abrdn plc

Proposed acquisition of interactive investor

Presentation transcript

2 December 2021

Stephen Bird - Chief Executive Officer

Good morning, everyone. Thank you for joining the call at short notice. I'm here with Stephanie. After I walk you through these 11 slides or so and describe the deal, we'll be happy to take your questions.

Back in March, I laid out our strategy for growth, bringing growth to the group, and I explained our three-vector growth model and our business plan. And at the half-year, I was able to show that we had made substantial progress indeed, the best growth since the merger of 7 percent revenue growth, 52 percent earnings growth, and we have made substantial strategic progress in simplifying the business.

Builds leading position in high-growth UK market
This morning, I'm delighted to be able to share with you the proposed acquisition of interactive investor for a total consideration of £1.49 billion. This is strategically right on plan. This indeed was the business that I was thinking of when I described the need to scale the Personal vector.

As I go through these slides, you'll see that we are building a leading position in a high-growth market here in the U.K.; in fact, the direct investing part is the highest growth part of the U.K. retail and savings market. interactive investor is the U.K.'s leading subscription-based investing platform and is the consumer champion. This was one of the things that attracted us most to it; their simple pricing model and the response from the U.K. market, which is showing up successfully in their numbers. It transforms our Personal vector and significantly grows and diversifies the revenues and profitability of abrdn.

Richard Wilson is joining our business; I'm delighted to say that Richard is joining and continuing as CEO of interactive investor, and indeed he is investing a large portion of his sale proceeds directly into abrdn stock because he believes in this next chapter of evolution and development of this business.

This is the right way for us to deploy capital. I said that we would take positioned capital that we held in stakes and that we would transform that into the ability to grow our business, increase returns and have relevance and scale.

Scales access to high-growth UK savings market
Indeed, there are few markets as attractive as the U.K. savings market and the secular drivers that you see here; on the right-hand side of the slide, we've talked about many times. The democratization of wealth and technology, the higher the expectations that consumers have for simple models, for models that actually do what they say on the tin. The Netflix subscribing model that interactive investor has pioneered has proven to be successful and driven their growth in the U.K.

The wealth transfers that are taking place over the next few decades are unprecedented. And it's very important for a global investor like ours to be able to have a platform that allows us to benefit from that transition.

The U.K. savings market, a savings market of £3.7 trillion, you can see that the direct investing market where interactive investor operates is £269 billion. Growing at 17 percent, we expect this market to double in the next five years.

We are acquiring a business that has a 20 percent share of that market today and is actually number two in that space. You'll see later as I walk through the slides that they're number two in terms of position but number one in terms of average footings per client.

Introducing interactive investor
So, let's talk a little bit about the interactive investor. A subscription model with high-value customers, 20 percent market share, £55 billion of AUA, 400,000 unique customers, and 45,000 organic new customers last year. Strong growth of net flows, strong growth in revenue and earnings, and a business that has a 34 percent adjusted profit margin. This is a very attractive business to acquire and become part of the abrdn group.

Leading subscription platform with high-value customers
Here in this slide, I show the 64 percent higher per customer footings that interactive investor as compared to their closest peer, which is Hargreaves Lansdown. In fact, Hargreaves and AJ Bell, both around the £82,000 mark. This shows the power of this subscription model. And what it demonstrates is that it is attracting clients that have got higher value and higher average sophistication. And as we talk about the development of the high tech and high touch wealth model, you will be able to see that this plays into the synergy that we have, the revenue synergy, that we have with interactive investor.

Insight, engagement and simple pricing model

Turning to the next slide. When you spend time with Richard and his team and you go and sit with the interactive investor group, you can see that this model is about data insights and is about those insights driving engagement. And it's about a simple pricing model such that customers can invest and as they invest more, they get progressively higher value from the interactive investor platform.

The business today is growing on an organic basis. We think that Richard and his team did a phenomenal job of executing and rolling up to build scale to be the number two platform and that energy now, is what you're seeing is it translated into the new mobile app, new desktop rollout, new products, and services. And this is the right time to buy that platform, a scaled platform that has a strong pipeline of continuous development. In fact, just last week, they launched the 'Friends and Family bundle', which was about being able to broaden the addressable market that ii is currently addressing.

Growth momentum with increasing client activity
But let's talk about the growth that this model is creating. You can see here in this slide that net flows, increasing growth, 4 percent, 9 percent, 14 percent, 17 percent in the last 12 months. New customer growth is a similar trend. AUA now £55 billion at June 2021. And you can see the average higher trading activity as well. In fact, these numbers show that the activity and engagement remain significantly above the pre-pandemic levels.

Attractive growth and efficiency profile
Now, the attractiveness of this model and the efficiency of this model enhance the performance of the abrdn group. You can see here in this slide that a large proportion of efficient straight-through processing, indeed a digital platform business, shows that this is built to scale. And you can see that in the expanding margin of the business currently in full year 2020 at 34 percent operating margin. You can also see the profile of the revenues on the right-hand side. The revenue growth is largely driven by subscription fees and customer activity, not driven by AUA, and that's a really good thing. One of the strategic challenges that you have running an asset manager is that the business is very market sensitive; our business is an ad valorem percentage bps business. So, by buying a business that has got a large proportion of fee income, we diversify and broaden and improve the profile of earnings of the abrdn group and I'll say more about that shortly.

