Rathbone Brothers Plc

Rathbones acquisition of Speirs & Jeffrey

14 June 2018

Transaction Overview

Delivering on our growth strategy

- Ambition to become the UK's leading independent wealth manager
- Long stated strategy to grow organically and through strategic, complementary acquisitions

  Key criteria for acquisition:
  - ✓ Cultural alignment
  - ✓ Client-centric philosophy
  - ✓ >10% return on investment
- Maintain underlying operating margin of around 30% through-the-cycle

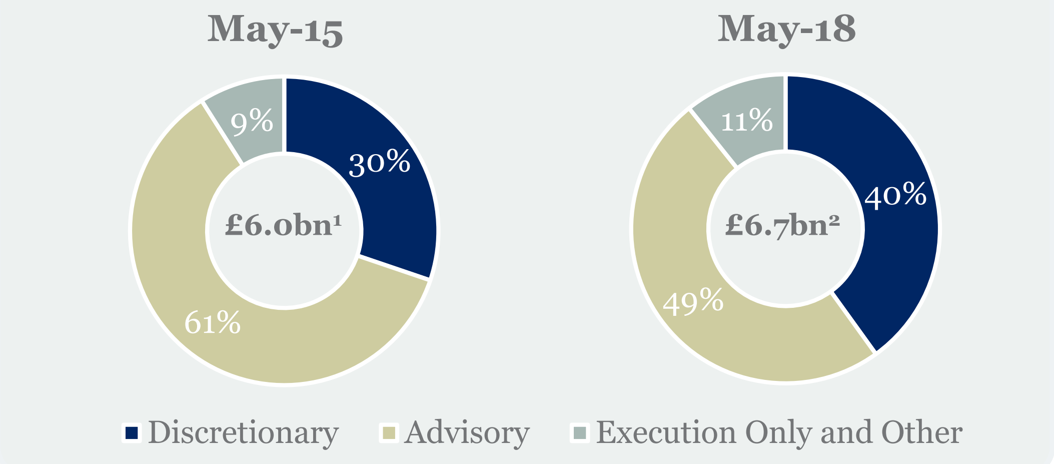
Speirs & Jeffrey deal summary

- Reached agreement to acquire 100% of the outstanding share capital of Speirs & Jeffrey Limited ("Speirs & Jeffrey")
- Scotland's largest independent wealth manager with a total of £6.7bn FUM (pro forma FUM of £44bn) and c.8,500 clients
- High degree of cultural alignment
- Initial consideration of £104m and further contingent and earn-out considerations may also be payable depending upon the achievement of growth and synergies following completion
- Delivers benefits to stakeholders

Speirs & Jeffrey – a cultural and strategic fit

- Founded in 1906, Speirs & Jeffrey has grown to become Scotland's largest independent wealth manager
- Independent since its inception, having always been wholly owned by its working directors
- All of the 10 current working directors (of which 8 are IMs) will be joining Rathbones
- 38 investment professionals operating from a single office in Glasgow
- A total of £6.7bn[2] FUM, of which 40% (£2.7bn[2]) is on a discretionary basis, with a continuing transition of clients to a discretionary service
- Client-centric philosophy with "whole of market" access
- Many long-term client relationships, with nearly three quarters of clients[3] having been with Speirs & Jeffrey for over a decade

An increasing shift to discretionary FUM



Key financial metrics[2]

	FY May-17	FY May-18
Revenue	£25.3m	£28.0m
Underlying profit before tax	£9.1m	£10.6m
Underlying profit before tax margin	36%	38%
Profit after tax (reported)	£7.2m	£8.2m
Gross assets	£37.2m	£31.9m

1. 2015 FUM figures are per management accounts
2. 2018 figures are based on latest unaudited financials (per management accounts); 2017 figures are per audited financial statements; underlying profit before tax is before one-off costs and gains on investments
3. Measured by Discretionary and Advisory FUM as at September 2017

