



6 February 2018

**Mattioli Woods plc**

("Mattioli Woods", "the Company" or "the Group")

**Interim results**

Mattioli Woods plc (AIM: MTW.L), the specialist wealth management and employee benefits business, today reports its interim results for the six months ended 30 November 2017.

**Financial highlights**

- Revenue up 16.9% to £28.4m (1H17: £24.3m)
- Organic revenue growth<sup>1</sup> of £3.7m (15.4%) (1H17: £2.5m, 14.2%)
- Recurring revenues represent 84.5% (1H17: 84.3%)
- EBITDA<sup>2</sup> up 38.8% to £6.8m (1H17: £4.9m):
  - £0.4m gain on revaluation of Amati option
  - EBITDA margin of 23.9% (1H17: 20.2%)
  - Basic EPS up 46.6% to 17.0p (1H17: 11.6p)
- Adjusted EBITDA<sup>3</sup> up 25.0% to £6.5m (1H17: £5.2m):
  - Adjusted EBITDA margin of 22.9% (1H17: 21.4%)
  - Adjusted EPS<sup>4</sup> up 15.0% to 19.2p (1H17: 16.7p)
- Interim dividend up 17.0% to 5.5p (1H17: 4.7p)
- Strong financial position, with cash of £14.8m (1H17: £22.6m)

**Operational highlights and recent developments**

- Total client assets<sup>5</sup> up 5.2% to £8.34bn (31 May 2017: £7.93bn):
  - Lowered custody charges for all clients using our core investment platform
  - Gross discretionary AuM up 14.4% to £2.06bn (31 May 2017: £1.80bn)

<sup>1</sup> Excluding acquisitions completed in the current and prior financial years.

<sup>2</sup> Earnings before interest, taxation, depreciation, amortisation, impairment, excluding share of profit from associates.

<sup>3</sup> Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).

<sup>4</sup> Before acquisition-related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and charges.

<sup>5</sup> Includes £197.0m (31 May 2017: £153.8m) of funds under management by the Group's associate, Amati Global Investors Limited, excluding £17.3m (31 May 2017: £12.1m) of Mattioli Woods' client investment and £10.9m (31 May 2017: £9.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati VCTs.

- Custodian Capital now manages over £0.5bn of property assets
- Launched Mattioli Woods' multi asset funds in August 2017
- Over £160m invested in Mattioli Woods Structured Products Fund
- Budgeted operating costs to be weighted towards second half of financial year
- Profit outlook for year remains in line with management's expectations

Commenting on the results, Ian Mattioli MBE, Chief Executive Officer, said:

"I am delighted to report another period of strong growth, with revenue up 16.9% to £28.4m (1H17: £24.3m). The Group has achieved real momentum across the range of advice, products and services we offer.

"Strong growth in revenue has translated into strong growth in Adjusted EPS, up 15.0% to 19.2p (1H17: 16.7p). Accordingly, the Board is pleased to recommend the payment of an increased interim dividend, up 17.0% to 5.5 pence per share (1H17: 4.7 pence). The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover.

"The two businesses brought into the Group during the previous financial year have integrated well and contributed positively to our trading results since acquisition, increasing earnings and enhancing value.

"In recent years, we have seen a period of unprecedented change in regulation, legislation and client needs as the demand for advice and the potential market for our products and services continue to grow. During the period we saw an increasing flow of organic new business generated by our maturing consultancy team as we continue to expand our consultancy and technical teams to take advantage of new business opportunities. The continued commitment, enthusiasm and professionalism of our people in dealing with the complexity of holistically looking after our clients' affairs makes us very well placed to succeed in our chosen markets.

"We have designed the Group to deliver great client outcomes and sustainable shareholder returns. The outlook for this year remains in line with our expectations and I believe we are very well positioned to meet the ambitious longer term goals we have set."

**For further information please contact:**

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**Analyst presentation**

There will be an analyst presentation to discuss the results at 10:30am today at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR.

