Rothschild & Co

Results for H1 2018 – Presentation to analysts and investors

25 September 2018

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1

Highlights

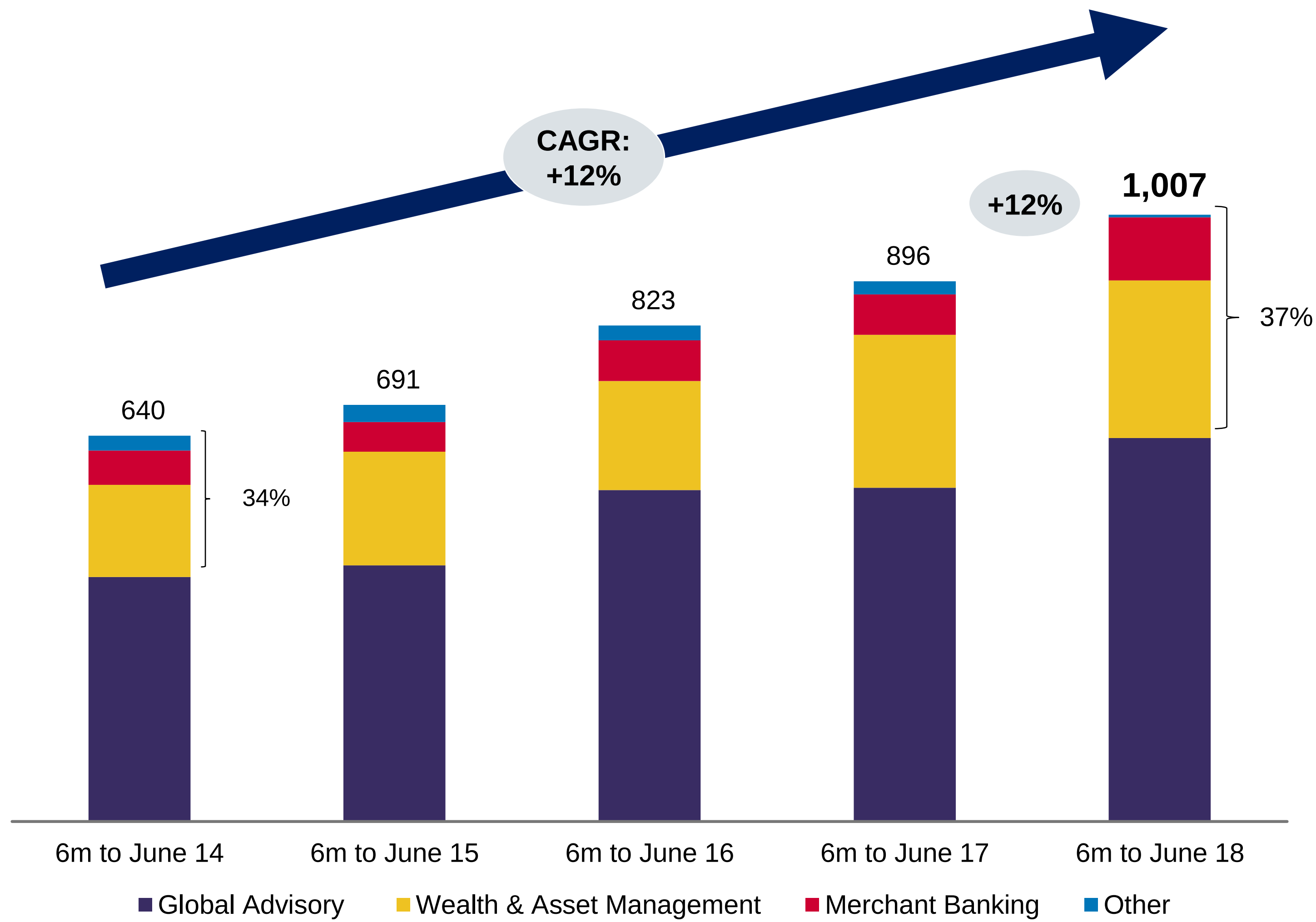
Highlights

Very strong performance across all businesses, particularly in the second quarter

Strong set of results	● Group revenue: **+12%** of €1,007m (H1 2017: €896m) ● Net income - Group share excl. exceptionals: **+56%** of €164m (H1 2017: €105m) ● Earnings per share excl. exceptionals : **+55%** of €2.18 (H1 2017: €1.41) ● All five financial targets exceeded or on track
Key achievements	● Global advisory (GA): strong Q2, from 6th to 4th globally by revenue and 1st by number ● Wealth & Asset management (WAM): tight cost control lead to ongoing results improvement ● Merchant banking (MB): continuing its significant profit contribution for Group
Strategy on track	● Further investment in GA in the US: a key growth market ● AuM growth in both WAM (from €67bn to €69bn) and MB (+12%, from €8bn to €9bn)
Corporate matters	● Alexandre de Rothschild appointed as Executive chairman ● New managing partner: François Pérol ● Reorganisation of Group Executive Committee, now supported by the creation of a Group Operating Committee, led by the CFO who is now also COO ● Agreement with Edmond de Rothschild on the use of brand name and unwinding of cross shareholdings

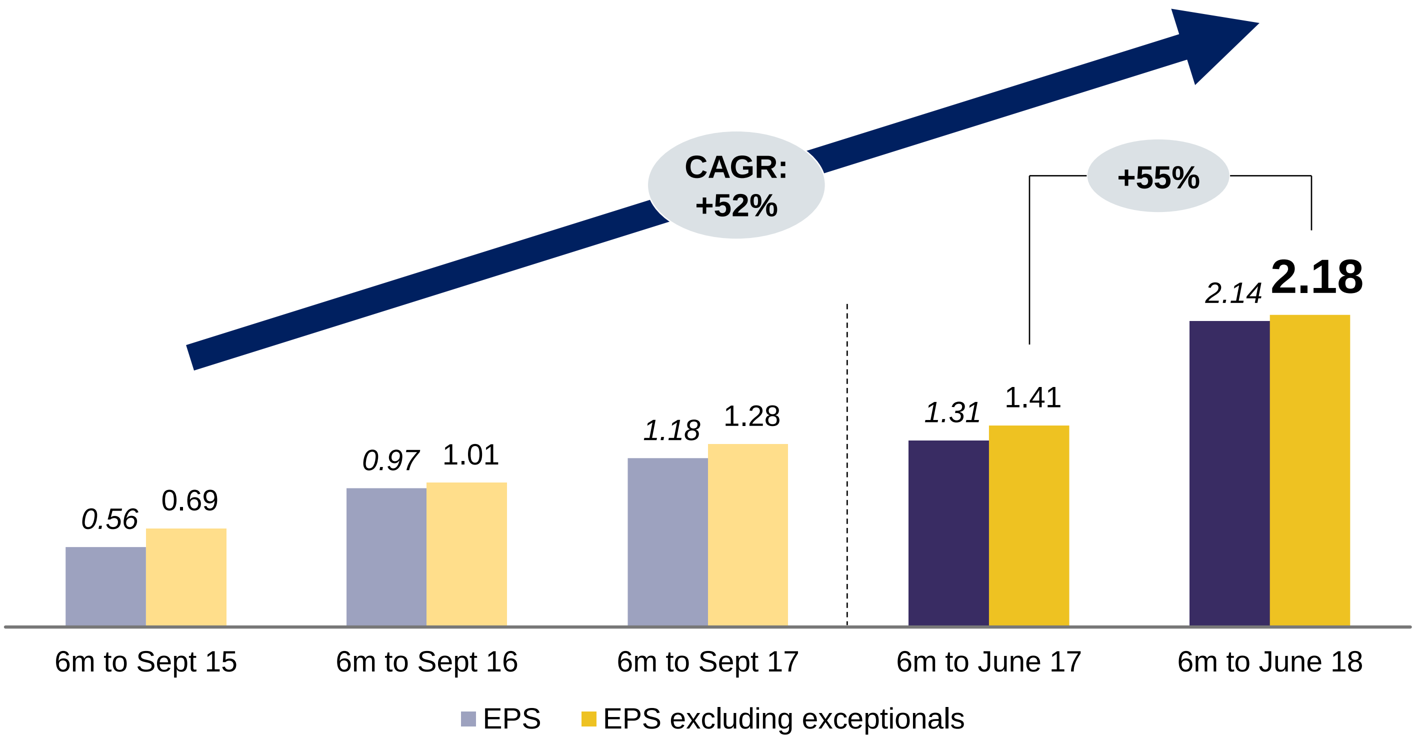
Strong revenue growth thanks to M&A advisory and Merchant Banking…

Group revenue (in €m)



… that translates into EPS progression ….