Benefits of the transaction

Rationale		
	1	Delivers benefits to stakeholders including value creation for shareholders through cost and revenue synergies opportunities
	2	Enhances Rathbones' position as one of UK's largest wealth managers, with pro forma FUM of £44.5bn[1]
	3	Transforms the scale of Rathbones' existing Scottish client base, with Glasgow becoming the Group's second largest office
	4	Attractive financial metrics including expected underlying EPS accretion of at least 8% and return on investment of approximately 13% in the third year following completion

1. Based on Rathbones FUM as at 5 April 2018 and Speirs & Jeffrey FUM as at 10 May 2018

1 Delivering value for Rathbones shareholders…

Revenue	£28m (FY May-18) + Synergies	– Adds a stable client base of c.8,500 clients, three quarters of whom have been with Speirs & Jeffrey for over 10 years[2] – Average FUM of c.£750k/client[2] (Rathbones: £576k/client) – Increases Rathbones revenues by £28m (10%[1]) (FY May-18E) before synergies – Consideration structure designed to provide retention incentives closely linked to value creation from revenue synergies and discretionary funds growth – Opportunity for revenue synergies to be achieved over time by leveraging the strength of Rathbones' brand and complementary product offering and aligning the Speirs & Jeffrey service proposition with that of Rathbones
Cost savings	c.£6m p.a. (run-rate)	– Pre-tax cost synergies of c.£6m per annum principally from the streamlining of operations and infrastructure, representing c.3%[1] of the combined cost base – Savings to be fully achieved in the third year following completion – Incentives in place to secure operational stability throughout transition – Costs to achieve of c.£3m over three years following completion

1. Rathbones – Year to 31 December 2017. Speirs & Jeffrey – Year to 10 May 2018
2. As at September 2017

1 …and also benefits to Speirs & Jeffrey stakeholders

Clients

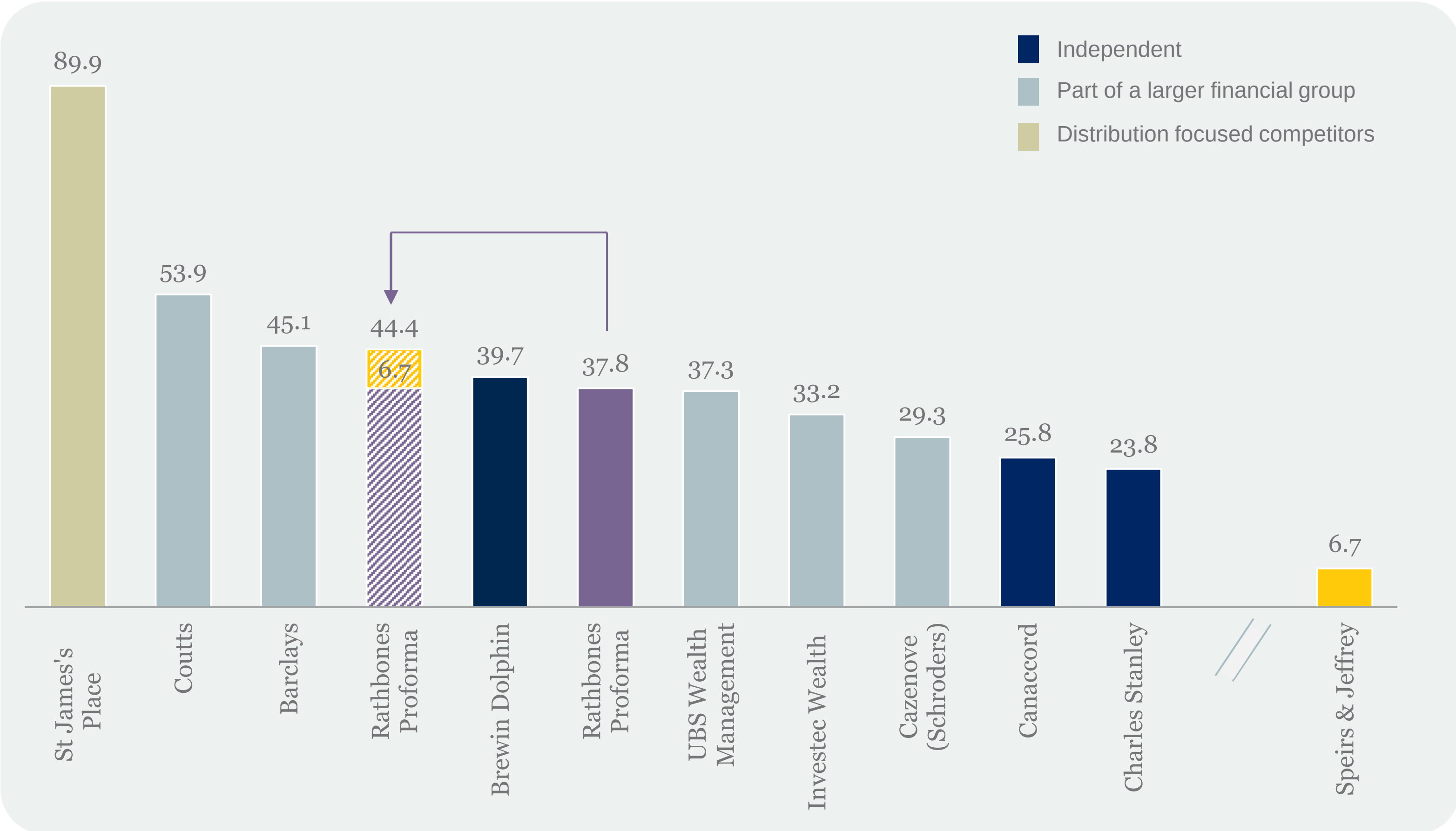
- Comfort from established Rathbones brand
- Greater support enabling Speirs & Jeffrey investment managers to focus efforts on clients
- Enhanced investment process
- Continuity of investment manager (cultural fit and retention incentives)
- Access to a broader product and service offering

