

AFH Financial Group PLC

Alan Hudson A.P.F.S
Chartered Financial Planner
CEO



The IFA Sector – Attractive Growth Opportunities

- IFA/Advice Sector
- Strategy & Financials
- Acquisition Model
- Summary
- Appendices



IFA/Advice Sector



IFA/Advice Sector

- A sector that is consolidating rapidly
- 11,000 Firms in total
- Nearly 60% of firms are sole traders
- 92% of firms have less than 5 advisers
- Only 13 firms have more than 100 advisers
- The average age of an adviser is 58 years
- Drivers to consolidation
 - Demography
 - Regulation
 - Commercial
- FT adviser survey
 - 30% looking to sell in the next two years



Strategy & Financials



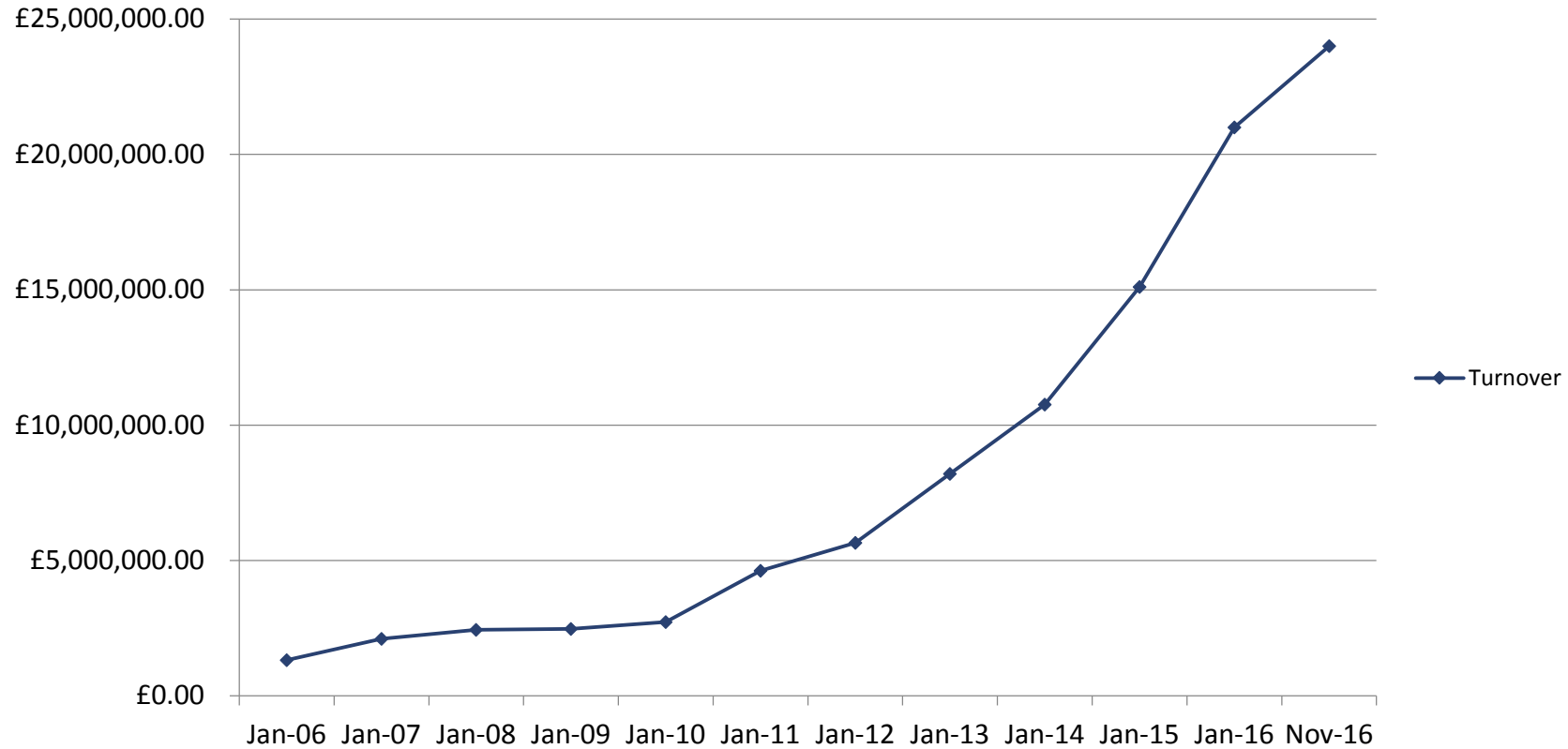
Strategy

- Financial Planning led Wealth Management
 - Better for clients
 - Captive distribution
- Financial Planning led service to clients
 - 35% of revenues generated from initial financial planning for clients
- Serving both the mass affluent market (over £50,000 investment portfolios) and high net worth
- Discretionary management of portfolios since 2008