Interactive investor transforms our Personal vector
On the next page, you can see just how transformational this deal truly is. For the Personal vector, we end up with a £200 million pro forma revenue base, more than doubling our revenues. Five times increase in assets under management administration, 15 times increase in net flows. And you can see a huge quantum step increase in the customer base, taking us to 430,000 customers. This ability to directly interface with these clients is fundamental to our operating model.

Shared vision of high-tech, high-touch model
On the next page, it was important, and it's really where we started with Richard Wilson and his team, was understanding how the U.K. market will evolve and indeed how we will drive that evolution from high-touch, high-tech. interactive investor is truly a high-tech platform; it's a platform business, it exhibits platform economics, it is built for scalability. We at abrdn already have world-class, high-touch financial planning. When you look at the individual personas and the profiles of the clients within interactive investor, those clients have those financial planning needs. And the way that we operate, the way that interactive investor operates, and the way we believe is the future of this industry is that customers should be able to draw on those services as they need them. And many of these services today, which are high-touch, will also be progressively digitized. So, when you get to moments of truth about decisions about your pension, decisions about estate planning, decisions about writing a will, decisions about how you manage that transition, that intergenerational wealth transfer that will take place over the coming decades, those require sophistication. And ii wanted to be able to operate within a group that has those capabilities so, they can digitize those services where appropriate but also refer for high-touch engagement where also appropriate. Together, the combination is about providing trust, confidence, and compelling value for clients.

Optimal capital deployment for sustainable returns
Now, let's talk a little bit about the funding of the transaction. It's well known to all of you that we are in a very strong capital position. We remain in a very strong capital position after having acquired this business for cash. We are funding the business by cash, we're actually issuing in the interest of balance sheet efficiency, some additional tier one debt to optimize the capital structure. But if you look at the post-transaction position of the group, £0.5 billion of pro forma capital surplus post-IFPR and £2.5 billion of value in our listed stakes. So, total capital resources post the transaction of £3.0 billion. Now, very importantly, what this transaction does, is the transaction is accretive to abrdn, it improves our dividend cover and accelerates the point at which we get to one and a half times cover, which I had outlined at the strategy day and at the half-year.

Builds leading position in high-growth UK market
So, in summary, this acquisition is about achieving scale in a high-growth market. It's about accessing new customer segments and capabilities. It's about being able to acquire the number two, leading subscription-based business, that is the consumer champion. It's transformative for the Personal vector for abrdn. And our shared vision of a high-tech, high-touch model means that we can together grow into this market that is so attractive here in the U.K. This is the right way to deploy our capital to achieve growth, returns, scale, and deliver shareholder value. So, with that, I'm happy to open up for questions.

Q&A session

Haley Tam – Credit Suisse:
Thank you. Good morning, Stephen. And congratulations on this deal. Could I ask you two questions, please? First of all, in terms of the double-digit earnings accretion, can I just check is that based on the figures we saw on slide eight, so the £41 million adjusted PBT, or does it actually include assumptions for any future growth in client numbers and the sustainability of recent retail trading activities? And obviously, if it's the latter, if you could give some colour, that'd be great.

And the second question really is just whether there are any details you can give of any contractual lock-ins for Richard and his wider team. That'd be great as well. Thank you.

Stephen Bird – CEO abrdn:
Terrific. Yeah, let me address the first part because it seems very important to us, and, you know, Richard has done a brilliant job with interactive investor. Actually quite interestingly, Richard and I tend to think of these things the same way. Richard is actually investing a large proportion of his sale proceeds from interactive investor directly into abrdn stock. So, over the next three years, he's taking his own money, the sales proceeds, investing in abrdn stock over a three-year term, a minimum three-year term. And also, in addition to that - so that's a very big financial incentive for our business, for the abrdn pro forma business, to be successful - of which he becomes a senior executive.

But also, Richard and the senior executives that are coming across to be part of our team, we created a buy-in fund. So, what I think is that is a modern way of doing this, so rather than lock-ins we created a buy-in. Particularly when you're buying from private equity, you don't want to have the original private equity owner, such as JC Flowers, managing with you the whole process of deferred performance because it really means that you sort of shackle the thing you're buying. So, what we did is we created a buy-in fund, that's an executive compensation fund, for Richard and the team coming across, that operates over three years. That has got a set of specific growth targets, so, you can think about customer growth and revenue growth. And that buy-in fund, in combination with the fact of the stock purchases that have been made by the deferral, achieves the lock-ins that we require.

Let me just address the double-digit part of it. So, the double-digit accretion is about double-digit accretion of the earnings of the abrdn group, not just interactive investor. So, it's about if you look at just double-digit increases, double-digit percentage increases, of EPS of the abrdn group, which is actually, I think, what you're all interested in.

