St. James's Place 2024 Half Year Results Presentation – 30 July 2024 Transcript

Opening remarks:

Mark FitzPatrick - Chief Executive Officer:

Good morning and thank you for joining us today. It's Mark FitzPatrick here. Before we open up for questions, I wanted to reiterate three key takeaways from our half year results announcement and the presentation you have just seen.

1. Firstly, our business is performing well. We have delivered robust business performance and strong financial performance during the first half of 2024, demonstrating the continued resilience of our business model despite the challenges I set out earlier in the year.

   We have seen high levels of activity and engagement between our advisers and our clients, contributing to positive flows. We have achieved record funds under management, delivered a good outturn for the Cash result and grown the client base. We remain in good shape.

2. Secondly, we are positioning for further success in an exciting market with structural growth drivers and rising demand for advice. We have a redefined purpose and a refreshed strategy, which will see us embrace change, drive growth, simplify and standardise, and exercise discipline around costs.

   As we continue to attract new business, maintain high levels of client retention, and deliver for clients through our investment management approach, I am confident that we will be able to deliver mid to high single-digit annual growth in funds under management over time and double the Underlying cash result from 2023 to 2030.

3. Thirdly, we expect to deliver on our ambitions. We will increase strategic investment in the business, which will be funded through optimising our cost base. Our ambition is to save approaching £500 million through to 2030, net of the cost to achieve. We plan to reinvest approximately half of these savings once they have been realised to drive future growth.

   Our priorities for investment will be enhancing our technology and data capabilities, expanding our client proposition and broadening our investment shelf. These will support our operational performance, adviser productivity growth, and further enhance our client offering. All of this means I'm really excited for our future and my conviction in SJP is strong and we have a fantastic opportunity ahead.

We'll open up now for questions.

Q&A

Enrico Bolzoni – JPMorgan:

Good morning. Thanks for taking my questions.

1. One question on the very exciting plan of doubling the Underlying cash result, I just wanted to understand the thinking behind - so if I simplistically look at where consensus is sitting for the Underlying cash result for, let's say, 2028, I add net of tax the £70 million cost benefit that you plan to achieve, still I would need to imply above 20% CAGR in Underlying cash results in 2029 and 2030 - so was just keen to understand if you can give some colour on what is going to drive this last acceleration? Or contrary to that, if you think that consensus into 2028 is a bit soft?

2. The second question is on what you mentioned with respect to the high net worth segment, which sounds interesting. Can you just give us some colour in terms of how quickly you think you can expand your market share there? What are the specific initiatives you can roll out to achieve that? And will this be achieved via Rowan Dartington, or it would it be as part of the main business? Thanks.

Mark FitzPatrick - Chief Executive Officer:

Enrico, thank you. Let me start with the second question, the high net worth, and then I'll ask Craig to chat about the shape of consensus.

In terms of the high net worth, at the moment we have, as you would have seen from the slides, about 9% of our FUM in the high net worth segment of the market and the market has about 14%. So, we think there's an interesting opportunity to go for.

We also believe that the high-net-worth segment is going to grow slightly faster than the affluent and the mass affluent parts of the market, so that also makes it attractive. We see high net worth being a key component over the course of the Amplify phase of the strategy, which is when we're going to be focusing on the real growth accelerators. We think extending our investment proposition will help increase our market share.

We will support more of our advisers to be confident and comfortable engaging in this part of the market. We have some Partners and advisers who are phenomenally successful and phenomenally good at supporting clients in this space. Clients in this space tend to have slightly more complex needs, and therefore ensuring that we are able to support Partners, advisers and clients in this space is going to be an important component, as well as giving enhanced access to some of our specialist investment teams.

We think it's an exciting opportunity ahead of us, but I don't think you should expect to see anything happening significantly over the course of the next couple of years in that space.

On the consensus, Craig?

Craig Gentle - Chief Financial Officer:

Yes. I think the other factor that you might need to take into account here is what I would describe as the structural recovery that we see in Underlying cash that really starts in 2027 onwards. It's the reflection of the fact that from the middle of next year the Cash result sees the removal of the initial charges. You begin to see two feeders into what we currently call 'mature funds under management'. You get the benefit of new business coming in, but you also get the benefit of the unwind of those amounts that sit in gestation. Consensus is always an average; the output of any consensus will always depend on the modelling approach that is taken in those latter years.

