



Mattioli Woods plc

PENSIONS & WEALTH MANAGEMENT



| Interim Report

2013/14



Mattioli Woods plc (“Mattioli Woods” or “the Group”) is one of the UK’s leading and fastest growing providers of wealth management and employee benefits. Our clients include controlling directors, professionals, executives, employees, owner-managed businesses, small to medium-sized enterprises and PLCs. Our clients entrust us with over £4.3 billion of assets under management, administration and advice.

Our culture is one of personalised and proactive financial planning, delivered by highly-qualified consultants and administrators. Our objective is to grow our business both organically and by acquisition, and to deliver strong, sustainable shareholder returns over the long term. We plan to continue developing complementary services around our core specialisms, embracing the duality of provider and adviser status to create a 21st century financial services business aligned to its clients’ needs.

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## HIGHLIGHTS

### FINANCIAL HIGHLIGHTS

- Revenue up 19.4% to £13.44m (1H13: £11.26m)
- Recurring revenues represent 79.6% (1H13: 64.4%)
- Adjusted EPS<sup>1,2</sup> up 16.5% to 13.12p (1H13: 11.26p)
- Adjusted profit before tax<sup>1</sup> up 13.5% to £2.86m (1H13: £2.52m)
- Adjusted EBITDA<sup>3</sup> up 14.9% to £3.08m (1H13: £2.68m)
- Interim dividend up 33.0% to 3.10p (1H13: 2.33p)
- Strong financial position with net cash of £7.99m (1H13: £3.94m)

### OPERATIONAL HIGHLIGHTS AND RECENT DEVELOPMENTS

- Total client assets up 33.3% to £4.32bn (1H13: £3.24bn)
- Discretionary AuM of £0.51bn (1H13: £0.05bn)
- Integration of Atkinson Bolton acquisition
- Intention to launch UK REIT to be listed on Main Market
- Investment in infrastructure and technology
- Continuing to assess acquisition opportunities

#### Revenue

£13.44m

+19.4%

1H14  
1H13

£13.44

£11.26

#### Adjusted profit before tax<sup>1</sup>

£2.86m

+13.5%

1H14  
1H13

£2.86

£2.52

#### Adjusted EPS<sup>1,2</sup>

13.12p

+16.5%

2014  
2013

13.12

11.26

#### Interim dividend

3.10p

+33.0%

2014  
2013

3.10

2.33

1 Before acquisition-related costs amortisation and impairment of intangible assets other than computer software.

2 Basic EPS up 4.6% to 9.75p (1H13: 9.32p).

3 Earnings before interest, taxation, depreciation, amortisation and acquisition-related costs.



**We are delighted with the performance of our business in what remains a fast-changing market. Current trading is in line with the Board's expectations and we remain confident in our outlook for the remainder of the year.**

### **Business review**

We are pleased to report strong results for the first half of this financial year. Revenues were up 19.4% to £13.44m (1H13: £11.26m) with recurring revenues increasing to 79.6% (1H13: 64.4%). Centre stage is the rapid expansion of our discretionary assets under management to £0.51bn (1H13: £0.05bn), coupled with the integration of award-winning Atkinson Bolton Consulting Limited ("Atkinson Bolton"), following its acquisition in July 2013.

It is over a year since the Financial Conduct Authority ("FCA") introduced the Retail Distribution Review ("RDR"), heralding a period of unprecedented change in our key markets. We remain committed to the creation of a new style 21st century financial services business, the essence of which is combining consultancy with the provision of our own bespoke products and services.

Previously, we've highlighted our expectation that the industry will see continued pressure to reduce clients' total expense ratios. We are confident the duality inherent in being

both product provider and adviser, coupled with further investment in the Group's infrastructure and technology, can bring the twin benefits of more efficient service and lower costs for clients, while maintaining our margins.

Atkinson Bolton adds further expertise in employee benefits and portfolio management, extends our geographic reach and is a key part of our strategy to build an advice-led consultancy, delivering a full range of wealth management services. At the core of this is our highly-regarded technical ability and recognised expertise in self-directed pensions. We see potential synergies between our wealth management and employee benefits operations as an opportunity to accelerate future growth through the provision of each division's services to the other's clientele.

### **Real Estate Investment Trust**

The FCA's rules aimed at limiting the promotion of Unregulated Collective Investment Schemes ("UCIS") took effect from 1 January 2014. Within our subsidiary Custodian Capital Limited ("Custodian Capital"), we have considered alternative structures for the delivery of our property investment proposition to our clients and the wider market.

We plan to incorporate a closed-ended property investment company which is expected to become a real estate investment trust ("the REIT"), to launch an initial public offering on the Main Market of London Stock Exchange plc in the spring. Custodian Capital is to be appointed investment manager of the REIT and will advise it on the acquisition, development, management and disposal of assets in its investment portfolio. We expect the REIT will enter into arrangements to acquire an initial seed portfolio of circa £100m from our clients' existing syndicates, conditional upon approval of the existing investors and admission to trading.

The REIT is also proposing to raise gross proceeds of up to £50m to invest in a diversified portfolio of commercial property in the UK.

### **Trading results**

Revenues in the six months ended 30 November 2013 were up 19.4% to £13.44m (1H13: £11.26m), with four months' contribution from Atkinson Bolton. Strong results from recent acquisitions and our wealth management services delivered further profitable growth.

## Pension consultancy and administration

Total pension consultancy and administration revenues were up 23.9% to £6.11m (1H13: £4.93m), with the number of self-invested personal pension (“SIPP”) and small self-administered pension schemes (“SSAS”) administered by the Group increasing by 14.4% to 5,794 (1H13: 5,066).

Direct<sup>4</sup> pension consultancy and administration revenues were up 20.5% to £5.06m (1H13: £4.20m), with increased client activity as the economic outlook improves. The number of direct schemes administered by Mattioli Woods increased by 3.3% to 3,466 (1H13: 3,356), with 153 new schemes won in the first half (1H13: 143). We continue to have a strong enquiry pipeline and our focus remains on the quality of new business, with an average new scheme value of over £0.32m. We also enjoyed improved client retention, with an external loss rate<sup>5</sup> of 1.3% (1H13: 1.6%) and an overall attrition rate<sup>6</sup> of 1.6% (1H13: 2.0%), partly as a result of past acquisitions having fully bedded-in.

We are building capacity in our consultancy and technical teams to take advantage of the new business opportunity. Fee income increased to £4.48m (1H13: £3.44m) with increased scheme numbers and client activity, but as anticipated, this increase was partially offset by a fall in banking revenues to £0.58m (1H13: £0.76m) as a result of lower LIBOR rates.

Our third party administration business, City Pensions Limited (trading as “City Trustees”) continued to enjoy strong growth. Following the acquisition of Ashcourt Rowan plc’s pension business in April 2013 and our appointment to operate The HD SIPP in June 2013, the number of SSAS and SIPP schemes administered by City Trustees grew 36.1% to 2,328 (1H13: 1,710) at the period end. Revenues were up 43.8% to £1.05m (1H13: £0.73m). Increased administration fees of £0.85m (1H13: £0.50m) offset an expected fall in banking revenues to £0.20m (1H13: £0.23m), despite further consolidation around our core banking proposition. As expected, the Group’s total client banking revenues fell to £0.78m (1H13: £0.99m) and we anticipate further pressure on banking revenues in the second half.

4 SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.

5 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.

6 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

## Wealth management

Wealth management revenues, generated from advising clients on their investments, increased 39.7% to £4.08m (1H13: £2.92m), with £0.56m of this increase generated by Atkinson Bolton. As anticipated the RDR has changed our revenue mix, with a shift away from provider commissions to ongoing adviser and discretionary management charges, increasing the Group’s recurring revenues<sup>7</sup> to 79.6% (1H13: 64.4%) of total revenue.

