	<b>34</b>	<b>(9)</b>	<b>1,007</b>
Operating expenses	(529)	(200)	(34)	(47)	63	(747)
Impairments	-	2	-	-	(1)	1
<b>Operating income</b>	<b>107</b>	<b>43</b>	<b>71</b>	<b>(13)</b>	<b>53</b>	<b>261</b>
Other income / (expense)	-	-	-	-	1	1
<b>Profit before tax</b>	<b>107</b>	<b>43</b>	<b>71</b>	<b>(13)</b>	<b>54</b>	<b>262</b>
Exceptional charges	-	5	-	-	-	5
<b>PBT excluding exceptional charges / profits</b>	<b>107</b>	<b>48</b>	<b>71</b>	<b>(13)</b>	<b>54</b>	<b>267</b>
<i>Operating margin %</i>	<i>17%</i>	<i>20%</i>	<i>68%</i>	<i>-</i>	<i>-</i>	<i>27%</i>

<sup>1</sup> This analysis is prepared from non IFRS data used internally for assessing business performance then adjusted to conform to the Group's statutory financial accounting policies. IFRS reconciliation mainly reflects: the treatment of profit share paid to French partners as non-controlling interests; accounting for deferred bonuses over the period that they are earned; the application of IAS 19 for defined benefit pension schemes; a central impairment provision in "net income/(expense) from other assets"; removing realised gains on sales of investment securities where the unrealised gain was in the AFS reserve at 31 December 2017 before the introduction on IFRS 9; and reallocation of impairments and certain operating income and expenses for presentational purposes.



# Compensation ratio

(in €m)	HY 2019	HY 2018	2018 (as published)
<b>Revenue</b>	<b>898</b>	<b>1,007</b>	<b>1,976</b>
Total staff costs <sup>1</sup>	(564)	(626)	(1,225)
<b>Compensation ratio</b>	<b>62.8%</b>	<b>62.2%</b>	<b>62.0%</b>
<i>variation due to FX</i>	(0.3)%	0.3%	0.2%
<i>variation due to UK Guaranteed minimum pension provision<sup>2</sup></i>	-	-	(0.3)%
<i>variation due to GA US investment costs<sup>3</sup></i>	(1.1)%	(1.4)%	(1.1)%
<b>Adjusted accounting Compensation ratio (INCLUDING deferred bonus accounting)</b>	<b>61.4%</b>	<b>61.1%</b>	<b>60.8%</b>
<i>variation due to deferred bonus accounting</i>	(1.5)%	0.8%	1.5%
<b>Adjusted awarded Compensation ratio (EXCLUDING deferred bonus accounting)</b>	<b>59.9%</b>	<b>61.9%</b>	<b>62.3%</b>
<b>Headcount</b>	<b>3,491</b>	3,570	3,633

1 Total staff costs include profit share paid to French Partners and effects of accounting for deferred bonuses over the period in which they are earned, as opposed to “awarded” basis but exclude redundancy costs, revaluation of share-based employee liabilities and acquisition costs treated as employee compensation under IFRS

2 UK Guaranteed minimum pension provision relates to a provision estimated by actuaries to cover inequality of treatment between men and women

3 GA US investment costs are defined as compensation earned in respect of the first 12 month period of employment plus any make-wholes payable in the reporting period