Andrew Crean - Autonomous Research:

Good morning. I have three questions.

1. Firstly, could you talk a bit about the adviser numbers? I see they are relatively flat in the six months. What is your medium-term growth ambition on adviser numbers?
2. Secondly, Partner lending, is there a plan to take all Partner lending off balance sheet?
3. Thirdly, there is very little mention of Asia or DFM, and certainly DFM's loss is supposed to be breaking even this year. Could you talk about whether you think SJP is still the best owner of those two businesses?

Mark FitzPatrick - Chief Executive Officer:

Andrew, thank you for your three questions.

Let me start on the adviser numbers, I'll then hand over to Craig for the Partner lending and then come back to the Asia and DFM question.

In terms of adviser numbers, we continue to be confident in the growth of our Partnership. We are going to really focus on driving productivity and supporting our Partners in their quest to make sure that they are the top end of quality that we see in the marketplace.

We continue to see a good pipeline in our Academy which continues to increase the number of advisers. The training that they get is very, very strong. Indeed, over the last five years, we have trained around half of the new advisers in the industry through the Academy. So, the Academy will continue to be an important component of our strategy.

We do expect adviser numbers over time to continue to grow. But it's not the key statistic that we are focusing on. Our focus is on better utilising the power of the largest group of advisers in the UK market by driving higher productivity and really enhancing the quality. That's why one of the areas we are looking to invest in going forward, Andrew, is around how we improve the Partner and client experience through enhancing some of our technology. Our core technology stack is sound, as I mentioned earlier on today. The Bluedoor and Salesforce systems are sound, we see no need to change those. It's around the adjacencies that there is a lot that we can do to make that whole process far more straight-through and enable our Partners and advisers to spend more time in front of their clients, which is where they are at their best, rather than tied up in a whole lot of admin-related matters.

Craig Gentle - Chief Financial Officer:

Andrew, the question was whether we can see a situation where it's all off balance sheet. I don't think I can see that situation, but I can see a situation where more of it is off balance sheet. If I think about the way Partner lending has developed over the years, it started very much as balance sheet activity. We then moved into what we call 'Direct-to-Partner' lending, which makes use of other organisations' balance sheets, but involving guarantees. More recently, we moved towards securitisation.

You used the expression 'off balance sheet', I think that's one way of looking at the objective but the other way of thinking about the objective is non-recourse. That's where securitisations can really work, because although from an accounting perspective you are required to keep the loans on the balance sheet, they are actually non-recourse, other than any junior notes. You would have seen back in 2023, we did a material outright sale, and that sort of describes the life cycle of Partner lending within SJP.

I think the corporate balance sheet, whether it's on the balance sheet itself or within the securitisation, will always have a role to play in the origination of lending and the seasoning of lending before it moves into securitisations ready for outright sale. So, I think the answer to your question put simply is no, I can't see it all being off balance sheet. I think the objective that we've set for ourselves, quite rightly, is to get as much of it as is realistic off the balance sheet, whilst remaining in full control of what is actually a really important part of our Group operations.

Mark FitzPatrick - Chief Executive Officer:

Great. Thank you. Finally, Andrew, on the Asia and DFM piece. The business review focused on the UK, which is 97% of our business. The team have done a lot to improve performance in Asia and in RD over the course of the last few years, RD is still expected to breakeven during the second half of this year. They are both great businesses and we are going to stay focusing on improving performance and reducing the net investment.

David McCann - Deutsche Numis:

Good morning, everyone. Three questions from me as well, please.

1. You talked in the presentation about the improving relationship with the regulator. Can we deduce from this that it's now highly unlikely that you would have to make any further changes to the charging model over and above that you have already announced? Or would that be a premature thing to think about?
2. What gave the Board the confidence to effectively bring forward the share buyback compared to what I think most people were expecting, given the multiple challenges and uncertainties you do still have in the business?
3. You talked about a high single-digit growth rate in funds under management. Can you confirm are you talking in pounds or percentage?