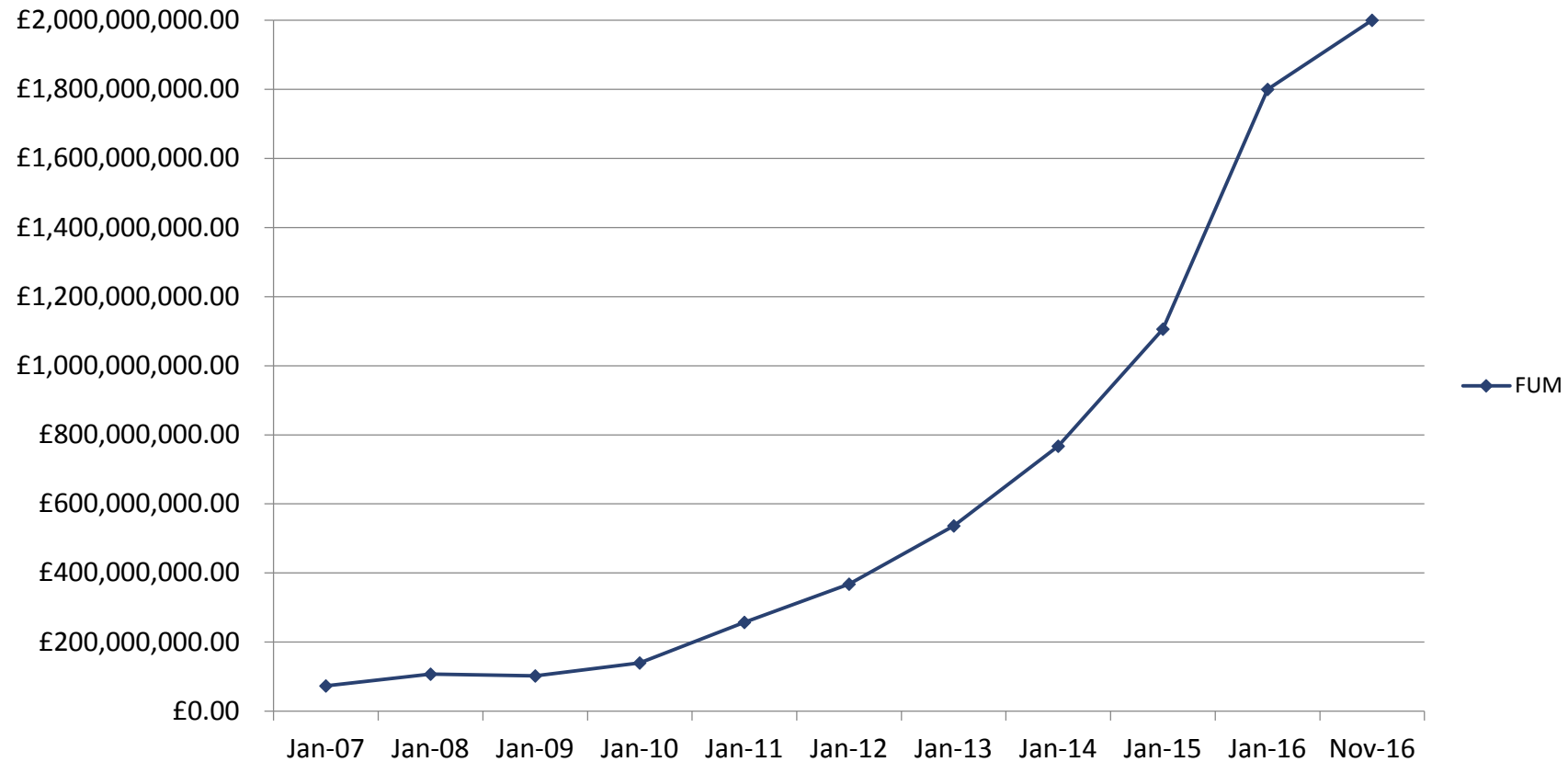
Financials

Annualised Revenues



Financials

Funds Under Management



Financials

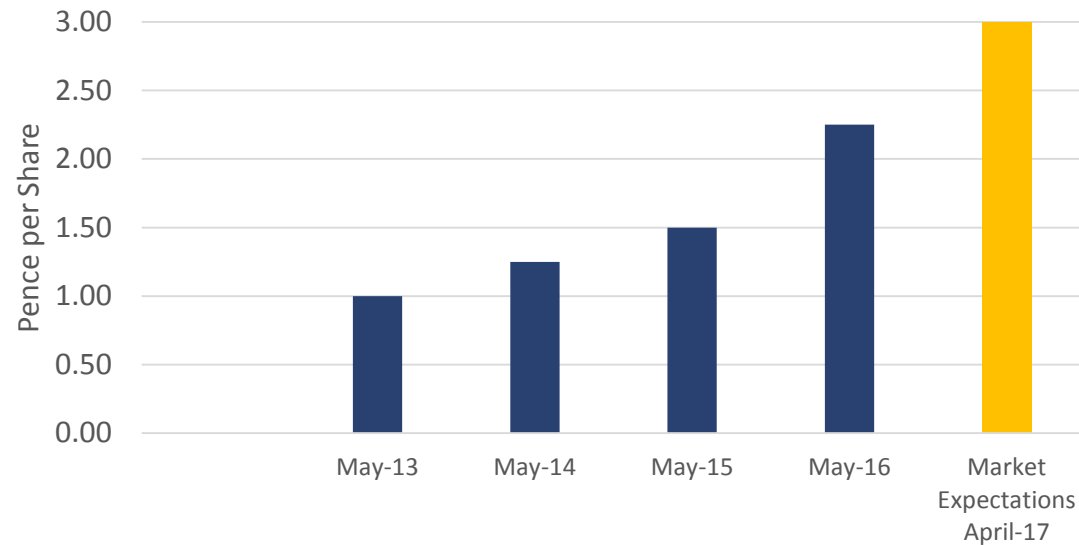
Results for the six months ended 30 April 2016

- Revenue up 42% to £11.7 million (H1 2015: £8.22 million)
- Recurring investment management revenue as a percentage of total revenue maintained at 66% (H1 2015: 66%)
- EBITDA up 43% to £1.43 million (H1 2015: £1.0 million)
- Earnings per share up 35% to 2.9 pence (H1 2015: 2.15 pence)



Financials

- Trading update as of 14/11/2016
 - T/O expected to be over £24m
 - FUM over £2bn
 - Strong pipeline of acquisitions
 - Cash reserves circa £7m
- Progressive dividend policy
 - Dividend History -