# Other financial matters



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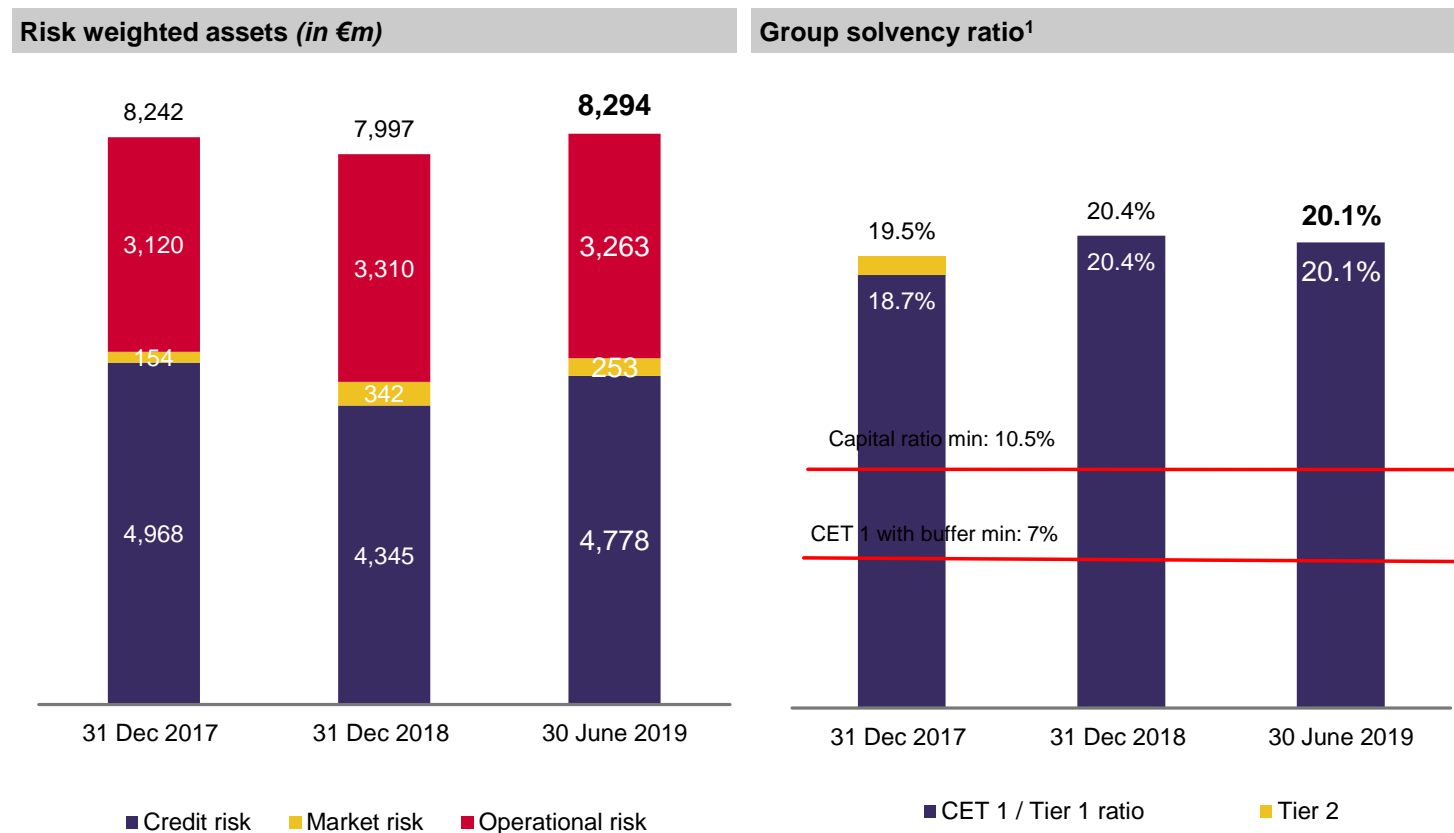
## **Repayment of preferred shares in March 2019 to continue the simplification of the Group's capital structure**

- There were 3 lines of preferred share issued by the UK company Rothschild & Co Continuation Limited ("RCL")
- On 29 March 2019, the three preferred shares of RCL were repurchased at fair value:
  - Carrying value: €13.3m
  - Fair value: €26.1m
  - Premium of €12.8m to repurchase these shares, charged to reserve
- This transaction will result in a reduction of €2.1 million per annum in dividend payments to Non-controlling interests and hence a corresponding increase in Net Income - Group Share
- Preference shares were not recognised as regulatory capital. Immaterial impact on solvency ratios



# Solvency ratios comfortably above minimum requirements

## Risk weighted assets and ratios under full application of Basel 3 rules



- Credit RWA's increased predominantly due to the first application of IFRS 16 since January 2019

### Note

<sup>1</sup> The ratio submitted to ACPR as at 30 June 2019 was 18.9% which excluded the half-year profit