Employees

- Broader community of like-minded professionals
- Continuity in management team
- Access to Rathbones' front office investment systems
- Wider career development opportunities in the larger group
- Aligned interests for key staff through share based incentives

2 Re-inforces Rathbones' position as one of the UK's largest wealth managers

Top 10 UK Wealth Managers by FUM (£bn)[1]



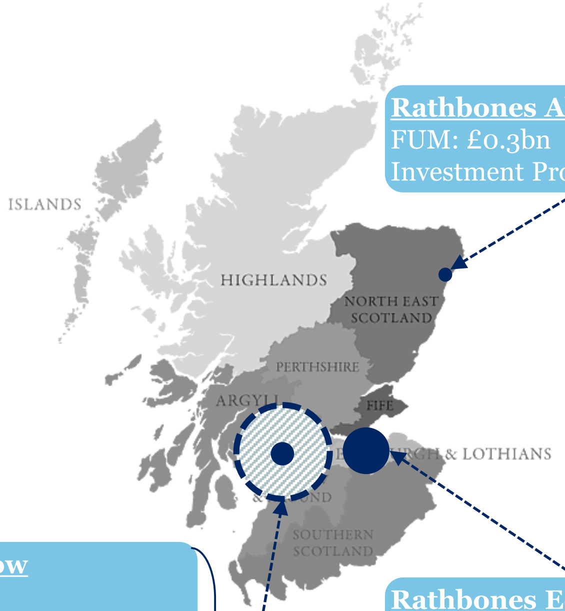
Scale benefits

1. Enhances financial and organisational capacity to invest in people, technology and processes, and to manage regulatory change
2. Delivers further operational efficiencies

1. Rathbones as at 5 April 2018 and Speirs & Jeffrey as at 10 May 2018. Others based on latest available public disclosure

3 Establishes a much stronger presence in Scotland

Glasgow becomes the second largest office



Rathbones Aberdeen
FUM: £0.3bn
Investment Professionals: 3[1]

Rathbones Glasgow
FUM: £0.3bn
Investment Professionals: 9[1]

Speirs & Jeffrey Glasgow
FUM: £6.7bn
Investment Professionals: 38[1]