Acquisition Model

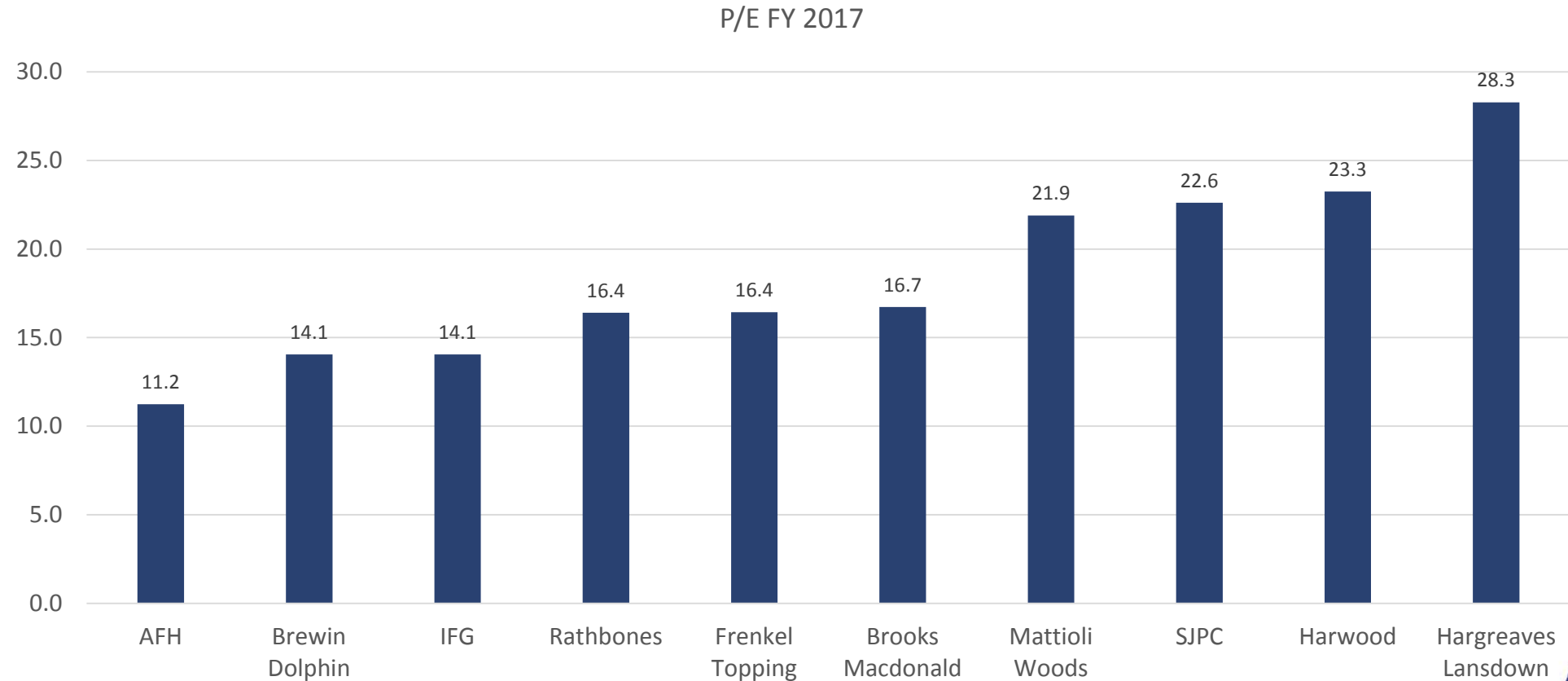


Acquisition Model

- Multiple arbitrage
 - Acquisitions made based upon 3 to 4 times EBITDA
 - We would expect to be valued in excess of 10 x EBITDA
- Advice risk
 - No advice risk on asset purchases
 - Vendors indemnify us against advice risk on share purchases
- Payment profile
 - 50% on completion/25% after 12 months/25% after 24 months
 - Consideration is reduced if the acquisition does not provide the targeted EBITDA
- Deferred consideration payments
 - Exceed 90%



Current Valuation



- AFH Market forecast P/E based on organic growth only



Summary



Summary

- Inheritance tax BPR qualifying
- Can also be held in ISA's and SIPP's
- Growth stock but with a dividend
- Under valued by comparison with its Peer Group
- Cash on balance sheet about to be deployed which will be earnings enhancing



Appendices

- **Models in the wealth management and IFA market**
- **Growth strategy**
- **Business model**
- **Acquisition model**
- **The IFA sector**
- **Typical risk based client portfolio models**



Models in the Wealth Management and IFA Market

- **Traditional wealth managers**
 - Dependent on 3rd party distribution including IFAs
 - Fees based on commission but trying to move to service based propositions
 - Highly correlated to market levels and activity
 - Less than 10% of income traditionally linked to financial planning
 - All targeting the top 5% of the investor market



