

# Rothschild & Co



Half-year results (April – September 2017) of the 9 months financial period to December 2017

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28 November 2017



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1

Highlights

# Highlights



## A solid half year

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### Strong growth in financial results

- Group revenue: **+6%** of €852m (6m to Sept 16: €802m)
- Net income - Group share excl. exceptional: **+36%** of €95m (6m to Sept 16: €70m)
- Earnings per share excl. exceptional : **+27%** of €1.28 (6m to Sept 16: €1.01)

### Investment in our businesses

- Continued investment in US market for Global Advisory
- Completion in July 2017 of the legal merger of the French private banks of Rothschild & Co and Martin Maurel group
- Roll out of Merchant Banking in new products

### Strategy on track

- Diversification of earnings starting to produce results
- Natural synergies between the three businesses

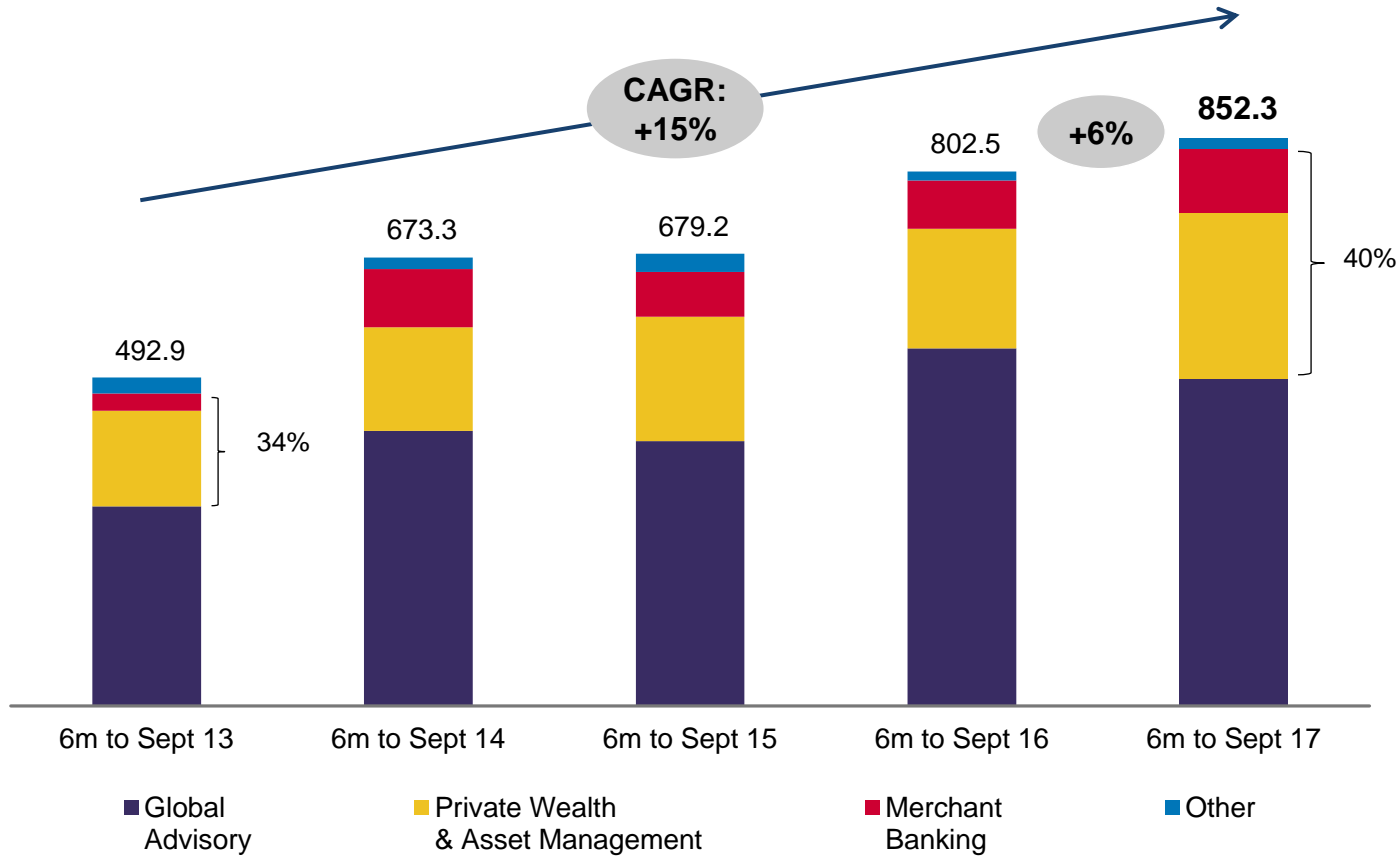
### Other

- Change in financial year to December 2017
- Disclosure of profitability for all three businesses

# Satisfactory revenue performance



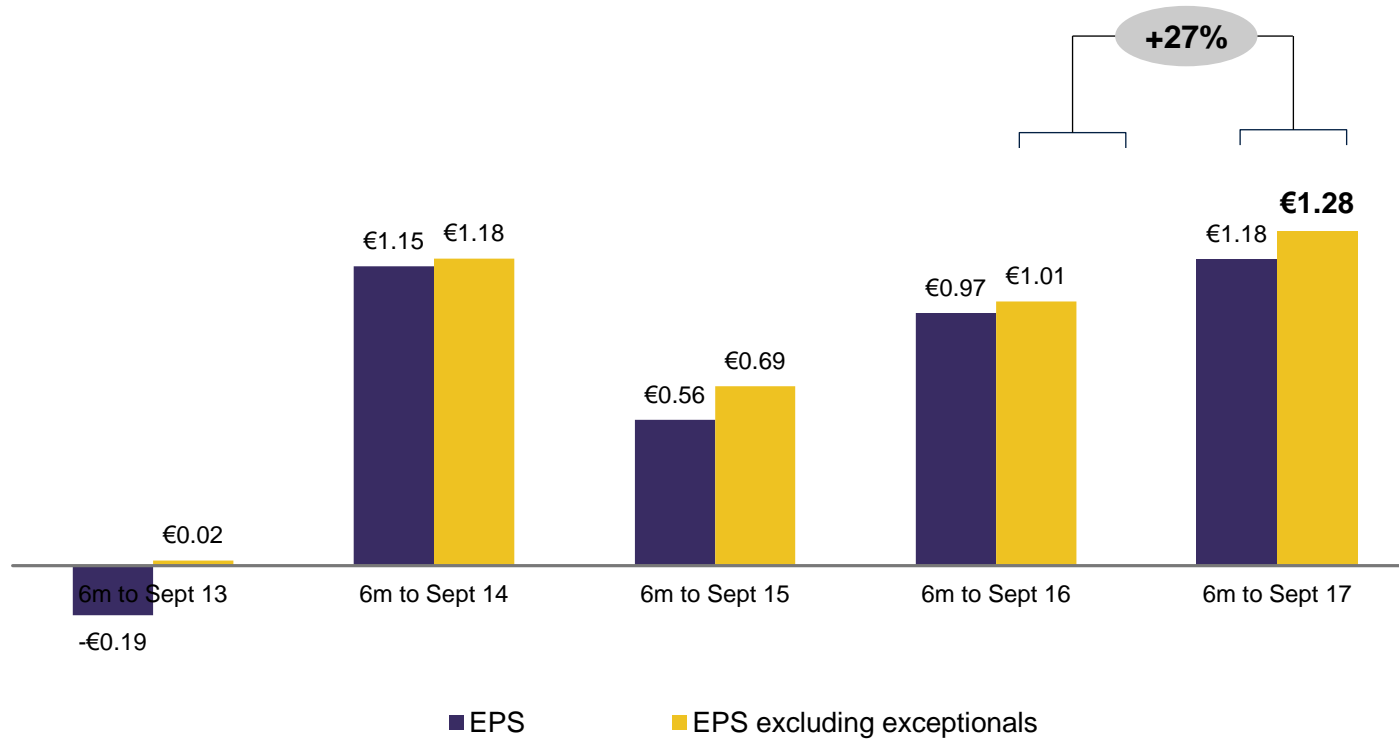
Half yearly Revenue progression (in €m)



