Y 2019 Earnings Call

Company Participants

- John-Paul Crutchley, Investor Relations
- Mark Satchel, Chief Financial Officer
- Paul Feeney, Chief Executive Officer

Other Participants

- Andrew Sinclair, Analyst
- Ben Bathurst, Analyst
- Ben Williams, Analyst
- Ed Gunby, Analyst
- Gurjit Kambo, Analyst

Presentation

Paul Feeney {BIO 17570862 <GO>}

Good morning, everybody. We'll follow the usual format this morning. I'll run through a summary of 2019 and I'll spend a bit of time on how we've been developing our business to better position us for the growth opportunities that we see ahead. Mark will then run through the financials and our progress on optimizing the business, before we take questions.

But before I start my review of 2019, let me hit the topic of the moment. The world feels like a very different place today than it was just a few weeks ago. Given the substantial market reset on ongoing volatility, providing any meaningful guidance is a challenge right now. So right now, today, our day-to-day focus is on staff safety and client support. Quilter is a strong ship and we remain focused on the course we have set in these turbulent times. And so the message I'm giving to you, and all of our people is, keep calm and carry on.

So looking back, 2019 was a pivotal year for Quilter. In summary, we delivered on everything we said we would. Operationally, we performed well, delivering a solid financial performance and we've made great strategic progress. With our new platform, the opportunities ahead are huge and we have a clear plan to deliver on that potential.

So, starting with our financial results, adjusted profit, excluding Quilter Life Assurance, was up 3% to GBP182 million and that was after the short-term P&L investment spend arising from our acquisitions. It was a difficult year for flow, but we were pleased to end it positively with a good fourth quarter. But 2019 wasn't just about business performance.

We've also taken huge strides forward to transform and scale the business. We've established our new platform with the first migration completed; great news. We've added breadth to our advice and investment management capabilities. We've built out our range of solutions. We've made real progress with the optimization of the business. And the sale of Quilter Life Assurance has simplified our business and removed a drag on growth.

Turning to shareholder value, the Board is recommending a final dividend of 3.5 pence per share, taking us to a full-year dividend of 5.2 pence per share. In addition, we will return the GBP375 million net surplus proceeds from the sale of Quilter Life Assurance to shareholders. We'll start a share buyback shortly. And we've also announced the terms of our Odd-Lot Offer this morning, a cost effective way for our mostly South African small investors, who own fewer than 100 shares to dispose of them at a modest premium to the market price.

Now, it's been a bit of a journey to get here, but today I'm really excited to tell you about the opportunity that our new platform provides. Quite simply, I view our new platform as the beating heart of our business. It will better connect our capabilities, it will provide a catalyst for stronger flows, and it will drive growth. The chart shows you why the platform is at the heart of the business. You can see where flows come from, you can see where they go to, and you can also see the composition of the stock of assets. On the left, you can see our two powerful distribution channels, our own restricted financial planners who generated a quarter of platform gross flows. And the open channel of IFAs who generated GBP4.5 billion, the remaining three quarters.

On the right, you can see that we have an open architecture approach to investment solutions. GBP1.8 billion went into our solutions managed by Quilter Investors and the rest went into third-party products and funds where we use our scale to offer pricing benefits to our clients. Crucially, we make both our and third party investment solutions available to Quilter and third-party advisers, and they can switch and mix between the two.

In the middle, you can see the scale of the platform. GBP57 billion under administration at the end of 2019. Of that, 13% was introduced by our advisers. That's up from 11% in 2018. And solutions managed by Quilter Investors represent 20% of the assets on the platform, up from 19% in 2018. This is from a standing start five years ago. And so those proportions will continue to grow.

Our existing platform, while old, is well regarded and is still winning awards. It's impressive that it still manages to attract GBP500 million to GBP600 million of new money every month, the majority of which comes from independent advisers. Why? Because we provide great support and tools for advisers to help them service their clients more easily. And that is across 4,000 adviser firms and 2,000 of our own advisers and we don't compromise profitability to do that either.

We're really pleased with the financial performance of Quilter Wealth Solutions in 2019. But here is the point. It's about to get much better. There are another 4,000 adviser firms out there who have assets on our platform, but who are not active, mainly due to our limited product and functionality at the moment. So with the new platform, we're taking what already works well, that's the tools and the level of service we're renowned for and adding market leading functionality, a wider range of products and investment options and ease of use.

The Slide shows you where we are adding something new and where we're taking existing capability and making it better. We think this is going to be a very compelling proposition for advisers and clients. We are positioning our UK platform to drive market share and we've simplified our pricing by reducing the number of price bands and introducing sector-leading levels of family linking. We've done that because the longer-term volume opportunity is compelling.

We see three near-term revenue opportunities linked to the new platform. First, to attract a greater share of Platform business from our own advisers. Secondly, to target a wider base of advisers in the open market IFA channel. And thirdly, to continue broadening the suite of solutions Quilter Investors provides. In the longer term, the opportunity to add discretionary fund management capability and to bring the portfolio bond managed by our international business onto the UK platform, will also open up new growth opportunities.

Let's now look at how the platform will steepen our growth trajectory. I'll start with Quilter Financial Planning. But before I go into how we've been growing this business, I do want to address the provision we've taken in Lighthouse head on. At Lighthouse, all pension transfer advice is now provided to our -- to Quilter's robust standards. But prior to our acquisition in June last year, Lighthouse provided advice to around 300 British Steel pension scheme members to undertake a DB to DC transfer. Of those 300 cases, approximately 80 were undertaken prior to June 2017.