Those analysts wishing to attend are asked to contact Ed Gascoigne-Pees at Camarco on +44 (0) 20 3757 4984 or at [ed.gascoigne-pees@camarco.co.uk](mailto:ed.gascoigne-pees@camarco.co.uk).

## Interim business review

We are delighted to report the six months ended 30 November 2017 represented another period of strong growth, with revenue up 16.9% to £28.4m (1H17: £24.3m). During the period we saw an increasing flow of organic new business generated by our maturing consultancy team, driven by continued demand for advice, for our products and our services. We also saw strong inflows into our asset management business, comprising our Discretionary Portfolio Management service, Private Investors Club, Custodian REIT plc, the Mattioli Woods Structured Products Fund and the funds managed by our associate company, Amati Global Investors Limited (“Amati”). Total client assets under management<sup>6</sup>, administration and advice increased by 5.2% to £8.34bn (31 May 2017: £7.93bn) at the period end.

Recent acquisitions are performing and integrating well and revenue growth in the first half of this financial year included a full period’s contribution from the MC Trustees pension administration business acquired in September 2016. The purchase of 49% of Amati, announced 12 months ago, has been an exciting extension to our asset management business. Amati has enjoyed strong growth with the value of its total funds under management increasing from approximately £120m on investment in February 2017 to £214.3m at 30 November 2017.

Amati won Investment Week's UK Smaller Company Fund Manager of the Year award in July 2017 and was named Best AIM IHT Portfolio Service for the second year running at the Investment Week Tax Efficient Awards 2017/18 in December 2017. The Amati team has followed this success with the TB Amati UK Smaller Companies Fund being awarded a 5-star rating by Morningstar last month. We are delighted with these votes of confidence in Amati’s investment philosophy and performance. Mattioli Woods has the option to acquire the remaining 51% of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods’ ordinary shares (“the Amati option”).

Other achievements across the Group have been recognised by a number of industry awards, including being named Best Corporate Pensions Advice Firm at the Retirement Planner Awards in June 2017 and the Mattioli Woods' Structured Products Fund being awarded Retail Investment Product of the Year at the Risk Awards 2018. We are delighted the fund has gained such recognition only a year after its launch, having been designed in line with our core objective of delivering sustainable long-term returns to clients while lowering their costs. The fund offers investors the benefits of collateralisation, instant diversification, continuous availability and liquidity, with £49.3m of new investment increasing the fund’s value to £147.0m at the period end.

We believe that being open and transparent about reducing client costs has led to higher business volumes. As our business grows, we expect operational gearing will allow us to further improve the client offer. We reduced the custody charge for all those clients using our core investment platform with effect from 1 August 2017, which coincided with the launch of our new range of multi asset funds designed to

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<sup>6</sup> Includes £197.0m of funds under management by the Group’s associate company, Amati Global Investors Limited, excluding £17.3m of Mattioli Woods’ client investment.

improve investment efficiency, administration and reporting for clients. The value of assets held on the platform increased from £1.2bn to £1.5bn during the period.

In addition, we successfully renewed the terms of the Investment Management Agreement for Custodian REIT plc (“Custodian REIT”), the UK real estate investment trust managed by our subsidiary Custodian Capital Limited (“Custodian Capital”), in June 2017 to secure both a cost reduction for investors in Custodian REIT and an important long-term revenue stream for the Group. In the first six months of this financial year Custodian REIT raised £33.0m of new monies, with the total value of Custodian Capital’s assets under management increasing to £0.5bn at the period end.

We believe that as adviser, provider and asset manager, Mattioli Woods can reduce client costs whilst delivering improved outcomes and securing further profitable growth for shareholders.

## **Market**

Regulatory changes continue at considerable pace, with the Markets in Financial Instruments Directive II (“MiFID II”) coming into on 3 January 2018. We continue to prepare for other changes already in train, such as the General Data Protection Regulations (“GDPR”) and the Senior Managers Regime (“SMR”).