# Robust EPS growth



## EPS progression



**Note**

1 Average number of shares as at 30 September 2017 : 74,531k (30 September 2016: 68,624k)

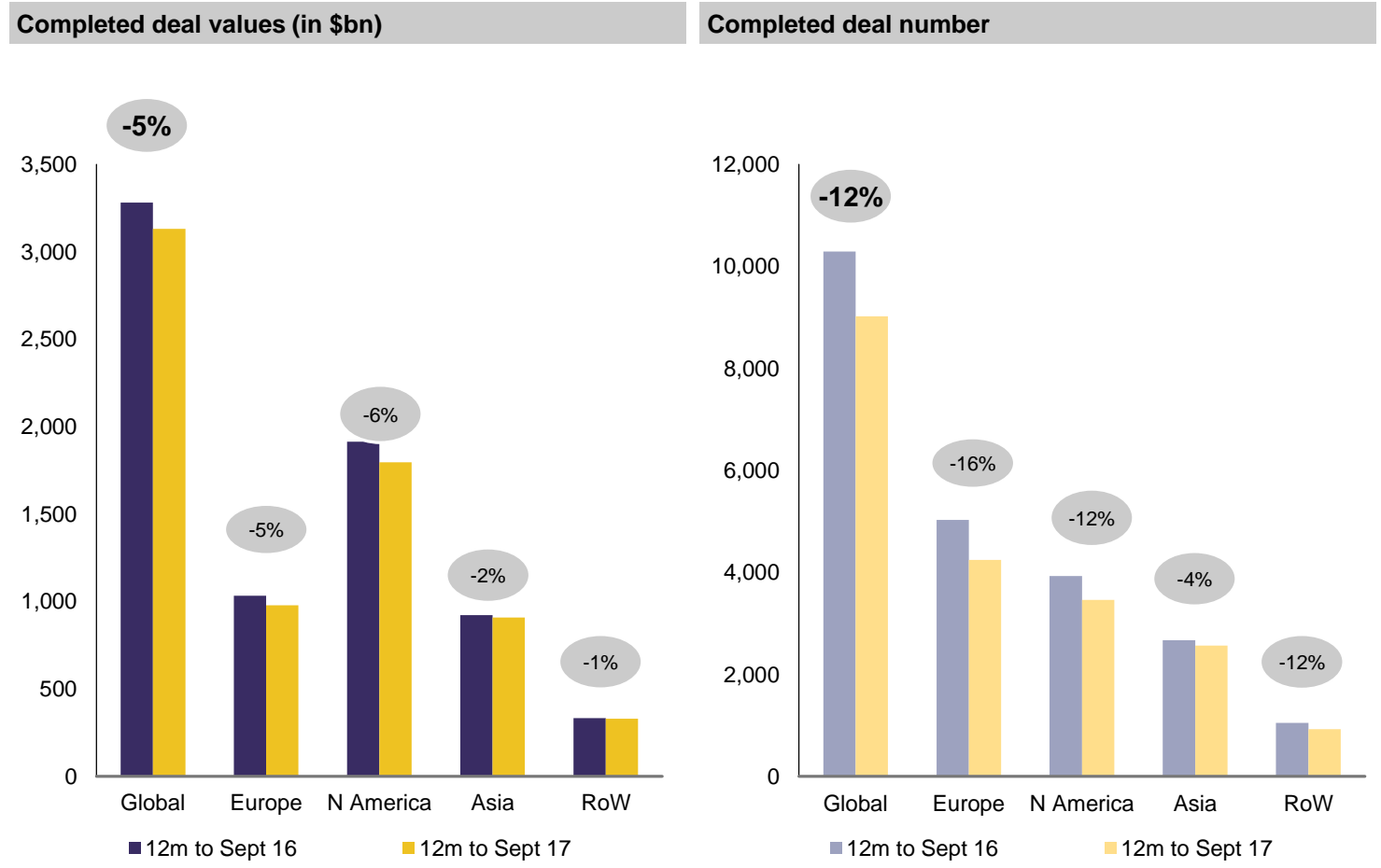
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Business review: Rothschild Global Advisory



# Rothschild Global Advisory

## Lower levels of completed activity in M&A market



Source: Thomson Reuters

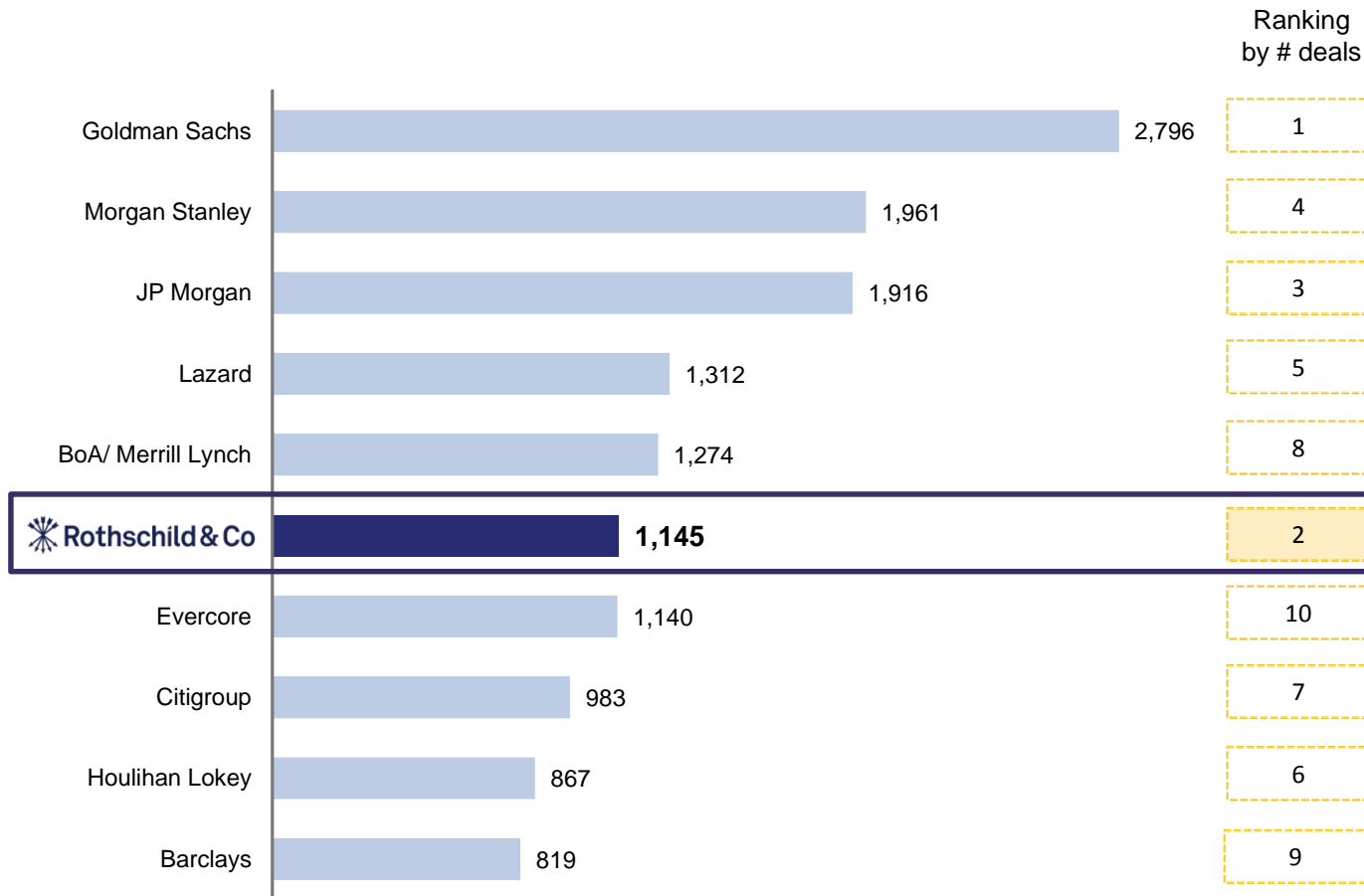




# Rothschild Global Advisory

## Global ranking by revenue

Ranking by advisory revenue (in €m) and by number of deals – 12m to September 2017