Now, why is that date important? Because after June 2017, the transfer of values of the pension scheme was significantly enhanced. We have recently been notified of around 30 complaints relating to this advice, all of which relates to the pre-June 2017 period. We're in the process of reviewing those complaints and we've written directly to the customers involved. While Lighthouse has professional indemnity insurance cover in place, we've taken a provision of 12 million on a gross basis to cover cost of redress and for an external party to review all 300 cases on which Lighthouse provided DB transfer advice to British Steel pension scheme members. So, GBP9 million is for the redress, because we are going to uphold those 30 cases, okay. 30, 31 cases, whatever it is. And for the other 3 million, it's to be viewed for all of the 300 cases. So, again, to be clear, very different transfer values pre-June 2017 and it's not surprising that that's where complaints have arisen. Post June 2017, transfer values significantly enhanced, but we're still going to review all 300 cases, because it's prudent for us to do so. Now I'm obviously disappointed by the situation. And we are, of course, actively engaged with our regulator on these matters and we'll do a full review as we are doing.

Now having addressed that, let me take a step back and remind you of the importance of our advice business. It's a core channel that brings flow to our platform. Those flows can be increased in three ways. One, by increasing adviser numbers; two, by increasing their productivity; and three, by reducing leakage.

Let's start with adviser numbers. We added 178 restricted financial planners in 2019. 137 came from acquisitions and 41 were organic hires, growth rate of 3%. In the second half, we were focused on integrating the acquisitions that have strengthened our advice business. We acquired Charles Derby Group, Lighthouse Group, and Prescient, which together with the smaller firms we acquired have assets under advice of GBP6.4 billion. The integration process at Charles Derby is now virtually complete. The business was rebranded to Quilter Financial Advisers early this year, a one step that gave us a national advice business with countrywide scale.

The acquisition of Prescient scaled up the London operations of our high-end private client advice business. It links really well with Quilter Cheviot's proposition. Lighthouse is complementary to both our national and network models. We expect the integration to be completed fully this year. In 2020, we are setup to deliver more organic growth, as we gradually convert the IFAs within Lighthouse to our restricted model and migrate the restricted planners in Lighthouse and Prescient to our model. That, combined with a greater output from our Adviser School means we expect higher growth at RFP numbers, which will drive flows in the years ahead.

Now, let me turn to productivity. We know there were huge efficiencies to be gained in the delivery and management of advice. As part of our optimization plans, we are upgrading our core advice technology and we expect to complete this by mid-year. This enhanced system would be more informative for customers and will allow our advisers to meet their regulatory obligations in a more timely and efficient manner.

The final area of opportunity is addressing leakage. The current leakage from our model is substantial. Our advisers placed GBP1.6 billion on third party platforms during 2019. With our new platform, there is an immediate opportunity to capture incremental flow. And over time, would expect to catch a proportion of the legacy business, provided it is of course in the customer's best interests.

Charles Derby Group provides a proof point for this. Since we acquired the business last year, the proportion of it flows onto our platform has increased from about 50% to around 85%. So, our objective is simple; more restricted advisers, delivering more of the flow they generate onto our platform. And the benefit to our customers is a single view of their financial assets through a more modern web portal and better service. And one more point here, we are particularly pleased that the quality of our model is being recognized externally. Notably, FT ADVISER ranked us number one of the top 100 financial adviser firms when judged on aspects important to customers.

Turning now to Quilter Investors, by managing greater volumes, creating more solutions that meet clients and advisers needs on a highly scalable platform, we will deliver strong operating leverage. In 2019, we demonstrated our capability to do this. Restricted advisers told us that clients wanted a lower cost alternative to the Active Cirilium range. So we launched Cirilium Blend which combines active and passive solutions at a lower price point. Advisers also told us that their clients needed an income solution, so we recruited an award-winning fund manager and we launched two new income solutions. All of these new investment solutions have been top quartile since launch. We also completed the operational separation from Merian ahead of schedule. So, from a business and strategic perspective, Quilter Investors had a great year.

Let me talk about investment performance. As you can see, Wealth Select the dark green bar bottom left, has continued to perform well. It's geared to the open market IFA channel and it is also sold through Quilter Private Client Advisers. Cirilium Active has been a consistent high performer over a number of years. But, as we flagged at the interims, an asset allocation decision to be underweight US large cap stocks and G7 longer term government bonds last year, led to short-term underperformance. Our investment performance is a key focus of mine. So we spent some time looking at process on what we might be able to do better. And I'm pleased that we saw a turnaround in performance in the final quarter of the year. So, to summarize, Quilter Investors is well positioned to attract flows from both our own and third-party advisers, particularly once our new platform is fully operational.

Let me now talk about Quilter Cheviot. You remember that Quilter Cheviot isn't on our existing UK platform, but the new platform's capability to support discretionary fund management clearly represent an opportunity for the future. In time, we will allow Quilter Cheviot's capabilities to be much more closely integrated with the rest of our business. And that will enable us to scale up the service we offer to third parties. I'm really excited about that.

Quilter Cheviot's story in 2019 was a combination of strong underlying business growth and very good investment performance. We saw top quartile one year outperformance and GBP2.6 billion of gross flows which were the second highest ever, demonstrating the momentum in the business. But we also had to deal with outflows resulting from the departure of an investment team in 2018.