EPS (in €)



Number of shares – 000s	*68,692*	*69,487*	*74,531*	*74,512*	***75,108***

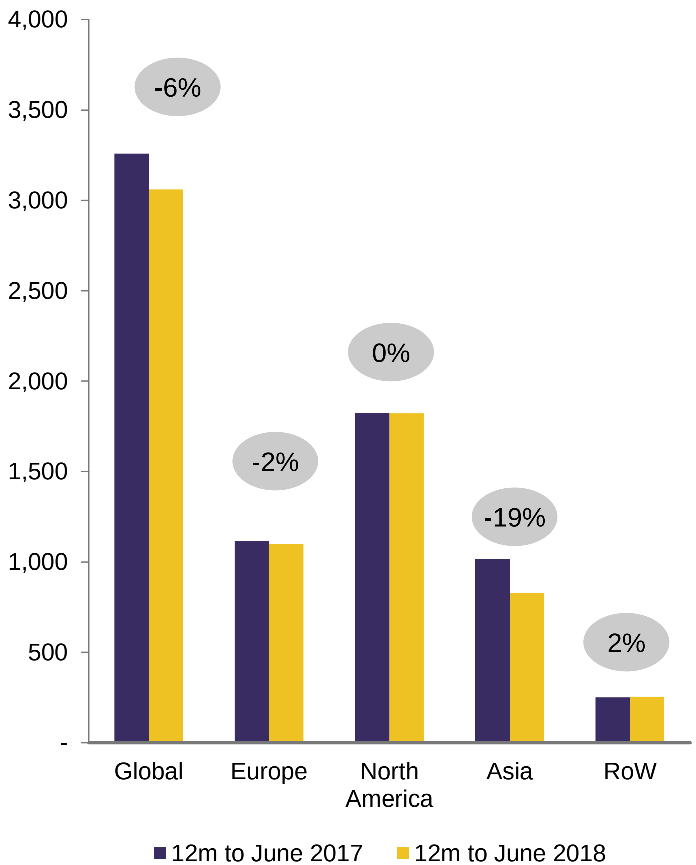
2

Business review: Global Advisory

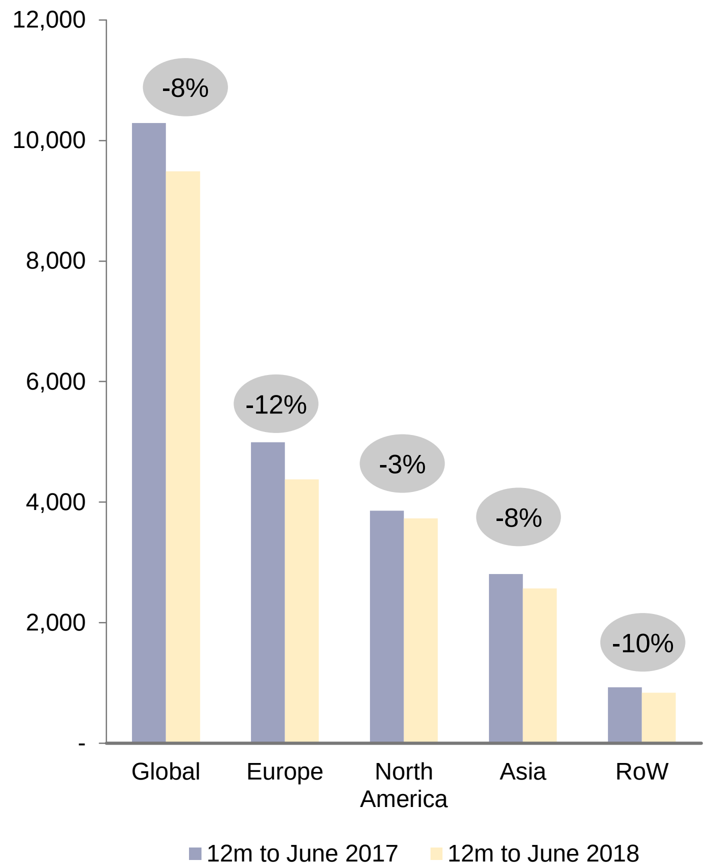
Global Advisory

Lower global M&A market activity levels

Completed deal values (in $bn)