Models in the Wealth Management and IFA Market

- **Network IFAs**
 - Low margin high risk operations
 - Accept advice risk of (generally) small IFAs with little control over that advice
 - No central branding or offering
 - No control over the client profile



Models in the Wealth Management and IFA Market

- **Independent Financial Advisors**

- Traditionally small businesses or sole traders
- Generally outsource investment needs
- Advisory rather than discretionary service to clients
- Basic systems and controls

- **Consolidators**

- Private Equity backed – seen as short term financial engineers
- Product providers – seeking distribution but not core to the business



Growth Strategy

- **Organic growth**
 - Recruitment of registered individuals
 - Increase in revenue per adviser and clients per adviser
- **Acquisitive growth**
 - Buy & Go – client list and recurring revenue acquired but advisers leave / retire
 - Buy & Keep – client list and recurring revenue acquired and some or all advisers join AFH
- **Numerous acquisition opportunities**



Business Model

- **Financial planning led wealth management**
 - In house distribution capability through self employed and employed IFAs
 - Vertically integrated with discretionary and advisory investment management
 - In house investment team of 35 led by experienced wealth management professionals
 - Use of our own funds where appropriate
 - Mass Affluent and High Net Worth client base
- **Centralised employed staff providing:**
 - administration, compliance, technical, training and marketing support
 - investment management and research



Acquisition Model

- Total consideration typically 3 -4 times projected EBITDA
- Total consideration calculated on basis of two year earn out
- Initial payment limited to 50% of maximum consideration
- Following the initial period the model ensures positive cash generation (excluding corporation tax on profits) in years 2 onwards
- Full acquisition cost self financed from year 4
- Cash and equity used in larger acquisitions for both initial and deferred payments
- Successful track record of integration and client retention



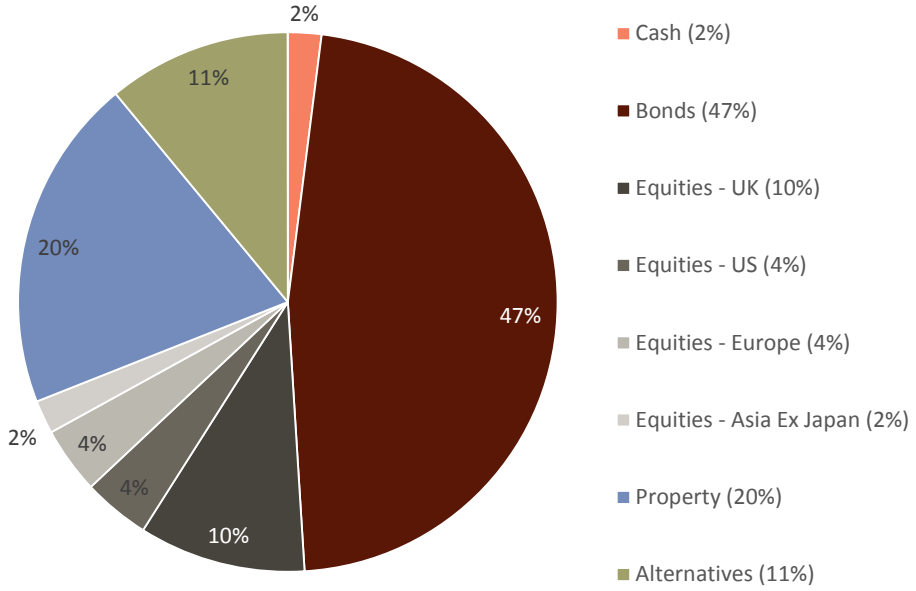
The IFA Sector – Attractive Growth Opportunities

- **Growing demand for distribution channels**
 - Large wealth managers and product providers targeting IFA sector to gain / protect distribution
- **Anticipated increase in demand for financial advice in the UK**
 - Increase in life and work life expectancy
 - Increase in disenfranchised clients post RDR
 - Increase in UK population
 - End of compulsory annuities for defined contribution pensions
 - Decline in availability of final salary pension schemes