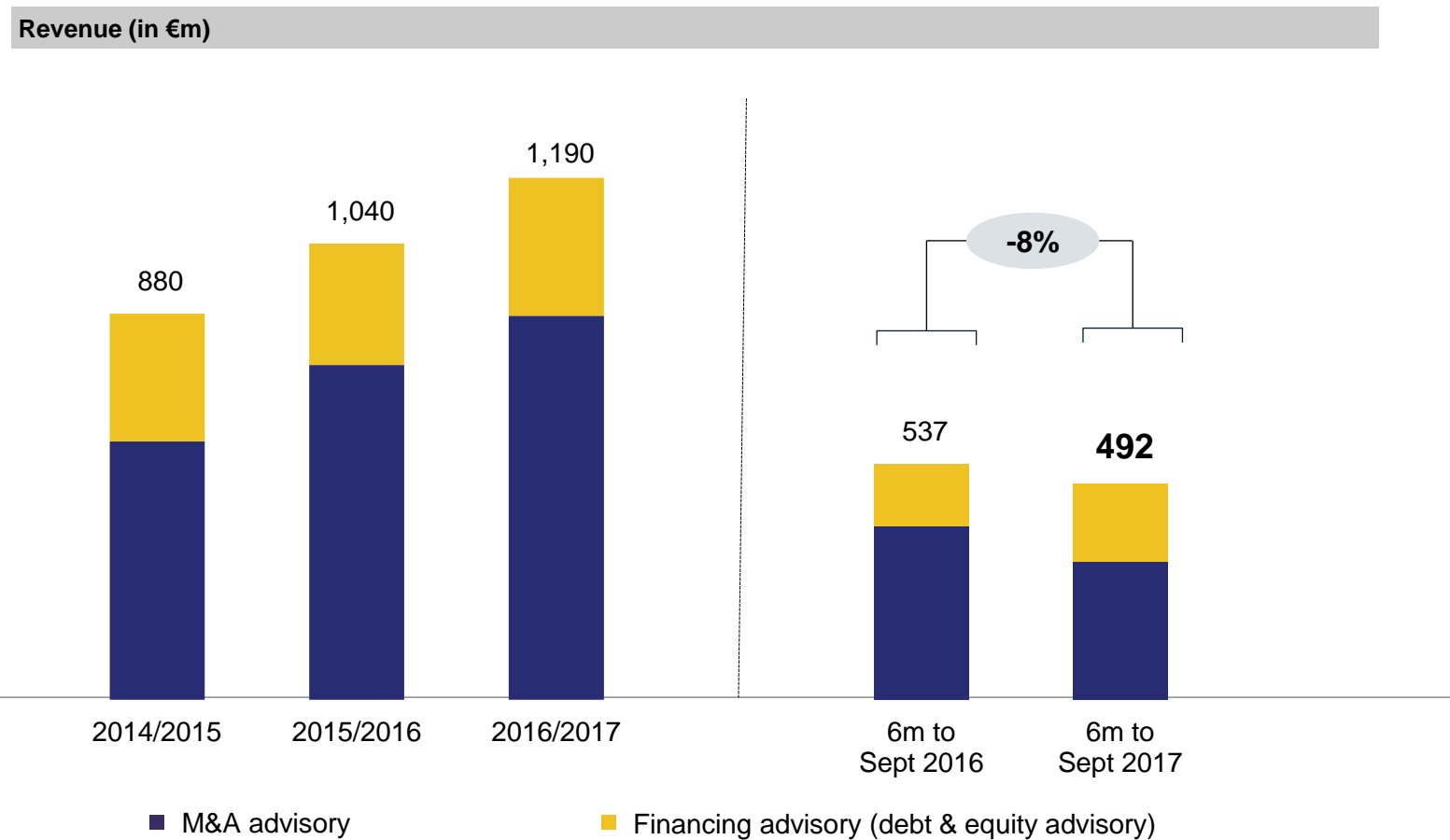


Source: Company's filings and Thomson Reuters (number of completed M&A deals)



# Rothschild Global Advisory

## Decline in revenue reflecting reduction in number of deals

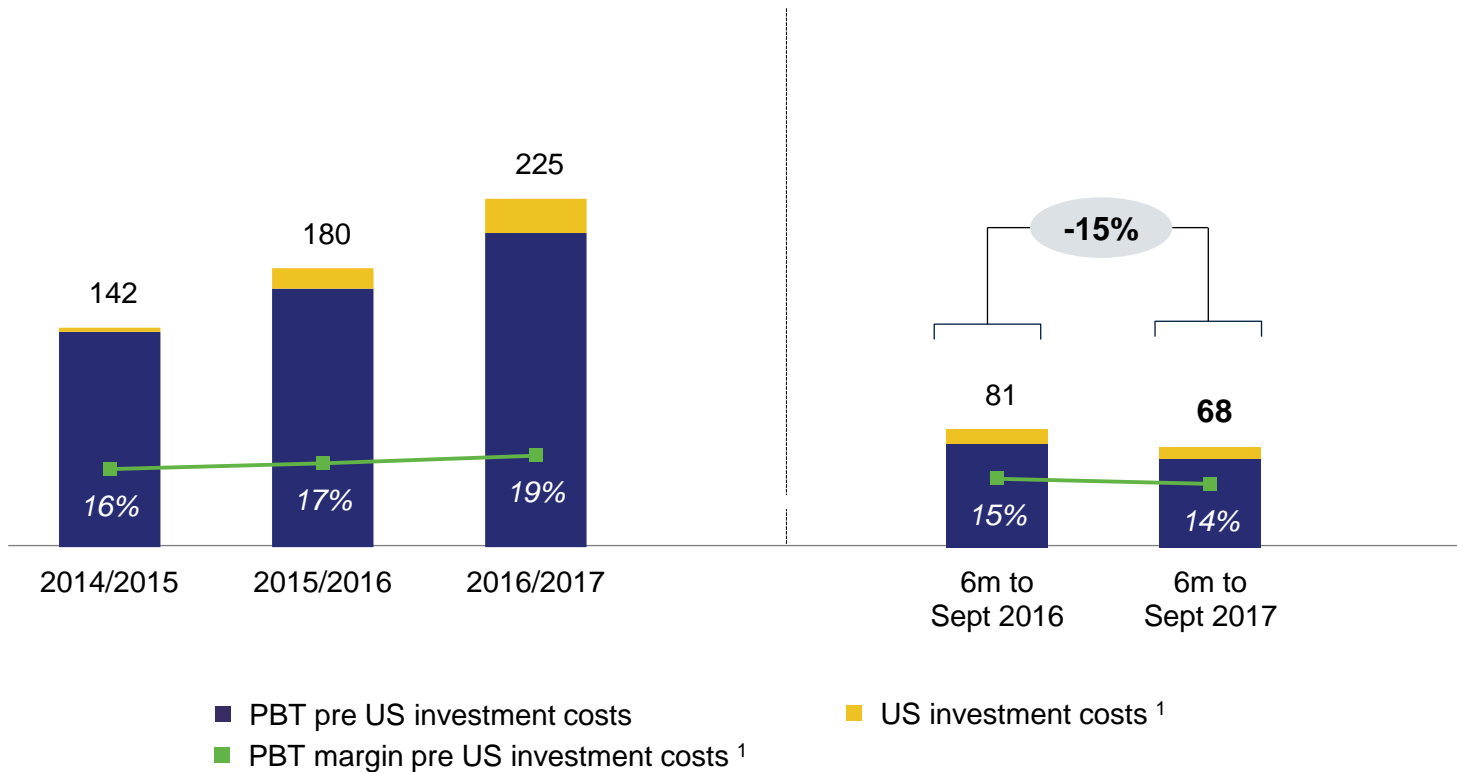




# Rothschild Global Advisory

## Margins stable despite revenue decline

Profit before tax (in €m) – pre US investment costs



<sup>1</sup> US investment costs were €3m in 2014/2015, €13m in 2015/16, €22m in 2016/2017, €10m for 6m to Sept 2016 and €7m for 6m to Sept 2017. Our US investment costs are expected to be around 2% of revenue for the 9 months to 31 December 2017, subject to the right opportunities



# Rothschild Global Advisory

## Perspectives

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1


- Leading global player in financial advisory market
- Consistent gains in market share over the past 10 years
- Strong network around the world in key financial centres
- Deep, long-term relationships with our clients

2

- Good momentum in continental Europe
- Uncertainties in M&A in the UK post Brexit vote
- Sector expertise helps us to identify attractive opportunities in emerging markets
- US plan on track to grow market share