Haley Tam – Credit Suisse:
Thank you. I just want to clarify that it is based on the run rate of interactive investor current earnings, or are there some assumptions of future growth built into that expected double-digit accretion for the abrdn group?

Stephen Bird – CEO abrdn:
I mean, the run rate is already growing. So, what it's done is based upon, we have taken a series of assumptions about the current growth of interactive investor and projected those; actually, they're not heroic at all. So that if you like run rate, that really is what generates that result, yes.

Andrew Crean - Autonomous:
Good morning, all. A couple of questions as well. In terms of double-digit earnings, accretion, I think if you spent the £1.5 billion on buying your own stock back at these levels, your earnings would increase by about 40 percent. How does your double-digit earnings accretion on this deal compare with that?

And secondly, can you talk a little bit about the profit performance in the first half because, you know, we've got some concerns about cash margins coming down, and also trading volumes beginning to track back after the lockdown period, perhaps you could give us the exit multiple based on the not-heroic growth rates which you have slated into your earning accretion?

Stephen Bird – CEO abrdn:
So, let me go there the first Andrew. So, what we're paying for the group represents an exit multiple of about 23 times the 2023 numbers. What we've done is we have taken the performance of interactive investor, we've analysed what were pandemic effects, we've looked at the performance after the pandemic started to come off in markets, you know, behaviour starting to resume. We've made a series of derivative assessments about that. And that's how we've developed this.

The buybacks, I mean, what our investors asked us to do was to invest and create a long-term growth model. This is about long-term growth model, not a short-term, you know, financial engineering model. This business is a 200-year-old business, we're investing in the long-term development of the global investment market across global investments, the number one advisor position that we have here in the U.K., and this business that now sits alongside that was number two direct investing model. So, I think that's what our investors want us to do and that's the choice that we've exercised.

We still, of course, have significant surplus capital post the transaction. But this transaction is about developing the strategy of the group to be a growth business.

Andrew Crean - Autonomous:
Great, thanks for that. And just on that, you clearly have a war chest still in place, particularly, and where should we look for you to target further acquisitions? Is it more on the asset management side now that you filled out the Personal vector?

Stephen Bird – CEO abrdn:
So, we have recently appointed David Mouille. So, David, who has, you know, been working on these deals for us, a really outstanding strategy and business development executive. David has recently been confirmed in the role as Head of Strategy and Business Development. The first acquisition that we made was Tritax, of course, which was in private markets. So, we signalled that we wanted to deploy capital in areas where there was high natural growth, high exogenous growth, private markets was one. Tritax has actually worked out very well for us. You will see us continue to focus on strengthening the asset management business by doing deals similar to that. So areas, if you like, of distinctive investing. So, domain specialists, people who have got investment capabilities in the sort of 21st-century trends, you'll see us do more of that type of thing.

You won't see us, and of course, we acquired Finimize it was a small deal. But Finimize was really about being able to bring the outside world in. You know, Finimize is an open architecture information jargon-free way of creating financial communities, smarter investors. Actually, it's having a fantastic effect on our group. We've got our own employees using that same capability. So, digital data, private markets, you'll see us doing more of that type of thing. You won't see us do, you know, big heavy asset management integrations. I don't think that that's the right way to, when a world that is moving quickly, you don't want to spend years doing that kind of thing.

Yeah, I came into a group that we had to accelerate the completion of the integration of Standard Life and Aberdeen. We did that. We've now, actually, if you come to our offices, either here today, we're in Edinburgh; you know, half the time we're down in London. But you've really got one team now, it's an abrdn team. You don't hear anything about people talking about the legacy firms. So, I think the progress we've made, is quite marked in that regard.

Bruce Hamilton – Morgan Stanley:
Thanks, afternoon, Stephen, and congratulations on the deal. Just to follow up on the question on sort of exit multiples. So, if I heard correctly, what you're saying is, I think if I run the maths, you paid a bit over 40 times PE based on 2020, but that falls to I think you said 23 times 2023 PE just to confirm that. And you've embedded in that, you know, assumptions around trading normalization, et cetera, just to make sure I heard that correct.

The second question I have; I guess, you know, obviously, there's been quite a lot of movement from peers around sort of models, pricing, AJ Bell most recently. And so, as we think about the growth in the asset base to the industry overall, how do you think about the sort of fee compression and how that might apply to interactive investor? Or do you think that the current pricing model is set at the right level and so that isn't really going to be a challenge for you going forward?

And third, and finally; I mean, I guess on the synergies just checking out any; I assume there'd be no cost synergy here; it's more around broadening out the offering in the Personal vector; or is there any opportunity to get some revenue synergies linked to the investment business as well? Thank you.