# 6

## Financial targets and Outlook



# Financial targets and Outlook

		Target	HY 2019	HY 2018	2018	Outlook
Group	Compensation ratio <sup>1</sup>	Low to mid 60's through the cycle	61.4%	61.1%	60.8%	<ul style="list-style-type: none"> <li>Despite potential headwinds in financial markets, we are confident that the high quality of our people, the long-term relationships we enjoy with our clients and our deep local knowledge will allow us to continue to generate good returns for our shareholders over the long term</li> </ul>
	Return on tangible equity <sup>2</sup>	10 to 15% through the cycle	14.0%	19.4%	18.0%	
Business	Global Advisory: Profit before tax margin <sup>3</sup>	Mid to high-teens through the cycle	17%	18%	20%	<ul style="list-style-type: none"> <li>Our visible pipeline remains solid and well diversified</li> <li>We anticipate similar levels of activity during H2 compared H1, albeit in the context of a record year in 2018</li> </ul>
	Wealth & Asset Management: Profit before tax margin <sup>4</sup>	Around 20% by 2020	16%	20%	18%	<ul style="list-style-type: none"> <li>Solid base from which to grow</li> <li>Expect net new assets in Wealth Management to increase across all main geographies</li> </ul>
	Merchant Banking: 3 years average RORAC <sup>5</sup>	Above 15% through the cycle	28%	28%	28%	<ul style="list-style-type: none"> <li>Maintain a significant contribution to Group's results but with lower H2 profits expected due to carry "catch-up" earned in H1 not being repeated</li> <li>Continue to grow AuM and to focus on deployment of funds</li> </ul>

## Notes

1 As adjusted including deferred bonus accounting– see slide 24

2 ROTE based on Net income – Group share excl. exceptionals items. Would be 15,2% if exceptionals included (H1 2018: 19,0%). See definition on slide 33 and calculation on slide 34

3 GA PBT margin pre-US investments. Would be 15,2% if US investments included (H1 2018: 16,8%)

4 WAM PBT is presented excluding the Trust business following the sale in February 2019

5 See definition on slide 33 and calculation on slide 34

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# Major FX rates



## Balance sheet (spot)

Rates	30/06/2019	31/12/2018	Var
€ / GBP	0.8955	0.8938	0%
€ / CHF	1.1107	1.1288	(2)%
€ / USD	1.1382	1.1439	(0)%

## P&L (average)

Rates	HY 2019	HY 2018	Var
€ / GBP	0.8715	0.8798	(1)%
€ / CHF	1.1274	1.1649	(3)%
€ / USD	1.1300	1.2062	(6)%



# Summary Balance sheet



<i>(in €bn)</i>	30/06/2019	31/12/2018	Var
Cash and amounts due from central banks	5.2	4.7	0.5
Loans and advances to banks	1.8	2.0	(0.2)
Loans and advances to customers	3.1	2.9	0.2
<i>of which Private client lending</i>	2.6	2.5	0.1
Debt and equity securities	2.4	2.1	0.3
Other assets	1.6	1.5	0.1
<b>Total assets</b>	<b>14.1</b>	<b>13.2</b>	<b>0.9</b>
Due to customers	9.9	8.7	1.2
Other liabilities	1.7	2.0	(0.3)
Shareholders' equity - Group share	2.1	2.0	0.1
Non-controlling interests	0.4	0.5	(0.1)
<b>Total capital and liabilities</b>	<b>14.1</b>	<b>13.2</b>	<b>0.9</b>

# Non-controlling interests



P&L			Balance sheet		
(in €m)	H1 2019	HY 2018	(in €m)	30/06/2019	31/12/2018
Interest on perpetual subordinated debt	9	7	Perpetual subordinated debt	291	291
Preferred shares <sup>1</sup>	55	54	Preferred shares <sup>1</sup>	55	157
Other Non-controlling interests	(1)	4	Other Non-controlling interests	5	8
<b>TOTAL</b>	<b>63</b>	<b>65</b>	<b>TOTAL</b>	<b>351</b>	<b>456</b>