Growth in client assets managed on a discretionary basis increased initial set-up and ongoing portfolio management charges to £1.85m (1H13: £0.49m), which together with post-RDR adviser charges based on the value of assets under advice at the start of each quarterly billing period of £1.25m (1H13: £nil) more than offset an anticipated fall in investment commissions to £0.90m (1H13: £2.39m).

During the period our clients invested £17.61m in new structured products. This department now manages over £117.2m of clients’ assets and we are reviewing how best to take advantage of the opportunities we see for continued growth in this area.

## Employee benefits

Employee benefits revenues increased to £2.45m (1H13: £2.31m). Atkinson Bolton generated £0.42m of revenues in the period, with revenues in the equivalent period last year including some significant non-recurring implementation fees on new client wins.

The introduction of the RDR was followed by the withdrawal of consultancy charging for auto-enrolment schemes in May 2013. The Office of Fair Trading’s subsequent review of workplace pensions led to the Department of Work and Pensions consulting on capping charges and legacy commissions in defined contribution schemes. While there remains uncertainty around the eventual impact of all these changes, we expect a shift in revenues away from commissions to fees, which may reduce revenues in the short term, but then lead to higher recurring revenues going forward.

7 Annual pension consultancy and administration fees; level, renewal and trail commissions; banking income; property syndicate and discretionary portfolio management charges.

Auto-enrolment (“AE”) has dominated the employee benefits arena for some time. The new duties apply to businesses from a ‘staging date’ assigned by the Department for Work and Pensions, which depends upon the number of employees. Development of our employee benefits proposition is a long term strategy, which we expect to broaden our distribution channel. In the short term, AE represents a significant new business opportunity. We launched our own AE employer portal through our flexible benefits package, “Create”, in September 2013. There are now over 6,000 employees on this platform. To date, we have staged over 20 employers with circa 18,000 employees and have just launched our ‘AE in a box’ solution for the mass market.

Atkinson Bolton extends our employee benefits proposition and we expect new opportunities will arise from a drive towards total reward and flexible benefits in the corporate market. Interest in our executive financial counselling service dovetails well with our core pension and wealth management services.

Going forward, we anticipate our employee benefits business will come to have less reliance on pensions as we win new corporate clients through a holistic employee benefits proposition spanning traditional consultancy, flexible benefits, protection products and executive financial counselling.

## Property syndicates

During the period we initiated £2.6m (1H13: £11.0m) of investment into one (1H13: six) new property partnerships. Following publication of the FCA’s rules we did not feel it appropriate to complete any further syndicates while considering an alternative structure to deliver our property investment initiative to the wider market. This resulted in lower syndicate revenues of £0.80m (1H13: £1.10m).

The planned launch of the REIT is an exciting opportunity to drive dynamic growth in our property business. We will continue to support private clients seeking to invest in new syndicated property investment opportunities where appropriate. We expect Custodian Capital’s appointment as investment manager of the REIT to have a neutral impact on revenues in the next financial year, with recurring revenues subsequently growing in line with the net asset value of the fund.

## Cash flow

Cash generated from operations was £2.11m or 72.0% of EBITDA (1H13: £1.90m or 70.9%), with a £1.14m (1H13: £0.72m) decrease in trade and other payables, following payment of staff bonuses accrued in respect of the previous financial year. Net cash at 30 November 2013 was £7.99m (1H13: £3.94m), with a net cash inflow of £0.87m on the acquisition of Atkinson Bolton partially offsetting the payment of £1.58m (1H13: £1.58m) of deferred consideration on the Kudos acquisition. Our strong financial position is enhanced by the availability of £5.00m of on demand overdraft facilities.

EBITDA increased 9.3% to £2.93m (1H13: £2.68m), with costs associated with the acquisition of Atkinson Bolton cutting first half EBITDA margin to 21.8% (1H13: 23.8%). We expect margins in the second half to be impacted by costs associated with the launch of a new property investment structure and the proposed restructuring of the Group’s legal structure. Profit before tax was up 2.8% to £2.21m (1H13: £2.15m) and we believe we have the strategy to deliver further revenue and profit growth for the full year.

## Assets under management, administration and advice

Total client assets under management, administration and advice increased by 33.3% to £4.32bn at the period end (1H13: £3.24bn), summarised as follows:

	30 Nov 2013 £m	30 Nov 2012 £m	31 May 2013 £m
SSAS	1,350.9	1,208.7	1,362.5
SIPP	1,450.9	1,065.3	1,264.8
Funds Under Trusteeship	2,801.8	2,274.0	2,627.3
Employee benefits	887.0	609.4	640.3
Personal wealth management	629.9	360.5	376.7
Total assets under management, administration and advice <sup>8</sup>	4,318.7	3,243.9	3,644.3

Acquisitions completed in the last 12 months added £751.4m of client assets. These acquired funds added to net organic growth of £119.0m in our pension business, £123.6m in employee benefits and £80.7m in personal assets.

<sup>8</sup> Note certain pension scheme assets, including clients’ own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.



The launch of our portfolio management service in the comparative period last year was an important step forward, delivering better service to our clients and increasing recurring revenues.

### **Regulatory environment**

The FCA has delayed proposals to increase the regulatory capital requirements for SIPP operators until later this year, following an initial consultation, published in November 2012. The proposed changes relate to operators who are subject to the Interim Prudential Sourcebook for Investment Businesses. They do not apply to operators who are subject to other prudential regimes, including the Prudential Sourcebook for Banks, Building Societies and Investment Firms.

Consequently, the proposals do not apply to Mattioli Woods' core business, but we estimate the proposed changes would increase the capital requirement of City Pensions Limited by approximately £1.0m. This increase would be met from the Group's existing financial resources.

### **Staff**

We would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs. We enjoy a strong team spirit and facilitate employee equity ownership through the Mattioli Woods plc Share Incentive Plan ("the Plan") and other share schemes. The number of eligible staff currently investing via the Plan is 53% (1H13: 58%) and we plan to promote broader participation over the next few months.

### **Dividend**

The Board is pleased to recommend the payment of an increased interim dividend, up 33.0% to 3.10 pence (1H13: 2.33 pence) per ordinary share. We are committed to growing the dividend sensibly, while maintaining an appropriate level of dividend cover. The interim dividend will be paid on 7 March 2014 to shareholders on the register at the close of business on 7 February 2014.

### **Strategy and acquisitions**

Our most recent acquisition, Atkinson Bolton, is bedding-in well. Linking the Group's legal and operational structures is key to ensuring we can capitalise on the opportunities to secure further growth. Our post-acquisition integration has included a review of the legal and operational structure of the Group, with the aim of strengthening our brand around the Mattioli Woods name later this year.

We have reported previously how we plan to continue expanding Mattioli Woods' operations, both organically and by acquisition. We believe the significant increases some SIPP operators would see in their regulatory capital requirement under the FCA's current proposals could drive further consolidation in the market.

### **Outlook**

We are delighted with the performance of our business in what remains a fast-changing market. Current trading is in line with the Board's expectations and we remain confident in our outlook for the remainder of the year. We are making good progress in building our new style 21st century financial services business.

The multi-dimensional nature of the Group, providing products and advice, with the interplay between wealth management and employee benefits, brings enormous goodwill, strong distribution and sustainable profits.

Imagine a world in which financial advice is trusted, thoughtful and enriching. That is our vision.