3

- Pipeline remains healthy



**Target:  
PBT margin: mid to  
high-teens  
through the cycle**

# 3

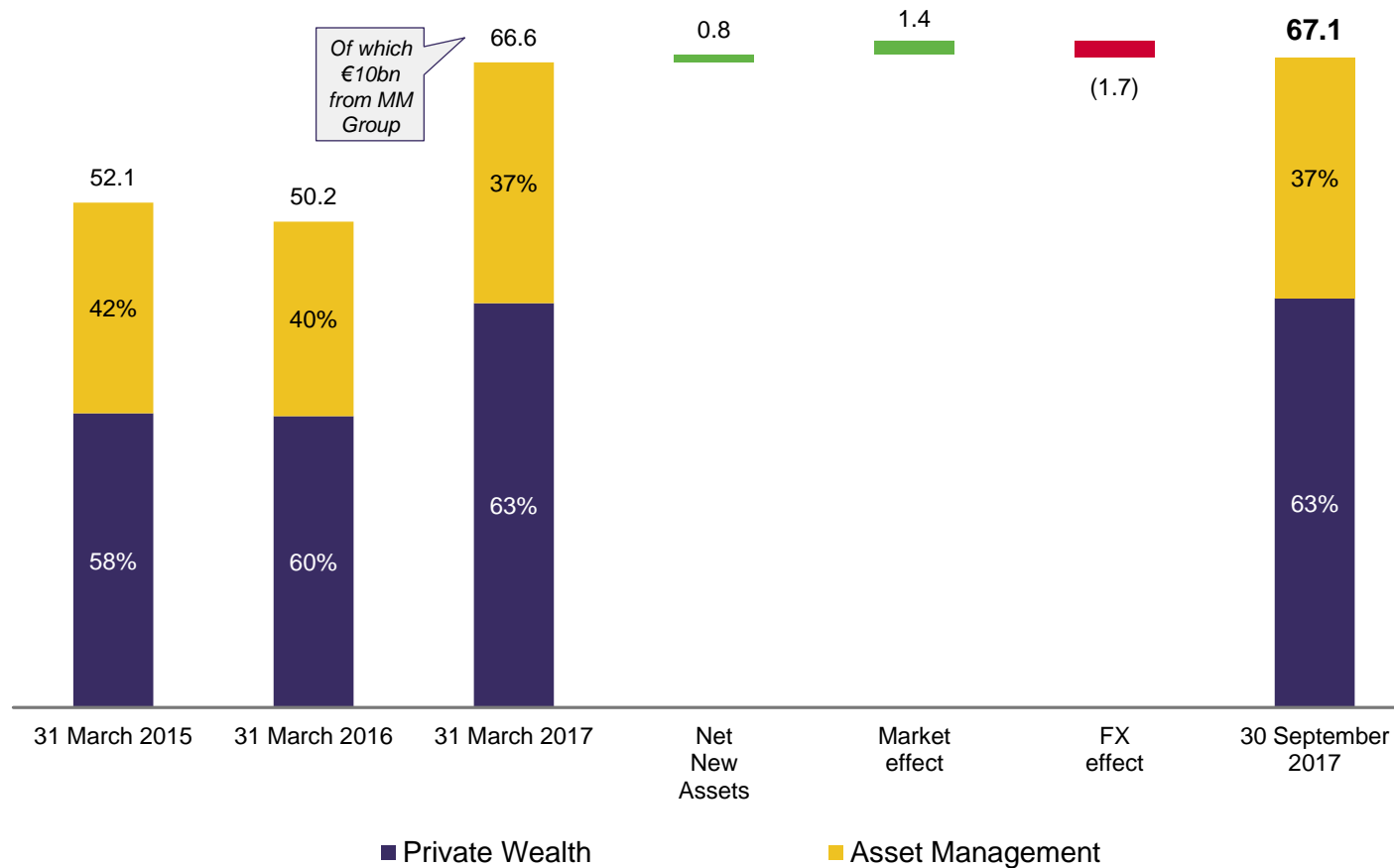
## Business Review: Rothschild Private Wealth & Asset Management



# Rothschild Private Wealth & Asset Management

Stable AuM reflecting positive NNA and market appreciation offset by negative FX rate effects

Assets under management (in €bn)

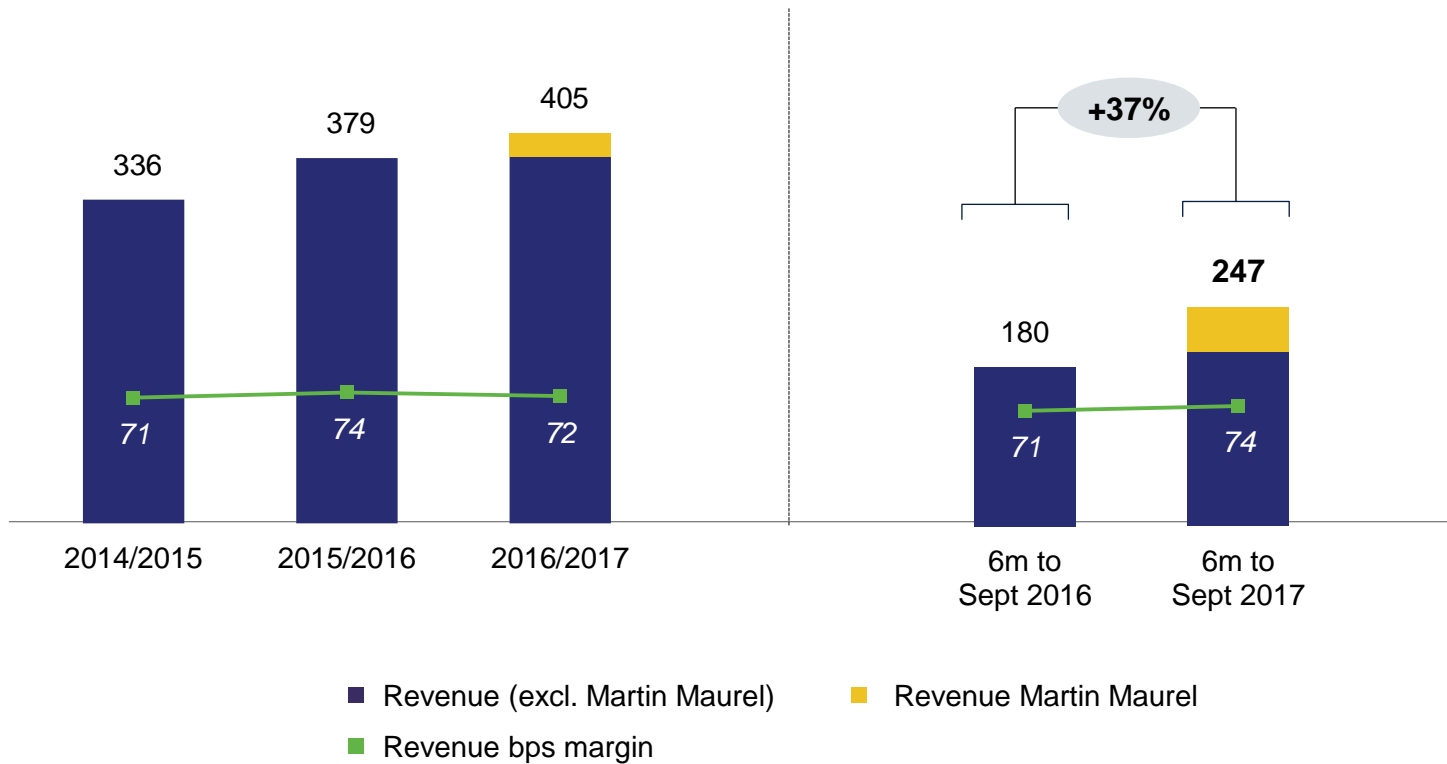




# Rothschild Private Wealth & Asset Management

Revenue and bps margin improvement driven by strong organic growth and Martin Maurel consolidation

Revenue (in €m) and annualised average bps progression

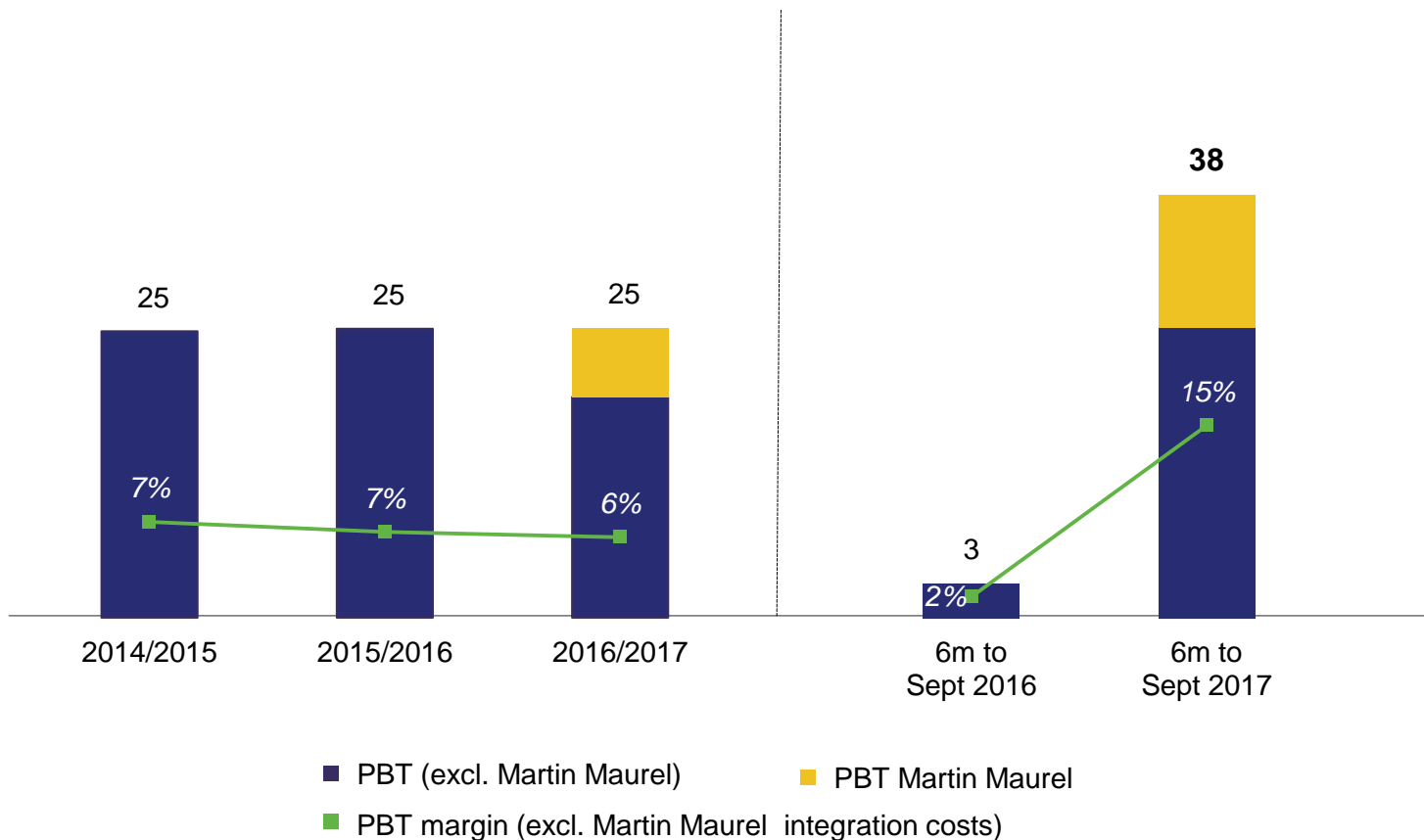




# Rothschild Private Wealth & Asset Management

Significant improvement in profit before tax thanks to cost control and revenue growth as well as Martin Maurel consolidation