We're showing the trend in flows in the graph on the left of the slide. This clearly shows that Quilter Cheviot is a steady performer in terms of gross flows, the green line. You can also see that it is normally a steady contributor to net flows, of between 100 million and 300 million per quarter, the black line. And if we exclude the impact of the 2018 team departure, that pattern remains consistent, as you can see with the dotted black line for 2019. The total outflows related to that team to end of the December was GBP1.3 billion. These peaked in Q3 with the Q4 outflow falling to about half the Q3 level, and we've seen a further decline in Q1. We think the worst is behind us. But we expect to see a continuing modest drag to net flows over the next few quarters.

We have of course added to our investment management team. We were back up to 167 investment managers at the end of the year from 155 last year, after the departures. And we're looking to grow the business from here. As I mentioned earlier, we are very excited about the business potential of a higher net worth advice business, Quilter Private Client Advisers or PCA. It's now working in close collaboration with Quilter Cheviot.

PCA delivered GBP240 million of gross flows into Quilter Cheviot in 2019, up from GBP140 million the previous year, a big jump. We want to make the relationship between the two even more collaborative and as part of that, we'll be opening a co-located Quilter Cheviot and PCA office in Leeds in the next few weeks. We also see opportunities from Quilter Cheviot and our International business working more closely together. The International portfolio bond is a great product for long-term estate planning.

So with that, let me now turn to Quilter International. Quilter International provides a robust offshore fund administration and solutions platform for high net worth clients in the UK and overseas. As you can see, it's a lumpy business in terms of flows. You will also remember that the business faces some revenue headwinds as its traditional higher margin regular premium product rolls off and is replaced by lower margin, but higher quality single premium portfolio bond business.

For this reason, we focused on cost reduction to drive profitability. In 2019, we reduced the international cost base by 17% whilst also investing in selective growth initiatives. More importantly, we're positioning the International portfolio bond for growth by aligning its proposition with the product offering of both Quilter Cheviot and Quilter Private Client Advisers. And in time, we'll bring the portfolio bond onto the UK Platform to enhance its distribution potential. Again, we're creating new opportunities by connecting our capabilities through the UK Platform. It gives you a sense of the exciting growth opportunities that we can see and why the new platform is going to be the real power behind them.

So where are we with the Platform Transformation? Well, we've now successfully completed our first migration and the report card reads so far so good. We showed you this slide back at the interims and as you can see, we have been incredibly busy since then. FNZ delivered the final system. We completed our functional testing. We worked through migration planning and we had three full dress rehearsals. And all of this was the buildup to our first migration over the weekend of the 22nd of February.

I'd like to express my thanks to all of the teams across Quilter and of course, our partner, FNZ for the incredible amount of effort that got us ready and over the line. Your dedication, because I know you're watching, your dedication and commitment over the last three years has been amazing, guys. I'm so proud of you. Thanks for getting us here. Work to do, we'll keep the champagne on ice, because we've got the summer to do the full work. Well, we're going to get it in, we're going to get it in safely, we are going to get it into high quality. So proud of you.

But this slide doesn't really convey the scale of our first migration. This was no small exercise. We transferred around 25,000 customers with nearly 40,000 accounts, representing GBB4.3 billion of assets under administration, about 8% of the total. In fact, over 200 million lines of data were migrated and migrated successfully. Adopting a phased approach was a good decision. We wanted to do things in a controlled and measured way. Early feedback, and it's only been a few weeks, from the advisers and customers using the system has been very positive.

But remember, it is still less than a month since the migration and we are still doing things on the new platform for the first time. For example, it's not until later this month that we will do the first mass pension payment run. So we're all ready for that. We're still expecting a few bumps in the road. So we've got proactive monitoring in place to identify any problems rapidly. And we've got the resources available to resolve them quickly, should they arise.

So, for now, we are confident that our new system works well in a live, scaled environment and can support our existing business. And as an organization, we've demonstrated that we can manage a major platform migration well. A lot of work is still required to get us ready for that final migration, as I just mentioned, by the end of the summer. But we will do it and we will do it safely.

All of this work has been focused on creating a modern advice-led wealth manager built on a few simple principles. Choice, quality assured choice, rather than unlimited choice, and choice in how clients access us, whether that's by our advisers or through one of their own financial advisers, their own Independent adviser. And of course choice between active or passive, or active and passive, we don't care. Transparency; transparency in fees with no hidden charges. Fairness, always doing the right thing for our clients and ensuring that they only pay for what they use. Competitive pricing across each part of the value chain and no lock-in charges. And of course, great service which underpins everything we do.

These principles have guided us as we've built Quilter, a model that is right for the current regulatory environment and adaptable to change. Getting to simplicity is a complex task, but we haven't (inaudible) and I truly believe that we are nearly there.

Right, let me hand over to Mark to run through the financials and then I'll be back to summarize and take Q&A a bit later.

Mark Satchel {BIO 18275874 <GO>}

Thank you, Paul, and good morning, everybody. You'll have seen three adjusted profit figures in our release this morning. So before we go any further, let me make sure that we are all on the same page with regards to those. We reported a profit including Quilter Life Assurance of GBP235 million, up 1% with QLA contributing GBP53 million and this is based on the perimeter of the business we set out at listing, and this is the basis on which we have been reporting prior to announcing the sale of QLA.

EPS on this basis was 11.3 pence. Next, we reported a continuing business profit of GBP182 million, up 3% which excludes the GBP53 million profit from QLA and this is what we regard as the ongoing business perimeter. EPS on this basis was 8.6 pence, slightly lower than last year as a result of a more normal tax charge and a slightly higher share count. Finally, we've also reported adjusted profit before tax of GBP156 million for the continuing business. This is the statutory reported view of adjusted profit and it takes the GBP182 million and reduces it by reclassified GBP26 million of costs that we've partially recouped through a TSA. It's an accountant peculiarity that I'll talk more about later on.

