Press release – Financial information

1st quarter 2020

Paris, 12 May 2020

Very strong start to 2020 impacted by COVID-19 in March

Business highlights

- **Global Advisory**: revenue down 8% to €269.1 million (Q1 2019: €292.5 million), with the effects of the economic shocks caused by the COVID-19 pandemic being felt only later in the quarter
- **Wealth & Asset Management:** record first quarter with revenue up 10% to €130.8 million (Q1 2019: €118.5 million), reflecting the strong growth of Assets under Management (AuM) during 2019 and high level of transaction fees in Q1 2020
- **Merchant Banking**: revenue down 14% to €20.7 million (Q1 2019: €24.1 million), reflecting unrealised negative asset valuation effects in March, and down 9% when compared to the average first quarter revenue for the previous three years
- First quarter revenue impacted positively by currency translation effects of €5 million

	First quarter		
In € million	**2020**	**2019**	**% Var**
Global Advisory	269.1	292.5	*(8)%*
Wealth & Asset Management	130.8	118.5	*10%*
Merchant Banking	20.7	24.1	*(14)%*
Other businesses	3.1	9.8	*(68)%*
TOTAL before IFRS reconciliation	**423.7**	**444.9**	***(5)%***
IFRS Reconciliation	(7.3)	(1.0)	*n/a*
Total Group revenue	**416.4**	**443.9**	***(6)%***

Our response to COVID-19

- Our priority is the safety and welfare of our employees. Nearly all of our employees are now working remotely. A small number of critical staff are still working in our offices and we have ceased all travel.
- Our service to our clients has not been affected. We remain in constant dialogue with them through various secured technologies allowing us to maintain our efficiency and responsiveness.

- The Managing Partner monitors the situation on a daily basis and an Operations Committee meets frequently to respond to operational issues as they arise, while trying to anticipate the next potential phases and their possible impact.
- The Group is financially resilient; we have a strong balance sheet with a capital ratio of 20% and high levels of liquidity. Our prudent approach to the business is also reflected in our conservative loan book.
- Thanks to our staff, clients and operating synergies from our three-business model, the Group is confident it will emerge from this crisis stronger and fully able to continue to support our clients and future business opportunities.

1. Business activities

1.1 Global Advisory

Our Global Advisory business focuses on providing advice in the areas of Strategic Advisory and M&A, Financing Advisory encompassing Debt Advisory, Restructuring and Equity Advisory, as well as Investor Advisory where we advise clients around engaging with shareholders on a variety of topics including activism, sustainability and governance.

Global Advisory revenue for the three months to March 2020 was €269.1 million, 8% below the same period in 2019 (€292.5 million), with the effects of the economic shocks caused by the COVID-19 pandemic being felt only later in the quarter. This solid quarterly revenue performance compares to a 31% reduction in global completed M&A deal values over the same period[1].

We expect these challenging market conditions to continue for some time, with most M&A situations currently on hold or delayed. Notwithstanding, our breadth of independent advice and global footprint will position us well to effectively serve existing and new clients through the current crisis. At the moment, our teams of experienced Financing Advisory bankers are working extensively with clients to support them on liquidity and financing matters. Alongside this, all our teams worldwide are focused on maintaining active dialogues with existing and potential clients in order to offer our assistance and advice in supporting them through this difficult period.

We continue to maintain a strong competitive position. For the last twelve months to March 2020, we ranked 8th globally by financial advisory revenue[2]. Our M&A business ranked 2nd globally by number of completed transactions for the twelve months to March 2020[3]. In Financing Advisory, we ranked 3rd in Europe by number of completed restructuring transactions for the twelve months to March 2020[3], and we advised on more European equity assignments than any other independent financial adviser[1] over the same period.

During the first quarter of 2020, we promoted 22 new Managing Directors across the business, demonstrating our focus on growing talent from within. In addition, we recruited one new Managing Director into our Swiss business and continued our ongoing strategic investment in North America with a new Vice Chairman in North America, advising clients across Restructuring, Debt Advisory and M&A.

Global Advisory advised the following clients on significant assignments that completed in the quarter:

- **Cobham** on its sale to Advent International (£4.2 billion, United Kingdom)
- **Cision** on its sale to Platinum Equity (US$2.74 billion, United States)
- **HCOB** on its Liability Management Exercise (€2.3 billion, Germany)
- **Accor** on its disposal of its 85.8% stake in Orbis to AccorInvest (€1.1 billion, France and Poland)
- **Boels** on its public offer for Cramo plc and associated underwritten senior loan financing (€1 billion, Netherlands and Finland)

In addition, despite the extremely challenging market environment, we continue to work on some of the largest and most complex announced transactions globally, including acting as financial adviser to:

[1] Dealogic
[2] Company filings
[3] Refinitiv

- **Abu Dhabi Power Corporation** on its combination with TAQA (US$55 billion, United Arab Emirates)
- **PG&E** on its restructuring (advisor to creditors - US$52 billion, United States)
- **Ingenico Group** on its combination with Worldline (€21 billion, France)
- **Consortium led by Advent, Cinven and RAG-Stiftung** on its acquisition of ThyssenKrupp's Elevator Technology business (€17.2 billion, Germany, United Arab Emirates and Singapore)
- **Asahi Group Holdings** on its acquisition of Carlton & United Breweries from Anheuser-Busch InBev (US$11.3 billion, Japan, Australia and Belgium)

1.2 Wealth & Asset Management

Wealth & Asset Management is made up of our Wealth Management businesses in France, Switzerland, UK, Belgium, Germany, Monaco and Italy and our Asset Management activity in Europe. In addition, we operate a small Asset Management business in North America.