### **Bob Woods**

Chairman

### **Ian Mattioli**

Chief Executive

27 January 2014

# INDEPENDENT REVIEW REPORT TO MATTIOLI WOODS PLC

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 November 2013 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and associated notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The interim financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 November 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and the AIM Rules of the London Stock Exchange

## Baker Tilly UK Audit LLP

Chartered Accountants

2 Whitehall Quay

Leeds

LS1 4HG

27 January 2014



# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 November 2013

	Note	Unaudited Six months ended 30 Nov 2013 €000	Unaudited Six months ended 30 Nov 2012 €000	Audited Year ended 31 May 2013 €000
<b>Revenue</b>	6	<b>13,445</b>	11,264	23,405
Employee benefits expense		<b>(7,736)</b>	(6,279)	(12,832)
Other administrative expenses		<b>(2,601)</b>	(2,231)	(4,693)
Share based payments	11	<b>(132)</b>	(62)	(102)
Amortisation and impairment		<b>(569)</b>	(412)	(854)
Depreciation		<b>(177)</b>	(152)	(304)
Loss on disposal of property, plant and equipment		<b>(49)</b>	(11)	(23)
<b>Operating profit before financing</b>		<b>2,181</b>	2,117	4,597
Finance revenue		<b>26</b>	45	53
Finance costs		<b>(1)</b>	(7)	(12)
Net finance revenue		<b>25</b>	38	41
<b>Profit before tax</b>		<b>2,206</b>	2,155	4,638
Income tax expense	9	<b>(299)</b>	(428)	(1,031)
<b>Profit for the period</b>		<b>1,907</b>	1,727	3,607
Other comprehensive income for the period, net of tax		—	—	—
<b>Total comprehensive income for the period, net of tax</b>		<b>1,907</b>	1,727	3,607
<b>Attributable to:</b>				
Equity holders of the parent		<b>1,907</b>	1,727	3,607
<b>Earnings per ordinary share:</b>				
Basic (pence)	7	<b>9.75</b>	9.32	19.34
Adjusted (pence)	7	<b>13.12</b>	11.26	24.29
Diluted (pence)	7	<b>9.67</b>	9.20	18.94
Proposed total dividend per share (pence)	8	<b>3.10</b>	2.33	7.00

The operating profit before financing for each period arises from the Group's continuing operations.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 November 2013

	Note	Unaudited 30 Nov 2013 £000	Unaudited 30 Nov 2012 £000	Audited 31 May 2013 £000
<b>Assets</b>				
Property, plant and equipment		1,241	1,082	1,103
Intangible assets	5	29,750	22,859	24,060
Deferred tax asset	9	298	194	225
<b>Total non-current assets</b>		<b>31,289</b>	24,135	25,388
Trade and other receivables		8,914	8,329	8,769
Financial assets		9	1,125	239
Investments		37	—	—
Cash and short-term deposits		8,009	3,946	8,047
<b>Total current assets</b>		<b>16,969</b>	13,400	17,055
<b>Total assets</b>		<b>48,258</b>	37,535	42,443
<b>Equity</b>				
Issued capital		199	182	188
Share premium		11,752	7,791	8,616
Equity – share based payments		876	665	777
Capital redemption reserve		2,000	2,000	2,000
Retained earnings		18,500	16,075	17,519
<b>Total equity attributable to equity holders of the parent</b>		<b>33,327</b>	26,713	29,100
<b>Non-current liabilities</b>				
Deferred tax liability	9	2,529	2,132	2,059
Provisions	12	3,032	1,736	2,193
<b>Total non-current liabilities</b>		<b>5,561</b>	3,868	4,252
<b>Current liabilities</b>				
Bank overdraft		19	10	—
Trade and other payables		5,339	3,961	5,874
Income tax payable	9	713	599	502
Provisions	12	3,299	2,384	2,715
<b>Total current liabilities</b>		<b>9,370</b>	6,954	9,091
<b>Total liabilities</b>		<b>14,931</b>	10,822	13,343
<b>Total equities and liabilities</b>		<b>48,258</b>	37,535	42,443

Registered number 3140521

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2013

	Note	Issued capital £000	Share premium £000	Equity-share based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
<b>As at 1 June 2012 - Audited</b>		<b>181</b>	<b>7,641</b>	<b>626</b>	<b>2,000</b>	<b>15,021</b>	<b>25,469</b>
<b>Total comprehensive income for period</b>							
Profit for the period		—	—	—	—	1,727	1,727
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income for period		—	—	—	—	1,727	1,727
<b>Transactions with owners of the Company, recognised directly in equity</b>							
Issue of share capital		1	150	—	—	—	151
Share-based payment transactions	11	—	—	—	—	—	—
Deferred tax asset taken to equity		—	—	39	—	—	39
Dividends		—	—	—	—	(673)	(673)
<b>As at 30 November 2012 - Unaudited</b>		<b>182</b>	<b>7,791</b>	<b>665</b>	<b>2,000</b>	<b>16,075</b>	<b>26,713</b>
<b>Total comprehensive income for period</b>							
Profit for the period		—	—	—	—	1,880	1,880
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income for period		—	—	—	—	1,880	1,880
<b>Transactions with owners of the Company, recognised directly in equity</b>							
Issue of share capital		6	825	—	—	—	831
Share-based payment transactions	11	—	—	1	—	—	1
Deferred tax asset taken to equity		—	—	(8)	—	—	(8)
Current tax taken to equity		—	—	119	—	—	119
Dividends		—	—	—	—	(436)	(436)
<b>As at 31 May 2013 - Audited</b>		<b>188</b>	<b>8,616</b>	<b>777</b>	<b>2,000</b>	<b>17,519</b>	<b>29,100</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## CONTINUED

For the six months ended 30 November 2013

	Note	Issued capital £000	Share premium £000	Equity-share based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
<b>As at 1 June 2013 - Audited</b>		<b>188</b>	<b>8,616</b>	<b>777</b>	<b>2,000</b>	<b>17,519</b>	<b>29,100</b>
<b>Total comprehensive income for period</b>							
Profit for the period		—	—	—	—	1,907	1,907
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income for period		—	—	—	—	1,907	1,907
<b>Transactions with owners of the Company, recognised directly in equity</b>							
Issue of share capital		11	3,161	—	—	—	3,172
Costs of share issue		—	(25)	—	—	—	(25)
Share-based payment transactions	11	—	—	34	—	—	34
Deferred tax asset taken to equity		—	—	65	—	—	65
Dividends		—	—	—	—	(926)	(926)
<b>As at 30 November 2013 - Unaudited</b>		<b>199</b>	<b>11,752</b>	<b>876</b>	<b>2,000</b>	<b>18,500</b>	<b>33,327</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 November 2013

	Note	Unaudited Six months ended 30 Nov 2013 €000	Unaudited Six months ended 30 Nov 2012 €000	Audited Year ended 31 May 2013 €000
<b>Operating activities</b>				
Profit for the period		1,907	1,727	3,607
Adjustments for:				
Depreciation		177	152	304
Amortisation and impairment		569	412	854
Investment income		(26)	(45)	(53)
Interest expense		1	7	12
Loss on disposal of property, plant and equipment		49	11	23
Share-based payments	11	132	62	102
Income tax expense		299	428	1,031
<b>Cash flows from operating activities before changes in working capital and provisions</b>				
		3,108	2,754	5,880
Decrease/(increase) in trade and other receivables		96	(196)	(576)
(Decrease)/increase in trade and other payables		(1,135)	(723)	964
Increase in provisions		37	67	140
<b>Cash generated from operations</b>				
		2,106	1,902	6,408
Interest paid		(1)	(7)	(12)
Income taxes paid		(690)	(567)	(1,257)
<b>Net cash flows from operating activities</b>				
		1,415	1,328	5,139
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment		15	12	23
Purchase of property, plant and equipment		(335)	(239)	(434)
Purchase of software		(163)	(134)	(260)
Acquisition of subsidiaries	4	(2,164)	(1,583)	(1,583)
Cash acquired with subsidiaries	4	1,628	—	—
Acquisition of businesses	4	—	—	(656)
New loans advanced to property syndicates		(9)	(1,125)	(2,450)
Loan repayments from property syndicates		239	1,077	3,288
Interest received		26	45	53
<b>Net cash from investing activities</b>				
		(763)	(1,947)	(2,019)
<b>Financing activities</b>				
Proceeds from the issue of share capital		245	90	881
Payment of costs of share issue		(25)	—	—
(Repayments)/proceeds from Directors' loans		(4)	(4)	13
Dividends paid	8	(925)	(673)	(1,109)
<b>Net cash from financing activities</b>				
		(709)	(587)	(215)
Net (decrease)/increase in cash and cash equivalents		(57)	(1,206)	2,905
Cash and cash equivalents at start period		8,047	5,142	5,142
<b>Cash and cash equivalents at end period</b>				
		7,990	3,936	8,047

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales, whose shares are traded on the AIM market of the London Stock Exchange plc. The interim condensed consolidated financial statements comprise the Company and its subsidiaries ("the Group"). The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 27 January 2014.