Our dividend of 5.2 pence has taken our payout ratio up to 46% based on an EPS of 11.3 pence. And just a quick word on dividend guidance. I'm sure you will have noticed that based on continuing EPS of 8.6 pence, the payout ratio is at the top end of our target 40% to 60% range. We expect the payout ratio to be at a broadly similar level to this in pound million terms in 2020 and so dividend per share will be a function both of profit performance and on how quickly we can reduce the share count through our share buyback program and the Odd-Lot Offer.

Right, for the rest of my presentation, all the figures that I'll now talk to unless I reference otherwise, will exclude QLA. We were pleased with our performance in our first full year as a listed group. So on the top right, revenues were up 5% on a stable revenue margin, which I'll give some guidance on shortly. Then below, expenses were up 5%, reflecting investments we have made in distribution in the year. So basically flat jaws, reflecting the impact that investments in acquisitions have on our profits. That gave a stable operating margin of 26% supported by optimization which I'll discuss shortly. All of this generates, 3% profit growth.

I've also highlighted the GBP10 million P&L investment from the acquisitions and the cost associated with our London property move. And while I don't want to get into underlying assets, without that spend, adjusted profit would have been up nearly 10% on the prior period. With an average AuMA for the continuing business up just 4%, that was a very good result, driven by optimization benefits, which we will keep on delivering. So the end result was adjusted diluted earnings per share of 8.6 pence, slightly lower than last year for the reasons I mentioned earlier. So a solid set of results, I hope you'll agree.

Right, let's dig into flows. The charts that you're used to seeing are in the appendix because I wanted to show you the quarterly trend over the last three years, which gives a better perspective of what has been happening in the business. We've broken out the contribution from DB to DC flows, that's in the light green, which halved to around GBP800 million in 2019. We've also highlighted the one off outflows in Quilter Cheviot that we've mentioned before and you can see the stronger net Q4 performance.

Let me now turn to the two segments, starting with Advice and Wealth Management. Profit growth of just 1% to GBP103 million might look a little disappointing. However, we were actually reasonably pleased with that result. There were two factors behind it. First, we continued to invest in distribution, that cost us around GBP7 million of profit, largely reflecting the integration expenses. Secondly, the outflows from Quilter Cheviot shaved about GBP5 million of both revenues and profit. As you've heard, we've added new investment managers who are still building up their portfolios, but in the short term, they cost as similar to those of the team that departed.

You'll have noted the improvements in revenue margins. There were two factors behind that; stability in Quilter Cheviot, which we expect to continue and an improvements in Quilter Investors. However, there was a one-off benefit in Quilter Investors of 2 basis points from revenue provision releases which will not recur and some benefit from taking over the Compass fund range managed by Merian. Remember too that the newer product range in Quilter Investors is lower revenue margin, but with a lower cost to manufacture. So we expect the revenue margin to decline from here, but the operating margin should be more resilient.

So I'm anticipating that the Quilter Investors' revenue margin will trend towards a mid 50s basis point level over time, with the speed of this decline driven by fund choices made by advisers and clients in the construction of their portfolios. On costs, the growth was a function of the investments we continue to make, and when it comes to modeling 2020 costs, do remember that Lighthouse will be in for a full year, adding around GBP8 million of costs to 2020.

Moving onto Wealth Platforms, it has seen a decent uptick in profitability, driven by hard work on the cost line. First, we delivered good revenue growth in our UK business, Quilter Wealth Solutions, despite the lower gross flows in 2019. Revenue growth of 4% was achieved on our existing platform and we see huge opportunity to do more once the new platform is fully operational.

Let me just give some guidance on the outlook for revenue margins. You will have noted Paul's comments on adjusting platform pricing to drive volume growth. So when it comes to your models, I would assume around a 2 basis point decline in the UK Platform revenue margin this year compared to the historic rates of around 1 basis point per annum, which is likely to resume thereafter.

Turning now to Quilter International, this drove the decline in segment revenues principally due to the lower revenues that new business attracts. There were also some one-off gains in the other income line last year, which have not been repeated. However, International delivered good profit as we reduced costs. Given the repositioning of this business over the last two years, it is ahead of peers in adjusting to change in regulation and so we have a solid foundation on which to build. In the near term, we continue to expect a constrained revenue outlook coupled with a cost focus.

So sticking with the theme of controlling costs tightly, this is the only slide in my deck where I'll reference figures including QLA. You will recall that we had a cost base of GBP555 million in 2018 and the guidance for 2019 was to keep that broadly flat, excluding the impact of acquisitions. And at interims, we also called out the additional GBP3 million of P&L cost relating to the new London property relocation. As you can see, we did better than broadly flat and both the overall cost base in below the implied target of GBP580 million for 2019, with management action offsetting higher costs, forced on us by the external environment through inflation and higher FSCS levy.

And while we are talking about costs, let me turn to optimization. Right, we are back on in excluding QLA basis now. We delivered an operating margin of 26% in 2019 and subject to market levels, we remain on track to deliver the efficiency improvements that will drive that to 27% in 2020 and 29% by 2021. The optimization program contributed GBP14 million of cost savings in 2019 and we exited the year with run rate cost savings of around GBP24 million, so you can see that we are about halfway through delivering on the program cost targets at the end of last year. And we have achieved that by de-layering and streamlining the business. The remainder of the operating margin uplift is more back-ended as we have some heavy lifting to drive out the remaining benefits. I've highlighted some examples of what we are doing on the slide. And once we've delivered the new platform, we see scope to deliver further efficiencies.