Mark FitzPatrick - Chief Executive Officer:

Firstly, of the regulatory relationships, I asked the regulator before this call what could I say if the question came up and the view from the regulator was you can say that the relationship has improved. The relationship is getting stronger, it is a robust conversation, but it's a very open and a very, very transparent conversation. I think that's, by and large, what a regulator asks of any of the organisations that they regulate and what we ask of our regulator.

We are having very frank, very open conversations with them. I'm not expecting there to be any real changes to the work around the fee structures going forward. We are doing the heavy lifting, preparing for all the changes that Craig and the team announced at the back end of last year, so that's a key focus and we are spending lots of time, lots of energy, ensuring that we can launch that successfully.

In terms of the buyback, Craig?

Craig Gentle - Chief Financial Officer:

Probably four things I'd cite, David.

1. The operating environment is something we take into account;
2. The rhythm of emergence of value in the Cash result that you can see in the numbers that we have published today;
3. You talk about the uncertainties. The fees and charges changes project is making really good progress; and
4. On the subject of the provision, there is nothing that has happened that undermines our confidence that the level of provision that we set was adequate and appropriate.

Taking all of those into account, the decision was made.

Mark FitzPatrick - Chief Executive Officer:

Your last question, in terms of the mid to high single-digit, that's a percentage growth that we're looking at, David.

Larissa Van Deventer – Barclays:

Thank you. Good morning and congratulations on very strong flow numbers. Two quick ones from my side.

1. In the implementation of the cost cutting as well as the investment in new initiatives, what do you consider the biggest hurdle to be?
2. You mentioned simplification and automation of processes. Could you give us an indication of which areas you plan to focus on first, please?

Mark FitzPatrick - Chief Executive Officer:

Larissa, firstly thank you for that opening. In terms of the biggest hurdle around the cost reduction, I think it is ensuring we do it in a very controlled, very measured way, bring everybody along the journey, and don't inhibit our growth opportunity and the potential we see ahead of us. We will be protecting the efforts and energies around the implementation of our revised charging structure to make sure it continues at pace.

In terms of the investment piece, it is going to be a laser-like focus in terms of prioritisation to ensure that we get the best bang for buck and perform very careful benefits tracking.

For simplification and automation, a key thing is the interface that our advisers and their teams have with us, trying to automate that process as much as possible. At the moment, we have multiple ways of doing things, multiple ways that people can submit new business. I think it's easier in the long term for our clients, advisers and their teams, and our admin processing systems if we have one, simpler way of doing things so that it becomes straight-through. It becomes automated and we minimise the amount of human interaction through the admin process, enabling us to maximise the human interaction in front of clients during the financial planning stage.

Gregory Simpson - BNP Paribas:

Hi. Good morning. Three from my end:

1. Could you talk a bit about the cadence of complaints in this period? I know last year we saw the spike. How has that evolved this year in terms of the experience of incoming complaints and the claims of firms?
2. Could you talk a bit about the impact of the loans on movements between the Partnership? How much of it is an obstacle for advisers from the Academy joining the Partnership, the fact that taking out a loan now is quite expensive?
3. For the latest disclosure on cash emergence from gestation, if I compare the illustrative figure versus the stock gestation, I get a 60 bps margin. The same number at the full year stage was 57 bps. I just want to check if there's any kind of moving parts there. Is 60 bps still a good figure for the illustrative emergence of cash in gestation?

Mark FitzPatrick - Chief Executive Officer:

Greg, thank you. I'll start by talking about your first question and then hand over to Craig to talk about the loans and cash emergence figure. Unsurprisingly, we saw a spike in the level of complaints in March after the announcement in February. I'm pleased to say that we have seen a dramatic falloff in complaints over the course of the second quarter and into the beginning of the third quarter.

Craig, are you able to talk on the loans?