In recent years, we have seen a period of unprecedented change in regulation, legislation and client needs as the demand for advice and the potential market for our products and services continue to grow. Within the broader market, a combination of pension freedoms and historically high values has resulted in a marked increase in the number of clients seeking advice around defined benefit and other corporate pension schemes. The Financial Conduct Authority (“FCA”) has said it intends to assess practices across the pensions transfers market to build a national picture and with over £1.5 trillion<sup>7</sup> invested in defined benefit schemes, we expect there to be sustained activity in this sector for some considerable time.

The Financial Advice Market Review (“FAMR”) published by the FCA and HM Treasury in March 2016 made a series of recommendations designed to tackle barriers to consumers engaging with financial advice and help the industry develop more cost-effective ways of delivering advice, particularly through the use of technology, while the FCA’s recent review of the asset management market highlighted its concerns over pricing.

We continue to invest in the development of our IT platform and anticipate that the adoption of innovative technology may drive some margin compression in the wider market. Investing in technology, while securing the economies of scale and operational efficiencies that we have previously outlined, particularly through the integration of acquired businesses and clients, are key elements of our stated aim to reduce clients’ total expense ratios, while maintaining fair and sustainable profit margins for our shareholders.

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<sup>7</sup> Source: Pension Protection Fund, the Purple Book 2017.

## Assets under management, administration and advice

Total client assets under management, administration and advice increased by 5.2% to £8.34bn (31 May 2017: £7.93bn) as follows:

Assets under management, administration and advice <sup>8</sup>	SIPP and SSAS <sup>9</sup> £m	Employee benefits £m	Personal wealth and other assets £m	Sub-total £m	Amati <sup>10</sup> £m	Total £m
At 1 June 2017	5,031.3	1,102.3	1,638.1	7,771.7	153.8	7,925.5
Net inflows, including market movements	263.6	16.3	95.2	375.1	43.2	418.3
At 30 November 2017	5,294.9	1,118.6	1,733.3	8,146.8	197.0	8,343.8

The growth in total assets under management, administration and advice of £418.3m during the period, analysed as follows:

- A £263.6m increase in SIPP and SSAS funds under trusteeship, with net organic growth of 2.0% in the number of schemes being administered at the period end, comprising a 6.1% (1H17: 5.6%) increase in the number of direct<sup>11</sup> schemes and 2.2% decrease (1H17: 2.3% increase) in the number of schemes the Group operates on an administration-only basis. In recent years we have been appointed to operate or wind-up a number of SIPP portfolios following the failure of their previous operators, with our lost schemes including the transfer of certain members of these distressed portfolios to alternative arrangements;
- A £16.3m increase in the value of assets held in those corporate pension schemes advised by our employee benefits business, although revenues in our employee benefits business are not linked to the value of client assets in the way certain of our wealth management revenue streams are;
- A £95.2m increase in personal wealth and other assets under management and advice, with 160 (1H17: 179) new personal clients won during the period; and
- A £43.2m increase in Amati's funds under management (excluding Mattioli Woods' client investment), primarily through the growth of the TB Amati UK Smaller Companies Fund to £100.0m (31 May 2017: £69.3m) at 30 November 2017.

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

<sup>9</sup> Value of funds under trusteeship in SIPP and SSAS schemes administered by the Group.

<sup>10</sup> Total funds under management of £214.3m (31 May 2017: £165.9m) include £17.3m (31 May 2017: £12.1m) of Mattioli Woods' client investment and exclude £10.9m (31 May 2017: £9.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati VCTs.

<sup>11</sup> SIPP and SSAS schemes where the Group acts as pension consultant and administrator.

## Trading results

We delivered strong organic<sup>12</sup> revenue growth of 15.4% (1H17: 14.2%), which was supplemented by a full six months' revenue of £0.8m (1H17: £0.3m) from the MC Trustees business acquired in the previous financial year.