Profit before tax (in €m) and PBT margin







# Rothschild Private Wealth & Asset Management

## Perspectives

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### On-going initiatives

#### 1 Rothschild Martin Maurel

- Build revenue through broader product offering, revised fee structure and leveraging network
- Finalise the operational integration
- Refocus AM business on France and neighbouring countries

#### 2 Rothschild Wealth Management & Trust

- Focus on fewer target markets and increase emphasis on onshore
- Improve advisory offering
- Tighter cost control

#### 3 Rothschild Asset Management

- Elimination of loss making activities
- Develop new distribution channels
- Diversify product set



**Target :  
PBT margin  
around 20%  
by 2020**

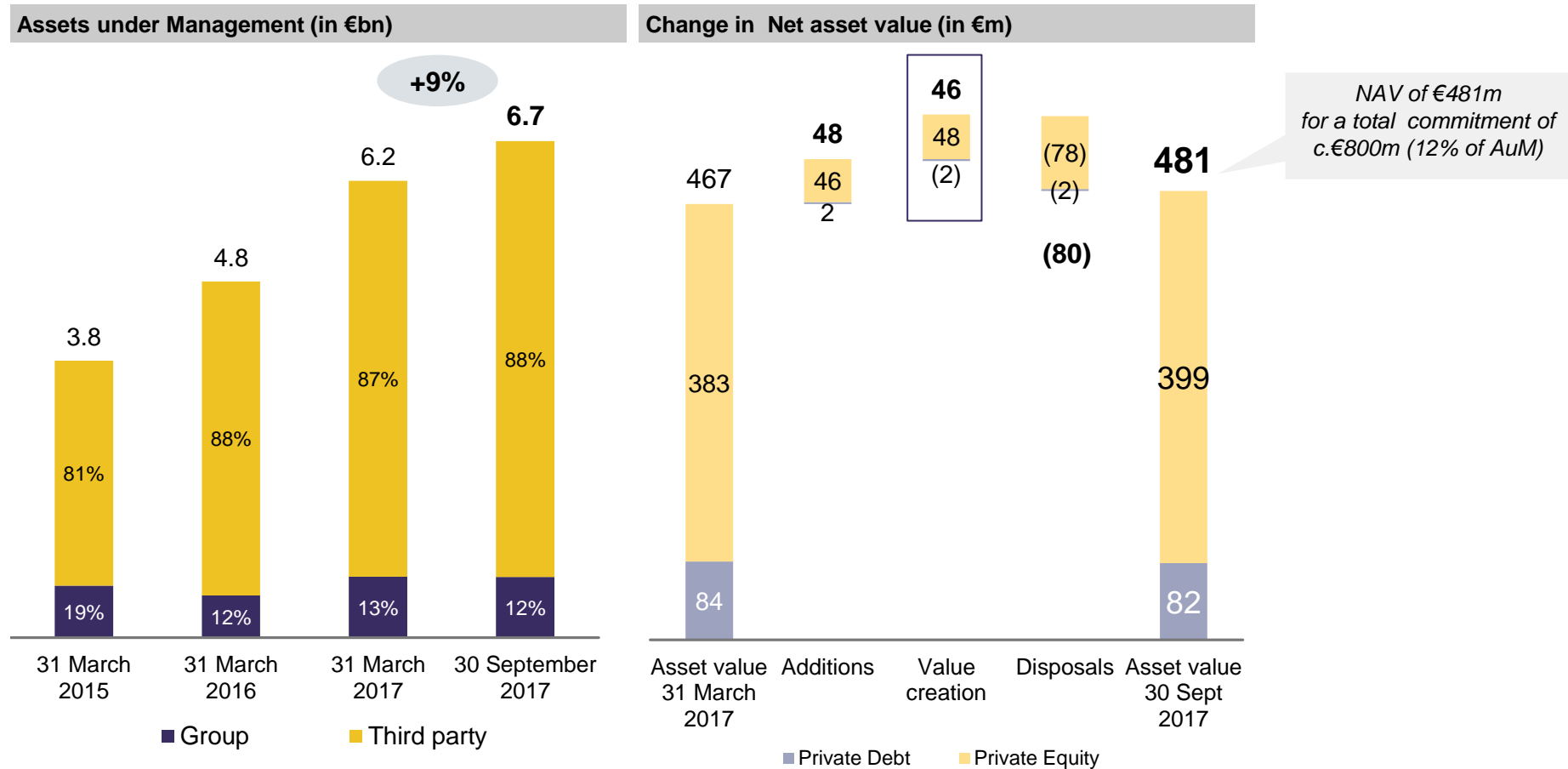
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Business review: Rothschild Merchant Banking



# Rothschild Merchant Banking

## Continuing progression of AuM and value creation for shareholders



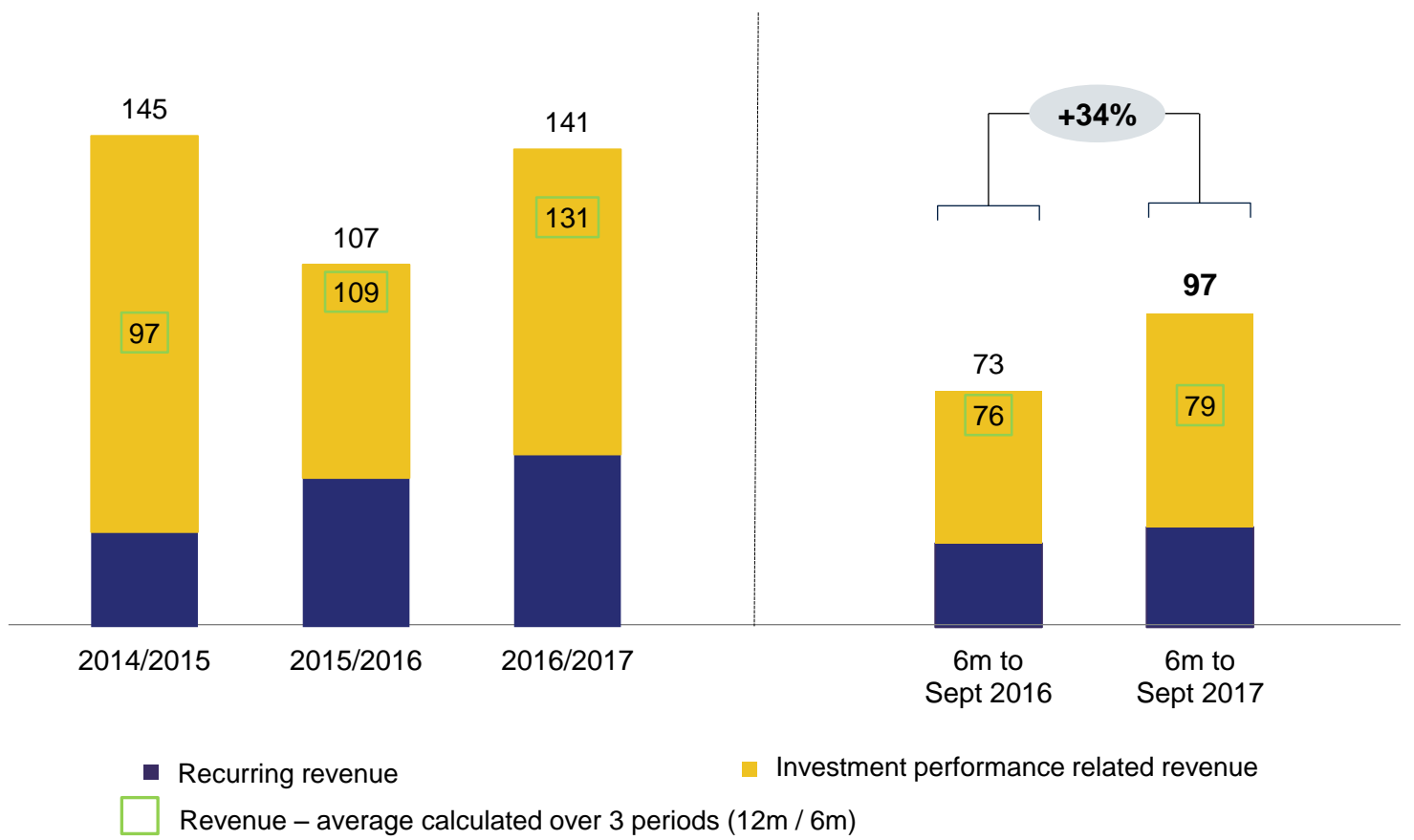
**Note**  
 Assets under management comprise committed capital where a managed fund is still in its investment period and net asset value after the investment period has expired.