Combined Glasgow (2nd Largest Office after London)
FUM: £7.0bn
Investment Professionals: 47[1]

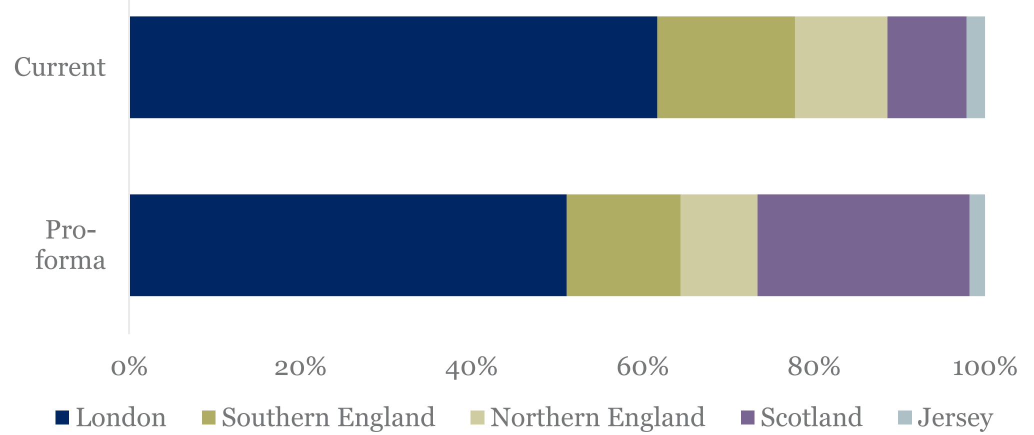
Rathbones Edinburgh
FUM: £2.3bn
Investment Professionals: 25[1]

Rathbones London
FUM: £20.0bn
Investment Professionals: 148[1]

Strengthened Scottish base

	Number of investment professionals[2]	RIM Funds under management (£bn)	Client Portfolios
Rathbones	37	3.0	c. 10,000
Speirs & Jeffrey	38	6.7	c. 8,500
Proforma	75	9.7	c. 18,500

Reduces dependence on the London office – post acquisition London reduces to c.50% of RIM[3]



1. Investment professionals: Rathbones – employees in Investment Management department (Investment Directors, Investment Managers and AIMs); Speirs & Jeffrey – Directors (Investment), Investment Managers and Research personnel (latest available)
2. Rathbones – As at 5 April 2018 excluding fund managers in Rathbones Unit Trust Management. Speirs & Jeffrey – As at 10 May 2018
3. Based on FuM

4 Consideration structure promotes aligned interests

Initial Consideration	£104m	– £79m in cash and £25m[1] in shares locked up for 3 years from completion – £79m cash funded by a combination of internal cash resources and a proposed £60m 4.7% issued share capital equity raise – £25m funded through the issuance of 1.0m new Rathbones shares[1]
Contingent Consideration	0.6m shares	– Contingent consideration of 0.6m[2] shares delivering an illustrative value of up to c.£15m[2] – Conditional upon meeting certain administrative and procedural targets that enable the delivery of cost synergies – Payable by 31 December 2019 and subject to ongoing employment conditions
Earn-out and incentivisation awards	Up to 5.2m shares	– Earn-out payments payable to the sellers in the third and fourth years following completion for value creation from revenue synergies and discretionary funds growth – Incentivisation awards are expected to be granted to investment management and certain operational employees in the third and fourth years following completion for the delivery of operational and financial performance targets[3] – Mechanisms aim to reward the incremental delivery of EPS and RoIC – Whilst a maximum of 5.2m shares can be payable (illustrative value of c.£129m[1,4]), the Board's current underlying EPS accretion and return on investment expectations are based on a materially lower total
Expected Completion	Q3 2018	– Acquisition subject to FCA approval and other customary closing conditions – Transaction expected to complete in Q3 2018

1. Calculated based on average share price over the ten day period prior to 14 June 2018
2. The number of shares is fixed and illustrative value is calculated based on average share price over the ten day period prior to 14 June 2018
3. The majority of these will be subject to a subsequent three year vesting period
4. The number of shares is capped at 5.2m shares. If the conditions for the contingent consideration are not achieved by 31st December 2019, the maximum number of shares under the earn-out and incentivisation awards will increase by 0.6m Rathbones shares