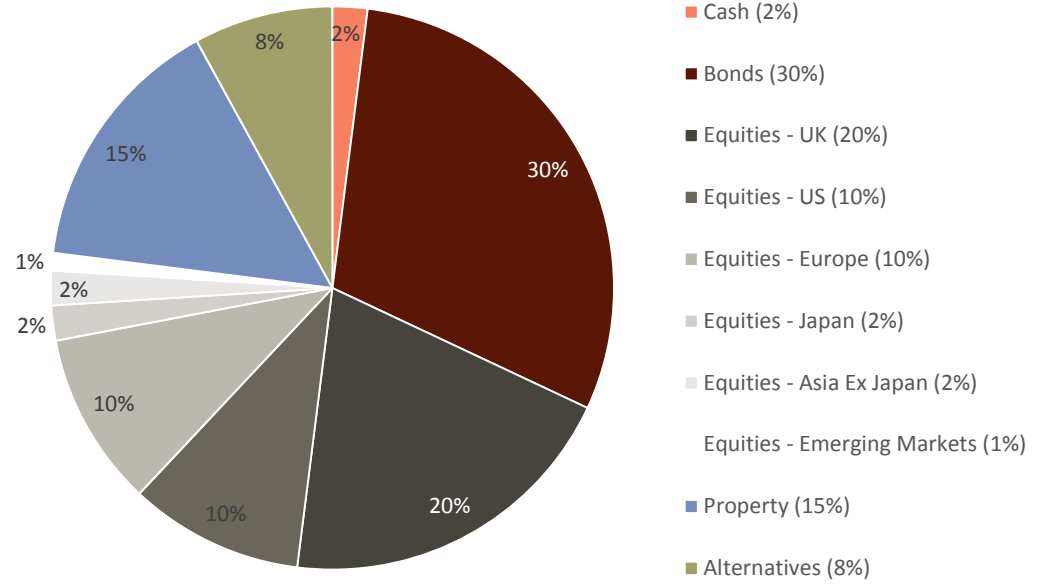


Client Portfolio Models

AFH Portfolio - ATR 1

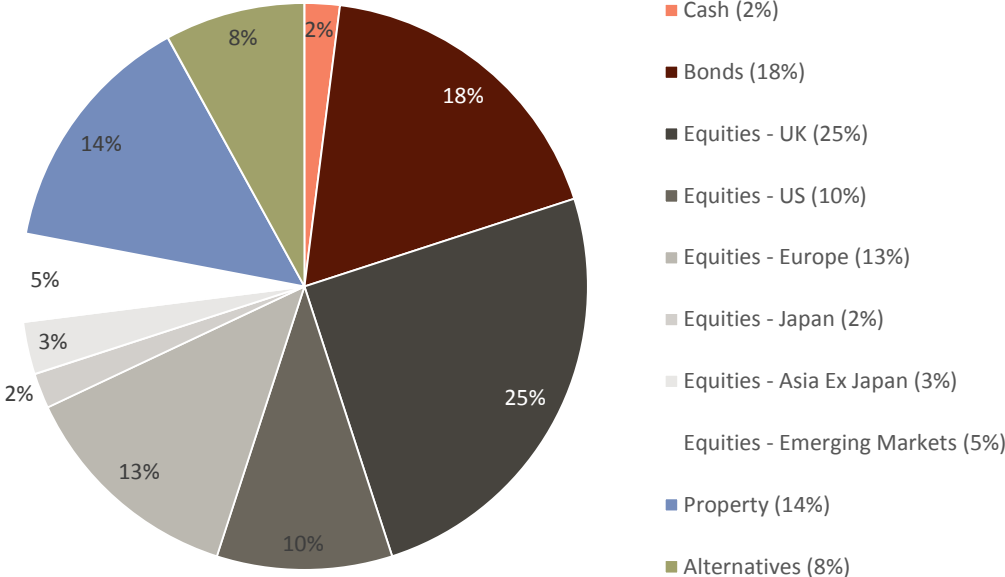


AFH Portfolio - ATR 2

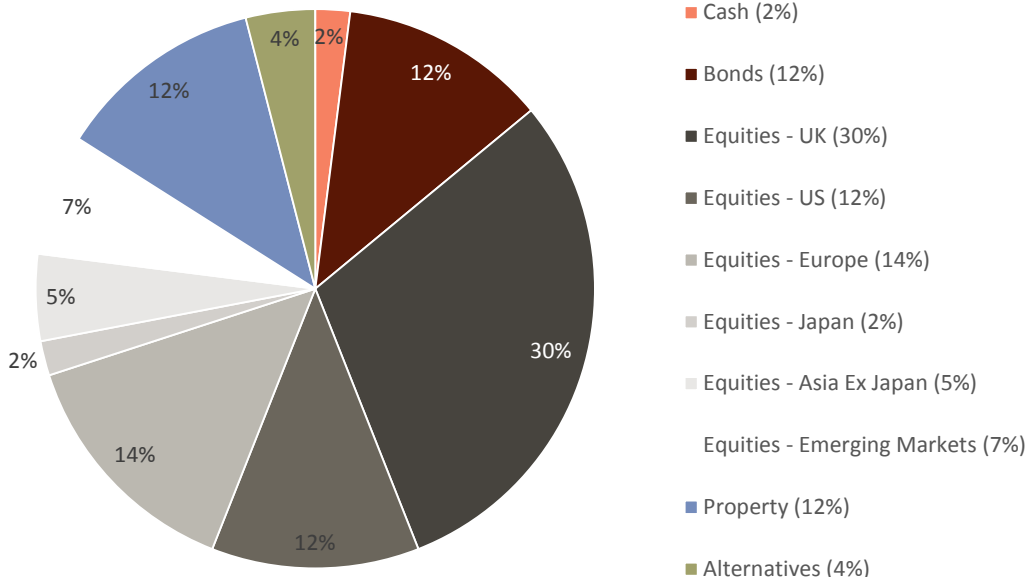


Client Portfolio Models

AFH Portfolio - ATR 3

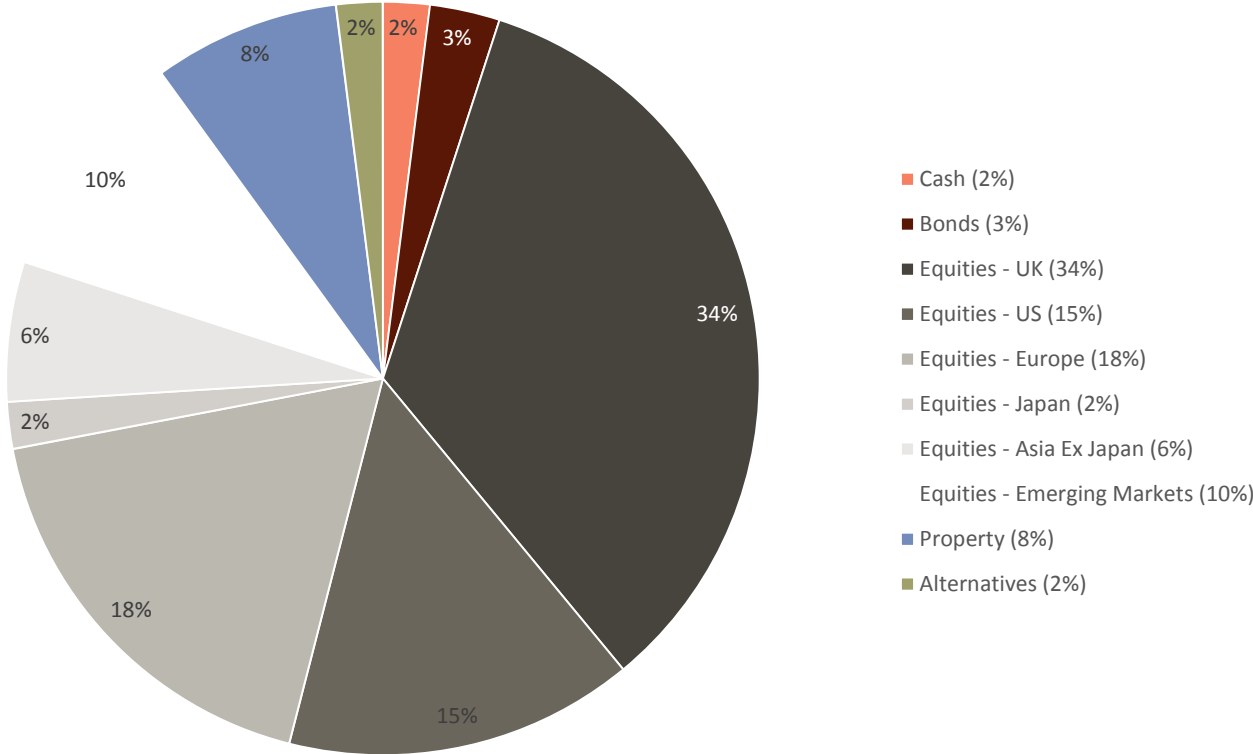


AFH Portfolio - ATR 4



Client Portfolio Models

AFH Portfolio - ATR 5



Disclaimer

- The content of information contained in this presentation has not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 (“FSMA”). Reliance upon this Presentation for the purpose of engaging in any investment activity may expose an individual to a significant risk of losing all of the property or other assets invested. If any person is in any doubt as to the contents of this Presentation, they should seek independent advice from a person who is authorised for the purposes of FSMA and who specialises in advising in investments of this kind.
- This presentation is the sole responsibility of the directors AFH Financial Group plc (the “Company. Liberum Capital Limited (“Liberum”), which is authorised and regulated by the Financial Services Authority, is acting as the nominated adviser and broker to the Company. This presentation does not constitute a recommendation regarding the shares of the Company nor a representation that any dealing in those shares is appropriate. The Company accepts no duty of care whatsoever to the reader of this presentation in respect of its contents and the Company is not acting in any fiduciary capacity. The information contained in the presentation has not been verified by Liberum, nor does this presentation purport to be all-inclusive or to contain all the information that an investor may desire to have in evaluating whether or not to make an investment in the Company.