Now let me turn to the disposal of Quilter Life Assurance. We are delighted to be able to return GBP375 million to shareholders and to kick this off via share buyback. On the slide I've set out how we got to the GBP375 million figure. The economic benefits to Quilter from QLA in 2019 was not the accounting contribution of GBP53 million, but the GBP425 million of disposal proceeds, plus the GBP21 million of interest, so GBP446 million in total. From this, we've deducted QLA's contribution to the Group dividends to avoid double counting. And this was calculated by applying the 2019 payout ratio of 46% to the after-tax profit contribution.

Expenses and provisions associated with the deal of GBP23 million have been deducted and capital to synergies amounted to around GBP15 million. Costs of around GBP10 million are still to be incurred as we run the business through the TSA and these will be expensed to the P&L in 2020 and 2021 as below the line restructuring expenses. This gets us to the GBP375 million available for distribution to shareholders.

We indicated at the interims that we'd consult with shareholders on the best means of returning this capital and the broad consensus was for a share buyback. We will launch a buyback process across the London and Johannesburg Stock Exchanges imminently. As with any program of this size, relative to our market capitalization, it will be subject to staged regulatory approval and of course the Board will keep the program under review to make sure it continues to be the most efficient and effective means of returning capital to our shareholders.

Let me now turn to the QLA cost base. We have a clear plan here, let me walk you through it. The business had a cost base of GBP43 million in 2019 and of that sum, GBP17 million, principally staff costs, transferred over to ReAssure at the beginning of January 2020. This leaves GBP26 million which has not been directly transferred to the buyer, and in accordance with IFRS requirements, remains as a cost deduction when distinguishing between continuing and discontinuing operations. This is the GBP26 million accounting anomaly that I mentioned at the top of my presentation.

Of that GBP26 million, GBP14 million is subject to the transitional service agreement with ReAssure. So they will reimburse us that sum and the costs and the credits will be netted off in our adjusted profit. What's left is GBP12 million of stranded costs which we flagged as the expected operating margin drag when we announced the sale in August. Of that GBP12 million, we have plans to deal with GBP7 million and we expect that to be largely dealt with by the end of 2021. This predominantly involves IT contracts that are currently bundled with other activities and some property and people costs. The remainder is our stubborn stranded costs of about GBP5 million which we will reduce over time and these are included within our existing operating margin guidance.

Now, given that we have made a substantial disposal and have certain stranded costs, it's important that we are all at the right starting points when you come to modeling 2020 costs. So let me give you a bit of a steer. In 2019, we had a cost base of GBP530 million, excluding QLA. On to that base, I would add the GBP12 million of QLA costs that are flagged on this slide and the additional GBP8 million for a full year of Lighthouse costs, which I mentioned earlier. That gets you to around GBP550 million as the starting point.

Then you need to think about how our business as usual costs will change through the normal business growth, cost inflation, the additional London property relocation costs that we have also guided to for this year and a likely higher FSCS levy. As a partial contrary to that, we have signaled what the year-end run rate was on our optimization program and while there will be additional optimization delivery this year, I mentioned earlier, why those benefits would be more back-end loaded. So, hopefully that helps.

Let me turn to the balance sheet. Our strong balance sheet just got stronger. This slide walks through the changes in our Solvency II ratio over the year. Let me just make a couple of points. The solvency position is very strong and all the more so having sold the Quilter Life Assurance and note that our Solvency II ratio is stated after payment of the final dividends and not before. Our solvency ratios are relatively immune from market movements and so the recent market correction will not have had a meaningful impact on these numbers.

Cash and liquidity is far more important than the solvency ratio when it comes to assessing capital available for distribution. This is one of the reasons I present the holding company cash positions. And also remember that a large proportion of our capital is the (inaudible) Isle of Man subsidiary. Very helpful for capital calculations, but less so when it comes to actually paying cash dividends or in assessing available liquidity.

So if cash is more important, let's turn to that. This slide walks you through the changes in the holding company cash over the course of 2019. It's detailed, so let me draw out the salient points. We enjoyed a higher than normal level of dividends from subsidiaries, mainly due to the distributions from QLA prior to its disposal. We also made a higher level of capital contributions into our subsidiaries. Most of that was to fund advice acquisitions and costs associated with the UK Platform program during 2019. Finally, of course, we also had the benefit of the GBP446 million of cash from the QLA sale which arrived on the last day of the year.

So we finished the year with GBP815 million of cash in our principal holding companies. I've highlighted some of the future drags that you already know about, and after adjusting for all of that, we are left with around GBP250 million of cash on hand, which provides us with the cash and capital to cover stress and contingent funding scenarios. Lastly, our cash conversion rates in 2019 was slightly ahead of guidance at 85%. That is partly a function of the lower levels of new business written this year and we'd expect the cash conversion rates to be a bit lower in a more typical year.

Now let's turn to guidance. This slide sets out the minor adjustments to guidance and the usual detailed slides on guidance are in the appendix, where you will see that very little has changed. I'll just highlight two main points. First, as and when more normal markets return, our expectation is for our levels of NCCF to gradually improve and bold back towards a 5% NCCF target. Second, I wanted to reiterate our expectations of revenue margin erosion which we intend to offset through volume growth, operating leverage and cost efficiency. We have deliberately repriced our UK Platform offering and we expect mix shifts to drive a reduction in the Quilter Investors margin. And so we are expecting the overall revenue margin to remain on a gently declining path.