Completed deal number

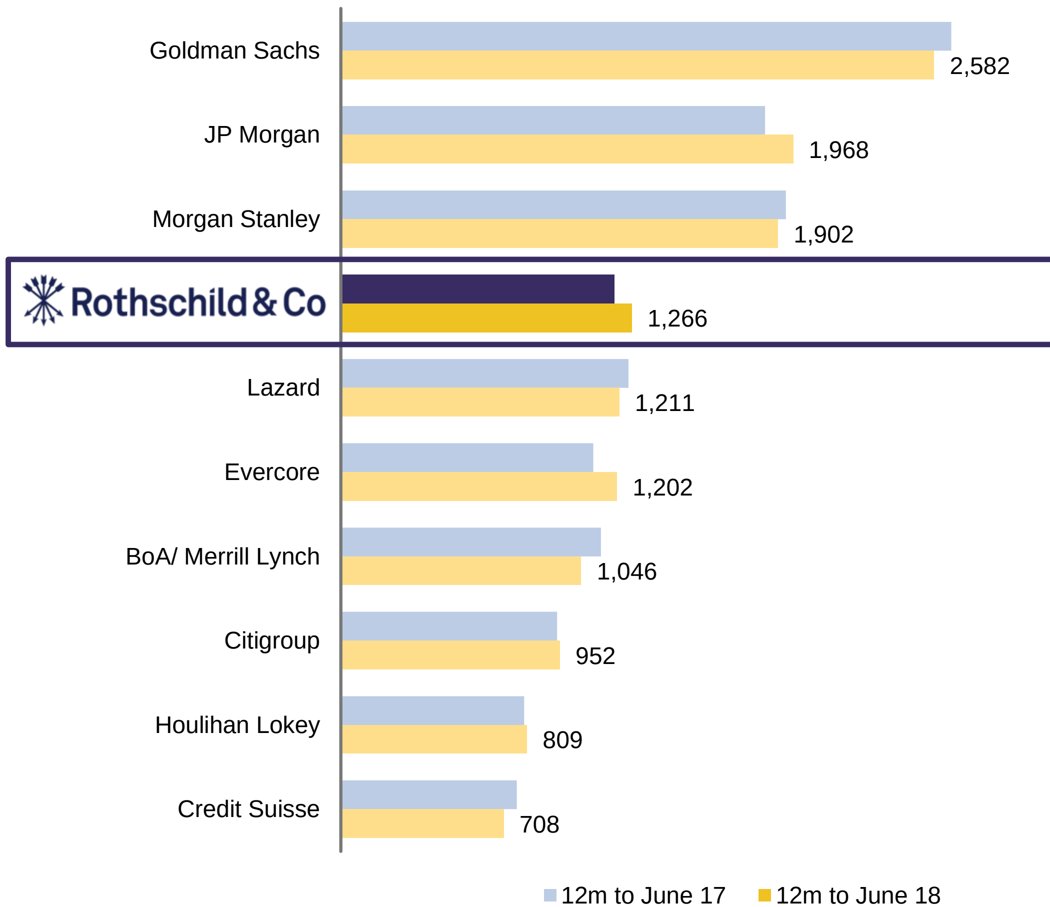


Source: Thomson Reuters, any involvement, as at 3 September 2018

Global Advisory

A world leading position by revenue and number of deals

Ranking by advisory revenue (in €m) – 12m to June 2018



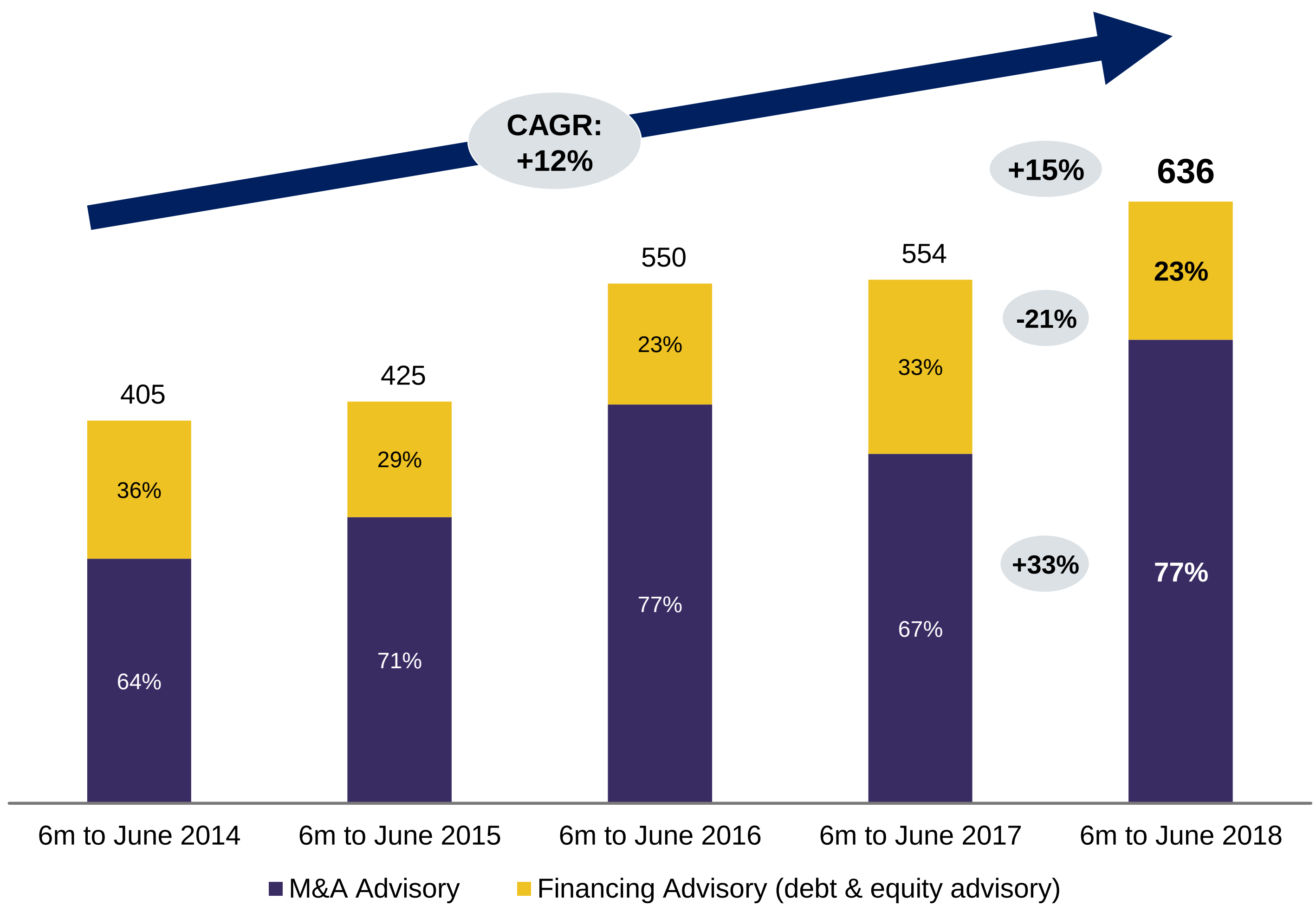
	Ranking by # deals	% of Total revenue
Goldman Sachs	2	10%
JP Morgan	3	2%
Morgan Stanley	4	5%
Rothschild & Co	1	62%
Lazard	5	52%
Evercore	19	76%
BoA/ Merrill Lynch	13	2%
Citigroup	7	2%
Houlihan Lokey	6	100%
Credit Suisse	10	4%

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

Global Advisory

Very strong 6 month revenue driven by M&A advisory revenue performance …

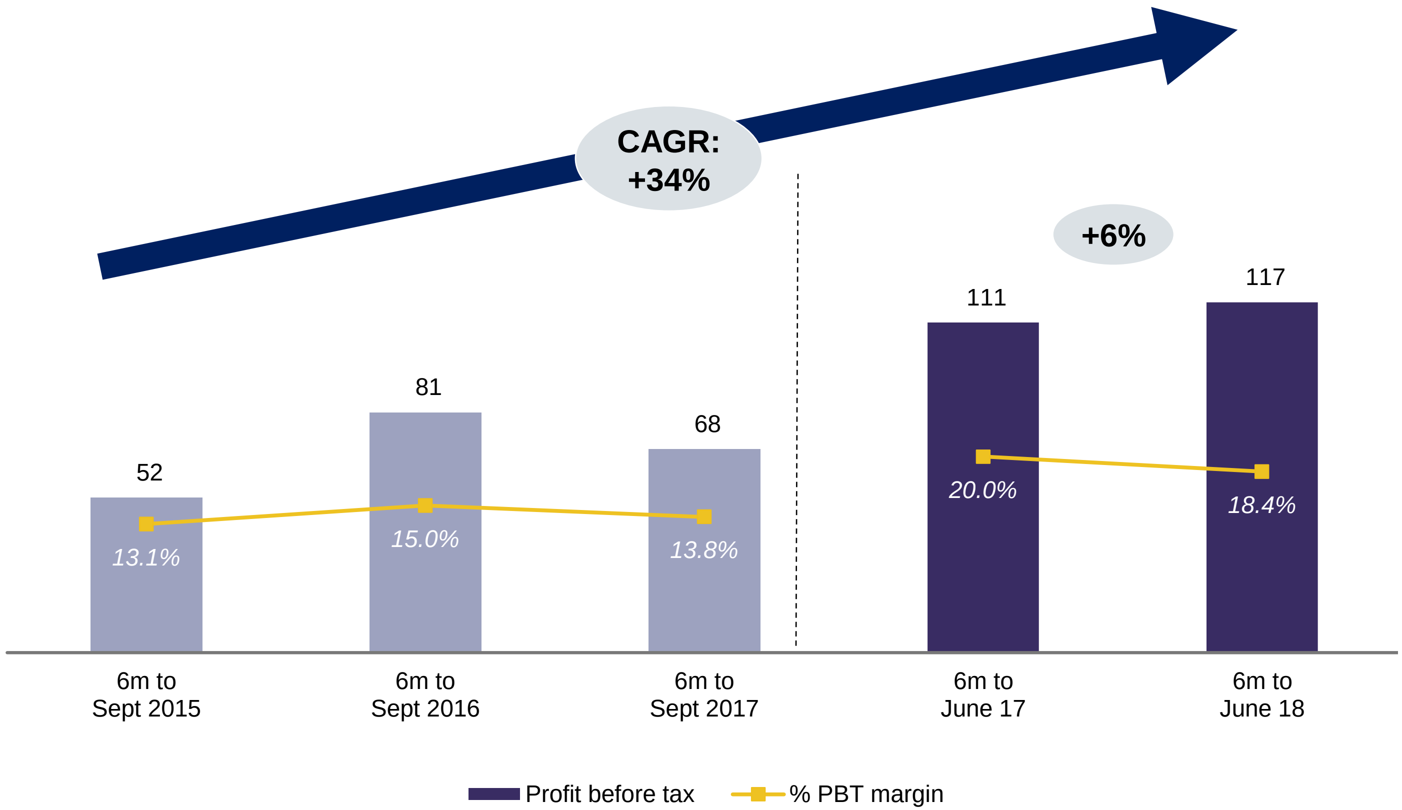
Revenue by product (in €m)



Global Advisory

… that translates into higher profits

Profit Before Tax (in €m) and PBT margin - pre US investment costs [1]



FY 2017
PBT margin of
17.8%

1 US investment costs were €4m in H1 to Sept 2015, €10m in H1 to Sept 2016, €8m in H1 to Sept 2017, €14m in H1 to June 2017 and €10m in H1 to June 2018. Our US investment costs are expected to be around 2% of revenue subject to the right opportunities

Update on our North America development

Overview

c. 160 advisory bankers of which 36 MDs[1]

Highlights

- Building out our senior M&A team
  - Recruitment of 23 new M&A MDs since 2013, of which 5 so far in 2018
- Reinforcing our sector and product offering: Consumer, Industrials, TMT, Tech, Healthcare, FIG, Financing advisory
- Expanding our local presence in line with sector strategy
  - Los Angeles: 2013
  - Chicago; 2016
  - San Francisco / Palo Alto: 2018
- Investment bearing fruit with North America contribution to GA revenue increased by 66% since March 2015
- **Objective to build a sizeable platform in North America resulting in doubling our M&A market share by the end of 2020**

1 In July 2018, three new MDs joiners have been announced

Global Advisory

Perspectives

1

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

2

- Good momentum in Europe
- UK franchise remains highly active despite uncertainty surrounding Brexit
- Continued investment in the US with 23 new MDs since 2013

3

- Operating income margin at the top end of target range
- Pipeline remains strong
- Revenue set to remain high in 2018