Strong growth in revenue has translated into strong growth in EBITDA, with adjusted EBITDA<sup>13</sup> increasing 25.0% to £6.5m (1H17: £5.2m), with adjusted EBITDA margin of 22.9% (1H17: 21.4%). Adjusted EPS<sup>14</sup> increased 15.0% to 19.2p (1H17: 16.7p), while basic EPS was up 46.6% to 17.0p (1H17: 11.6p), with growth in operating profits stated after recognising a £0.4m (1H17: £nil) gain on revaluation of the Amati option, no acquisition-related costs (1H17: £0.3m) and £0.1m (1H17: £0.1m) of notional finance charges on the unwinding of discounts on long term provisions.

As anticipated, operating costs associated with our ongoing IT development, the move to our new Leicester office and the demands of new regulations will be weighted towards the second half of this financial year, although we expect the costs of fitting out the new office to be lower than originally anticipated.

The effective rate of taxation was 17.9% (1H17: 17.4%), with a lower effective rate in the equivalent period last year due to the reversal of deferred tax liabilities on acquired intangibles following cuts in the UK corporation tax rate.

### *Investment and asset management*

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 18.4% to £12.2m (1H17: £10.3m).

The Group's gross discretionary assets under management, including the multi asset funds which now sit at the heart of our discretionary portfolio management service, Custodian REIT, the Mattioli Woods Structured Products Fund and the funds managed by our associate company, Amati, increased by 14.4% to £2.06bn (31 May 2017: £1.80bn).

Income from both initial and ongoing portfolio management charges increased to £6.7m (1H17: £5.1m) as the value of clients' assets in our discretionary portfolio management service increased 10.5% to £1.26bn (31 May 2017: £1.14bn).

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<sup>12</sup> Excluding acquisitions completed in the current and prior financial years.

<sup>13</sup> Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).

<sup>14</sup> Before acquisition-related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and charges.

Adviser charges based on the value of assets under advice were £5.2m (1H17: £5.2m), with additional fees of £0.3m (1H17: £nil) paid to the Group as adviser to the Mattioli Woods Structured Products Fund. The growth in funds under management and advice continues to enhance the quality of earnings through an increase in recurring revenues, with the proportion of the Group's total revenues which are recurring increasing to 84.5% (1H17: 84.3%). As with other firms, those income streams that are linked to the value of funds under management and advice are affected by the performance of financial markets.

#### *Pension consultancy and administration*

Pension consultancy and administration revenues were up 18.9% to £10.7m (1H17: £9.0m), with an increase in fees driven by the total number of SIPP and SSAS schemes administered by the Group increasing 4.7% to 10,225 (1H17: 9,764).

New client wins, sustained demand for advice, increased staff utilisation and improved billing recoveries helped drive direct<sup>15</sup> pension consultancy and administration fees up 17.1% to £8.2m (1H17: £7.0m). Retirement planning is often central to our clients' wealth management strategies and the number of direct schemes increased to 5,453 (1H17: 4,857), with 424 new schemes gained in the first half (1H17: 347), continuing the momentum of new business wins seen in prior periods. Our focus remains on the quality of new business, with the average value of a new scheme maintained at £0.4m (1H17: £0.4m). We also maintained strong client retention, with an external loss rate<sup>16</sup> of 1.3% (1H17: 1.1%) and an overall attrition rate<sup>17</sup> of 1.6% (1H17: 1.4%).

The number of SSAS and SIPP schemes the Group operates on an administration-only basis fell to 4,772 (1H17: 4,907) at the period end, with lost schemes including the transfer of members of distressed portfolios acquired in the last few years to alternative arrangements. In February 2016, Mattioli Woods was appointed to administer the SIPPs previously operated by Stadia Trustees Limited. A number of clients who transferred illiquid pension fund assets from their Stadia Trustees' SIPP to a Mattioli Woods scheme have received confirmation that they may receive compensation from the Financial Services Compensation Scheme due to the failings of Stadia Trustees Limited. Similar to the way in which the Group dealt with members of the HD SIPP, these clients' pension funds may now be reactivated, generating additional revenues for the Group. Overall, third party administration fees increased 26.3% to £2.4m (1H17: £1.9m), with £0.5m of additional revenues representing the impact of a full period's contribution from MC Trustees.