4 Attractive financial metrics

Attractive multiples	– Implied P/E of 12.6x based on Initial Consideration of £104m and Speirs & Jeffrey FY May-18 earnings – 8.8x including fully phased cost synergies and £15m contingent consideration – 1.6%[1] of current total FuM – Multiples are increasingly attractive as synergies and related contingent and earn-out consideration are factored in
Underlying EPS accretion	– Marginally underlying EPS accretive in the first full year following the acquisition – Underlying EPS accretion of at least 8% in the third year following completion[2]
Underlying Return on Investment	– Underlying return on investment from the third year expected to be approximately 13%

1. Based on initial consideration only
2. Based on 2021 consensus expectations, derived from applying consensus 2019-2020 growth rate to 2020 market forecasts

Q&A

Questions

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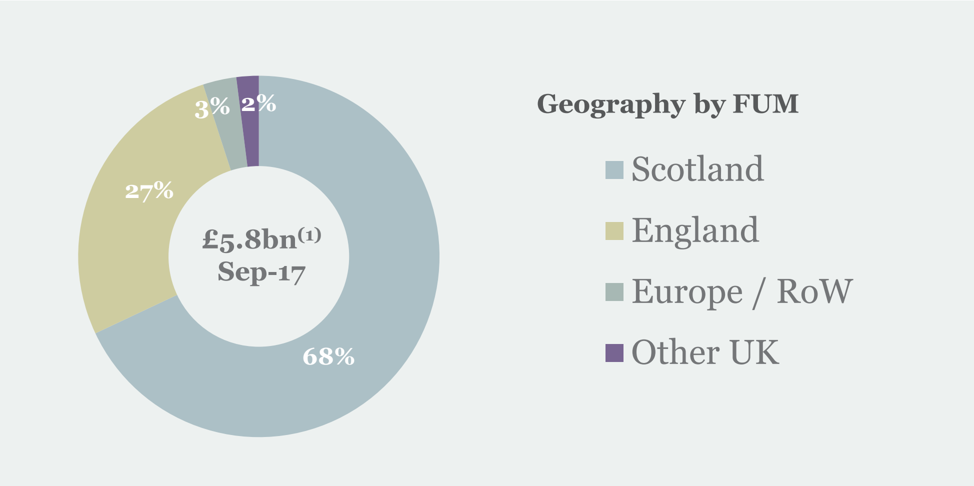