# Rothschild Merchant Banking

Strong revenue growth thanks to continuing value accretion combined with higher management fees

Revenue (in €m)

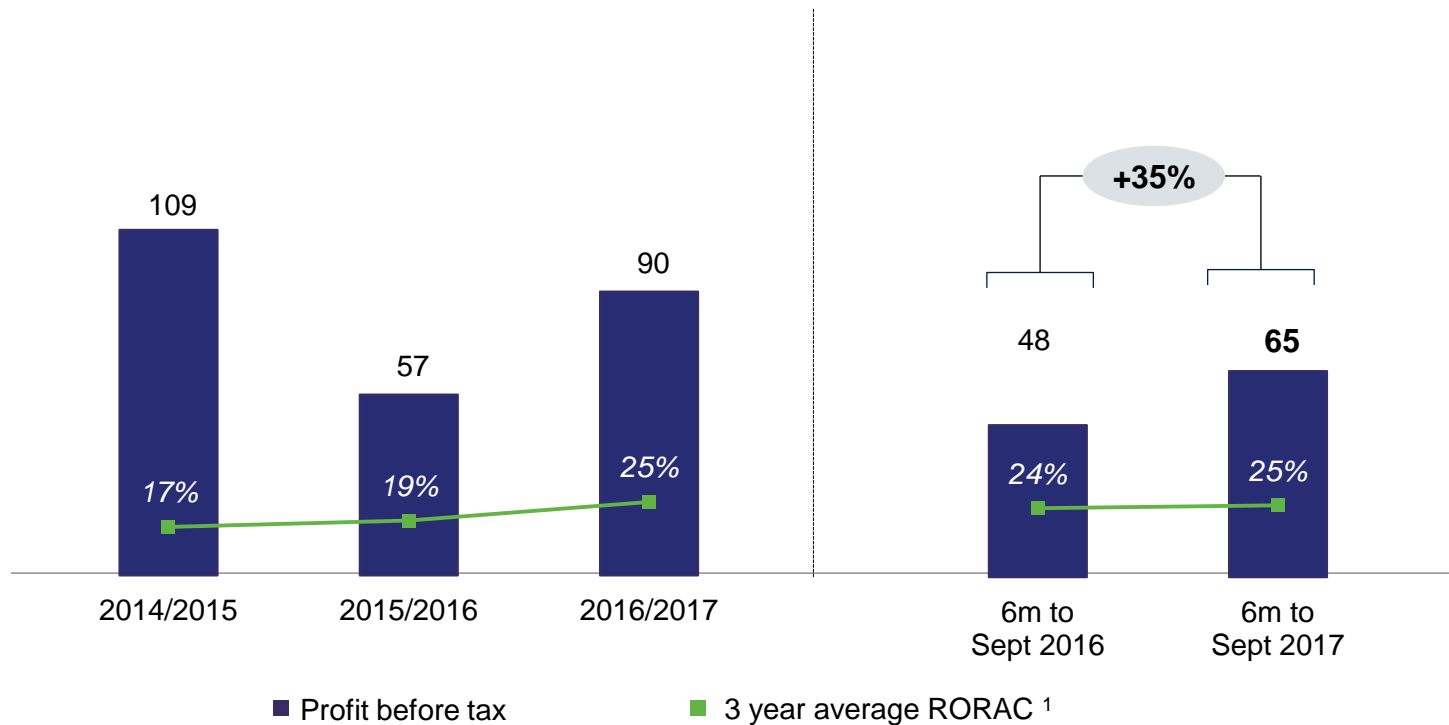




# Rothschild Merchant Banking

Good returns on capital tied to successful business growth and investment performance

Profit before tax (in €m) and RORAC <sup>1</sup>



<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



# Rothschild Merchant Banking

## Perspectives

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1

- Successful development of niche position in European mid cap private equity market in less than 10 years
- Four diversified strategies across private equity and private debt

2

- Significant investment of R&Co and employees alongside third party investors ensuring alignment of interests
- Solid track record of long term value creation for third party investors and shareholders of Rothschild &Co
- Balanced business model including a mix of investment returns, management fees and carried interest

3

- Leverage the Group's unique knowledge of midcap market (geographical footprint, sector expertise, network)
- Roll out business model in new products / geographies
- Continue to develop synergies within group businesses

**Target :**  
**Average rolling**  
**3 years RORAC**  
**> 15%**

# 5

Financial review



# Summary statutory consolidated P&L

<i>(in €m)</i>	6m to Sept 2017	6m to Sept 2016	Var	Var %	FX effects
<b>Revenue</b>	<b>852</b>	<b>802</b>	<b>50</b>	<b>6%</b>	<b>(16)</b>
Staff costs	(488)	(473)	15	3%	13
Administrative expenses	(146)	(129)	17	13%	3
Depreciation and amortisation	(14)	(17)	(3)	(18)%	0
Impairments	(4)	(1)	3	300%	0
<b>Operating Income</b>	<b>200</b>	<b>182</b>	<b>18</b>	<b>10%</b>	<b>0</b>
<b>Profit before tax</b>	<b>206</b>	<b>187</b>	<b>19</b>	<b>10%</b>	<b>0</b>
<b>Consolidated net income</b>	<b>176</b>	<b>160</b>	<b>16</b>	<b>10%</b>	<b>0</b>
<b>Net income - Group share</b>	<b>88</b>	<b>67</b>	<b>21</b>	<b>31%</b>	<b>1</b>
<b>Net income - Group share excl. exceptionals</b>	<b>95</b>	<b>70</b>	<b>25</b>	<b>36%</b>	<b>1</b>
<i>Earnings per share <sup>1</sup></i>	1.18 €	0.97 €	0.21 €	21%	
<b>EPS excl. exceptionals</b>	<b>1.28 €</b>	<b>1.01 €</b>	<b>0.27 €</b>	<b>27%</b>	
ROTE	11.5%	11.1%			
<b>ROTE excl. exceptionals</b>	<b>12.4%</b>	<b>11.6%</b>			

<sup>1</sup> Diluted EPS is €1.15 (6m to September 2016: €0.96)





# “Exceptionals” reconciliation

(in €m)	6m to Sept 2017			6m to Sept 2016		
	PBT	PATMI	EPS	PBT	PATMI	EPS
<b>As reported</b>	<b>206</b>	<b>88</b>	<b>1.18 €</b>	<b>187</b>	<b>67</b>	<b>0.97 €</b>
Exceptional item: Martin Maurel integration costs	(11)	(7)	(0.10) €	(4)	(3)	(0.04) €
<b>Excluding "Exceptionals"</b>	<b>217</b>	<b>95</b>	<b>1.28 €</b>	<b>191</b>	<b>70</b>	<b>1.01 €</b>



# Performance by business

(in €m)	Global Advisory	Private Wealth & Asset Management	Merchant Banking	Other business and corporate centre	IFRS reconciliation	6m to Sept 2017
<b>Revenues</b>	<b>492</b>	<b>247</b>	<b>97</b>	<b>20</b>	<b>(4)</b>	<b>852</b>
Operating expenses	(431)	(220)	(32)	(28)	63	(648)
Impairments	-	-	-	-	(4)	(4)
<b>Operating income</b>	<b>61</b>	<b>27</b>	<b>65</b>	<b>(8)</b>	<b>55</b>	<b>200</b>
Exceptional charges / (profits)	-	11	-	-	-	11
<b>Operating income without exceptional charges / profit</b>	<b>61</b>	<b>38</b>	<b>65</b>	<b>(8)</b>	<b>55</b>	<b>211</b>
<i>Operating margin (excl. exceptional charges)</i>	<i>12%</i>	<i>15%</i>	<i>67%</i>			<i>25%</i>

(in €m)	Global Advisory	Private Wealth & Asset Management	Merchant Banking	Other business and corporate centre	IFRS reconciliation	6m to Sept 2016
<b>Revenues</b>	<b>537</b>	<b>180</b>	<b>73</b>	<b>16</b>	<b>(4)</b>	<b>802</b>
Operating expenses	(466)	(181)	(24)	(30)	82	(619)
Impairments	-	-	-	-	(1)	(1)
<b>Operating income</b>	<b>71</b>	<b>(1)</b>	<b>49</b>	<b>(14)</b>	<b>77</b>	<b>182</b>
Exceptional charges / (profits)	-	4	-	-	-	4
<b>Operating income without exceptional charges / profit</b>	<b>71</b>	<b>3</b>	<b>49</b>	<b>(14)</b>	<b>77</b>	<b>186</b>
<i>Operating margin (excl. exceptional charges)</i>	<i>13%</i>	<i>2%</i>	<i>67%</i>			<i>23%</i>