Wealth & Asset Management delivered record first quarter revenue of €130.8 million, up 10% (Q1 2019: €118.5m). The revenue increase has been driven mainly by strong growth in AuM in 2019, the full effect of the market movements late in the quarter not yet having been felt, as well as high transaction fees, despite the continuing impact of lower interest rates on revenue.

Net New Assets (NNA) were strong at €0.6 billion, of which Wealth Management contributed positive net inflows of €1.3 billion offset by Asset Management net outflows of €0.7 billion.

The positive NNA of €0.6 billion has been more than offset by negative market performance and exchange rate movements of €9.9 billion, following the sharp decline in stock markets in the last part of the first quarter of 2020 due to the COVID-19 crisis. AuM decreased by 12% (or €9.3 billion) to €66.7 billion as at 31 March 2020 (31 December 2019: €76.0 billion).

The table below presents the progress in Assets under Management.

	Quarter ended		
In € billion	**31/03/2020**	**31/12/2019**	**31/03/2019**
AuM opening	**76.0**	**73.7**	**64.3**
Net new assets	0.6	(0.4)	0.9
of which Wealth Management	*1.3*	*(0.1)*	*0.9*
of which Asset Management	*(0.7)*	*(0.3)*	*0.0*
Market and exchange rate	(9.9)	2.7	3.9
AuM closing	**66.7**	**76.0**	**69.1**
% var / AuM opening	*-12%*		

We are very pleased that in each business in Europe we saw positive net inflows in Wealth Management. Despite the impact of COVID-19 activity, levels in the business have been very high as we have made a particular effort to communicate with clients in these difficult conditions. This has been rewarded by customer satisfaction and increased levels of business.

Asset Management recorded a net outflow of €0.7 billion largely due to North America (€0.6 billion), where our value investment strategy has proved difficult, even in the current downturn.

As a result of our conservative lending strategy, the loan book has proved resilient in the recent challenging market conditions. There have been relatively few margin calls, and these have been rectified in accordance with normal procedures.

1.3 Merchant Banking

Merchant Banking is the investment arm of Rothschild & Co which manages capital for the firm and third parties in private equity and private debt.

Revenue for the three months to March 2020 was €20.7 million (Q1 2019: €24.1 million), down 14%. When compared to the average of the last three years, first quarter revenue is down 9%.

The table below presents the progress in revenue.

	First quarter			
In € million	**2020**	**2019**	**Var**	**% Var**
Recurring revenue	27.2	16.9	10.3	*61%*
Investment performance related revenue	(6.5)	7.2	(13.7)	*(190)%*
of which carried interest	*(2.2)*	*2.9*	*(5.1)*	*(176)%*
of which realised and unrealised investments gains and dividends	*(4.3)*	*4.3*	*(8.6)*	*(200)%*
Total revenue	**20.7**	**24.1**	**(3.4)**	***(14)%***
% recurring / total revenue	*131%*	*70%*		

The revenue contraction of €3.4 million is explained by two opposing effects:

- A strong increase in recurring revenue of €10.3 million as a result of recent fund closings and positive AuM growth over the last twelve months.
- A decrease in investment performance related revenue of €13.7 million. This was mainly the result of:
  - the negative performance in credit markets which affected the valuation of the Group's investments in Credit Management products investing in European and US leveraged loans; and
  - a dislocation in equity markets which negatively impacted the earnings multiples used to value our equity funds. This resulted in a reduction of the unrealised value accretion across the Merchant Banking funds as at 31 March 2020, following a specific valuation exercise undertaken in light of the COVID-19 pandemic.

    It is important to stress, however, that this decline in investment performance-related revenue mainly affects the unrealised portion of the Merchant Banking funds' value accretion. We expect valuations to recover – for both our equity and debt positions – as macroeconomic conditions start to stabilise.

    In addition, despite the challenging market scenario, our private equity and direct lending portfolios have proven very resilient so far, reflecting the quality of our underlying assets and the robustness of the core sectors in which we invest.

Despite unfavourable market conditions, Merchant Banking's business activities have remained robust during the first part of 2020. In **private equity**, Five Arrows Principal Investments III (the third-generation fund within the division's flagship European private equity strategy) completed its third investment. Also, Five Arrows Private Equity Programme II (the second-generation multi-strategy fund) held its third closing, securing total commitments of €399 million to date.