Stephen Bird – CEO abrdn:

Okay thank you, Bruce. The first thing that I would highlight about the interactive investor fees and margin, and that's what I mentioned about the right time to buy this platform because if you looked at it, I think I showed it in slide seven, when I looked at the margin. You know, they did a 23 percent margin in 2018, then 26 percent, then 34 percent. This is a classic sort of platform and network effect, and we want businesses that have and demonstrate those platform effects. Because it's a digital business with a very high degree of straight-through processing. And when you're using the data well, and you're understanding the client personas well, and this is what the interactive investor team really do brilliantly, as they understand the a mass personalization that you have to do to run these businesses well. You can expand margin because the incremental cost of an additional customer is very, very low. And that's what they have built.

Now there are absolutely revenue synergies. So, we look at this, an individual customer basis, we already do, you know, financial planning, we've got award-winning financial planning, we do, you know, fantastic, you know, pension, you know, advice. We do estate planning advice, we direct into discretionary fund management; as you know, abrdn discretionary is a very high performing discretionary area. So, all of that was exactly where Richard and his team were looking for the future development of their platform. They said, look, we've got the platform built, we're getting the scale effects, we've got very low incremental costs for additional clients but we really now need to be more than just the direct self-service model. Because the clients do, within the financial life, draw on these other services, which at the moment, they go elsewhere for. So, we've sat with the team, and we sort of figured out how we develop these multigenerational product developments. Some of which will be in digital; it's quite interesting. You know, I take the view that a lot of the high-touch services today actually can be done incredibly well within digital, but you will still have clients that want high-touch as well. So, you know, there are a lot of revenue synergies.

I see a little bit of a cost. We haven't built-in cost, you know, synergies here as it is a revenue deal. You know, you're buying a platform that's in a market that's growing at 17 percent, it's going to double over the next five years. I mean, our primary focus has been getting the client experience right, get the platform right, get the value propositions right, get the bundling and the price modelling and everything to work. So, that's been the focus. But remember, this senior team is joining our team, they've been very, very good at managing technology, they've been very, very good, you know, streamlining their business to have excellent efficiency. And a very big part of what I'm doing here is to get this business to be efficient. This deal gets us to improve our efficiency; it improves the point where it improves dividend cover and it will accelerate the point at which we get to the one and a half times dividend cover as well. So, I see the upside that I haven't had to build into the pro forma, but I am fully expecting to extract from the deal.

Stephanie Bruce – CFO abrdn:
And Bruce, it's Stephanie here. And if I just come back to your first question in terms of just to confirm, as Stephen said, you know, obviously, we've taken the current models, which have all been projected forward both from management's perspective and all our different scenarios on it as well. So, if we look at I that sort of example, using 2023 as Stephen articulated, it is of that sort of order in terms of the 23 times multiple when you do the math's back. But it takes into account all of the things that Stephen's just said in terms of where we see the run rate moving forward to, given that the growth momentum that the management team has very successfully created.

And the other part, I would say, and you can see it again, from the slides on page seven that Stephen referred to. Because of the scalability of this platform it's a very efficient model. And therefore, with the focus that we have as a shared team in terms of growing the customer numbers, is that operational leverage is also a contributing factor to that analysis.

Arnaud Giblat - Exane BNP Paribas:
Good afternoon, thank you. I've got three quick questions. First, to follow up on the opportunity set on where it fits within abrdn. You clearly articulated quite well the opportunity to upsell new products. I'm just wondering if you could expand a bit more, give us an example of one of these digital products that you could be launching, what sort of referral rate, what the cost to develop this product could be, what the pricing could look like? That could be helpful to better understand the revenue synergy over the long run.

My second question is regarding interest rates. I mean, the D2C platforms are super sensitive to U.K. base rates, what sort of assumption have you baked in to get to those 23 times exit multiple? And then, more generally, what are the sensitivity interest rates for ii?

And my third question is, with regards to your longer-term 30 percent operating margin targets that you expressed earlier this year, does that still apply? I mean, obviously, this acquisition gets you a step closer to getting there. So, does that target move alongside? Thank you.

Stephen Bird – CFO abrdn:
Thank you, Arnaud. So, the first thing, I'll take the last part about the cost to income ratio targets. I had said that we would and you could trust me to deliver a cost-income ratio exiting 2023 of 70 percent. In my first half-year results, I had delivered a full 6 percent improvement in cost to income ratio. I think I inherited 85 percent; we reported 79 percent at the half-year mark. I'm not changing the 70 percent target. I do like to under-promise and over-deliver. But that's we're not changing that target, that's the target for the group.

And now, turning to the other parts of your question, Arnaud. I'll give you some examples. So, first of all, self-invested personal pensions; a massive trend in the U.K. for people to take control of their own pensions. It can be done brilliantly, digitally. The interactive investor guys already on to that as an area of potential growth and is actually very small within interactive investor today. And we scrubbed that, and it was literally because they've only just got to it, to really develop it. But you can expect us to develop the SIPPs in the same sample, very high-value sort of customer advocate way that the interactive model works. The thing that we spent so much time on is. If you look at developing, you know, the pension product, if you look at how you deliver financial advice, if you look at an individual that says okay, this person is 50 years old, describes a family situation digitally, people like me are investing in ‘click’. You should be able to see a pie chart that says, based on your persona, this is what people like you are investing in, and then you should be able to click again and see a gap between your portfolio and that model portfolio.