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

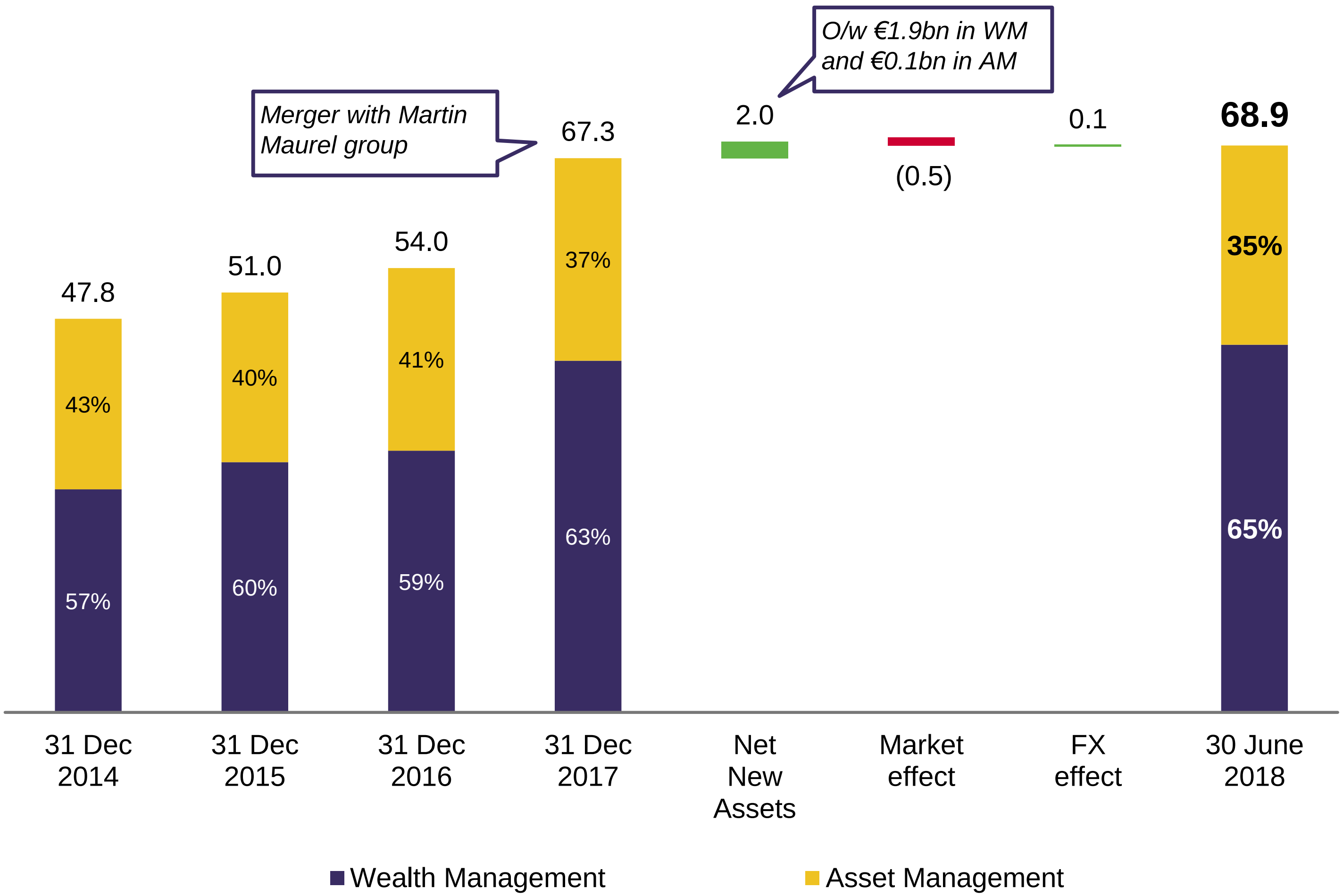
3

Business Review: Wealth & Asset Management

Wealth & Asset Management

Increased AuM reflecting positive NNA partly offset by market depreciation

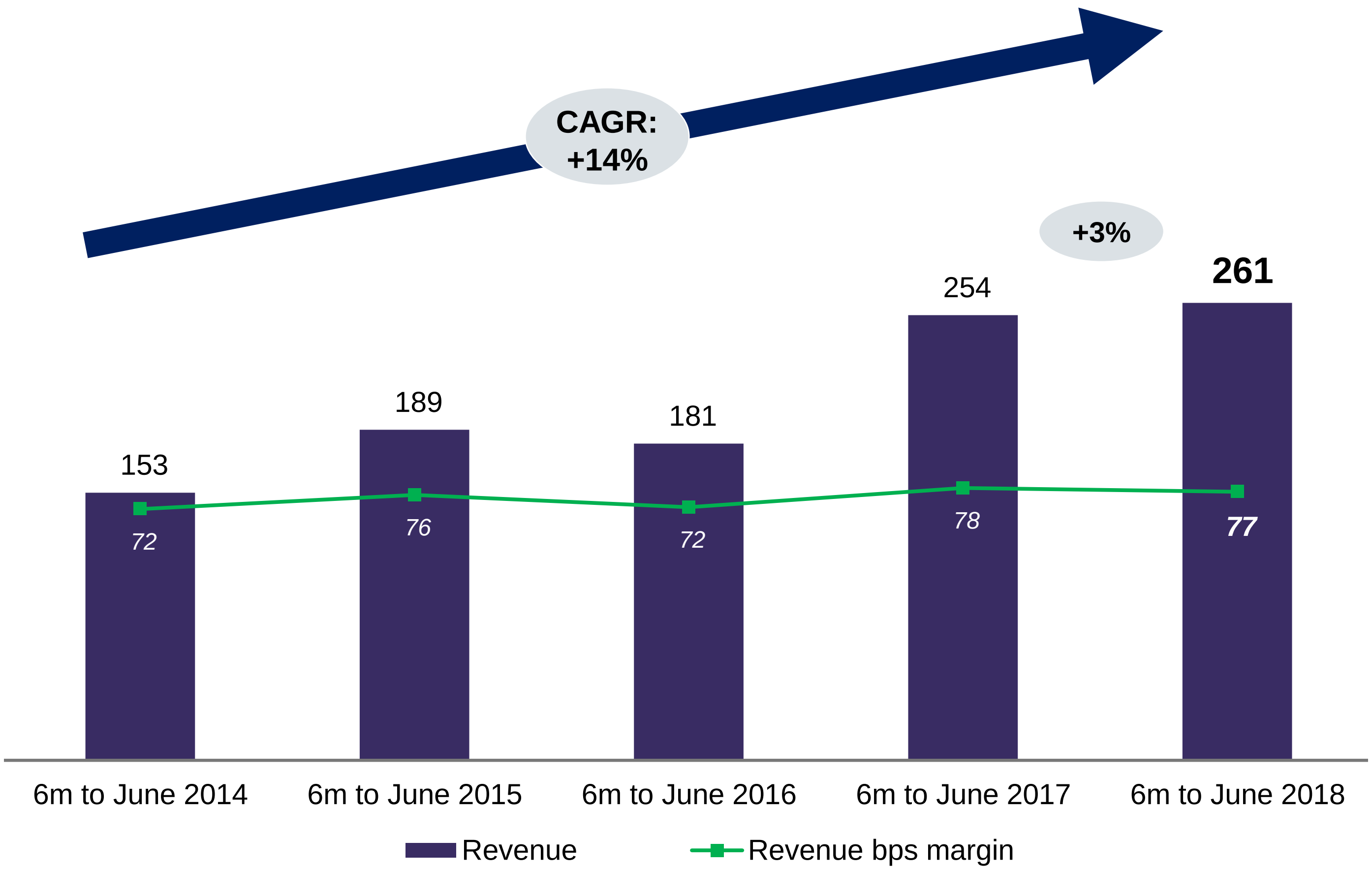
Assets under management (in €bn)