In private debt, Five Arrows Debt Partners III (the third-generation direct lending fund investing in the senior secured and junior debt of mid-market European corporates), held its first closing in March 2020 as planned, with total capital raised for this strategy to date of €450 million. Additionally, in January 2020, Five Arrows Global Loan Investments (the new Credit Management vehicle investing in subordinated tranches of CLOs) held its second closing, securing commitments of €230 million to date.

The alignment of interests between the Group and our third-party investors remains a key differentiator for Merchant Banking, especially in the midst of these challenging market conditions. During the first three months of 2020, Rothschild & Co's investment in the division's products totalled €13.3 million, of which €12.0 million was attributable to the Group's own investment in funds managed by Merchant Banking and €1.3 million in proprietary investments.

Disposals and distributions generated proceeds of €12.9 million, of which €11.0 million was from Merchant Banking's managed funds (the majority, €9.1 million, being from FASO III and IV following significant exits from their underlying investment portfolios).

Assets under Management at 31 March 2020 were €14.0 billion, flat versus 31 December 2019 (€14.0 billion), of which Rothschild & Co's share is €1.2 billion.

2. COVID–19

Our priority during the COVID-19 crisis has been the safety and welfare of our staff. From the end of January, we gradually ceased all business travel across the world.

Our Business Continuity plans allowed us to work initially on a rotating basis and then to respond rapidly to the requirement to work entirely from home. We now have nearly all of our staff working from home at full efficiency. A small number of critical staff are still working in our offices in London, Paris and Zurich. We are now planning for when it will be possible for some of our employees to start returning to the office, subject to national government requirements, but as always this will be done in a conservative and gradual manner and the safety of our employees will be paramount in how we enact these plans.

Our service to our clients has not been affected. We remain in contact using various technologies allowing us to maintain our efficiency and responsiveness.

The Managing Partner monitors the situation on a daily basis and an Operations Committee (OpCo) meets frequently to respond to operational issues as they arise, while trying to anticipate the next potential phases and their possible impact.

The Group is financially resilient; we have a strong balance sheet with a capital ratio of 20% and high levels of liquidity. Our prudent approach to the business is also reflected in our conservative loan book.

Thanks to our staff, clients and operating synergies from our three-business model, the Group is confident it will emerge from this crisis stronger and fully able to continue to support our clients and future business opportunities.

3. Outlook

In Global Advisory, whilst it is too early to predict the outcome, we expect our M&A revenue for the rest of the year to decline substantially, partially offset by increases in Financing Advisory revenue. Despite the current unprecedented challenges, our highly experienced and independent advisory teams continue to actively serve our clients across the world. Whilst most M&A situations have been put on hold, some activity will continue, and we are advising existing and new clients extensively with regards to liquidity and financing matters.

In Wealth & Asset Management, although our first quarter was exceptionally strong, we expect a decline in revenues during the rest of the year. This will be driven by the full impact of the weakness of the equity market, together with the effect of low and falling interest rates in most major currencies, especially in relation to the recent cut in US Dollar and Sterling interest rates. However, the underlying dynamics for the business are very positive and we expect a combination of conservative positioning, decent investment performance and excellent client service to leave us well placed to benefit from the opportunities we expect to emerge later in the year.

In **Merchant Banking**, we expect to continue to maintain, and indeed grow, our recurring revenue base, which will be our main profitability driver in 2020. The adverse effect of the COVID-19 outbreak will largely be confined to our investment performance-related revenues, which are primarily linked to our investment valuations rather than the performance of our underlying portfolio companies. Our underlying investee businesses are generally performing well, relative both to the market and their past performance, which we attribute to our fundamental investing principles that are centred around capital preservation and an equal focus on risk and return. We currently anticipate that investment performance-related revenues will be down significantly on 2019 and subject to further material changes in financial markets.

Although there is still considerable uncertainty around how the current situation will develop and, hence, the degree to which this will impact our 2020 financial results, it is clear that the effect for the Group, will be materially detrimental compared to 2019. However, we remain focused on our strategy to increase revenue while maintaining a close control over costs, and we have the advantage of being able to manage a significant element of our cost base which is variable compensation. Experience has shown that our business model is resilient, highly adaptable and well suited to clients' needs at times like these. Therefore, the Group is confident it will emerge from this crisis stronger and fully able to continue to support our clients and future business opportunities.

Financial calendar:

- 14 May 2020: Annual AGM
- 15 September 2020: Half-year results 2020
- 10 November 2020: Publication of Third quarter information 2020

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About Rothschild & Co

With a team of c.3,500 talented financial services specialists on the ground in over 40 countries across the world, our integrated global network of trusted professionals provide in-depth market intelligence and effective long-term solutions for our clients in Global Advisory, Wealth & Asset Management, and Merchant Banking. Rothschild & Co is family-controlled and independent and has been at the centre of the world's financial markets for over 200 years. Rothschild & Co is a French partnership limited by shares (*société en commandite par actions*) listed on Euronext in Paris, Compartment A with a share capital of €155,235,024. Paris trade and companies registry 302 519 228. Registered office: 23 bis avenue de Messine, 75008 Paris, France.