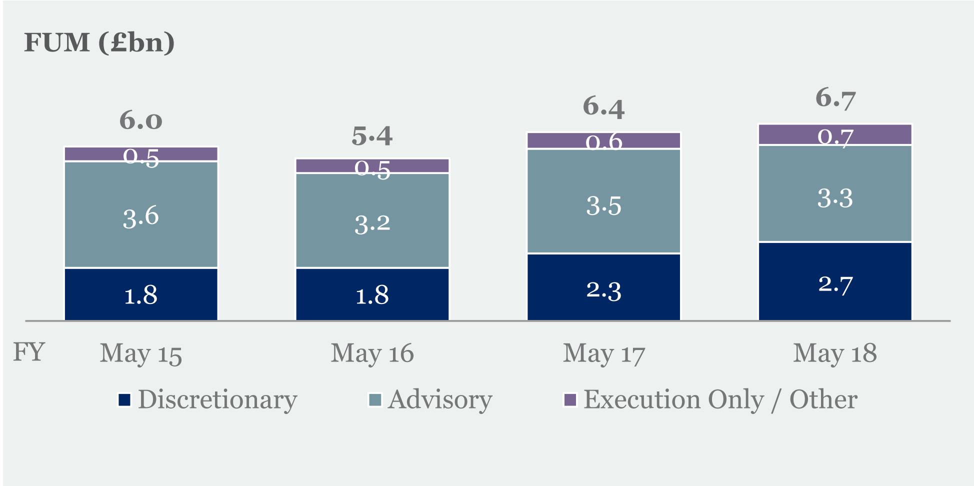
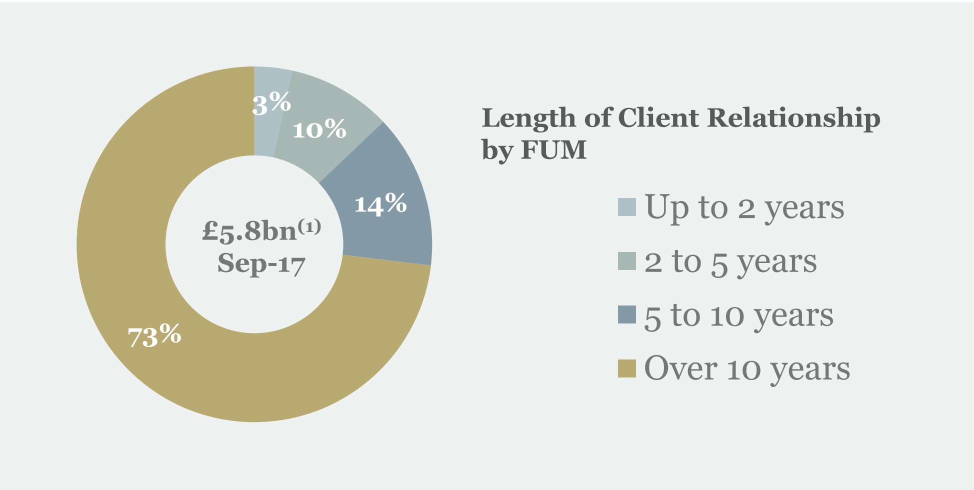
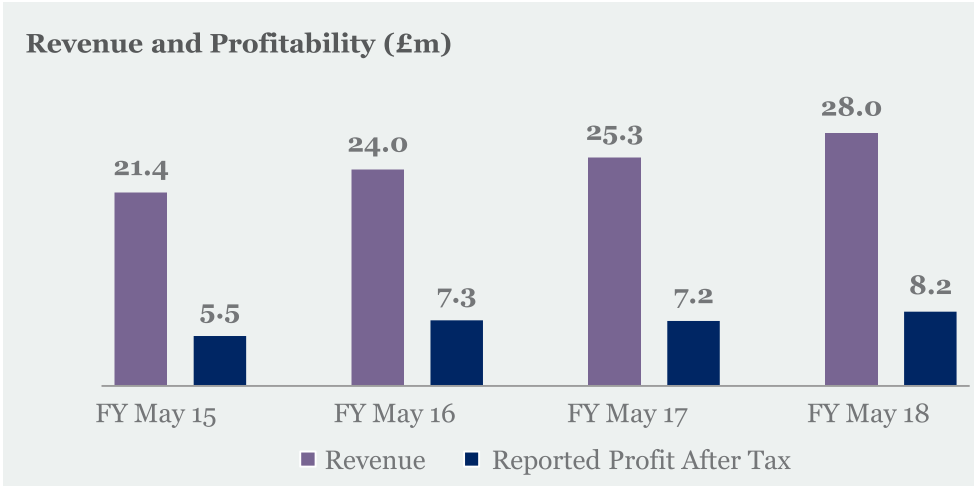
Appendix

Speirs & Jeffrey – Additional Information









1. Discretionary and Advisory FuM

Accounting treatment of consideration

Initial cash	– Capitalise on completion
Initial share[1]	– Booked to P&L over the 3 years post completion
Contingent share[1]	– Booked to P&L over the 18 months post completion
Earn out[1]	– Booked to P&L over the period to 2020/2021
Incentivisation awards	– Booked to P&L over the period to 2025

1. Approximately 95% of the aggregate expected initial share consideration, contingent consideration, earn-out payments and incentivisation awards is contingent on continued employment of the recipient, and therefore will be charged to profit or loss over the required employment period in accordance with IFRS 3. The balance of consideration will be capitalised

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