Wealth & Asset Management

Robust revenue generation

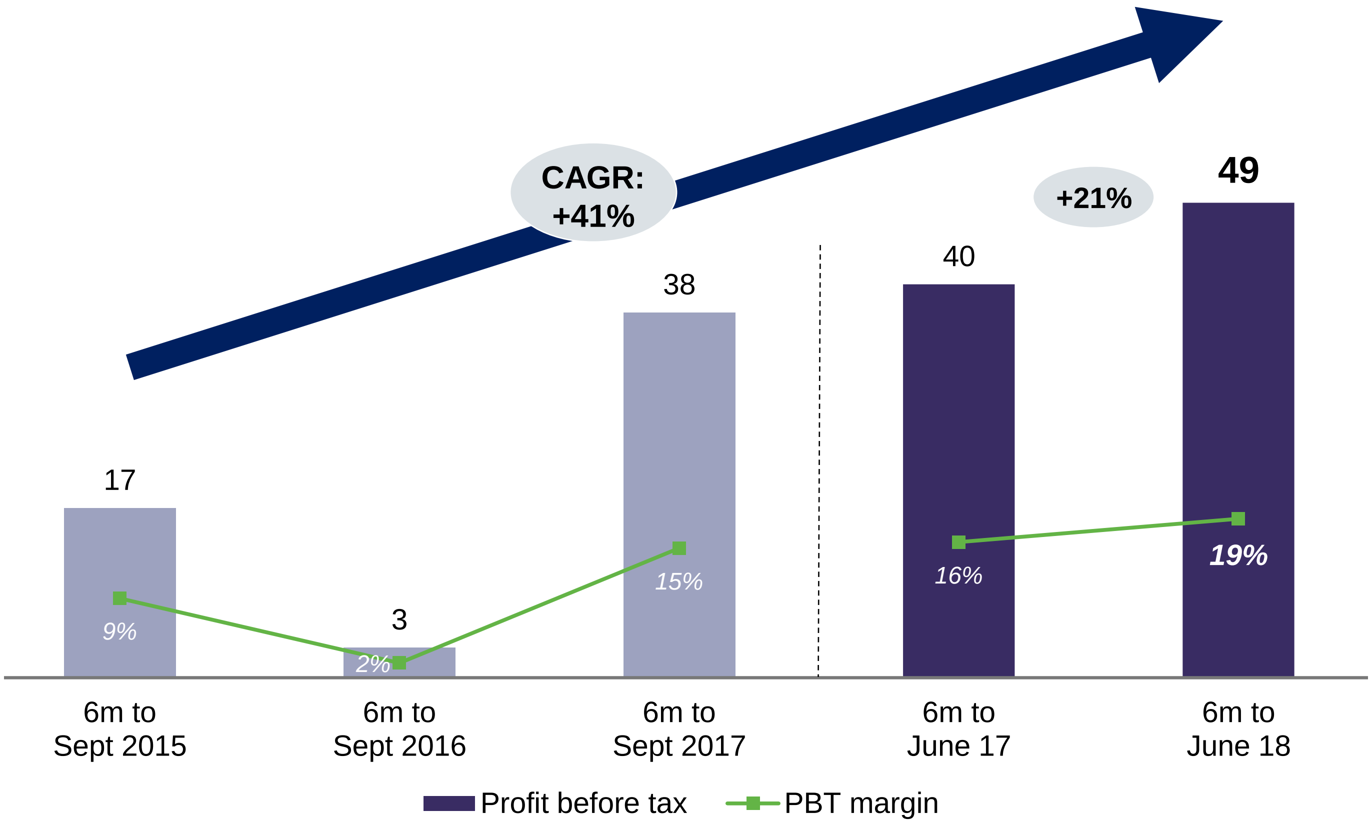
Revenue (in €m)



Wealth & Asset Management

Significant improvement in PBT thanks to cost discipline

Profit before tax (in €m) and PBT margin – excluding Martin Maurel integration costs [1]



1 Martin Maurel integration costs were €5m in H1 to June 2018 (H1 to June 2017: €12m – H1 to Sept 2017: €11m))

Wealth & Asset Management

Perspectives

On-going initiatives

1 **Rothschild Martin Maurel**

- Build revenue through focus on entrepreneurial clients, broader client offering, upscale existing client base and leverage network
- Operational integration still on track for end of 2018
- Refocus AM business in France and neighbouring countries

2 **Wealth Management**

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

3 **Rothschild Asset Management Inc**

- Strong asset growth in recent years and focus on costs is now producing significant increase in profitability

Target : PBT margin around 20% by 2020

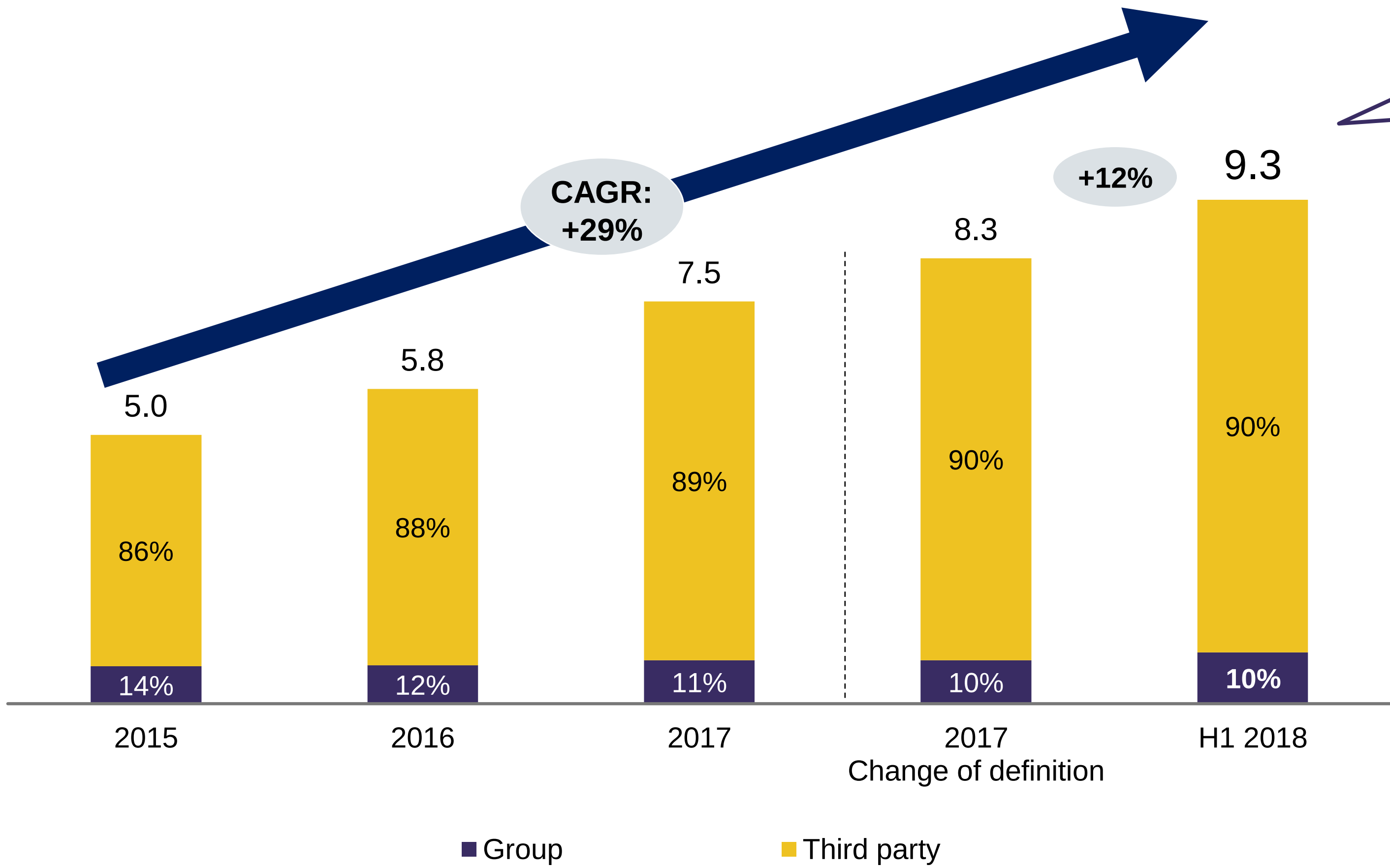
4

Business review: Merchant Banking

Merchant Banking

Continuing progression of AuM in line with new funds launched

Assets under Management (in €bn, as at 31 December)



Increase due to :