The Group's banking revenue was £0.1m (1H17: £0.1m), reflecting that the Bank of England base rate remained at a historic low of 0.25% until the start of November 2017.

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<sup>15</sup> SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.

<sup>16</sup> Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.

<sup>17</sup> Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.



### *Employee benefits*

Employee benefits revenues were up 7.7% to £2.8m (1H17: £2.6m). There is growing recognition from organisations of the importance of investing in employee benefits. Employers are increasingly encouraging staff wellbeing and retirement savings, which we expect to drive a period of steady growth in the UK employee benefits market, and we believe the Government's emphasis on workplace advice presents new opportunities for us to realise further synergies between our employee benefits and wealth management businesses.

### *Property management*

Property management revenues increased 12.5% to £2.7m (1H17: £2.4m), with our subsidiary Custodian Capital managing a portfolio of property investments with a net asset value of £451.4m (1H17: £378.4m) at the period end. The majority of our property management revenues are derived from the services provided by Custodian Capital to Custodian REIT, which offers one of the highest yields<sup>18</sup> among its UK property investment company peer group, coupled with the potential for capital growth from a balanced portfolio of over £0.5bn of real estate assets.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and also manages our "Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investor syndicates. This initiative continues to be well supported, with £19.2m (1H17: £13.6m) invested in the five (1H17: four) new syndicates completed during the period.

### *Cash flow*

Cash generated from operations increased to £3.9m or 57.4% of EBITDA (1H17: £2.2m or 44.9%). The cash conversion ratio improved following an increase in the Group's operating profit margin before changes in working capital and provisions to 25.9% (1H17: 24.3%). The Group's working capital requirement increased by £3.4m (1H17: £3.7m) as a result of strong organic revenue growth during the period, with the increase in working capital comprising:

- £2.4m (1H17: £2.0m) decrease in trade and other payables, primarily due to:
  - £1.8m fall in accruals following the payment of £3.9m (1H17: £3.5m) of accrued staff bonuses paid in respect of the year ended 31 May 2017 in which results were ahead of target;
  - £1.0m fall in trade creditors following the payment of capital expenditure and annual insurance premiums outstanding at the end of the previous financial year; and
  - £0.4m increase in social security and other taxes outstanding at the period end.
- £0.6m (1H17: £1.6m) increase in trade and other receivables following strong growth in our direct pension business (where fees are typically invoiced six months in arrears), with the higher value of

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<sup>18</sup> Source: Numis Securities Limited, Investment Companies Datasheet dated 5 February 2018.

clients' assets under management and advice increasing accrued income in our investment and asset management business; and

- £0.4m (1H17: £0.1m) decrease in provisions following the settlement of cash-settled LTIP awards in October 2017.

Cash at 30 November 2017 was £14.8m (1H17: £22.6m), after cash outflows of £5.8m (1H17: £3.8m) on capital expenditure, £2.7m (1H17: £2.3m) of contingent consideration on historic acquisitions and no initial consideration (1H17: £1.2m) on acquisitions during the period. Capital expenditure was in line with expected spend, with £5.2m of stage payments made on the development of the Group's new office in Leicester, plus £0.4m of further investment in computer hardware and software as we continue to develop our IT platform.

The move to the new Leicester office is scheduled for the summer of 2018, approximately three months behind schedule as a result of delays in the delivery of materials and subsequent installation. Importantly, our contract with the developer is at a fixed price and all costs remain in line with expectations.

Testing of the next phase of our IT development is underway as we move towards implementation of hosted IT architecture, which will offer enhanced data security, business continuity and scalability for future growth. Our investment in a stronger infrastructure base is expected to realise new operational efficiencies and enable further integration across the Group in subsequent years.