- No offer or invitation or solicitation of any offer to acquire securities of the Company is being made now nor does this presentation constitute or form part of any invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000. No reliance may be placed for any purpose whatsoever on the information contained in this presentation or any assumptions made as to its completeness and no warranty or representation is given by or on behalf of the Company nor its directors, employees, agents, Liberum and advisors as to the accuracy or completeness of the information or opinions contained in this presentation and no liability is accepted by any of them for any such information or opinions, provided that nothing in this paragraph shall exclude liability for any representation or warranty made fraudulently. The information and opinions contained in this presentation are provided as at the date hereof.
- This presentation should not be distributed, published or reproduced in whole or in part or disclosed by recipients to any other person or entity and, in particular, should not be distributed to United States residents, corporations, or other entities, US persons (as defined in Regulation S promulgated under the United States Securities Act of 1933 (as amended), persons with addresses in the United States of America (or any of its territories or possessions), Canada, Japan, the Republic of Ireland, the Republic of South Africa or Australia, or to any corporation, partnership or other entity created or organised under the laws thereof, or in any other country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirement. Notwithstanding the foregoing, the Company can distribute this document to US Persons (as defined above), persons with addresses in the United States of America (or its territories or possessions), United States residents, corporations or other entities if the Company is satisfied that an applicable exemption applies. Distribution of this document in the United States of America in the absence of such an applicable exemption may constitute a violation of United States securities law.
- This Presentation or documents referred to in it contain forward-looking statements. These statements relate to the future prospects developments and business strategies of the Company and its subsidiaries (the “Group”). Forward-looking statements are identified by the use of such terms as “believe”, “could”, “envisage”, “estimate”, “potential”, “intend”, “may”, “plan”, “will”, “aspiration” or the negative of those, variations or comparable expressions, including references to assumptions. The forward-looking statements contained in this Presentation are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. If one or more of these risks or uncertainties materialises, or if underlying assumptions prove incorrect, the Group’s actual results may vary materially from those expected, estimated or projected. Given these risks and uncertainties, potential investors should not place any reliance on forward-looking statements. These forward looking statements speak only as at the date of this Presentation.