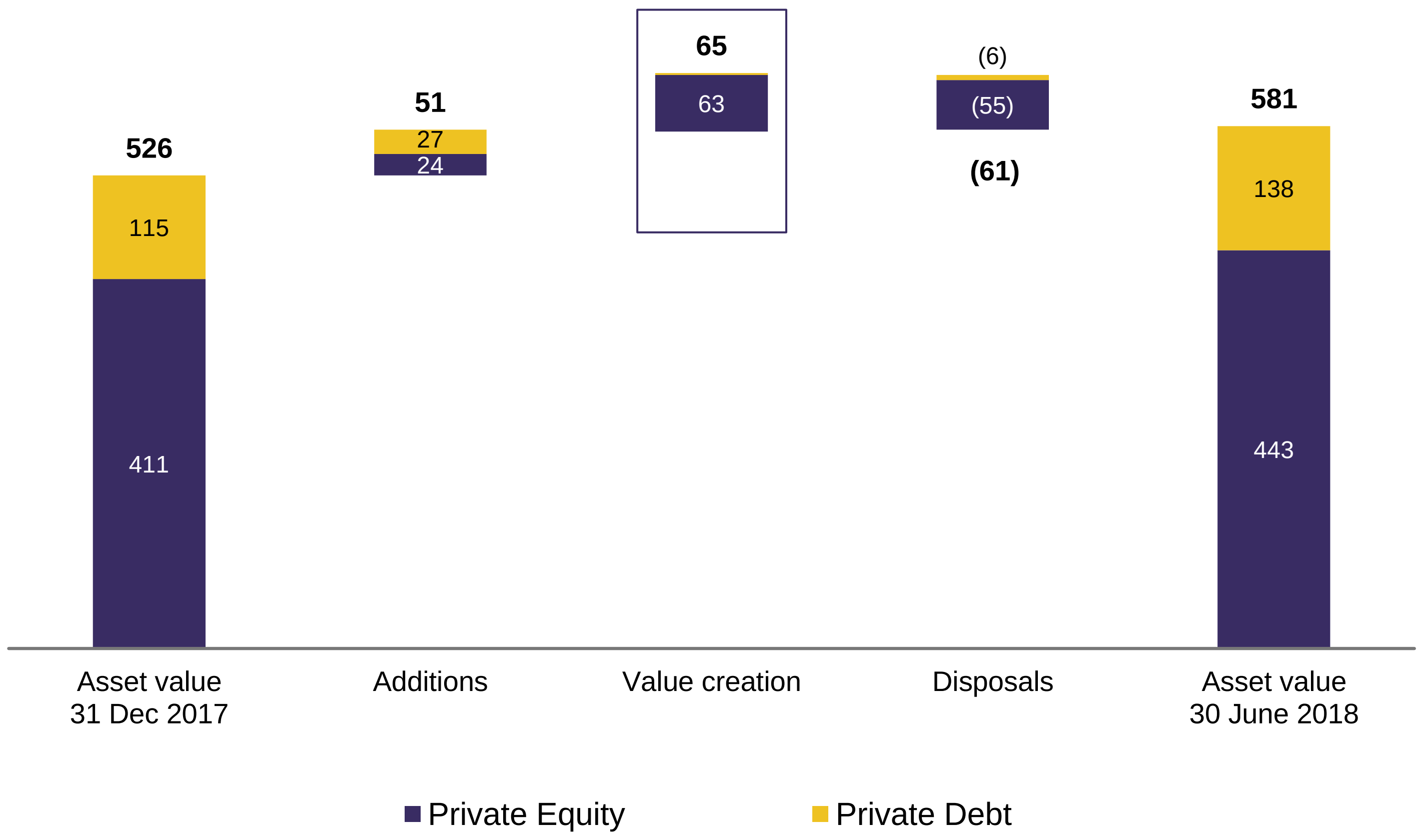
- Launch of a US funds
- Fundraising of new debt vehicles

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
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

Merchant Banking

Strong value creation in portfolio for Rothschild & Co shareholders

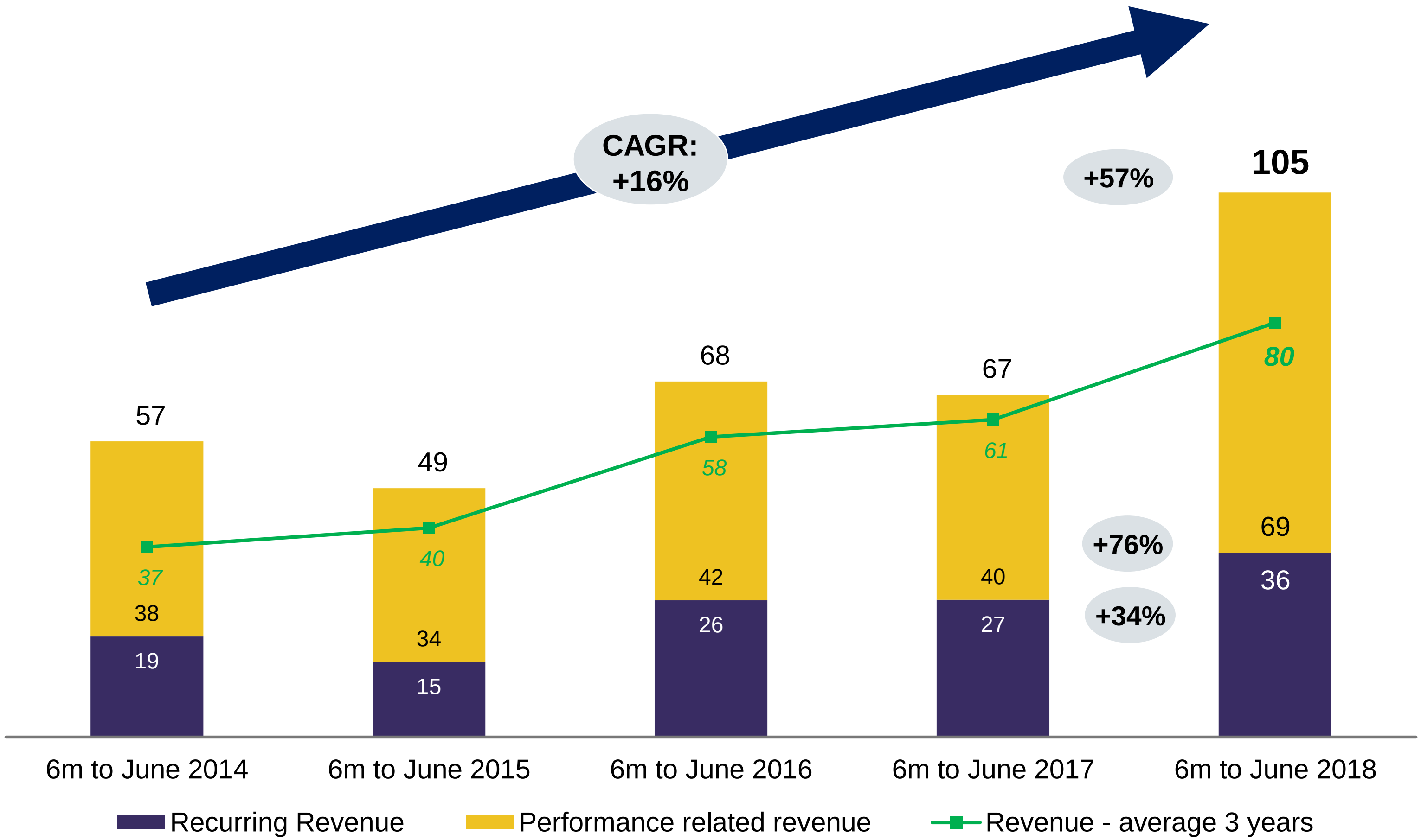
Change in net asset value of the Group's investment (in €m)



Merchant Banking

High level of revenue

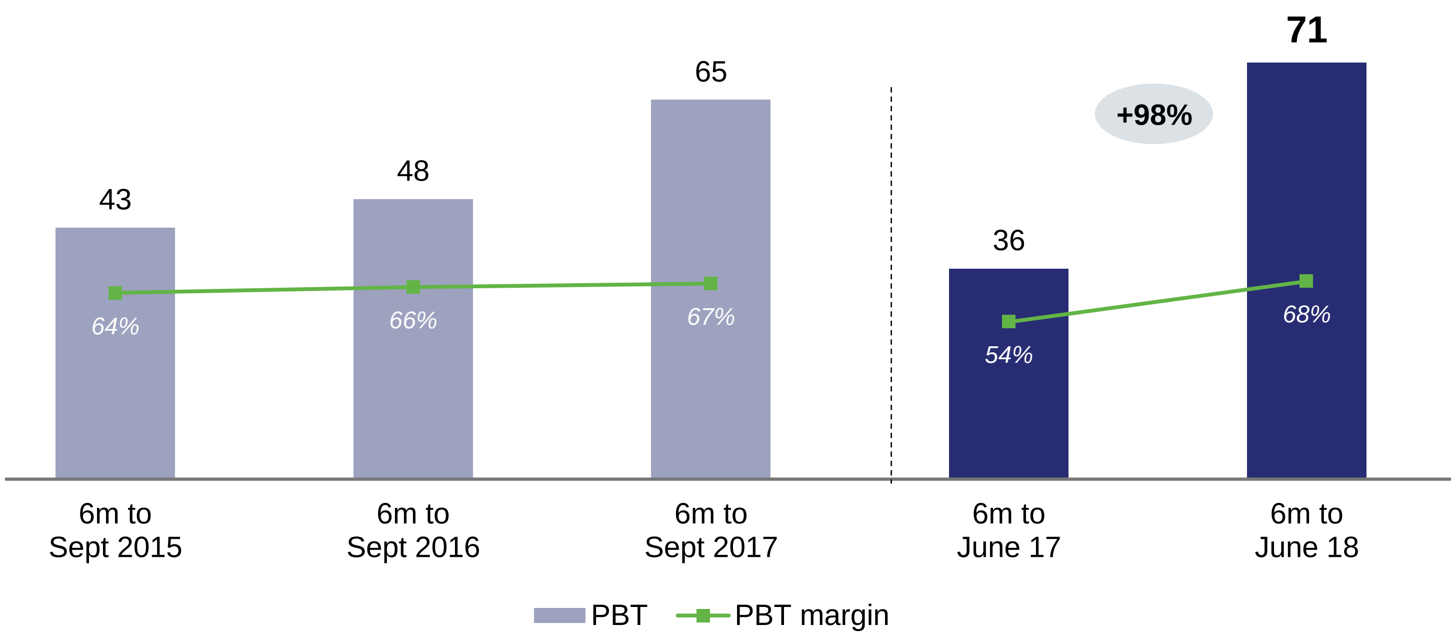
Revenue (in €m)