EBITDA increased 38.8% to £6.8m (1H17: £4.9m), with first half EBITDA margin improving to 23.9% (1H17: 20.2%) due to the £0.4m gain on revaluation of the Amati option and anticipated operating costs associated with our ongoing IT development, the move to our new Leicester office and the demands of new regulations being weighted towards the second half of this financial year.

Profit before tax was up 50.0% to £5.4m (1H17: £3.6m) and we believe we have the strategy to deliver further revenue and profit growth for the full year.

## **Our people**

As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth. Our collegiate team structures and proven training plans are accelerating both the maturation of existing consultants and the development of new consultants, while ensuring our core values are maintained. We continue to expand our consultancy and technical teams to take advantage of new business opportunities, with the number of consultants having increased to 115 (1H17: 102) at the period end.

As we continue to grow, our 'Big to Better' initiative will enable us to retain our principles as a sustainable business built on the integrity, expertise and passion of our people. Total headcount at 30 November 2017 had increased to 622 (1H17: 571) and we continue to invest in our graduate

recruitment programme, with 10 (1H17: eight) new graduates and 19 (1H17: 13) apprentices joining during the period. The Group continues to be recognised for creating opportunities for young people and won Apprenticeship Employer of the Year at the 2017 Leicester Apprenticeship Hub Graduation Ceremony.

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. At the end of the period 62% of eligible staff had invested in the Plan (1H17: 56%) and we will continue to encourage broader staff participation.

We would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients’ affairs.

## **Governance and the Board**

The Board is committed to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business. During the prior financial year we created a new Senior Executive Team (“SET<sup>GO</sup>”) to execute the strategy determined by the Board, bringing together a senior team with responsibility for all our key operational areas. In the first half of this year we reduced the size of our Board to eliminate duplication between the Board and SET<sup>GO</sup>, ensuring clearer lines of responsibility within the management team and creating a balanced Board of three executive directors and three non-executive directors.

We believe these changes give the business the optimal management structure to secure continued growth.

## **Shareholders**

We are fortunate to have a number of supportive institutional shareholders with a significant investment in the Group. We welcome opportunities to talk to all shareholders, large and small, and we will continue to maintain a regular and constructive dialogue with them, while seeking to broaden our shareholder base.

## **Dividend**

The Board is pleased to recommend the payment of an increased interim dividend, up 17.0% to 5.5 pence per share (1H17: 4.7 pence). The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover. The interim dividend will be paid on 30 March 2018 to shareholders on the register at the close of business on 16 February 2018.

## **Acquisitions**

We have invested £46m since our admission to AIM in 2005 in bringing 20 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and subsequent integration of such transactions.

The two businesses acquired during the previous financial year have integrated well and contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value. With increasing complexity and continuing consolidation across the key markets in which we operate, we expect there will be further opportunities to accelerate our growth by acquisition. Our strong balance sheet gives us the flexibility to make further value-enhancing acquisitions.

## **Outlook**

The inherent flex within our business model allows us to adapt quickly to address our clients' changing needs. As we seek to broaden our proposition, organically and by acquisition, we believe the Group remains very well placed to succeed in its chosen markets and our profit outlook for the year remains in line with management's expectations.

**Joanne Lake**  
Non-Executive Chairman

**Ian Mattioli MBE**  
Chief Executive Officer

5 February 2018

## **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 2017 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 a review conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a review. Accordingly, we do not express a review 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 2017 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.