Let me say a few words on the outlook and then conclude. I've already given you some direction on costs for 2020. I can also say that prior to the Coronavirus market correction, we were broadly happy with market profit expectations for this year and hitting our operating margin target. And that encompassed the guidance we gave you on revenue margins. However, following the significant Coronavirus induced market correction, you'll each have your own views on how market levels and flows will evolve from here. From our perspective, it is simply too early to tell. So, the only further caveat to our guidance is that, should the market stay at the current levels for an extended period or decline further, then hitting a 27% operating margin this year will be challenging. There are cost actions we can take to protect profitability, but we aren't going to make rash decisions to the detriment of the long-term health of growth trajectory of the business. You know that our operating margin guidance has always been on the basis of market levels being around those of 2019 and early 2020, and they are clearly not there today.

So, let me also follow up on Paul's comments on the Lighthouse provision. We are at an early stage of this review and so figures are rough estimates, but we have made a provision of GBP12 million and that's on a gross basis before any potential claim under Lighthouse's professional indemnity insurance. The GBP12 million is made up of an estimated GBP9 million for potential redress charges. Around GBP3 million is to undertake an external review of the rest of the advice undertaken by Lighthouse in respect of DB to DC transfers out of the British Steel pension fund.

The provision has been taken to the balance sheet as an adjustment to the carrying value of Lighthouse. So it has lower net assets on acquisition, leading to higher goodwill in our balance sheet. As you know, we have 12 months from the date of acquisition to finalize our acquisition accounting. We expect to complete our review of the Lighthouse British Steel DB to DC transfers before late June. So, we are not expecting this to be a P&L event for 2020. I'm happy to take any questions on the accounting methodology we have used later.

So, in summary, I'm pleased with the financial performance of the Company in 2019. We delivered a solid profit slightly ahead of market expectations with cost performance contributing towards their overall results. Cost containment is something that we will remain a focus in 2020, as we execute on our optimization plans. And our full-year dividend of 5.2 pence per share is ahead of market expectations. So irrespective of short-term market sentiment, you can see that we are well placed for this year and beyond. Finally, we have a very well capitalized balance sheet and I'm looking forward to returning a meaningful amount of cash back to shareholders.

Now back to Paul.

Paul Feeney {BIO 17570862 <GO>}

Thanks, Mark. Now, before I turn to our area of focus for 2020, let me share my perspective on the current operating environment. We've begun the year well but obviously the last couple of weeks have seen pretty turbulent markets. As we all try to understand the potential impact that Coronavirus may have on people, economies, and markets, we do not expect it to change our business fundamentals one jot. Our customers still need to save for their retirement and Quilter will be there to help them, but in the short term, lower markets may impact revenues, a higher volatility could reduce investor propensity to invest, leading to lower flows across the market. Conversely, it could do the opposite. People could see that market levels of an attractive opportunity. It's just too early to tell right now.

So as we work through the current period, my focus is twofold. First, making sure our people are safe. We have contingency plans in place for home working right across the organization and we've identified our most critical processes and have implemented split working approaches whereby key teams are divided into AMB groups and are isolated from each other. Secondly, in turbulent times like these, we want our advisers and investment managers to be right there to support and guide our clients so they are not left to deal with this level of uncertainty alone.

Right, turning to our objectives for 2020, we have four things that we will deliver. We're going to complete our Platform Transformation Program. We're going to finish integrating the acquisitions we made last year. We're going to improve our operating leverage by delivering optimization initiatives and particularly for shareholders, we'll kick off our share buyback program imminently.

As we look further ahead, beyond 2020, Quilter will be a simpler and more focused business. We will continue to grow our advice business. Our new UK platform will integrate our core capabilities and help drive higher flows. Our highly scalable solutions business will continue to develop its product range to meet the needs of our clients and we will begin the planning for the second phase of optimization once the platform transformation is complete.

Right, with that, let me open up for questions. Who is ready to go first? Andy?

Questions And Answers

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from Bank of America Securities. Three from me, as usual, please. Firstly, really good to see the platform going live. I realize it's very early days, still on a bit of bizarre market, but I just wondered if you could give us any color on how the flows are differring for advisers who have migrated to the new platform versus those who are still on the old platform. Secondly, just on financial adviser recruitment, probably a little bit lower than expected in H2. Just wanted to give us some color on the pipeline for 2020 and longer term for financial adviser growth. And thirdly, just on professional indemnity insurance. You mentioned it was in place for Lighthouse but just wonder if you can remind us of Quilter's own approach for professional indemnity insurance and how the costs might change for that. Thanks.

A - Paul Feeney {BIO 17570862 <GO>}

Okay. Thanks, Andy. I think I'll take those. So adviser flows on the new platform versus off the new platform, too early to say. 22nd of February was when we -- that was the weekend over which we migrated. So 25th of February was the Monday, and I think we're on the 11th of March today. So I don't have flows even for last week just yet. So, Andy, I'm sorry. We're happy to give it to you, but it's just too early. One thing I can say is that it's so far so good. It's gone well so far.

Our pipeline for 2020 longer-term, we haven't given an actual number, but we expect to see a higher rate of organic growth of recruitment, restricted financial planning recruitment this year than last year. We put quite a few planners on last year in terms of our acquisitions. We're focused on integrating those acquisitions this year and we do expect to see higher organic growth in RFPs this year than last year.