The principal activities of the Group are described in Note 6.

## 2. Basis of preparation and accounting policies

### 2.1 Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 May 2013, which were prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the six months ended 30 November 2013 and the six months ended 30 November 2012 is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 May 2013 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not draw attention to any matters by way of emphasis, or contain a statement under section 498(2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements have been reviewed by the auditor and their report to the Board of Mattioli Woods plc is included within this interim report.

### 2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 May 2013.

### Standards affecting the financial statements

In the current period, the Group has adopted IFRS 13 Fair Value Measurement, which has affected the amounts reported in these financial statements. During the period the Company acquired Thoroughbred Wealth Management Limited (Note 4). Business combinations are accounted for using the purchase accounting method, with acquired assets and liabilities being measured at their acquisition-date fair value.

## 2. Basis of preparation and accounting policies continued

### Standards not affecting the financial statements

The following new and revised standards and interpretations have been adopted in the current year:

Standard or interpretation	Periods commencing on or after
IFRS 1 (amended) First-time Adoption of IFRS	1 January 2013
IFRS 7 (amended) Financial Instruments: Disclosures	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosures of Interests in Other Entities	1 January 2013
IAS 1 (amended) Presentation of Items in Other Comprehensive Income	1 July 2012
IAS 1 (amended) Presentation of Financial Statements	1 January 2013
IAS 12 (amended) Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 16 (amended) Property, Plant and Equipment	1 January 2012
IAS 27 (revised) Separate Financial Statements	1 January 2013
IAS 32 (amended) Financial Instruments: Presentation	1 January 2013
IAS 34 (amended) Interim Financial Reporting	1 January 2013

Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, or give rise to additional disclosures.

### New standards and interpretations issued but not yet effective

The IASB and IFRIC have issued standards and interpretations with an effective date for periods starting on or after the date on which these financial statements start. None of these is expected to have a material impact on the condensed consolidated interim financial statements and the consolidated financial statements of the Group.

### Financial statements for the year ending 31 May 2014

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements will be consistent with those to be followed in the preparation of the Group's annual financial statements for the year ending 31 May 2014, except for the adoption of new standards and interpretations not yet issued.

### 2.3 Basis of consolidation

The interim condensed consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings as at 30 November each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 2. Basis of preparation and accounting policies continued

#### 2.4 Key sources of judgements and estimation uncertainty

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the consolidated financial statements, are discussed below.

#### Impairment of client portfolios

The Group reviews whether acquired client portfolios are impaired at least on an annual basis. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios. In assessing value in use, the estimated future cash flows expected to arise from the individual client portfolios are discounted to their present value using the Group's weighted average cost of capital adjusted for tax, which reflects management's estimate of the time value of money and the risks specific to the asset.

The key assumption used in arriving at a fair value less cost of sale are those around valuations based on earnings multiples and values based on assets under management. These have been determined by looking at valuations of similar businesses and the consideration paid in comparable transactions. Management has used a range of multiples resulting in an average of 7.5x EBITDA to arrive at a fair value.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations. Changes to revenue and costs are based upon management's expectation. The Group prepares its annual budget and five-year cash flow forecasts derived therefrom, thereafter extrapolating these cash flows using a terminal growth rate of 2.5%, which management considers conservative against industry average long-term growth rates.

The carrying amount of client portfolios at 30 November 2013 was £17.77m (1H13: £13.34m). No impairments have been made during the period (1H13: Enil) based upon the directors' review.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the cash-generating unit are discounted to their present value using the Group's weighted average cost of capital adjusted for tax.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations, based upon management's expectation. The carrying amount of goodwill at 30 November 2013 was £11.04m (1H13: £8.73m). No impairments have been made during the period (1H13: Enil) based upon the directors' review.

#### Capitalised software

The costs of internal software developments are capitalised where they are judged to have an economic value that will extend into the future and meet the recognition criteria in IAS38. Internally generated software is then amortised over an estimated useful life, assessed by taking into consideration the useful life of comparable software packages. The carrying amount of capitalised software at 30 November 2013 was £0.58m (1H13: £0.44m).



## **2. Basis of preparation and accounting policies continued**

### **Deferred tax assets**

Deferred tax assets include temporary differences related to employee benefits settled via the issue of share options. Recognition of the deferred tax assets assumes share options will have a positive value at the date of vesting, which is greater than the exercise price. The carrying amount of deferred tax assets at 30 November 2013 was £0.30m (1H13: £0.19m).

### **Recoverability of accrued time costs**

The Group recognises accrued income in respect of time costs incurred on clients' affairs during the accounting period, which have not been invoiced at the reporting date. This requires an estimation of the recoverability of the time costs incurred but not invoiced to clients. The carrying amount of accrued time costs at 30 November 2013 was £2.95m (1H13: £2.77m).

### **Accrued income**

Accrued income is recognised in respect of fees, adviser charges and commissions due to the Group on investments and bank deposits placed during the accounting period which have not been received at the reporting date. This requires an estimation of the amount of income that will be received subsequent to the reporting date in respect of the accounting period, which is based on the value of historic receipts and investments placed by clients under management and advice. The carrying amount of accrued income at 30 November 2013 was £1.33m (1H13: £1.81m).

### **Contingent consideration**

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A provision is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired client portfolio and determine a suitable discount rate for the calculation of the present value of those cash flows. The carrying amount of contingent consideration provided for at 30 November 2013 was £4.96m (1H13: £3.17m).

### **Provisions**

As detailed in Note 12, the Group recognises provisions for client claims, contingent consideration payable on acquisitions, commission clawbacks and other obligations which exist at the reporting date. These provisions are estimates and the actual amount and timing of future cash flows are dependent on future events. Management reviews these provisions at each reporting date to ensure they are measured at the current best estimate of the expenditure required to settle the obligation. Any difference between the amounts previously recognised and the current estimate is recognised immediately in the statement of comprehensive income.

## **3. Seasonality of operations**

Historically, revenues in the second half-year have been typically higher than in the first half, primarily due to SSAS scheme year-ends being linked to the sponsoring company's year-end, which is often in December or March, coupled with the end of the fiscal year being 5 April. Despite growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams, the directors believe there is still some seasonality of operations, although a substantial element of the Group's revenues are now geared to the prevailing economic and market conditions.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 4. Business combinations

#### Acquisition of Atkinson Bolton

On 29 July 2013, Mattioli Woods acquired 100% of the voting equity interests of Thoroughbred Wealth Management Limited ("TWM") and its subsidiary Atkinson Bolton Consulting Limited ("ABC") (together "Atkinson Bolton"). TWM is the holding company of ABC, an employee benefits and wealth management business based in Newmarket. ABC offers a full discretionary management service and operates its own Open Ended Investment Company ("OEIC"), The IM Thoroughbred Funds ICVC.