Craig Gentle - Chief Financial Officer:

I'll split that into two. Let's think of it in terms of somebody who's already completed a transaction and somebody who may be minded at some point in the future to complete a transaction. As I said in my presentation, I think interest rates going up is always unwelcome for any business that borrows. That's very, very clear but it's also important having identified that as a headwind to try and identify where the tailwinds are. They may not fully compensate, but the fact that the markets have performed in the way that they have is obviously positive for clients, it's positive for advisers because that influences the cash flows that they receive. The net position for somebody who has already borrowed will obviously differ business by business but it is important to remember both sides of that equation and that is very much reflected in the structure of the borrowing.

For somebody contemplating a future transaction, I think it's always the case there always has to be a point at where supply meets demand. Values will always vary and that could push a value up or down depending on what the perception of the operating environment is. It's also important to remember that somebody taking out one of these loans will have a view of what the long-term rate is and what the long-term return from the business they are acquiring is.

Mark FitzPatrick - Chief Executive Officer:

Approximately 80% of individuals that graduate from the Academy tend to move into existing businesses. 20% might set up their own businesses and they may wish to buy in, or they may wish to build up.

We effectively ensure before we let advisers loose into the big world that they're given a lot of support, a lot of encouragement and a lot of oversight from our Field team so by the time they 'go at it alone', as it were, they have an established footprint, they have an established business off which to be able to build.

Craig Gentle - Chief Financial Officer:

I think the final question was on gestation. In short, yes, it's a good number. You do find that periodically there are refinements to the forward modelling for the impact that gestation will have as it unfolds into the Cash result, but you should be using those figures.

Ben Bathurst - Royal Bank of Canada:

Good morning. I've got questions in three areas as well as if I may:

1. I'll start with one on the advice evidencing provision. Craig, I think you referenced the potential for some form of recovery from the Partnership for the Group. Can you elaborate on the circumstances when you think the Group will be eligible for recovery for these issues from Partners responsible? Would you expect all responsible Partners to make some form of contribution to a recovery?
2. In light of speculation around the potential for changes to pension tax relief, could you update us on the proportion of gross inflows into SJP pensions that comes from transfers from DC pots that are effectively already invested rather than fresh cash?
3. On the FUM and cash growth targets, can you confirm what the market return assumption is that is underlying those targets?

Mark FitzPatrick – Chief Executive Officer:

In terms of the ongoing evidencing compared to historic evidencing component, we have spoken to the Partners. They are supportive of the direction of travel that we are undertaking. I think they recognise that this is a broader issue and is unlikely to be idiosyncratic to SJP.

We have agreed with the Partnership that they will make a contribution dependent upon the underlying evidence. If there are some Partners for whom records are missing or just not available and those gaps are more pronounced, they will make a larger contribution. For those where the evidence is intact and able to be demonstrated, then they would not make any contribution. It's going to be very much based on the overall evidence.

In our growth ambitions, we're looking at around a 4-5% market return assumption. Then the pensions tax, Craig?

Craig Gentle – Chief Financial Officer:

Yes. It's not something we disclose but for the purpose of this conversation you should assume that the majority of our pensions' inflows are transfer related.

Steven Haywood – HSBC:

1. You just highlighted the 4-5% market investment return. Can you tell us whether that is before or after the annual charges that are taken on funds?
2. Can you repeat what you said about the trend in complaints currently?
3. One question on the growth in costs going forward; it's always been an underlying growth level of around 5% per annum. Is this going to continue at this level, or should we assume a different underlying level before we take into consideration the cost savings? If you look at the £30 million per annum in 2027, the £50 million in 2028 etc, that run rate, and assume an underlying 5% growth in costs, then the cost savings in 2027 and beyond keep the total cost base roughly flat. If you can give us an update on the underlying growth in cost base, that would be helpful.

Mark FitzPatrick – Chief Executive Officer:

In terms of the market return, that is after the various fees.

Secondly, complaint levels in March were particularly high, expectedly so given the announcements that we had made at the end of February. We have seen in the balance of the second quarter the level of complaints come down significantly and they continue to come down during July so far.

As for growth in costs, I think you should expect to see the underlying cost level increasing by and large in line with what we have done in the past. I don't think we are expecting anything heroic over and above what we have done in the past. It's a discipline and a mindset that we have in terms of cost management, but also our overall focus, as you would have seen from today's announcement, is our commitment and our focus in terms of doubling the Underlying cash position by 2030.