PI, Quilter clearly has obviously has PI insurance as well as Lighthouse. I don't think we have given actual number, but we have adequate PI insurance. The PI insurance market is getting tighter. Insurers are leaving the market, and rates are going up. There's no doubt about that. Quilter is a very strong company. We do things the right way and I'm sure we'll see that when we have PI insurance in place.

Next question. Any other questions?

Q - Ben Bathurst {BIO 17516248 <GO>}

Good morning. It's Ben Bathurst from RBC. First question is on the capital return. You mentioned that the Board will review the most effective and efficient means of carrying out that return. I just wondered, in light of the recent market sell-off and the current low share price, you're not minded to a bit more opportunistic perhaps in the way you return that money, perhaps by executing it more quickly, reducing the share count further? Second question was just on (technical difficulty) piece. It seems as though you had 80 complaints, 30 of -- well, there's an area of 80 that are particularly sensitive, 80 pieces of advisers where you had 30 complaints. I just wondered, on the remaining 50, is there anything different about that 50, those cases that you know of that would suggest that they are less likely to lead to the future complaint?

A - Paul Feeney {BIO 17570862 <GO>}

Too early to say. We've obviously reviewed the 30 and made provision accordingly. You're quite right to say that those 80 are the most sensitive. If I said that over 75% was from two advisers, so all the complaints we have relate to one adviser. So clearly we have to review the other, not all of the other complaints related to that one adviser, but two of them are 75%. So I mean, I can't say you can exactly extrapolate but clearly there's more sensitivity within that population.

A - Mark Satchel {BIO 18275874 <GO>}

And then you had the capital return question. We've consulted with our shareholders in terms of what they most want to see in terms of capital return and really the overwhelming response that we have had from shareholders back when we consulted with them in October, November, and then again this year has been through a buyback program, but we are trying to initiate that in the most expeditious manner possible. We've been in closed period up until now, so we haven't been able to get going with it, but that should be commencing in hours or days.

A - Paul Feeney {BIO 17570862 <GO>}

It really depends on how quickly we can get you back to your desks.

Q - Ed Gunby {BIO 19879787 <GO>}

Hi, it's Ed Gunby from Goldman Sachs. Just two from me. The first is, obviously we need to wait and see on the budget particularly with respect to pensions, but can you provide a sense of the flow composition in terms of pension transfers and consolidations versus actual new money top-ups on the client side? And then the second is, obviously the PTP is very early in terms of migrating assets, but you have been outsourcing assets due to capabilities over recent years. So when should we expect to see the repatriation of some of those assets that have gone to other platforms over time?

A - Paul Feeney {BIO 17570862 <GO>}

Okay. Can I just check on the second question there? I got what you are saying, you were talking about pension transfers, I'm not sure I fully understood.

Q - Ed Gunby {BIO 19879787 <GO>}

On the DC side, if we see changes to tax relief on pension contributions, how much of the assets are coming from transfers of pension pots that have been previously accumulated with other providers versus actual new money contributions.

A - Paul Feeney {BIO 17570862 <GO>}

Got it. Okay. So first of all, on the budget, obviously we'll await and see from the budget. We know the transfer, it is going to be a big spending budget on infrastructure, no doubt about that. I mean, I don't know what -- on the pension side, there has been talk about reducing tax relief on the higher earners, that's a possibility. Personally, I'd love to see this, what you call this type of relief allowance go. Nobody has a clue how it works and that's really causing issues, causing issues with NHS, with doctors, not turning up in case they trip over their pension allowance, I'd love to see that go, but we'll see.

In terms of pension transfers, the vast majority of our pension business is DC to DC, it's not DB to DC, it's DC to DC which has held up very well. So its transfers, people transferring existing defined contribution pots and consolidating that, a lot of that with us, which we're very pleased to see. PTP clearly, yes, you're quite right to say, one of our opportunities and it's opportunity for our clients is to consolidate assets with those on our new platform.

Now we saw just in terms of flow 1.6 billion went for the platforms last year. There is an awful lot more than that in terms of stock and other platforms. It hasn't been possible to look to try and consolidate any of that to-date, because we haven't had the -- the reason they are using the other platform is because we can't do stuff. So we can now just -- or we will be able to now do stuff. So that's a big opportunity, it's an opportunity for ease of access for our clients to have all the statements in one place, to have all of that on the phone, on their app, ease of use. So it's a big opportunity and clearly, we're going to go after that opportunity.

Gurjit?

Q - Gurjit Kambo {BIO 6300383 <GO>}

Hi, good morning. It's Gurjit Kambo from JPMorgan. A couple of questions. Firstly on slide, I think, number seven. You gave a little bit chart at the bottom where you have the gross sales of 3.1 billion and then split 1.5 billion and 1.6 billion with the Quilter platform and third party platforms. And then that goes 65% into Quilter Investors. In terms of -- is sort of a big chunk of the Quilter UK Platform coming -- going into that 65%? So what I'm just trying to understand is, as you start to see the Quilter UK platform becoming a bigger part of that 3.1 billion, should that also increase that 65% going into Quilter Investors? Is that the expectation?

A - Paul Feeney {BIO 17570862 <GO>}

Well, clearly when you're using -- we still try to link our investment solutions on other platforms, but let's be frank, most of the multi-asset solutions on other platforms end up in their own multi-assets, but we do try and link them. So, I mean, the Board asked me the same question, I don't know what the actual number is going to be, more, okay. But because clearly this, we don't get the MI from a lot of other platforms, strangely enough as to what's going into their solutions from our advisers. They don't have to give us that and guess what, they don't give us that. But clearly there is leakage there.