1 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 (R) for defined benefit pension schemes; and reallocation of impairments and certain operating expenses

2 Martin Maurel contributed €50m of revenue and €12m of PBT to the 30 September 2017 results



# Compensation ratio

<i>(in €m)</i>	6m to Sept 2017	6m to Sept 2016	2016/2017
<b>Revenue</b>	<b>852</b>	<b>802</b>	<b>1,767</b>
Total staff costs <sup>1</sup>	(555)	(545)	(1,142)
<b>Compensation ratio</b>	<b>65.1%</b>	<b>68.0%</b>	<b>64.6%</b>
<i>variation due to FX</i>	0.3%	-	-
<i>variation due to RGA US investment costs</i> <sup>2</sup>	(0.9)%	(1.3)%	(1.3)%
<b>Adjusted Compensation ratio</b>	<b>64.5%</b>	<b>66.7%</b>	<b>63.4%</b>
Headcount	3,503	2,945	3,410

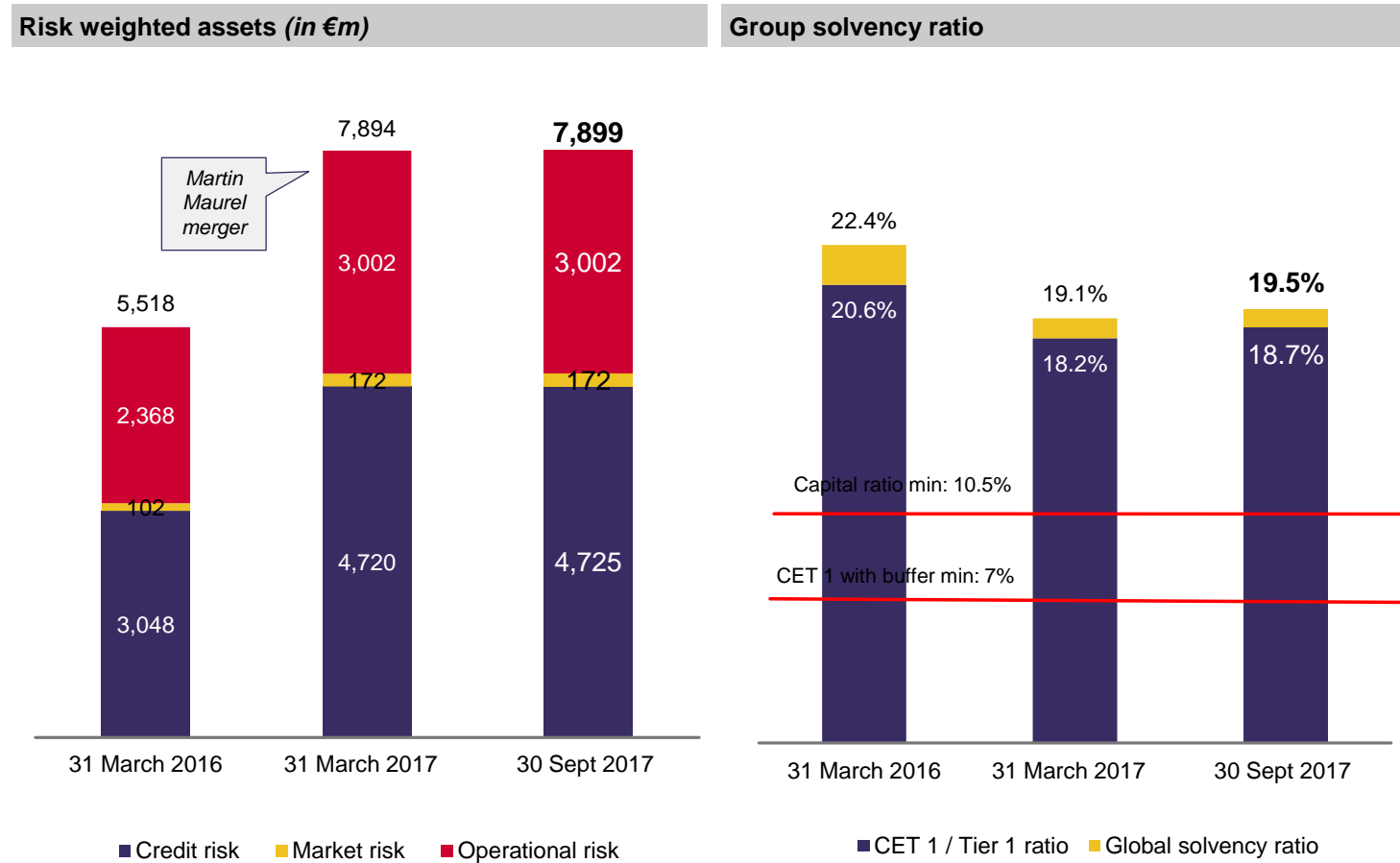
1 Total staff costs include profit share paid to French Partners and effects of accounting for deferred bonuses over the period in which they are earned, as opposed to "awarded" basis but exclude redundancy costs, revaluation of share-based employee liabilities and acquisition costs treated as employee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

2 RGA US investment costs are defined as compensation earned in respect of the first financial reporting period of employment plus any make-wholes payable in the reporting period

# Solvency ratios comfortably above minimum requirements



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





# Financial targets

		Target		6m to Sept 2017	6m to Sept 2016	12m to March 2017	Average 3 years
Group targets	Compensation ratio <sup>1</sup>	Low to mid 60's through the cycle	Revised	64.5%	66.7%	63.4%	63.5%
	Return on tangible equity <sup>2</sup>	10 to 15% through the cycle		12.4%	11.6%	14.6%	13.3%
Businesses targets	Global Advisory: Profit before tax margin <sup>3</sup>	Mid to high-teens through the cycle	Revised	13.9%	15.0%	18.9%	17.3%
	Private Wealth and Asset Management: Profit before tax margin	Around 20% by 2020	New	15.2%	1.7%	6.2%	6.7%
	Merchant Banking: 3 years average RORAC <sup>4</sup>	Above 15% through the cycle	New	25%	24%	25%	20%

## Notes

<sup>1</sup> As adjusted – see slide 25

<sup>2</sup> ROTE based on Net income – Group share excl. exceptionals items. Would be 11.5% if exceptionals included (6m to Sept 2016: 11.1%)

<sup>3</sup> RGA PBT margin pre-US investments. Would be 12.3% if US investments included (6m to Sept 2016: 13.2%)

<sup>4</sup> See definition on slide 36 and calculation on slide 37

# Outlook



## Group

- Overall, we expect in the last quarter (October – December) that business performance will be slightly better than the run rate achieved in the first six months

## Global Advisory

- Although market conditions for M&A remain positive, global completed M&A activity has been lower in 2017 compared to last year, and this is not expected to change in the short term. Therefore we expect our revenue for the nine months to December 2017 to follow a similar year on year trend to that seen in the first half year

## Private Wealth & Asset Management

- Assets under Management should continue to improve subject to financial market conditions

## Merchant Banking

- Assets under Management will continue to grow and we are confident that we will deliver continuing strong results for the nine months to December 2017

A

Appendices

# Change of year-end



## Timetable

		<p>13 March 2018  <b>Full year results for the 9 months period to 31 December 2017</b></p>										<p>25 September 2018  <b>Half year results for the full year 2018</b></p>	
<p>28 November 2017  <b>Half year results to 30 September 2017</b></p>							<p>17 May 2018  <b>AGM</b></p>						
2017		2018											
Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
						<p>15 May 2018  <b>Q1 Revenues for the full year 2018</b></p>					<p>13 November 2018  <b>Q3 Revenues for the full year 2018</b></p>		



# Major FX rates



## Balance sheet (spot)

Rates	30/09/2017	31/03/2017	Var
€ / GBP	0.8812	0.8553	3%
€ / CHF	1.1439	1.0706	7%
€ / USD	1.1822	1.0695	11%

## P&L (average)

Rates	6m to Sept 2017	6m to Sept 2016	Var
€ / GBP	0.8786	0.8180	7%
€ / CHF	1.1072	1.0925	1%
€ / USD	1.1376	1.1230	1%



# Summary Balance sheet

<i>(in €bn)</i>	30/09/2017	31/03/2017	Var
Cash and amounts due from central banks	3.9	3.9	-
Cash placed with banks	1.6	1.9	(0.3)
Loans and advances to customers	3.0	2.9	0.1
<i>of which Private client lending</i>	2.4	2.3	0.1
Debt and equity securities	1.9	2.1	(0.2)
Other assets	1.4	1.4	-
<b>Total assets</b>	<b>11.8</b>	<b>12.2</b>	<b>(0.4)</b>
Due to customers	7.8	8.1	(0.3)
Other liabilities	1.7	1.8	(0.1)
Shareholders' equity - Group share	1.8	1.8	-
Non-controlling interests	0.5	0.5	-
<b>Total capital and liabilities</b>	<b>11.8</b>	<b>12.2</b>	<b>(0.4)</b>