There are so many areas where financial services need to do a much, much simpler job of being able to navigate through these complex areas that have thus far, particularly here in the U.K., been delivered in a complicated, fee-heavy manner. And, you know, that's why when Richard and I sat down and we sort of dissected the market offerings, future offerings, what's within abrdn in terms of research, discretionary fund management, et cetera. Richard said to me, look, this is the best possible place for us to be able to grow confidently and draw on these services. And I emphasize that a lot because you don't push when you acquire something as good as this, you don't push services into it. You've got to allow it to draw on the services of the group. And that's the dynamic that I have with Richard and his team.

Interest rates, let me just talk about that. You’re absolutely right, Arnaud, this business has benefited from increasing interest rates as banks do, this business does too. As people, you know, put money in the platform, they are on the way to an investment, the way out of an investment,, but they leave balances on it. I mean, we have a very large customer base they accumulate through time. We have incorporated quite modest interest rate assumptions in the pro forma business model. So, you could say it's a call option on raising rates, that's a good thing to have in your group. But I chose not to build anything other than just modest future increases in interest rates.

Stephanie Bruce – CFO abrdn:
I agree, the only other thing I'd add is we've just very much gone with kind of the lower end of the historic levels of cash balances that have been in the business rather than assuming that there'll be at the top end of that balance as well. So, again, we're not trying to be heroic here on that in terms of our base assumption.

Stephen Bird – CEO abrdn:
Yeah, both on the average balance, total balance, and on the interest rate, each of those three assumptions that drove that calculation were relatively modest. Thank you, Arnaud.

Arnaud Giblat - Exane BNP Paribas:
The sensitivity, perhaps, if I wanted to be more heroic?

Stephen Bird – CEO abrdn:
Yeah. So, what Arnaud's asking, which we're not going to tell him, is that you know, for every 10-basis point increase in interest rates, how much goes into Stephanie Bruce's pocket, so. So, thank you for being precise to your question, Arnaud. But I'm sorry, I can't give you an answer at the moment but we do know the number.

Hubert Lam – Bank of America:
Hi, good afternoon. I've got three questions. Firstly, on the operating margin expansion, it's grown, you said, scaled up quite significantly to 34 percent now. I'm just wondering how high do you think this can go? What are you targeting for this? And any additional cost growth you need, like for additional tech investments, et cetera, which may soften the growth of operating margin going forward? That's the first question.

The second question is on your listed stakes; you point out you have two and a half billion of value of the listed stakes currently. I'm just wondering what you are your; I guess -- can you revisit what the plans are for the individual stakes around Phoenix as management? I guess life is still more of a financial investment. But any additional thoughts on the AMC stake and Phoenix stakes would be helpful.

And lastly, on the capital requirements, will there be any changes in your capital requirements or additional capital that you would need after the acquisition of this business? I'm just wondering, you know, questions on the capital, buffer, et cetera; anything that we should be aware of? Thank you.

Stephen Bird – CEO abrdn:
So, the first part, you can see the progression on slide seven, Hubert. What I would say to you is that, that margin is a product of the jaws. You know, revenue is growing faster than expenses. It's a product of the platform effects that I described earlier. So, you can project the revenue growth of the business. It's in a marketplace that's growing, you know, it's a high growth platform and a high growth market. So, you can, you know, choose your revenue growth, and you can take the historical expense growth, and you know, and project those jaws and you can see where it will get to. I would describe it very much as an actuarial calculation. But it will fundamentally be driven on your view of the market. Our view is that we can continue to operate the business with positive operating leverage. And we can continue to grow the business, and we will continue to grow the margin. Now, we don't have, in terms of significant cost investments. This is a scalable platform that has gone through a lot of significant development through time. So, we don't have any significant, you know, costs to swallow in the near term in order to grow this thing. Their acquisitions have been completed, so that’s on that.

On our stakes, our capital stakes, I would just point you to the actions that I've taken. You know, I've just been here just over a year; we have been divesting of the stakes and really taking capital that was not earning and translating it into capital that is earning. That's my job. So, we'll continue to do that. But it has to be done at the right pace. Because we got to have opportunities to deploy that capital in a disciplined and judicious manner, like with Tritax, like with this transaction, which is accretive as well. So, I'm not signalling, I said to you that, you know, the [HDFC] Life business we're going to continue to divest. We likewise will, through time, divest of [HDFC] Asset Management; we've signalled that. And I've described in great detail the type of businesses that we would acquire in a disciplined fashion. So, I think you can expect more of the same.

The only other thing I would add is that we said to you that, after rebasing the dividend, we said that we would revisit it when we got to one and a half times cover and this allows us to get it a little bit faster. So, I think as shareholders, you can take a lot of confidence in the way that we are, you know, applying our minds to the productive use of capital.