**RSM UK Audit LLP**  
Chartered Accountants  
25 Farringdon Street  
London  
EC4A 4AB  
5 February 2018

**Interim condensed consolidated statement of comprehensive income  
For the six months ended 30 November 2017**

	<i>Note</i>	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<i>Unaudited Six months ended 30 Nov 2016 £000</i>	<i>Audited Year ended 31 May 2017 £000</i>
<b>Revenue</b>	4	<b>28,433</b>	24,286	50,533
Employee benefits expense		<b>(15,714)</b>	(13,880)	(28,711)
Other administrative expenses		<b>(4,969)</b>	(4,501)	(9,465)
Share based payments	13	<b>(859)</b>	(932)	(1,902)
Amortisation and impairment		<b>(1,015)</b>	(971)	(1,996)
Depreciation		<b>(465)</b>	(270)	(606)
Loss on disposal of property, plant and equipment		<b>(59)</b>	(44)	(61)
<b>Operating profit before financing</b>		<b>5,352</b>	3,688	7,792
Finance revenue		<b>34</b>	31	45
Finance costs		<b>(93)</b>	(137)	(291)
<b>Net finance (cost)</b>		<b>(59)</b>	(106)	(246)
Share of profit from associate, net of tax	10	<b>93</b>	-	103
<b>Profit before tax</b>		<b>5,386</b>	3,582	7,649
Income tax expense	7	<b>(966)</b>	(625)	(1,293)
<b>Profit for the period</b>		<b>4,420</b>	2,957	6,356
Other comprehensive income for the period, net of tax		-	-	-
<b>Total comprehensive income for the period, net of tax</b>		<b>4,420</b>	2,957	6,356
<b>Attributable to:</b>				
Equity holders of the parent		<b>4,420</b>	2,957	6,356
<b>Earnings per ordinary share:</b>				
Basic (pence)	5	<b>17.0</b>	11.6	24.6
Adjusted (pence)	5	<b>19.2</b>	16.7	33.5
Diluted (pence)	5	<b>16.9</b>	11.5	24.5
Proposed dividend per share (pence)	6	<b>5.5</b>	4.7	14.1

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 2017**

Registered number: 03140521

	<i>Note</i>	<b>Unaudited 30 Nov 2017 £000</b>	<i>Unaudited 30 Nov 2016 £000</i>	<i>Audited 31 May 2017 £000</i>
<b>Assets</b>				
Property, plant and equipment	8	14,631	5,907	9,671
Intangible assets	9	43,712	45,137	44,444
Deferred tax asset	7	676	965	798
Investment in associate	10	3,574	-	3,476
Derivative financial asset	11	511	-	110
<b>Total non-current assets</b>		<b>63,104</b>	52,009	58,499
Trade and other receivables		17,096	15,756	15,692
Investments		88	79	86
Cash and short-term deposits		14,760	22,649	22,979
<b>Total current assets</b>		<b>31,944</b>	38,484	38,757
<b>Total assets</b>		<b>95,048</b>	90,493	97,256
<b>Equity</b>				
Issued capital		260	253	258
Share premium		30,876	28,114	30,314
Merger reserve		8,781	8,781	8,781
Equity – share based payments		2,854	2,173	2,571
Capital redemption reserve		2,000	2,000	2,000
Retained earnings		31,070	26,240	28,671
<b>Total equity attributable to equity holders of the parent</b>		<b>75,841</b>	67,561	72,595
<b>Non-current liabilities</b>				
Deferred tax liability	7	3,533	3,684	3,600
Financial liabilities and provisions	15	515	3,475	2,842
<b>Total non-current liabilities</b>		<b>4,048</b>	7,159	6,442
<b>Current liabilities</b>				
Trade and other payables		10,494	9,565	12,862
Income tax payable	7	833	1,382	957
Financial liabilities and provisions	15	3,832	4,826	4,400
<b>Total current liabilities</b>		<b>15,159</b>	15,773	18,219
<b>Total liabilities</b>		<b>19,207</b>	22,932	24,661
<b>Total equities and liabilities</b>		<b>95,048</b>	90,493	97,256