Q - Gurjit Kambo {BIO 6300383 <GO>}

Yeah. And, Mark, just one question for you, just in terms of the operating profit margin sort of guidance, I think the quote is normalization from current levels. So is that saying that if we start to improve from where we are currently or if we stay static, let's say, 6,000 FTSE?

A - Mark Satchel {BIO 18275874 <GO>}

If you said 6,000 FTSE, I mean, I think 27% of margin for us would be exceptionally challenging and frankly I don't think we'd be able to make up the shortfall in the production of -- that that would bring about from revenues. The guidance that we have provided and I think we've consistently said this also when we provided the guidance has been sort of the market levels at that time, which generally, if you look back around about 72, 73, 74 sort of FTSE levels.

Q - Ed Gunby {BIO 19879787 <GO>}

Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Further questions? Please, here in the front.

Q - Ben Williams {BIO 2556227 <GO>}

Morning. Ben from Liberum. Can I just ask a little bit, on the UK Platform, obviously there has been a slight change in pricing and you're going for a big volume opportunity, could you just talk us through where the value proposition is now and give us a sense, are there any areas where you think you need to take pricing a little bit further, or do you think you are really now where you need to be to capture the opportunity?

A - Paul Feeney {BIO 17570862 <GO>}

The platform market is a evolving market. I mean, you've heard me say -- I will answer your question directly, Ben, but you've heard me say many times that the area of the value chain, if you will, which has got the greatest pricing pressure is the part furthest from the customer and that is the platform. Advisory fees, we are not seeing despite it's in the market, we're not seeing those come under pressure. We are seeing it in the platform part of the market.

We believe this gives us a great opportunity. We are positioning our platform as a competitively priced full service wealth platform. Competitively priced full service wealth platform. And we believe the move that we've made really just do that, really does actually puts us in a very strong competitive position. Now, of course, we still have our old platform and we saw the limitations of the old platform. We've only moved about just less than 10% of the assets and clients so far. So we've got to get all of that done in the summer, but we want to be in a position pricing-wise which we now are that when we do move all fully onto our new platform and we leverage our distribution that we are where we need to be pricing-wise. So now we are.

Further questions from the floor?

Yeah, I should say -- I should have said. I think we're having some problem on the phone line. So if anyone is on the phone line and you have got a question, would you just please run it through on an email and we'll catch it -- on the website.

A - John-Paul Crutchley {BIO 1911497 <GO>}

We have a few questions coming on the web already, so I'll just highlight. David McCann from Numis has asked, with the GBP12 million provision on Lighthouse being about 30% of the price paid, does it lead to any changes in the way you assess adviser acquisitions and due diligence?

A - Paul Feeney {BIO 17570862 <GO>}

Well, David, look, clearly we will -- we are doing a review and I'm doing a review, not just of the cases we've had complaints and the population we've talked about, but also of the process of acquiring Lighthouse, to make sure if there are any lessons learned, we will learn them. As I said, clearly I'm disappointed. We didn't catch it. The complaints we've had relate to one adviser. There are 400 advisers in Lighthouse. At the same time, there was a population which relates to the DB to DC pension transfers in British Steel. We'll do the review. There will be a full review. Any lessons learned, and I'm sure there will be, we will take forward into any further acquisitions we do. At the same time, last year, before any of this, we did, if you like, took the foot off the gas on acquisitions a bit, while we integrated the ones that we've got, and that's our priority at the moment, integrating those acquisitions.

A - John-Paul Crutchley {BIO 1911497 <GO>}

Two questions from Greg Simpson from Exane BNP. First, he asks, adviser flows tend to be quite resilient during market weakness, but as far as where MiFID II has brought in a new rule, which requires advisers notify clients if their portfolio falls more than 10%. I wonder, if you think this has a scope to impact flows in the light of the current setup. And the second question is, Cirilium Active funds seem to be underperfoming benchmarks over three years. Can you talk through the drivers of it and does it have an impact on QFP and IFA behavior?

A - Paul Feeney {BIO 17570862 <GO>}

So what are the three years?

A - John-Paul Crutchley {BIO 1911497 <GO>}

Cirilium own performance is having an impact on adviser behavior.

A - Paul Feeney {BIO 17570862 <GO>}

Okay. So, yes, under MiFID II, we have to inform clients if their portfolio has dropped by 10% or more. So some of them have and we have informed clients so -- and that's all happened over the last 10 or 12 days, quite frankly. So, if that happens, it's a legal requirement. Fortunately, we don't get to inform -- we don't have to inform if they go up by 10% but last -- yesterday we saw somewhat of a reversal, but -- so we've had to do that. Do I think it will affect flows? Too early to say. I mean, this has been a couple of weeks.

Cirilium performance, as I mentioned, Cirilium performance has -- Cirilium has been a strong performer over many, many years. Had short-term performance issues last year because of potentially mainly two calls we made on asset allocation. We also saw a fair bit of reversal of that at the end of last year. So, Cirilium Actives portfolios over one year till the end of December 2019 ended up in third quartiles and second quartiles, so not where we want it to be, but not disastrous either. At the same time, we've also launched as well all of our new propositions Cirilium Blend. We have Cirilium Passive and our income propositions. All of those, have done incredibly well and have been first quartile. So we have -- we are well diversified across our investment solutions base.

A - John-Paul Crutchley {BIO 1911497 <GO>}

One more coming in.

A - Paul Feeney {BIO 17570862 <GO>}

Okay, one more coming in. Okay. If there isn't any more questions from the floor, then I'll take the wrap up there. Thank you very much for your time. And stay safe, keep well. See you soon.