Merchant Banking

Strong level of profits

Profit Before Tax (in €m) and RORAC [1]



3 year average RORAC [1]	*19%*	*24%*	*25%*	*24%*	***28%***

1 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

Merchant Banking

Perspectives

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
- Leverage the Group's unique knowledge of midcap market (geographical footprint, sector expertise, network)

2

- Significant investment of R&Co and employees alongside third party investors ensuring alignment of interests
- Balanced business model including a mix of investment returns, management fees and carried interest

3

- Solid track record of long term value creation
- Continue to develop synergies within group businesses
- Expansion in the US with the successful launch of a US mid-cap primary equity fund

Target : Average rolling 3 years RORAC > 15%

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Financial review

Summary statutory consolidated P&L

(in €m)	6m to June 2018	6m to June 2017	*Var*	*Var %*	*FX effects*
Revenue	**1,007**	**896**	***111***	***12%***	***(29)***
Staff costs	(583)	(497)	*(86)*	*(17)%*	*21*
Administrative expenses	(150)	(156)	*6*	*4%*	*4*
Depreciation and amortisation	(14)	(16)	*2*	*13%*	*1*
Impairments	1	(10)	*11*	*110%*	*1*
Operating Income	**261**	**217**	***44***	***20%***	***(3)***
Other income / (expense) (net)	1	9	*(8)*	*(89)%*	*0*
Profit before tax	**262**	**226**	***36***	***16%***	***(3)***
Income tax	(36)	(41)	*5*	*12%*	*1*
Consolidated net income	**226**	**185**	***41***	***22%***	***(2)***
Non-controlling interests	(65)	(88)	*23*	*26%*	*1*
Net income - Group share	**161**	**97**	***64***	***66%***	***(1)***
Exceptionals	3	8	*(5)*	*(60)%*	*0*
Net income - Group share excl. exceptionals	**164**	**105**	***59***	***56%***	***(1)***
Earnings per share	*2.14 €*	*1.31 €*	*0.83 €*	*65%*	
EPS excl. exceptionals	***2.18 €***	***1.41 €***	***0.77 €***	***55%***	
Return On Tangible Equity (ROTE)	*19.0%*	*13.6%*			
ROTE excl. exceptionals	*19.4%*	*14.8%*			

1 Diluted EPS is €2.10 for H1 to June 2018 (H1 to June 2017: €1.28)

“Exceptionals” reconciliation

(in €m)	6m to June 2018			6m to June 2017		
	PBT	PATMI	*EPS*	PBT	PATMI	*EPS*
Results as reported	**262**	**161**	***2.14 €***	**226**	**97**	***1.31 €***
Exceptional items						
- Martin Maurel integration costs	(5)	(3)	*(0.04) €*	(12)	(8)	*(0.10) €*
Total exceptional (Costs) / Gains	**(5)**	**(3)**	***(0.04) €***	**(12)**	**(8)**	***(0.10) €***
Results excluding Exceptionals	**267**	**164**	***2.18 €***	**238**	**105**	***1.41 €***

Performance by business

(in €m)	Global Advisory	Wealth & Asset Management	Merchant Banking	Other businesses and corporate centre	IFRS reconciliation [1]	6m to June 2018
Revenue	**636**	**261**	**105**	**15**	**(10)**	**1,007**
Operating expenses	(529)	(217)	(34)	(30)	63	(747)
Impairments	-	-	-	-	1	1
Operating income	**107**	**44**	**71**	**(15)**	**54**	**261**
Exceptional charges / (profits)	-	5	-	-	-	5
Operating income excluding exceptional charges / profit	**107**	**49**	**71**	**(15)**	**54**	**266**
Operating margin %	*17%*	*19%*	*68%*			*26%*

(in €m)	Global Advisory	Wealth & Asset Management	Merchant Banking	Other businesses and corporate centre	IFRS reconciliation [1]	6m to June 2017
Revenue	**554**	**254**	**67**	**17**	**4**	**896**
Operating expenses	(457)	(226)	(31)	(32)	77	(669)
Impairments	-	-	-	-	(10)	(10)
Operating income	**97**	**28**	**36**	**(15)**	**71**	**217**
Exceptional charges / (profits)	-	12	-	-	-	12
Operating income excluding exceptional charges / profit	**97**	**40**	**36**	**(15)**	**71**	**229**
Operating margin %	*18%*	*16%*	*54%*			*26%*

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; a central impairment provision in Net income / (expenses) from other assets and reallocation of impairments and certain operating expenses

Compensation ratio

(in €m)	**6m to June 2018**	**6m to June 2017**	**FY 2017 (as published)**
Revenue	**1,007**	**896**	**1,910**
Total staff costs [1]	(626)	(555)	(1,211)
Compensation ratio	***62.2%***	***62.0%***	***63.4%***
variation due to FX	*0.2%*	-	*0.3%*
variation due to GA US investment costs [2]	*(1.4)%*	*(1.2)%*	*(1.3)%*
Adjusted Compensation ratio including deferred bonus accounting	***61.1%***	***60.8%***	***62.4%***
variation due to deferred bonus accounting	*0.8%*	*(0.1)%*	*(0.3)%*
Adjusted Compensation ratio excluding deferred bonus accounting	***61.9%***	***60.7%***	***62.1%***
Headcount	***3,570***	3,438	3,502

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 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

Edmond de Rothschild agreement

- Agreement reached on the use of Rothschild name between Rothschild & Co and Edmond de Rothschild group
- Unwinding of all existing shareholdings in August 2018, which mainly consisted of:
  - R&Co subsidiary (“RHAG” – R&Co Swiss holdco) which held 8.4% of EDR Suisse
  - EDR which held 9.5% of RHAG
  - EDR which held 5.7% of R&Co (4.4m)
- Share valuation for these transactions were €30 for R&Co and CHF17k for EDR Suisse, based on recent average listed prices
  - Unwinding of the two Swiss subsidiaries require EDR to pay €58m in R&Co shares (=1.9m of R&Co shares or 2.5% of capital)
  - R&Co shares remaining owned by EDR were bought in cash for €75m (2.5m shares or 3.2% of capital)

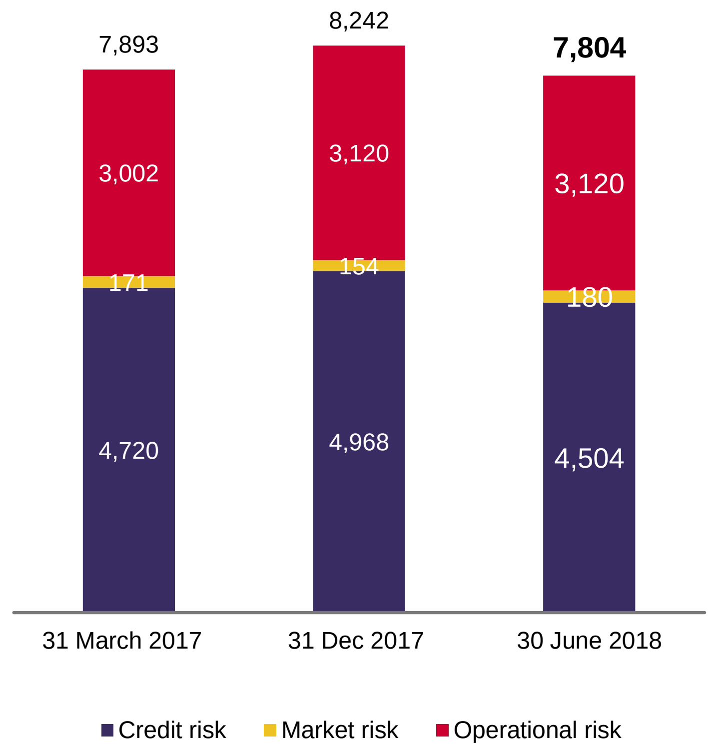
The acquired 4.4m R&Co shares (5.7%) are held as treasury shares