Stephanie Bruce - CFO:
And Hubert, if I just come to your third point, just connect it with what Stephen just said there about in terms of how we think about the buffer. It is obviously connected with those listed stakes that Stephen has just outlined. So, our capital position remains strong after this transaction. Immediately post transaction, we will have a surplus of regulatory capital of £500 million. It's worth highlighting that that represents 50 percent -- just about 50 percent of our current capital requirements, so in itself is considerable. But when you put that into context, in terms of that considerable further value of the listed stakes that Stephen's just highlighted, I think you will agree that we still remain in a very strong capital position.

Gurjit Kambo - JPMorgan:
Hi, good afternoon, thank you for the presentation. So, a couple of questions. But firstly, I accepted it in terms of your AUA over customers that affiliate's higher than the peer group, Hargreaves and AJ Bell, but I guess the way interactive investor makes money is not necessarily on the AUA -- or firstly, is there a part that is on AUA if not, will it basically be the growth in new customers, obviously, maybe upselling, the different pricing models, already cross setting new price? I just want to understand, you know, how we think about the kind of growth drivers for revenues.

And then secondly, on slide seven, you give the PBT numbers there. Could you provide the PBT numbers on an organic basis? I think interactive investor investors have done a few acquisitions recently, so, if there's any sort of organic numbers that you could provide, that'd be helpful? Those two questions, thanks.

Stephen Bird – CEO abrdn:
Yeah, thank you. The first thing I would point out is that when interactive investor actually reported their results -- so we can just refer to the first half 2021 results - they actually, their net revenue growth of 19 percent, but they actually had 11 percent that was organic basis. So, they had, you know, net new client growth up 33 percent, the net new business growth up 56 percent, and net revenue, organically up 7 percent. So, I think you can see the sort of health of the platform.

The way you, as you pointed out about AUA is, you're right; it's not a bps model, it's not an ad valorem pricing model. But the larger balances reflects the propensity to trade. And I showed they have a diverse, you know, a balanced and quite diverse sources of revenues within interactive. You know, half the revenue really comes from trading transactions, so, that's the commissions year-on-year, and you, you've got a subscription to the platform. And you get, you know, one free trade, but then many people trade more than that. So, that generates trading activity and commissions.

Also, this is a multi-currency platform because many people actually want to invest in, you know, the most valuable market in the world, the U.S market, for example, U.S dollars. So, there's also an FX component to, you know, the margin that you make. And then, of course, you've got the account fees, which are based on subscriptions. And then, of course, you've got, you know, the treasury function, which is based on the cash balances that are also sitting within the platform. And that's what you're really looking for, you're looking for, you know, a diverse source, a balanced source of revenues, where then you know what the platform generates.

But the larger the balance of the client also signals the sophistication of the client. And it is also a good proxy for the type of other services that that client is using elsewhere, i.e. they have a very high overlap with discretionary fund management, a very high overlap on the need for financial planning, a very high overlap for having a well-funded, self-invested personal pension. So, if you think of this as a gateway into all those other avenues that if you digitize them correctly, you get the pool model to operate correctly, you build a very strong Personal vector and that's the business that we're in and that's why we've done this. Thanks, Gurjit.

Gurjit Kambo - JPMorgan:
And just one follow-up; I think on slide six, you give the kind of organic new customers that you've grown. And just to be clear, is that gross or like a net number? I'm just trying to understand now what sort of retention do you see within the business? I couldn't see any sort of retention rates with the business.

Stephen Bird – CEO abrdn:
That's the net number. Yeah. So, net new client which is, you know, the net of those that left and those that joined; net new clients not only, actually year over year net new clients were up 33 percent. I'm looking at the first-half results for 2021. Net new clients were about almost 32,000 in their half-year, this is a half-year number and this was up 33 percent on the prior year.

Gurjit Kambo - JPMorgan:
And then just I think I asked the question just on the organic, is there anything on organic growth in PBT or AUA?

Stephanie Bruce – CFO abrdn:
So, Gurjit, we're not setting that out in terms of they're looking back into their historic split of that; I think it's more important to look at what you've just been focusing in on there: what's the organic build of new customers and the splits of revenue? So, we don't have and are not providing that split, looking back, at their historic split of profit.

Gurjit Kambo - JPMorgan:
And then just these customers are these like the active customers that you have, or you know I could get, is that something that's disclosed, or active versus, I guess, customers who are not active?

Stephen Bird – CEO abrdn:
The customer number that we refer to are customers who are actively paying subscriptions. So, the kind of customers that you want.

James Hamilton - Numis:
Thank you. Clearly, the ii business has been built more or less exclusively from inorganic M&A. They've bought a very large number of businesses, pretty much all of them aren't profitable at the point of acquisition. Is it the strategy for ii to continue with this model? And if so, how much capital would you prepare to give them to do so?