Nasib Ahmed – UBS:

1. On shareholder returns and cash. You have reduced the payout ratio to 50% by 2026. Should we expect it to go back to 70% by 2026?
    a. The bridging loan facility of £250 million that's maturing in 2026, presumably you want to build up some cash to pay that down and once that's done, the payout ratio can go up - is that thinking correct?
    b. How much distributable cash do you have at the moment? You disclose a liquidity number, but it seems like the actual accessible cash is much lower.
2. The last time you disclosed the Flagstone balance it was around £4 billion. How has that moved? What is the thinking around your cash proposition and when do you think you will have it implemented?
3. Finally, on the FCA Advice Guidance Boundary Review. What are your thoughts on that? What's your preferred option? I think a lot of the insurers are excited about it and think they can retain a lot more business. What is the potential impact for your business from that? Thank you.

Mark FitzPatrick – Chief Executive Officer:

Firstly, in terms of shareholder returns and cash, at this stage we're not making any commitment to what may or may not happen. Effectively, a decision point for the Board will be February 2028 off the back of the 2027 results, so we're not going to front-run what the Board may decide but you should plan for now the ongoing 50% payout ratio.

Loan facility and distributable cash, Craig.

Craig Gentle – Chief Financial Officer:

I think on that loan facility that we disclosed for the year-end we should regard that as being a safety layer that we have introduced. It is a decision we made at that time and it is still there, as you can see in the accounts. I don't see that as something that influences available cash one way or another, so it's there to serve a very specific purpose.

The whole point about accessible cash is really dependent on timing. At any given time there is a lot of cash emerging within the business, but it doesn't become accessible until you see an intra-Group dividend and because a lot of our income comes from the UK life company, that dividend is paid once a year. It becomes accessible at the point at which you want it to become accessible, which is immediately prior to the payment of a Group dividend.

Mark FitzPatrick – Chief Executive Officer:

The Flagstone balance has increased to £4.3 billion at the end of June, and was £3.9 billion at the full year. As regards to the exact timing of when we will have a cash type facility, again, that's something that we will really be focusing on as we get into the Amplify stage. We will do preliminary work now, and as soon as there is something meaningful to discuss I will look to update the market.

Nasib, your final question was around the Advice Guidance Boundary. We continue to work very closely with the FCA, government and Treasury on the different aspects of that. Let's see where that goes, I'm conscious that government has a lot of issues and a lot of things to grapple with on its plate as we heard from the Chancellor yesterday. We will continue to provide input, but it's too early to tell where it is going to go at the moment and what primary or secondary legislation may be required in order to enact anything that they ultimately come out with.

Nasib Ahmed – UBS:

Sorry, can I just follow-up one clarification on Craig's response on the cash balance? I understand the remittance is coming up from the Life company, but how much cash do you have in the Life company that you could remit up over time as of 1H 24. I know the solvency is really strong, but how much is actually distributable out of the Life company?

Craig Gentle - Chief Financial Officer:

The way you should think about it is that the cash available at the point at which we require it to be available will be equivalent to the amount that we are able to distribute under IFRS, because IFRS, coupled with liquidity of course, tends to be the main factor within the life company for that. The number today isn't really a relevant figure, it's the way we see profits emerging in the Life company available for distribution in late February 2025.

Concluding remarks:

Mark FitzPatrick - Chief Executive Officer:

Thank you very much, everyone, for your questions and engagement. To conclude from my side, my conviction in SJP is strong and we have a fantastic opportunity ahead. The business is performing well, showing the continued resilience of our business model and the value our clients placed on the trusted relationship they have with their adviser. We are positioning for further success with a refined purpose, and refreshed strategy.

We will invest in the business to drive future growth, which will be fully funded by optimising our cost base. This will help us achieve our ambition to deliver the mid to high single-digit annual growth in funds under management and doubling the Underlying cash result from 2023 to 2030.

I look forward to talking to many of you over the coming days. Thank you for engaging and thank you for your continued support. Goodbye.