These will mainly be used in future for stock options and non-cash remuneration of certain employees

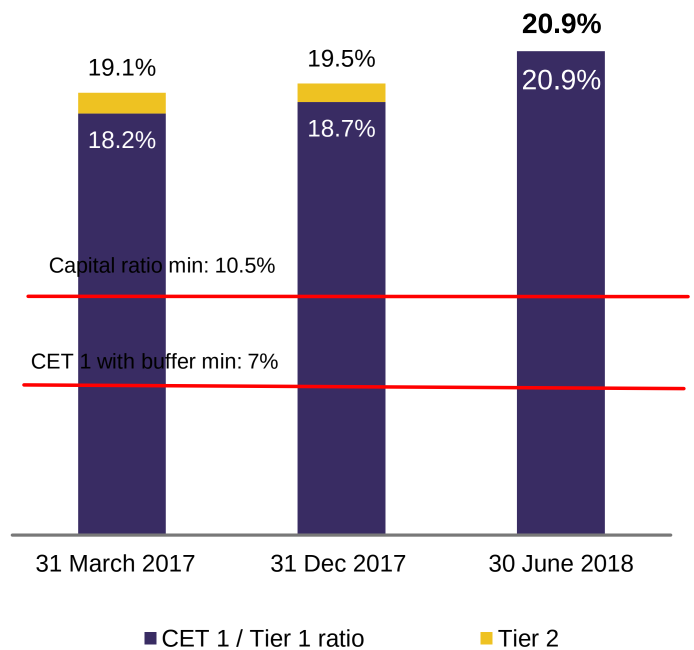
Solvency ratios comfortably above minimum requirements

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

Risk weighted assets *(in €m)*



Group solvency ratio



- From January 2018, Tier 2 capital is no longer recognised (€64m in December 2017 ratio)
- On a pro forma basis, taking into account the EdeR transaction, the CET 1 would be 19.5% as at 30 June 2018

Financial targets

		Target	H1 2018	H1 2017	2017 *(12m to Dec)*
Group targets	**Compensation ratio [1]**	**Low to mid 60's through the cycle**	**61.1%**	60.8%	62.4%
	Return on tangible equity [2]	**10 to 15% through the cycle**	**19.4%**	14.8%	17.2%
Businesses targets	**Global Advisory: Profit before tax margin [3]**	**Mid to high-teens through the cycle**	**18%**	20%	18%
	Wealth & Asset Management: Profit before tax margin	**Around 20% by 2020**	**19%**	16%	16%
	Merchant Banking: 3 years average RORAC [4]	**Above 15% through the cycle**	**28%**	24%	26%

Notes

1 As adjusted including deferred bonus accounting– see slide 27

2 ROTE based on Net income – Group share excl. exceptionals items. Would be 19.0% if exceptionals included (H1 2017: 13.6%). See calculation on slide 37

3 RGA PBT margin pre-US investments. Would be 16.8% if US investments included (H1 2017: 17.5%)

4 See definition on slide 36 and calculation on slide 37

Outlook

Global Advisory	● We expect healthy activity levels during the rest of 2018, similar to 2017, although the Group remains alert to the risk of volatility ● Our focus remains on growing the business, particularly our North American franchise whose contribution has been increasing as a result of ongoing investment and where we continue to foresee strong potential for growth
Wealth & Asset Management	● The division is well positioned to deliver net asset inflows and improving profitability ● Integration of Martin Maurel is on track to be finalised by the end of the year
Merchant Banking	● The division will be focused on the deployment of the recently closed North American primary private equity fund while starting the fundraising activities for our third generation primary equity fund in Europe ● In credit management we plan to expand our portfolio of institutional clients, with dedicated investment mandates focused on senior secured loans and credit strategies
Group	● First half results were very strong and included some exceptionally large advisory fees in Global Advisory and value accretions in Merchant Banking which are unlikely to be repeated in the second half ● If financial markets continue to be benign we would expect our annual results to improve reasonably compared to 2017

A

Major FX rates

Balance sheet (spot)

Rates	30/06/2018	31/12/2017	*Var*
€ / GBP	0.8843	0.8877	*(0)%*
€ / CHF	1.1593	1.1702	*(1)%*
€ / USD	1.1670	1.2008	*(3)%*

P&L (average)

Rates	6m to June 2018	6m to June 2017	*Var*
€ / GBP	0.8798	0.8602	*2%*
€ / CHF	1.1649	1.0776	*8%*
€ / USD	1.2062	1.0936	*10%*

Summary Balance sheet

(in €bn)	30/06/2018	31/12/2017
Cash and amounts due from central banks	4.9	3.9
Loans and advances to banks	1.9	1.7
Loans and advances to customers	3.0	3.0
of which Private client lending	*2.5*	*2.4*
Debt and equity securities	2.1	2.1
Other assets	1.4	1.4
Total assets	**13.3**	**12.1**
Due to customers	9.3	7.8
Other liabilities	1.6	1.9
Shareholders' equity - Group share	2.0	1.9
Non-controlling interests	0.4	0.5
Total capital and liabilities	**13.3**	**12.1**

Non-controlling interests

P&L

(in €m)	6m to June 2018	6m to June 2017
Interest on perpetual subordinated debt	7	7
Preferred shares [1]	54	77
Other Non-controlling interests	4	4
TOTAL	**65**	**88**

Balance sheet

(in €m)	30/06/2018	31/12/2017
Perpetual subordinated debt	291	289
Preferred shares [1]	69	170
Other Non-controlling interests	71	81
TOTAL	**431**	**540**

1 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	Ratio between adjusted staff costs divided by consolidated Net Banking Income of Rothschild & Co (as presented on slide 28). Adjusted staff costs represent: • 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) • to which must be added the amount of profit share paid to the French partners • from which must be deducted redundancy costs, revaluation of share-based employee liabilities and business acquisition costs treated as employee compensation under IFRS **which gives Total staff costs in calculating the basic compensation ratio** • from which the investment costs related to the recruitment of senior bankers in the United States must be deducted, • 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 • **which gives the adjusted staff costs for compensation ratio**.	To measure the proportion of Net Banking Income granted to all employees. Key indicator for competitor listed investment banks. Rothschild & Co calculates this ratio with adjustments to give the fairest and closest calculation to that used by other comparable listed companies.
Return on Tangible Equity (ROTE) excluding exceptional items	Ratio between Net income - Group share excluding exceptional items and average tangible equity Group share over the period. Tangible equity corresponds to total equity Group share less intangible assets and goodwill. Average tangible equity over the period equal to the average between tangible equity as at 31 December 2017 and 31 December 2016	To measure the overall profitability of Rothschild & Co excluding exceptional items on the equity capital in the business
Business Operating margin	Each business Operating margin is calculated by dividing Profit before tax relative to revenue, business by business. It excludes exceptional items	To measure business' profitability
Return on Risk Adjusted Capital (RORAC)	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. 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. 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. 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.	To measure the performance of the Merchant Banking's business

Alternative performance measures (APM)

Calculation

ROTE	6m to June 2018	6m to June 2017
Net income - Group share excluding exceptionals	**164**	**105**
Shareholders' equity - Group share - opening	1,912	1,540
- Intangible fixed assets	(163)	(162)
- Goodwill	(123)	(117)
Tangible shareholders' equity - Group share - opening	**1,626**	**1,261**
Shareholders' equity - Group share - closing	2,048	1,864
- Intangible fixed assets	(165)	(169)
- Goodwill	(123)	(123)
Tangible shareholders' equity - Group share - closing	**1,760**	**1,572**
Average Tangible equity	**1,693**	**1,417**
ROTE	**19.4%**	**14.8%**

RORAC	6m to June 2018	6m to June 2017
PBT 12m to June 2018	155	
PBT 12m to June 2017	78	78
PBT 12m to June 2016	82	82
PBT 12m to June 2015		97
Average PBT rolling 3 years	**105**	**86**
NAV 30/06/2018	581	
NAV 30/06/2017	516	516
NAV 30/06/2016	462	462
NAV 30/06/2015		473
Average NAV rolling 3 years	**520**	**484**
Debt = 30% of average NAV	156	145
Notional interest of 2.5% on debt	(4)	(4)
Average PBT rolling 3 years adjusted by the cost of debt interest	**101**	**82**
Risk adjusted capital = 70% of Average NAV	**364**	**339**
RORAC	**28%**	**24%**

Rothschild & Co at a glance

As at 31 August 2018