- €0.4m reduction in balance sheet size due to FX
- Private client lending (Lombard and mortgages) is developing in line with our Private Wealth strategy



# Non-controlling interests

P&L			Balance sheet		
(in €m)	6m to Sept 2017	6m to Sept 2016	(in €m)	30/09/2017	31/03/2017
Interest on perpetual subordinated debt	7	7	Perpetual subordinated debt	292	305
Preferred shares <sup>1</sup>	79	82	Preferred shares <sup>1</sup>	138	60
Other Non-controlling interests	2	4	Other Non-controlling interests	80	107
<b>TOTAL</b>	<b>88</b>	<b>93</b>	<b>TOTAL</b>	<b>510</b>	<b>472</b>

1 Mainly relates to the profit share distributed to French partners



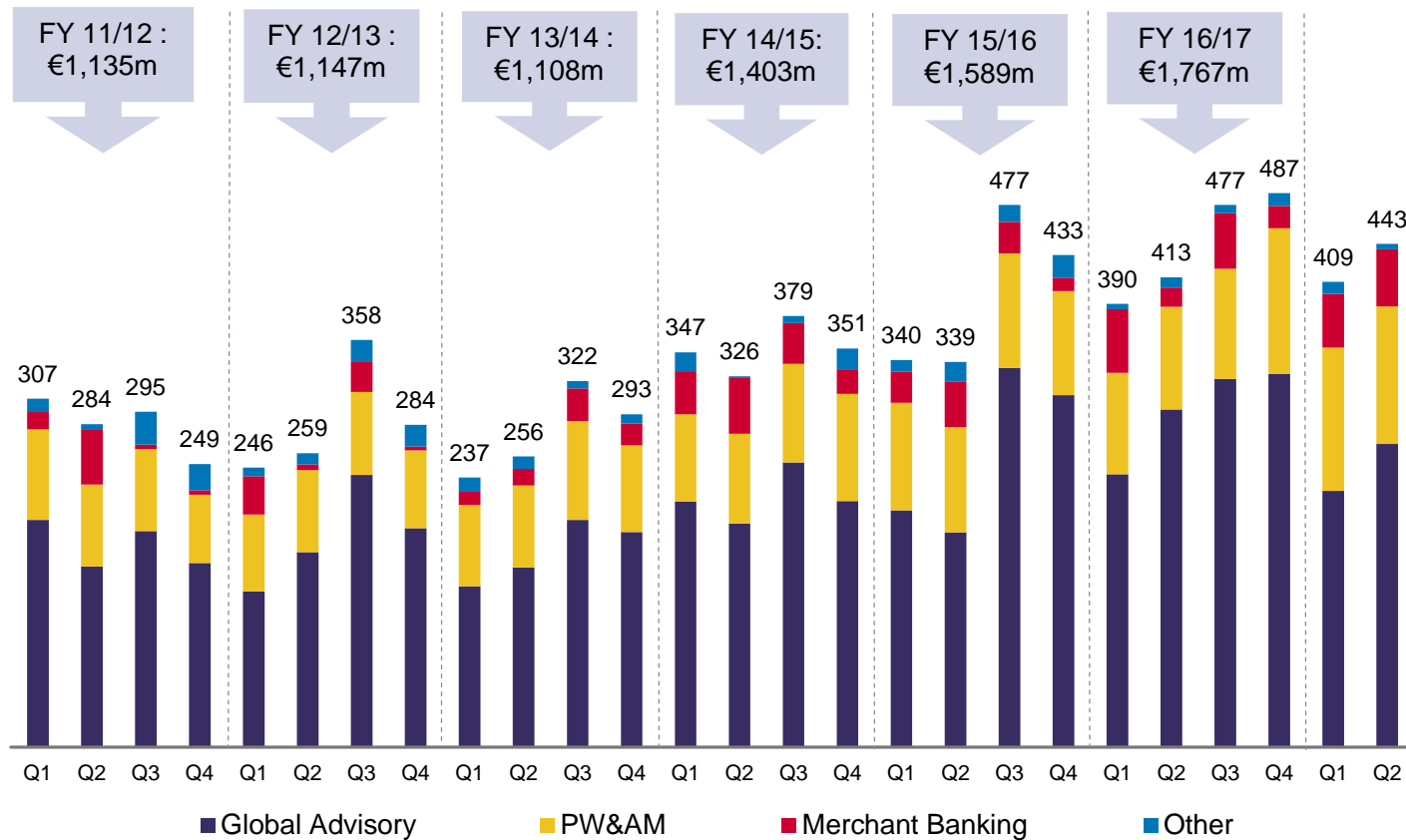
# Zoom on Q2 revenue (July – September 2017)

<i>In €m</i>	3 months - July to September			6 months - April to September		
	2017	2016/2017	% Var	2017	2016/2017	% Var
<b>Global Advisory</b>	267	296	-10%	492	537	-8%
<b>Private Wealth &amp; Asset Management</b>	121	90	34%	247	180	37%
<b>Merchant Banking</b>	50	17	198%	98	73	34%
Other <sup>1</sup>	5	8	-39%	20	16	22%
IFRS Reconciliation	-1	1	<i>n/a</i>	-4	-4	<i>n/a</i>
<b>Total Group revenues</b>	<b>442</b>	<b>412</b>	<b>7%</b>	<b>852</b>	<b>802</b>	<b>6%</b>

<sup>1</sup> Other comprises legacy businesses and other



# Quarterly revenue generation



# 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 25). Adjusted staff costs represent:</p> <ul style="list-style-type: none"> <li>. 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>. to which must be added the amount of profit share paid to the French partners</li> <li>. from which must deducted redundancy costs, revaluation of share-based employee liabilities and business acquisition costs treated as employee compensation under IFRS</li> </ul> <p><b>which gives Total staff costs in calculating the basic compensation ratio</b></p> <ul style="list-style-type: none"> <li>. from which the investment costs related to the recruitment of senior bankers in the United States must be deducted,</li> <li>. 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> </ul> <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 (as presented on slide 23) 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 March 2017 and tangible equity as at 30 September 2016</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 years basis.</p> <p>The estimated amount of capital and debt which management believes would be reasonable to fund the Merchant Banking business 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 its net asset value and that the remainder could be funded by debt. This is based on 80% of equity exposures, 50% of junior credit exposures, 40% of CLO exposures in vertical strips and 33% of senior credit exposures being funded with capital.</p> <p>To calculate the RORAC, RMB profit before tax is adjusted by the cost of interest for the amount of notional debt (computed as per the above) and applying a margin (2.5% as at 30 September 2017) to give an adjusted profit before tax which when divided by the RAC gives the RORAC %.</p> <p>RORAC is based on a 3 year rolling period to account for the inevitable volatility in the financial results of RMB due to the timing of realisations and recognition of performance-based incentives such as carried interest.</p>	To measure the performance of the Merchant Banking's business



# Alternative performance measures (APM)

## Calculation

ROTE			RORAC		
	6m to Sept 2017	6m to Sept 2016		6m to Sept 2017	6m to Sept 2016
Shareholders' equity - Group share - opening	1,829	1,529	PBT 12m to Sept 2017	108	
- Intangible fixed assets	(170)	(168)	PBT 12m to Sept 2016	62	62
- Goodwill	(124)	(112)	PBT 12m to Sept 2015	81	81
<b>Tangible Shareholders' equity - Group share - opening</b>	<b>1,535</b>	<b>1,249</b>	PBT 12m to Sept 2014		99
			<b>Average PBT rolling 3 years</b>	<b>84</b>	<b>81</b>
Shareholders' equity - Group share - closing	1,831	1,457	NAV 30/9/2017	481	
- Intangible fixed assets	(167)	(163)	NAV 30/9/2016	457	457
- Goodwill	(123)	(117)	NAV 30/9/2015	462	462
<b>Tangible Shareholders' equity - Group share - closing</b>	<b>1,541</b>	<b>1,178</b>	NAV 30/9/2014		486
			<b>Average NAV rolling 3 years</b>	<b>467</b>	<b>468</b>
<b>Average Tangible equity</b>	<b>1,538</b>	<b>1,213</b>	Debt = 30% of Average NAV	140	141
			Notional interest of 2.5% on debt	(4)	(4)
<b>Net income - Group share excluding exceptionnals</b>	<b>95</b>	<b>70</b>	<b>Average PBT rolling 3 years adjusted by the cost of debt interest</b>	<b>80</b>	<b>77</b>
<b>ROTE</b>	<b>12.4%</b>	<b>11.6%</b>	<b>Risk adjusted capital = 70% of Average NAV</b>	<b>327</b>	<b>328</b>
			<b>RORAC</b>	<b>25%</b>	<b>24%</b>