The acquisition has been accounted for using the acquisition method. The provisional fair value of the identifiable assets and liabilities of Atkinson Bolton as at the date of acquisition was:

	Fair value recognised on acquisition (unaudited) £000	Previous carrying value (unaudited) £000
Property, plant and equipment	44	44
Software	1	1
Client portfolio	3,785	—
Cash and short-term deposits	1,628	1,628
Trade receivables	152	152
Provision for impairment of receivables	(34)	(34)
Investments	37	37
Prepayments and accrued income	122	122
Deferred tax asset	1	1
<b>Total assets</b>	<b>5,736</b>	<b>1,951</b>
Trade payables	(135)	(135)
Accruals	(98)	(98)
Deferred income and other payables	(369)	(369)
Income tax payable	(308)	(308)
Deferred tax liabilities	(757)	—
Provisions	(181)	(153)
<b>Total liabilities</b>	<b>(1,848)</b>	<b>(1,063)</b>
Total identifiable net assets at fair value	3,888	
Goodwill arising on acquisition	2,310	
<b>Total acquisition cost</b>	<b>6,198</b>	
	Unaudited £000	
Cash outflow on acquisition		
Cash paid	(581)	
Acquisition costs	(175)	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1,628	
Net cash inflow	872	

#### **4. Business combinations continued**

##### **Acquisition of Atkinson Bolton continued**

The interim condensed consolidated financial statements include the results of Atkinson Bolton for the four months from the date of acquisition, during which time it has contributed £0.98m to revenue and £0.13m to the Group profit for the period. If the combination had taken place at the beginning of the period, the Group profit for the period would have been £1.97m and revenue from continuing operations would have been £13.97m.

Atkinson Bolton is an excellent cultural and strategic fit with Mattioli Woods, offering real synergies for both organisations. These synergies include the ability to promote additional services to existing and prospective clients of each business. In addition, the acquisition adds further specialist wealth management expertise to the Group and extends its existing operations by adding fund management to our range of services. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Atkinson Bolton with those of the Group. The primary components of this residual goodwill comprise:

- Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in Atkinson Bolton's *modus operandi*; and
- New opportunities available to the combined business, as a result of both Atkinson Bolton and the existing business becoming part of a more sizeable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life of 20 years, based on the Group's historic experience.

Transaction costs of £0.175m incurred on the acquisition have been expensed, and are included in administrative expenses in the condensed consolidated statement of comprehensive income and condensed consolidated statement of cash flows.

##### **Contingent consideration**

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. These agreements and the basis of calculation of the net present value of the contingent consideration are summarised below. While it is not possible to determine the exact amount of contingent consideration (as this will depend on the performance of the acquired businesses during the period), the Group estimates the net present value of contingent consideration payable within the next 12 months is £2.23m (1H13: £1.58m).

During the period, the Group acquired Atkinson Bolton for an initial consideration of £3.45m (excluding cash acquired with the business) comprising £0.58m in cash and 946,256 ordinary shares in Mattioli Woods (which were valued at £2.87m based on the closing price of a Mattioli Woods share on 29 July 2013), plus contingent consideration of up to £2.75m payable in cash in the four years following completion if certain financial targets are met based on growth in EBITDA generated during the period.

The Group estimates the net present value of the remaining contingent consideration at 30 November 2013 to be £2.75m using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable. The effect of discounting the cash flow projections at a rate considered appropriate by the Board is not material.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### **4. Business combinations continued**

#### **Contingent consideration continued**

On 23 April 2013, the Group acquired the trade and certain assets of Ashcourt Rowan Administration Limited, 100% of the share capital of Ashcourt Rowan Pension Trustees Limited and 100% of the share capital of Robinson Gear (Management Services) Limited for an initial cash consideration of £0.66m plus contingent consideration of up to £0.625m payable in cash in the five years following completion if certain targets are met based on growth in revenues and client retention during that period. The Group estimates the net present value of the remaining contingent consideration at 30 November 2013 to be £0.625m using cash flows approved by the Board covering the contingent consideration period. The effect of discounting the cash flow projections at a rate considered appropriate by the Board is not material.

On 26 August 2011 the Group acquired Kudos for a total initial consideration of £5.52m (excluding cash acquired with the business) comprising £4.33m in cash and 462,572 ordinary shares in Mattioli Woods (which were valued at £1.19m based on the closing price of a Mattioli Woods share on 26 August 2011), plus contingent consideration of up to £4.75m payable in cash in the three years following completion if certain financial targets are met based on growth in recurring revenues and EBITDA generated during the period. The Group estimates the net present value of the remaining contingent consideration at 30 November 2013 to be £1.58m using cash flows approved by the Board covering the contingent consideration period. The effect of discounting the cash flow projections at a rate considered appropriate by the Board is not material.

## 5. Intangible assets

	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Other £000	Total £000
<b>Gross carrying amount:</b>						
At 1 June 2012	412	577	15,654	8,734	35	25,412
Additions	84	50	—	—	—	134
At 30 Nov 2012	496	627	15,654	8,734	35	25,546
Additions	99	27	—	—	—	126
Arising on acquisitions	—	—	1,517	—	—	1,517
Disposals	—	(1)	—	—	—	(1)
At 31 May 2013	595	653	17,171	8,734	35	27,188
Additions	100	63	—	—	—	163
Arising on acquisitions	—	1	3,785	2,310	—	6,096
At 30 November 2013	695	717	20,956	11,044	35	33,447
<b>Amortisation and impairment:</b>						
At 1 June 2012	33	283	1,959	—	—	2,275
Amortisation	23	27	356	—	6	412
At 30 November 2012	56	310	2,315	—	6	2,687
Amortisation in period	28	28	381	—	5	442
Disposals	—	(1)	—	—	—	(1)
At 31 May 2013	84	337	2,696	—	11	3,128
Amortisation in period	33	35	494	—	7	569
At 30 November 2013	117	372	3,190	—	18	3,697
<b>Carrying amount:</b>						
<b>At 30 November 2013</b>	<b>578</b>	<b>345</b>	<b>17,766</b>	<b>11,044</b>	<b>17</b>	<b>29,750</b>
At 30 November 2012	440	317	13,339	8,734	29	22,859
At 31 May 2013	511	316	14,475	8,734	24	24,060

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 6. Segment information

The Group's operating segments remain unchanged and comprise the following:

- Direct pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes under an advice-led model. Additional fees are generated from consultancy services provided for special one-off activities and the provision of bespoke scheme banking arrangements;
- Third party administration – fees earned by City Trustees for setting up and administering pension schemes under an administration-only model. Additional fees are generated from the provision of bespoke scheme banking arrangements;
- Wealth management – income generated from the placing of investments on behalf of clients;
- Property syndicates – income generated where Custodian Capital facilitates or administers direct commercial property investment on behalf of clients; and
- Employee benefits – income generated by the Group's employee benefits business operations.

Each segment represents a revenue stream subject to risks and returns that are different to other operating segments, although each operating segment's products and services are offered to the same market. The Group operates exclusively within the United Kingdom.

The pension consultancy, administration and wealth management operations of Mattioli Woods utilise the same intangible assets, property, plant and equipment and the segments have been financed as a whole, rather than individually. The Group's operating segments are managed together as one business. Accordingly, certain costs are not allocated across the individual operating segments, as they are managed on a group basis. Segment profit or loss reflects the measure of segment performance reviewed by the Board of directors (the Chief Operating Decision Maker).

#### Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 November 2013 and 2012, and the year ended 31 May 2013 respectively:

	Six months ended 30 Nov 2013							
	Direct pension consultancy and administration £000	Third-party administration £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
<b>Revenue</b>								
External client	5,065	1,046	4,085	803	2,446	13,445	—	13,445
Total revenue	5,065	1,046	4,085	803	2,446	13,445	—	13,445
<b>Profit before tax</b>								
Segment result	1,099	156	1,119	75	300	2,749	(543)	2,206

	Six months ended 30 Nov 2012							
	Direct pension consultancy and administration £000	Third-party administration £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
<b>Revenue</b>								
External client	4,204	728	2,917	1,106	2,309	11,264	—	11,264
Total revenue	4,204	728	2,917	1,106	2,309	11,264	—	11,264
<b>Profit before tax</b>								
Segment result	832	91	792	403	405	2,523	(368)	2,155

## 6. Segment information continued

### Operating segments continued

	Year ended 31 May 2013							
	Direct pension consultancy and administration £000	Third-party administration £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
<b>Revenue</b>								
External client	9,049	1,582	6,444	1,958	4,372	23,405	—	23,405
Total revenue	9,049	1,582	6,444	1,958	4,372	23,405	—	23,405
<b>Profit before tax</b>								
Segment result	2,275	285	1,855	435	771	5,621	[983]	4,638

The following table presents segment assets of the Group's operating segments as at 30 November 2013 and 2012, and at 31 May 2013 (the date of the last annual financial statements):

	<b>Unaudited 30 Nov 2013 £000</b>	Unaudited 30 Nov 2012 £000	Audited 31 May 2013 £000
Direct pension consultancy and administration	<b>11,843</b>	12,897	11,296
Third-party administration	<b>4,339</b>	2,543	4,395
Wealth management	<b>9,111</b>	6,680	6,098
Property syndicates	<b>783</b>	970	1,453
Employee benefits	<b>10,999</b>	8,101	8,179
Total segments	<b>37,075</b>	31,191	31,421
Corporate assets	<b>11,183</b>	6,344	11,022
Total assets	<b>48,258</b>	37,535	42,443

Segment assets exclude property, plant and equipment, certain items of computer software, investments, current and deferred tax balances, and cash balances, as these assets are considered corporate in nature and are not allocated to a specific operating segment. Acquired intangibles and amortisation thereon relate to a specific transaction and are allocated between individual operating segments based on the revenue mix of the cash generating units at the time of acquisition. The subsequent delivery of services to acquired clients may be across a number or all operating segments, comprising different operating segments to those the acquired intangibles have been allocated to.

Liabilities have not been allocated between individual operating segments, as they cannot be allocated on anything other than an arbitrary basis.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 6. Segment information continued

#### Adjustments and eliminations

Certain administrative expenses including acquisition costs, amortisation and impairment of intangible assets, depreciation of property, plant and equipment, legal and professional fees and professional indemnity insurance are not allocated between segments that are managed on a unified basis and utilise the same intangible assets and property, plant and equipment.

Finance income and expenses, gains and losses on the disposal of assets, taxes, intangible assets and certain other assets and liabilities are not allocated to individual segments as they are managed on a group basis. Capital expenditure consists of additions of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

	Unaudited 30 Nov 2013 €000	Unaudited 30 Nov 2012 €000	Audited 31 May 2013 €000
<b>Reconciliation of profit</b>			
Total segments	<b>2,749</b>	2,523	5,621
Acquisition-related costs	<b>(157)</b>	—	(175)
Depreciation	<b>(177)</b>	(152)	(304)
Amortisation and impairment	<b>(56)</b>	(44)	(91)
Loss on disposal of assets	<b>(18)</b>	(11)	(23)
Unallocated overheads	<b>(155)</b>	(193)	(414)
Bank charges	<b>(5)</b>	(5)	(17)
Finance income	<b>26</b>	45	53
Finance costs	<b>(1)</b>	(8)	(12)
Group profit before tax	<b>2,206</b>	2,155	4,638

	Unaudited 30 Nov 2013 €000	Unaudited 30 Nov 2012 €000	Audited 31 May 2013 €000
<b>Reconciliation of assets</b>			
Segment operating assets	<b>37,075</b>	31,191	31,421
Property plant and equipment	<b>1,241</b>	1,082	1,103
Intangible assets	<b>922</b>	700	823
Investments	<b>37</b>	—	—
Deferred tax asset	<b>298</b>	179	224
Prepayments and other receivables	<b>676</b>	437	825
Cash and short-term deposits	<b>8,009</b>	3,946	8,047
Total assets	<b>48,258</b>	37,535	42,443



## 7. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>Unaudited Six months ended 30 Nov 2013 £000</b>	Unaudited Six months ended 30 Nov 2012 £000	Audited Year ended 31 May 2013 £000
Net profit and diluted net profit attributable to equity holders of the Company	<b>1,907</b>	1,727	3,607
Weighted average number of ordinary shares:	<b>000s</b>	000s	000s
Issued ordinary shares at start period	<b>18,813</b>	18,137	18,137
Effect of shares issued during year ended 31 May 2013	<b>—</b>	345	517
Effect of shares issued in the current period	<b>738</b>	61	61
Basic weighted average number of shares	<b>19,551</b>	18,543	18,715
Effect of options exercisable at the balance sheet date	<b>180</b>	224	134
Diluted weighted average number of shares	<b>19,731</b>	18,767	18,849

The Company has granted options under the Mattioli Woods Pension Consultants Limited Enterprise Management Incentive Share Option Plan ("the Share Option Plan"), the Mattioli Woods plc Consultants' Share Option Plan ("the Consultants' Option Plan") and the Mattioli Woods 2010 Long Term Incentive Plan ("the LTIP") to certain of its senior managers and directors to acquire (in aggregate) up to 4.94% of its issued share capital. Under IAS 33 Earnings Per Share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 30 November 2013 the conditions attaching to 170,456 options granted under the Consultants' Option Plan and 365,667 options granted under the LTIP are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 9.46 pence per share (1H13: 9.20 pence).

Adjusted earnings per share amounts are calculated by adding back acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software to the net profit attributable to ordinary equity holders of the Company ("Adjusted Net Profit") and dividing Adjusted Net Profit by the weighted average number of ordinary shares outstanding during the period.

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements has been the issue of 5,406 ordinary shares on 9 December 2013 and 6,770 ordinary shares on 7 January 2014 under the Mattioli Woods plc Share Incentive Plan ("SIP").

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 8. Dividends paid and proposed

	Unaudited Six months ended 30 Nov 2013 £000	Unaudited Six months ended 30 Nov 2012 £000	Audited Year ended 31 May 2013 £000
<b>Paid during the period:</b>			
Equity dividends on ordinary shares:			
- Final dividend for 2013: 4.67p (2012: 3.70p)	925	673	673
- Interim dividend for 2013: 2.33p (2012: 1.85p)	—	—	436
Dividends paid	925	673	1,109
<b>Proposed for approval:</b>			
Equity dividends on ordinary shares:			
- Interim dividend for 2014: 3.10p (2013: 2.33p)	617	436	—
- Final dividend for 2013: 4.67p (2012: 3.70p)	—	—	925
Dividends proposed	617	436	925

The proposed interim dividend was approved on 27 January 2014.

### 9. Income tax

#### Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Any amounts paid in excess of amounts owed would be classified as a current asset.

#### Deferred income tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented. The primary component of the entity's recognised deferred taxed assets include temporary differences relates to share-based payments to employees.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment and intangible assets.

The recognition of deferred tax in the consolidated statement of comprehensive income arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary component of the deferred tax credit for the six months ended 30 November 2013 of £0.29m (1H13: credit of £0.14m) is related to permanent differences arising on changes to the rate of tax expected to be enacted or substantively enacted at the reporting date and temporary differences on the amortisation of client portfolios.

The total deferred tax asset released to equity for the six months ended 30 November 2013 was £0.06m (1H13: £0.04m). Deferred tax assets and liabilities have been recognised assuming the rate of tax enacted or substantively enacted at the reporting date was 20%.

