

ASX Announcement

Perpetual achieves strong 1H14 result and accelerates growth with successful acquisition of The Trust Company

27 February 2014

Highlights

- Underlying Profit After Tax (UPAT) of \$48.1m, up 37% on 1H13, supported by an increase in average All Ordinaries¹ of 18%
- Statutory Net Profit After Tax (NPAT) of \$33.3m, up 22% on 1H13, reflects acquisition of The Trust Company, including transaction and integration costs
- Fully franked interim dividend of 80 cents per share up 30 cps or 60% on 1H13
- Strong improvement as a result of Transformation 2015 strategy, improvement in net funds flow and one month's contribution from The Trust Company
- Transformation 2015 (T15) on track with annualised pre-tax run-rate cost savings of \$44m at the end of 1H14 and growth strategy accelerated by The Trust Company acquisition
- Funds under management at 31 December 2013 of \$30.4b, up 20% since 30 June 2013 and up 9.4% since 30 September 2013²
- Total net flows up 17% on the same period last year³
- Perpetual Investments unrivalled investment performance continues

Perpetual Limited (Perpetual) today announced an Underlying Profit After Tax (UPAT) of \$48.1m for the six months to 31 December 2013, up 37% on the same period last year. Statutory Net Profit After Tax (NPAT) of \$33.3m represents an increase of 22% on the first half of 2013.

Perpetual's Chief Executive Officer and Managing Director Geoff Lloyd said the significant improvement on the prior period reflects the disciplined execution of the Transformation 2015 (T15) strategy as well as stronger equity markets.

"Our T15 strategy mapped out a course to fix and grow Perpetual. We are on track to deliver the \$50m annual pre-tax savings target set for the fix component of the program," said Mr Lloyd.

¹ Australian S&P/All Ordinaries Price Index

² Includes \$1.3b from The Trust Company

³ Excludes Corporate Trust Fund Services funds under administration

“Importantly, our growth agenda has been accelerated by the exciting acquisition of The Trust Company in December, which has added significant scale and capability to our business.

“There is a strong sense of achievement and momentum across the organisation as we see the benefits of disciplined execution.

“Our relentless focus on reducing costs and driving growth initiatives to improve flows and revenues, while maintaining client advocacy, has put us in a good position to bring together Perpetual and The Trust Company in a way which benefits our clients, shareholders and employees,” he said.

Mr Lloyd said Perpetual’s asset managers continue to achieve outstanding investment performance, with T15 distribution initiatives resulting in improvements in net flow.

“We are pleased to be back in inflow, with a 17% increase in total net flows when compared to the same period last year⁴,” Mr Lloyd said.

The Perpetual Board has resolved to pay a fully franked interim dividend of 80 cents per share, an increase of 30 cents per share on the same period last year.

Transformation 2015 strategy on track with growth accelerated by The Trust Company

Underlining good progress on cost management initiatives from T15, Perpetual delivered \$19.6m in pre-tax cost savings in the first half of 2014 compared to \$11.1m in 1H13 and \$13.6m in 2H13.

Annualised pre-tax run-rate savings of \$44m at the end of 1H14 represent approximately 90% of the programs’ target of \$50m before tax. Continued reduction in employment costs was the key driver of expense savings for the period.

“The T15 program has fundamentally changed our business model. With the right framework in place, we are now clearly focussed on completing all planned cost initiatives and delivering both organic and inorganic growth,” Mr Lloyd said.

The group’s growth strategy was accelerated in December 2013 with the acquisition of The Trust Company.

“Since we commenced our T15 program in June 2012 and now boosted by The Trust Company, Corporate Trust’s funds under administration is up 63%, Perpetual Private’s funds under advice is up 49% and Perpetual Investment’s funds under management has increased 22%,” Mr Lloyd said.

“Acquiring The Trust Company was a highlight of the past six months and I’m pleased with the progress on integration. Using the capabilities and processes of our proven T15 model, we are focused on improving efficiency and profitability, while leveraging the scale of the new combined business,” he said.

The Group expects to generate annualised pre-tax run-rate synergies of at least \$15m by the end of the second year post acquisition, which is December 2015.

⁴ Excludes Corporate Trust Fund Services funds under administration

Business Unit Overview

Perpetual Investments

Perpetual Investments delivered a profit before tax of \$56.1m, a 41% increase on the same period last year.

Positive movements in equity markets, improvement in net flows and continued focus on expenses has seen profit margin on revenues grow from 43% in 1H13 to 46% in 2H13 and 51% in 1H14.

Funds under management at 31 December 2013 was \$30.4b which included \$1.3b from the recently acquired The Trust Company business, compared to \$25.3b at 30 June 2013, an increase of 20%.

The average funds under management for the period was \$27.7b with a revenue margin of 78bps.

With consistent, outstanding investment performance, Perpetual Investments' funds continued to be positively rated by research houses during 1H14.

"Perpetual clients continue to benefit from the professional investment expertise and consistently strong investment performance of our fund managers.

"Part of T15 has involved improving our distribution channels and achieving better recognition of this expertise and performance. These efforts have begun to pay off and we are now seeing improved flows," said Mr Lloyd.

Perpetual Private

Personal advisory service, Perpetual Private's profit before tax of \$4.9m represented an increase of 11% from 1H13 and an increase of 2% on 2H13.

Funds under advice of \$9.7b at the end of 1H14 was an increase of 10% and 8% on 1H13 and 2H13 respectively.

"We have been rebuilding Perpetual Private to simplify and refocus it for growth," Mr Lloyd said. "We now have a new sales and service model with absolute clarity on our chosen high net worth target segments.

"Momentum is good with first half flows up on last half, growth in our number of clients, alliance partners and referrals, as well as industry recognition for our range of advisory services.

"This makes The Trust Company an exciting addition for Perpetual Private, with increased scale to leverage, a broader offering and an expanded client base," Mr Lloyd said.

Corporate Trust

Corporate Trust's 1H14 profit before tax was \$10.5m, an increase of 22% on the prior period. The business generated a profit margin on revenue of 42% for the period. Total funds under administration at 31 December 2013 increased to \$294.2b, up 18% on 1H13 and 13% on 2H13.

"After selling three non-core administration businesses, we are concentrating on our core expertise of corporate fiduciary services and this is delivering improved performance.

“During this half, Corporate Trust was appointed by some thirty new clients, underpinning future revenue growth. Furthermore, the acquisition of The Trust Company is expected to further improve underlying profitability due to increased scale, particularly in the fund services segment, as well as the potential to increase activity in the established Singapore business,” he said.

Outlook

The strong first half of 2014 clearly shows that the Transformation 2015 program has delivered significant benefits in cost savings, greater management focus and both organic and inorganic growth.

Mr Lloyd said: “Looking ahead, we remain focussed on delivering our T15 commitments in order to continue simplifying, refocusing and growing Perpetual. With strong results for the first half of 2014, we look forward to continuing the momentum throughout this year and beyond.

“I am confident that a leaner, more profitable Perpetual is well placed to benefit from long term market growth, improving investor and consumer sentiment, and growing retirement savings,” he said.

The outlook is subject to there being no material deterioration in the financial markets and business conditions over the remainder of FY14.

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About Perpetual

Perpetual is an independent financial services group operating in funds management, financial advisory and trustee services. Our origin as a trustee company, coupled with our strong track record of investment performance, has created our reputation as one of the strongest brands in financial services in Australia. For further information, go to www.perpetual.com.au