<sup>1</sup> Mainly relates to the profit share distributed to French partners

# Alternative performance measures (APM)



## Definition

APM	Definition	Reason for use
Net income – Group share excluding exceptionals	Net income attributable to equity holders excluding exceptional items	To measure Net result Group share of Rothschild & Co excluding exceptional items
EPS excluding exceptionals	EPS excluding exceptional items	To measure EPS excluding exceptional items
Adjusted compensation ratio	<p>Ratio between adjusted staff costs divided by consolidated Net Banking Income of Rothschild &amp; Co (as presented on slide 28). Adjusted staff costs represent:</p> <ol style="list-style-type: none"> <li>1. staff costs accounted in the income statement (which include the effects of accounting for deferred bonuses over the period in which they are earned as opposed to the “awarded” basis)</li> <li>2. to which must be added the amount of profit share paid to the French partners</li> <li>3. from which must be deducted redundancy costs, revaluation of share-based employee liabilities and business acquisition costs treated as employee compensation under IFRS</li> </ol> <p>- <b>which gives Total staff costs in calculating the basic compensation ratio</b></p> <ol style="list-style-type: none"> <li>4. from which the investment costs related to the recruitment of senior bankers in the United States must be deducted,</li> <li>5. the amount of adjusted staff costs is restated by the exchange rate effect to offset the exchange rate fluctuations from one year to the next</li> </ol> <p>- <b>which gives the adjusted staff costs for compensation ratio.</b></p>	<p>To measure the proportion of Net Banking Income granted to all employees.</p> <p>Key indicator for competitor listed investment banks.</p> <p>Rothschild &amp; Co calculates this ratio with adjustments to give the fairest and closest calculation to that used by other comparable listed companies.</p>
Return on Tangible Equity (ROTE) excluding exceptional items	<p>Ratio between Net income - Group share excluding exceptional items and average tangible equity Group share over the period.</p> <p>Tangible equity corresponds to total equity Group share less intangible assets and goodwill.</p> <p>Average tangible equity over the period equal to the average between tangible equity as at 31 December 2018 and 30 June 2019</p>	To measure the overall profitability of Rothschild & Co excluding exceptional items on the equity capital in the business
Business Operating margin	<p>Each business Operating margin is calculated by dividing Profit before tax relative to revenue, business by business.</p> <p>It excludes exceptional items</p>	To measure business' profitability
Return on Risk Adjusted Capital (RORAC)	<p>Ratio of an adjusted profit before tax divided by an internal measure of risk adjusted capital deployed in the business on a rolling 3-year basis.</p> <p>The estimated amount of capital and debt which management believes would be reasonable to fund the Group's investments in Merchant Banking products is consistent with its cautious approach to risk management. Based on the mix of its investment portfolio as of the reporting dates, management believes that this “risk-adjusted capital” (RAC) amounts to c. 70% of the Group's investments net asset value and that the remainder could be funded by debt. This percentage broadly represents the weighted average of 80% for equity exposures, 50% for junior credit exposures, 40% for CLO exposures in vertical strips and 33% for senior credit exposures.</p> <p>To calculate the RORAC, MB profit before tax is adjusted by a notional 2.5% cost of debt, computed as per the above (i.e. 30% of the Group's investments NAV), divided by the RAC.</p> <p>Disclosed RORAC is calculated on a 3-year rolling period average to account for the inevitable volatility in the financial results of the business, primarily relating to investment income and carried interest recognition.</p>	To measure the performance of the Merchant Banking's business

# Alternative performance measures (APM)



## Calculation

ROTE			RORAC		
	H1 2019	H1 2018		H1 2019	H1 2018
<b>Net income - Group share excluding exceptionals</b>	<b>124</b>	<b>164</b>	PBT 12m to June 2019	99	
			PBT 12m to June 2018	155	155
			PBT 12m to June 2017	78	78
			PBT 12m to June 2016		82
			<b>Average PBT rolling 3 years</b>	<b>111</b>	<b>105</b>
Shareholders' equity - Group share - opening	2,039	1,912	NAV 30/06/2019	544	
- Intangible fixed assets	(172)	(163)	NAV 30/06/2018	581	581
- Goodwill	(124)	(123)	NAV 30/06/2017	516	516
			NAV 30/06/2016		462
<b>Tangible shareholders' equity - Group share - opening</b>	<b>1,742</b>	<b>1,626</b>	<b>Average NAV rolling 3 years</b>	<b>547</b>	<b>520</b>
Shareholders' equity - Group share - closing	2,084	2,048	Debt = 30% of average NAV	164	156
- Intangible fixed assets	(171)	(165)	Notional interest of 2.5% on debt	(4)	(4)
- Goodwill	(124)	(123)			
<b>Tangible shareholders' equity - Group share - closing</b>	<b>1,788</b>	<b>1,760</b>	<b>Average PBT rolling 3 years adjusted by the cost of debt interest</b>	<b>107</b>	<b>101</b>
<b>Average Tangible equity</b>	<b>1,765</b>	<b>1,693</b>	<b>Risk adjusted capital = 70% of Average NAV</b>	<b>383</b>	<b>364</b>
<b>ROTE excluding exceptionals</b>	<b>14.0%</b>	<b>19.4%</b>	<b>RORAC</b>	<b>28%</b>	<b>28%</b>

# Rothschild & Co at a glance



As at 31 August 2019