Stephen Bird – CEO abrdn:
So, as you know, ii is a very profitable business, they built scale through acquisition. Actually, I think the team did a fantastic job of doing it. We don't envisage and we haven't assumed further M&A requirements to grow the platform. The focus of the team, in fact, was to get into this position of number two through, you know, building a platform of scale, but then to compete on an organic basis. And that's the assumption that we've made.

Rhea Shah – Deutsche Bank:
Hi, thank you. So, my first question is, are you planning on adding the Finimize interface onto interactive investor, or are they going to be one as two standalone businesses?

And then just going back to some of the previous questions around trading volumes and the treasury income. When are you expecting this will settle at in the future in terms of the mix between the treasury income, the account fee and the trading volumes because if the trading volumes start to normalize from next year, could that become a smaller part of the ii business?

Stephen Bird – CEO abrdn:
Hi, Rhea. Let me talk about Finimize first of all. So, there is a research synergy. And you know, we have just announced the deal so we haven't got into the various plans of use yet. But you do know that we operate a research institute, so we actively research thousands of stocks. We have a full, you know, abrdn Research Institute. interactive investor itself does have a content and engagement platform, which they've done a great job of engaging their clients. And we also have acquired Finimize. So, if you think about research content, customer engagement, we have got a rich area within which we should be able to continue to really differentiate from our competitors. So, right now, there are no immediate plans to provision Finimize to interactive investor, but it certainly could be an opportunity further down the line and it's one that we'll consider.

In terms of revenue profiles, Stephanie?

Stephanie Bruce – CFO abrdn:
In terms of the revenue profile, Rhea, the way we are looking at it is obviously, again, building up the models that we talked about previously. And that mix coming through in terms of customer activities, therefore, obviously, very much driving the account fees, being, you know, some sort of growth projections we haven't seen in the past. Clearly, in terms of the levels of activity that we have seen, we've actually already seen an element of slight normalization since the COVID period, but actually settling at a much more interested and engaged population of activity that's clearly coming through in terms of the trading volume. So, I think our view of it would be that it will broadly be the sort of picture that you see here.

Now, clearly, depending on what happens with interest income and yield, as we talked about earlier on, will sort of drive that mix differently. But the underlying activity of customers and being engaged in the sorts of activities they undertake, together with the volume of customers that will drive the account fees, will clearly be the key aspects. But I think we would see the mix being floating very much between the 31 percent and the 51 percent, as you see it there on the bar chart. Very, very similar trajectories as we've seen in the past.

Charlie Beeching - KBW:
Hi, good afternoon. Thank you for taking my question. And how much do you expect you'll need to spend on integration? And are you expecting the platform will need material investments? For example, on the SPS product, you described? And secondly, could you talk through the rationale for raising the AT1 debt? Is there just so you have a sufficient buffer post transaction ahead of realizing any more of a locked value within listed investment? And then, thirdly, within what timeframe would you hope to achieve the 1.5 times dividend cover in view of this trend? Thank you.

Stephen Bird – CEO abrdn:
Thanks, Charlie. I'll let Stephanie talk about the AT1 and the rationale for that.

Integration is a very simple matter. Because we already re-formatted our group as a three-vector model and Interactive investor as a fully functioning platform business. We're buying a digital business, and the management team joins our team. So, this is one of the simplest integrations that you would ever see. So, there's, one, its low complexity and incredibly low cost. We've planned sort of -- I think you can take that for what it is -- this is not a complicated transaction. In terms of the SIPP, the cost of developing the SIPP is already in interactive on P&L because it was in a pre-existing development that they were offering. So, likewise there, Stephanie AT1?

Stephanie Bruce – CFO abrdn:
So we've talked before about the fact that it was always one of the options as we look to manage our capital in a very optimal way. And obviously, as we are actually now near the start point of the IFPR regime, as we're able to hold 18.75 percent of our capital requirement can be held in AT1 and we currently don't hold any, as you know. And it's such efficient use of capital that this seems a good opportunity, actually also first to optimize the capital stack as we move into the IFPR regime. And therefore, that's why we're undertaking it at this point in time now. Post-transaction as I said earlier that obviously, we'd contribute £200 million of the £500 million immediately post-transaction. And then, as you see, and as Stephen's already highlighted, we will obviously continue to realize the stakes in the way that Stephen outlined earlier on.

In terms of dividend cover, apologies. So again, as Stephen said because this transaction is a growth transaction, it's created sustainable profits, it will accelerate. And sorry, it is immediately helpful on dividend cover. It obviously, therefore, helps progress our dividend cover target that is part of our dividend policy as well, which is a reminder is 1.5 times adjusted capital generation.

Charlie Beeching - KBW:
When would you hope to achieve that?

Stephanie Bruce – CFO abrdn:
Well, again, in terms of the consensus and the models that you have, you know, yourself have looked at, you know, you looked at in terms of, to the outer years in terms of '23, '24. And I'll let you do the math in terms of the modelling. But it's clearly a favourable and accretive position to that, as a result of the transaction.

Steven Haywood - HSBC:
Thank you. Good afternoon, can you clarify, did you say 18 percent of capital can be in AT1? And then should we assume now that the£0.5 billion regulatory surplus is the minimum level of surplus that abrdn will want to hold over the cycle?