## 9. Income tax continued

### Reconciliation of effective tax rates

The current tax expense for the six months ended 30 November 2013 was calculated based on the estimated average annual effective income tax rate of 12.9% (1H13: 19.9%), as compared to the tax rates expected to be enacted or substantively enacted at the reporting date of 23.0% (1H13: 24.0%). Differences between the estimated average annual effective income tax rate and statutory rate include, but are not limited to the effect of non-deductible expenses, tax incentives not recognised in profit or loss and under/(over) provisions in previous periods.

## 10. Cash flows from operating activities using the direct method

The cash generated from operations may be presented under the direct method as follows:

	Unaudited Six months ended 30 Nov 2013 £000	Unaudited Six months ended 30 Nov 2012 £000	Audited Year ended 31 May 2013 £000
<b>Cash flows from operating activities</b>			
Cash receipts from customers	13,541	11,068	22,829
Cash paid to suppliers and employees	(11,435)	(9,166)	(16,421)
<b>Cash generated from operations</b>	<b>2,106</b>	1,902	6,408

## 11. Share-based payments

### Share Option Plan

The Company operates the Share Option Plan by which certain of the executive directors and other senior executives can subscribe for ordinary shares in the Company at an exercise price of £1.32 per share. The contractual life of each option expires on 31 May 2015. At 30 November 2013 the total number of options outstanding and exercisable under the Share Option Plan was 95,250 (1H13: 689,581).

### Consultants' Share Option Plan

The Company also operates the Consultants' Share Option Plan by which certain senior executives are able to subscribe for ordinary shares in the Company. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price	At 1 June 2013	Granted during the period	Exercised during the period	Lapsed during the period	At 30 Nov 2013
5 September 2006	£2.21	234,377	—	(53,000)	—	181,377
4 September 2007	£2.79	170,456	—	—	—	170,456
8 September 2009	£2.16	170,456	—	—	—	170,456
		575,289	—	(53,000)	—	522,289

The exercise price of the options is equal to the market price of the shares at the close of business on the day immediately preceding the date of grant. The options vest when the option holders achieve certain individual performance hurdles. No options vested during the year as a result of the associated performance conditions being fulfilled. If the performance hurdles, which are linked to individual sales revenues, are not met over the five financial years commencing on 1 June before the date of grant, the options lapse. The contractual life of each option expires 10 years after the date of grant. At 30 November 2013 the total number of options exercisable under the Consultants' Share Option Plan was 351,833 (1H13: 404,833).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 11. Share-based payments continued

#### Long Term Incentive Plan

During the period, Mattioli Woods granted awards to the Company's executive directors and certain senior employees under the LTIP. Conditional share awards ("Equity-settled") grant participating employees a conditional right to become entitled to options with an exercise price of 1 pence over ordinary shares in the Company. Conditional cash awards ("Cash-settled") grant participating employees a conditional right to be paid a cash amount based on the proceeds of the sale of a specified number of Ordinary Shares following the vesting of the award. Movements in the LTIP scheme during the period were as follows:

	Unaudited 30 Nov 2013 Equity- settled	Unaudited 30 Nov 2013 Cash- settled	Unaudited 30 Nov 2012 Equity- settled	Unaudited 30 Nov 2012 Cash- settled	Audited 31 May 2013 Equity- settled	Audited 31 May 2013 Cash- settled
<b>Number of options</b>						
Outstanding at start of period	—	—	—	—	—	—
Granted during the period	<b>217,519</b>	<b>148,148</b>	—	—	—	—
Exercised during the period	—	—	—	—	—	—
Forfeited during the period	—	—	—	—	—	—
Outstanding at the end period	<b>217,519</b>	<b>148,148</b>	—	—	—	—

The LTIP awards are subject to the achievement of corporate profitability targets measured over a three year performance period ending on 31 May 2016 and will vest following publication of the Group's audited results for the year ending 31 May 2016. The amounts shown above represent the maximum opportunity for the participants in the LTIP.

#### Share Incentive Plan

The Company also operates the Mattioli Woods plc Share Incentive Plan ("the SIP"). Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company at the end of each month. A total of 40,582 (1H13: 72,188) new ordinary shares were issued to the 141 employees who participated in the SIP during the year. At 30 November 2013, 392,945 shares were held in the SIP on their behalf, with a further 1,792 of forfeited shares not allocated to any specific employee.

#### Share-based payment expense

The amounts recognised in the statement of comprehensive income in respect of share-based payments were as follows:

	Unaudited 30 Nov 2013 Equity- settled £000	Unaudited 30 Nov 2013 Cash- settled £000	Unaudited 30 Nov 2012 Equity- settled £000	Unaudited 30 Nov 2012 Cash- settled £000	Audited 31 May 2013 Equity- settled £000	Audited 31 May 2013 Cash- settled £000
Share Option Plan	—	—	—	—	—	—
Consultants' Share Option Plan	6	—	—	—	1	—
LTIP	28	38	—	—	—	—
SIP	60	—	62	—	101	—
Total	<b>94</b>	<b>38</b>	62	—	102	—

## 11. Share-based payments continued

### Valuation assumptions

Assumptions used in the Black Scholes model to determine the fair value of options at the date of grant were as follows:

	LTIP (Equity- settled awards)	Consultants' Share Option Plan 2009	Consultants' Share Option Plan 2007	Consultants' Share Option Plan 2006	Share Option Plan
Share price at grant date (£)	3.27	2.13	2.82	2.20	1.05
Exercise price (£)	0.01	2.16	2.79	2.21	1.32
Expected volatility (%)	22.5	17.0	30.0	30.0	25.0
Expected life (years)	4.5	7.0	7.0	7.0	6.0
Risk free rate (%)	1.54	3.33	4.63	4.58	4.57
Expected dividend yield (%)	3.00	1.60	1.11	1.00	1.00

The expected volatility assumption is based on statistical analysis of the historical volatility of the Company's share price. For the LTIP, the mid-market value of the shares under option at the date of grant is based on the average price over the five days immediately preceding (but not including) the day of grant.

Cash-settled awards require the Group to pay the intrinsic value of the share-based payments to the employee at the date of exercise. The fair value of the awards is re-measured at each reporting date, based on the directors' estimate of the number of awards that will vest, and on settlement. Until the award is settled it is presented as a liability, not within equity. The total carrying amount of liabilities to pay cash-settled awards at 30 November 2013 was £0.04m (1H13: nil) (Note 12). No LTIP awards had vested at the reporting date.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 12. Provisions

Group	Cash-settled LTIP awards £000	Client claims £000	Contingent consideration £000	Dilapidations £000	Clawback £000	Exec's/NIC on share options £000	Onerous Contracts £000	Other £000	Total £000
At 1 June 2012	—	386	4,750	130	357	13	—	—	5,636
Arising during period	—	65	—	—	[7]	9	—	—	67
Used during period	—	—	(1,583)	—	—	—	—	—	(1,583)
At 30 Nov 2012	—	451	3,167	130	350	22	—	—	4,120
Arising during period	—	85	—	35	7	42	—	—	169
Acquisitions	—	20	625	—	—	—	42	26	713
Used during period	—	—	—	—	—	(35)	—	(18)	(53)
Unused amounts reversed	—	—	—	(25)	(16)	—	—	—	(41)
At 31 May 2013	—	556	3,792	140	341	29	42	8	4,908
Arising during period	39	124	2,750	—	2	54	—	—	2,969
Used during period	—	(15)	(1,583)	(20)	—	—	—	(8)	(1,626)
Unused amounts reversed	—	—	—	—	(101)	—	—	—	(101)
Arising on acquisitions	—	65	—	65	51	—	—	—	181
<b>At 30 Nov 2013</b>	<b>39</b>	<b>730</b>	<b>4,959</b>	<b>185</b>	<b>293</b>	<b>83</b>	<b>42</b>	<b>—</b>	<b>6,331</b>
Current	—	730	2,234	—	293	—	42	—	3,299
Non-current	39	—	2,725	185	—	83	—	—	3,032
At 30 Nov 2013	39	730	4,959	185	293	83	42	—	6,331

#### Client claims

A provision is recognised for the estimated potential liability not covered by the Group's professional indemnity insurance when the Group becomes aware of a possible client claim. No discount rate is applied to the projected cash flows due to their short term nature.

#### Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration is summarised in Note 4. The Group estimates the net present value of contingent consideration payable within the next 12 months is £2.23m (1H13: £1.58m).

#### Dilapidations

Under the terms of the leases for the Group's premises, the Group has an obligation to return the properties in a specified condition at the end of each lease term. The Group provides for the estimated net present value of the cost of any dilapidations. The discount rate applied to the cash flow projections is 5.0%.

#### Clawbacks

The Group receives certain initial commissions on indemnity terms and hence the Group provides for the expected level of clawback, based on past experience. No discount rate is applied to the projected cash flows due to their short term nature.

## 12. Provisions continued

### Onerous contracts

The Group acquired an onerous contract for the provision of an IT system on the acquisition of Ashcourt Rowan plc's pension business ("the Pension Business"). Management has assessed the expected benefits and costs associated with this contract and concluded that the costs of the obligation exceed the benefits to the extent it is appropriate to provide against the contract in full. No discount rate is applied to the projected cash flows because the contract expires within the next six months.

### Other

Prior to the Group's acquisition of the Pension Business, its employees had been notified the business was to be restructured, creating a potential liability for certain employee-related costs. Post-acquisition the Group became liable for those employee-related costs relating to the restructuring, which have now been paid in full.

## 13. Related party transactions

### Transactions with key management personnel

The private pension schemes of Ian Mattioli, Robert Woods, Nathan Imlach, Murray Smith and Mark Smith, together with the private pension schemes of other employees of the Group, have beneficial interests in MW Properties (No 16) Limited and MW Properties (No 60) Limited. The Group leases its premises at MW House, Grove Park, Enderby from MW Properties (No 16) Limited and paid rentals of £0.09m during the six months ended 30 November 2013 (1H13: £0.09m). At 30 November 2013 the Group had prepaid future rentals of £0.01m (1H13: £0.01m).

The Group leases its premises at Gateway House, Grove Park, Enderby from MW Properties (No 60) Limited and paid rentals of £0.07m during the six months ended 30 November 2013 (1H13: £0.07m). At 30 November 2013 the Group had prepaid future rentals of £0.01m (1H13: £0.01m).

Both leases have been negotiated on arms' length terms, with rent payable at the market rate.

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits. Key management personnel, representing the executive directors and 12 (1H13: nine) other executives, received total compensation of £1.68m for the six months ended 30 November 2013 (1H13: £1.52m). Total remuneration is included in "employee benefits expense".

### Transactions with other related parties

Following the transfer of Mattioli Woods' property syndicate business to Custodian Capital, the legal structure of the arrangements offered to investors changed to limited partnerships, replacing the previous trust-based structure. The limited partnership is constituted by its general partner and its limited partners (the investors), with the general partner being a separate limited company owned by Custodian Capital.

The general partner and the initial limited partner enter into a limited partnership agreement, which governs the operation of the partnership and also sets out the rights and obligations of the investors. The general partner will appoint Custodian Capital as the operator of the partnership pursuant to an operator agreement between the general partner and Custodian Capital. At 30 November 2013 the Group had advanced £0.01m (1H13: £1.12m) of short-term loans to new property syndicate partnerships.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 14. Contingencies

#### Costs of launching a new property investment company

Custodian Capital expects to create a new closed-ended property investment company ("the REIT"), to launch an initial public offering on the Main Market of London Stock Exchange plc in the spring. If the launch of the new company is successful, the legal and professional costs associated with the launch will be met by the REIT. However, the Group will be liable for a proportion of the legal and professional costs associated with the project, estimated to be up to £0.50m, should the planned launch not go ahead.

#### Client claims

The Group operates in a legal and regulatory environment that exposes it to certain litigation risks. As a result, the Group occasionally receives claims in respect of products and services provided and which arise in the ordinary course of business. The Group provides for potential losses that may arise out of contingencies where the estimated potential liability is not covered by the Group's professional indemnity insurance (Note 12).

A number of claims were notified to the Group's professional indemnity insurers ("the insurers") in respect of the period from 18 February 2010 to 17 August 2011. The insurers have declined to indemnify the Group in respect of certain of these claims. The Group is of the opinion that the insurers' position is without any merit and is challenging their view. The estimated compensation payable should the clients' claims be successful, with no indemnity provided by the insurers, is £0.48m. To the extent the Group believes it is possible but not probable that a claim will succeed and result in an economic outflow, no provision is made in these financial statements.

Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Significant judgment is required in assessing probability and making estimates in respect of contingencies, and the Group's final liabilities may ultimately be different. The Group's total potential liability recorded in respect of litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents, where appropriate, an estimate of the probable economic outflow after considering, among other factors, the progress of each case, the Group's experience and the experience of others in similar cases, and the opinions and views of legal counsel.

#### FSCS levy

In the year ended 31 May 2013 the Financial Services Compensation Scheme ("FSCS") raised an interim levy of £20.0m (2012: £60.0m) from investment intermediaries to pay for the costs of compensating clients in investment failures, to which the Group contributed £0.03m (2012: £0.06m).

In its monthly newsletter published in November 2013, the FSCS said it expected to raise an interim levy of £29.5m on investment intermediaries before June 2014. Consequently, a provision of £0.01m (1H13: £0.02m) has been made in these financial statements for any FSCS interim levy that may be raised in the year ending 31 May 2014.



## **15. Events after the reporting period**

### **Bank facility**

At 30 November 2013, the Group had a £5.0m overdraft facility with interest payable at the bank's base rate plus 1.1875% on the first £0.5m and plus 1.375% on borrowings in excess of £0.5m. The Lloyds TSB Bank plc facility is repayable upon demand and renewable on 31 January 2014.

The Group has renewed its borrowing facilities with Lloyds TSB Bank plc on the existing terms, with the new facility repayable upon demand and renewable on 31 January 2015.

### **Taxation**

The UK government has enacted tax changes which will have a significant effect on the Group's future tax position. The rate of UK corporation tax will reduce from 23% to 21% from 1 April 2014, with further reduction of 1% leading to a rate of 20% from 1 April 2015.

These rate changes will affect the future cash tax payments to be made by the Group and will also reduce the size of the Group's deferred tax assets and liabilities.

## COMPANY INFORMATION

### Directors

Robert Woods - Executive Chairman  
Ian Mattioli - Chief Executive  
Nathan Imlach - Finance Director  
Murray Smith - Marketing and Sales Director  
Mark Smith - Operations Director  
John Redpath - Non-Executive Director  
Joanne Lake - Non-Executive Director

### Company secretary

Nathan Imlach

### Registered office

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Enderby  
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LE19 1SY

### Registered number

3140521

### Nominated adviser and broker

Canaccord Genuity Limited  
88 Wood Street,  
EC2V 7QR

### Auditor

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Leeds  
LS1 4HG

### Solicitors

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Leeds  
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### Principal bankers

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Leicester  
LE19 1WF

Bank of Scotland plc  
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Edinburgh  
EH3 9QA

### Registrars

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Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

## FINANCIAL CALENDAR

28 January 2014	Announcement of interim results for the six months ended 30 November 2013
5 February 2014	Ex-interim dividend date for ordinary shares
7 February 2014	Record date for interim dividend
7 March 2014	Payment of interim dividend on ordinary shares

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