Secondly, and this is another clarification, did you say that you wanted to monetize the stake in HDFC Asset Management? I missed that earlier, sorry.

And thirdly, for me, in your strategy in the full year 2020 results, you highlighted that M&A was not modelled into your strategic targets. And so, in terms of your highest single-digit revenue growth target, can you sort of quantify or that you quantify or qualify what sort of high single-digit increase this deal will bring to you or is it just going to be a supporter to get to this high single-digit CAGR growth? Thank you.

Stephanie Bruce – CFO abrdn:
Stephen, I'm going to go first on the on the capital point. So, yes, just to be clear, 18.75 percent of the CAT1 is what we're able to optimize using a debt instrument that has these capital characteristics, so, that's that. Sorry, just to clarify that for you. In terms of the minimum buffers, as I said earlier, the way we look at this is that we will have £500 million of surplus capital after this transaction; that is 50 percent of our capital requirement. And we look at that very much with a view totally alongside the fact that we also have £2.5 billion of other listed stake capital. So, we will obviously look at it in the rounds available capital in terms of our resources. And we will continue to apply exactly that same discipline as we move forward. And as we realize those additional stakes that we've talked about already, obviously, those levels will move. But the way I think about the buffer, is that you need to look at it in terms of the context and the environment that you're in at a point in time, and the available resources, and also some of the regulatory changes and demand. So, I think as I've said these two before, you know, you look at that whole range, and what would be sensible is anywhere between sort of £500 million and £1 billion, depending on the circumstances at the time.

Stephen Bird – CEO abrdn:
And just to your question, Steven, I would refer back to my prior answer. We built a strategy to bring this group to growth and we've started to demonstrate growth and improving efficiency. I'm not changing the high single-digit growth description that I gave nor the exit 70 percent. This is supportive of delivering that, and it does accelerate the point at which you get to it. And it does accelerate the point at which you get to your dividend, you know, cover multiples as well. So, yep, it's good news but given the fact that we've just signed the transaction, we've got a lot of work to do to be able to get to closing, and that's partway through next year. I think it would be imprudent to start adjusting those numbers.

Steven Haywood - HSBC:
Thanks. And on the HDFC Asset Management monetisation?

Stephen Bird – CEO abrdn:
Progressively through time, our goal is to divest of non-productive stakes and turn them into productive capital. So, we will progressively divest of [HDFC] AMC, yeah.

David McCann - Numis:
Great. Thanks for taking my questions. The first one, given the pricing model of this business, it seems, you know, to me that customer numbers, and to some extent, the volumes, are going to be far more important metrics in the AUA of this business. So, I just want know will you commit to continue publishing the customer numbers and the new customer numbers, which was one of the stats you did have in one of your slides, kind of in the go-forward numbers in particular?

And also, just in terms of, I guess, similar to that question, I guess question number two. I think it's well known across, you know, these retail platforms, at the moment, there has been a supernormal growth in the number of customers experienced in the last, you know, year or two. When you look forward, what kind of organic growth rates of customer numbers would be, do you think is a reasonable rate that a business like this should generate and particularly given you mentioned that it will be pure organic growth going forward rather than the, you know, supplemented by acquisition as it was in the past?

The third question, just in terms of revenue synergies. And you gave, you know, some examples of that. How are you thinking about managing the risks of revenue dis synergy here, if you do indeed implement some revenue synergies, i.e., the risk that by making some changes to the offering, you're going to return currently satisfied customers into unsatisfied customers?

And then the fourth very quick question is, what does the balance sheet of this business look like? Thank you.

Stephen Bird – CEO abrdn:
So, the answer to the last part of your question, David, nothing's changing in terms of the subscription model. It's a platform business, the pricing model we've committed to. We're not changing it, so there's going to be no negative impact though, it's got the same management team operating the same platform operating the same successful subscription model. So, there are certainly no revenue negatives associated with this. If anything, we'll be able to accelerate the development of their new offerings, which would be upside. We will continue to publish the numbers because you're spot on, customer volumes, i.e., the size of the customer base, the net growth in the customer base, and trading volume are actually directly linked to the revenue growth. So, we'll continue to publish those.

My expectations are that if you're the number two in the marketplace and you're the customer advocate, you have to be able to grow at the rate at or better the rate of the marketplace. And, you know, that is, you know, choose your number; it's going to be 10 to 15 percent growth, and it will continue to grow at that rate.

Stephanie Bruce – CFO abrdn:
And in terms of the balance sheet, David, it's a very straightforward balance sheet. And obviously, through the sale process, certain aspects of it will be more even more streamlined. But there's nothing in any complicated assets at all that is held in the balance sheet.

Stephen Bird – CEO abrdn:
So, that was the last question, folks. Thank you, David, and thank you, everyone, for joining us. It's an important day. And we've got a lot of work to do to get to close, but we're super excited about it. Thank you for joining the call.