**Interim condensed consolidated statement of changes in equity**  
**For the six months ended 30 November 2017**

	Note	Issued capital £000	Share premium £000	Merger reserve £000	Equity – share based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
<b>As at 1 June 2016 - Audited</b>		<b>252</b>	<b>27,765</b>	<b>8,531</b>	<b>1,642</b>	<b>2,000</b>	<b>25,391</b>	<b>65,581</b>
<b>Total comprehensive income for period</b>								
Profit for the period		-	-	-	-	-	2,957	2,957
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for period		-	-	-	-	-	2,957	2,957
<b>Transactions with owners of the Company, recognised directly in equity</b>								
Issue of share capital		1	349	250	-	-	-	600
Share-based payment transactions	13	-	-	-	436	-	-	436
Deferred tax asset recognised in equity		-	-	-	50	-	-	50
Current tax taken to equity		-	-	-	124	-	-	124
Reserves transfer		-	-	-	(79)	-	79	-
Dividends	6	-	-	-	-	-	(2,187)	(2,187)
<b>As at 30 November 2016 - Unaudited</b>		<b>253</b>	<b>28,114</b>	<b>8,781</b>	<b>2,173</b>	<b>2,000</b>	<b>26,240</b>	<b>67,561</b>
<b>Total comprehensive income for period</b>								
Profit for the period		-	-	-	-	-	3,399	3,399
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income for period		-	-	-	-	-	3,399	3,399
<b>Transactions with owners of the Company, recognised directly in equity</b>								
Share of other comprehensive income from associated companies	10	-	-	-	-	-	5	5
Issue of share capital		5	2,200	-	-	-	-	2,205
Share-based payment	13	-	-	-	513	-	-	513
Deferred tax taken to equity		-	-	-	2	-	-	2
Current tax taken to equity		-	-	-	113	-	-	113
Reserves transfer		-	-	-	(230)	-	230	-
Dividends	6	-	-	-	-	-	(1,203)	(1,203)
<b>As at 31 May 2017 - Audited</b>		<b>258</b>	<b>30,314</b>	<b>8,781</b>	<b>2,571</b>	<b>2,000</b>	<b>28,671</b>	<b>72,595</b>

**Interim condensed consolidated statement of changes in equity (continued)**  
**For the six months ended 30 November 2017**

	<i>Note</i>	<i>Issued capital £000</i>	<i>Share premium £000</i>	<i>Merger reserve £000</i>	<i>Equity – share based payments £000</i>	<i>Capital redemption reserve £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
<b>As at 1 June 2017 - Audited</b>		<b>258</b>	<b>30,314</b>	<b>8,781</b>	<b>2,571</b>	<b>2,000</b>	<b>28,671</b>	<b>72,595</b>
<b>Total comprehensive income for period</b>								
Profit for the period		-	-	-	-	-	4,420	4,420
Other comprehensive income		-	-	-	-	-	-	-
<b>Total comprehensive income for period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,420</b>	<b>4,420</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>								
Share of other comprehensive income from associated companies	10	-	-	-	-	-	5	5
Issue of share capital		2	562	-	-	-	-	564
Share-based payment transactions	13	-	-	-	557	-	-	557
Deferred tax asset derecognised in equity		-	-	-	(69)	-	-	(69)
Current tax taken to equity		-	-	-	199	-	-	199
Reserves transfer		-	-	-	(404)	-	404	-
Dividends	6	-	-	-	-	-	(2,430)	(2,430)
<b>As at 30 November 2017 - Unaudited</b>		<b>260</b>	<b>30,876</b>	<b>8,781</b>	<b>2,854</b>	<b>2,000</b>	<b>31,070</b>	<b>75,841</b>

**Interim condensed consolidated statement of cash flows**  
**For the six months ended 30 November 2017**

	Note	<i>Unaudited Six months ended 30 Nov 2017 £000</i>	<i>Unaudited Six months ended 30 Nov 2016 £000</i>	<i>Audited Year ended 31 May 2017 £000</i>
<b>Operating activities</b>				
Profit for the period		4,420	2,957	6,356
Adjustments for:				
Depreciation	8	465	270	606
Amortisation and impairment	9	1,015	971	1,996
Investment income		(34)	(31)	(45)
Interest expense		93	137	291
Share of profit from associate		(93)	-	(103)
Gain on revaluation of derivative financial asset	11	(401)	-	(93)
Loss on disposal of property, plant and equipment		59	44	61
Equity-settled share-based payments	13	740	539	1,241
Cash-settled share-based payments	13	119	393	661
Income tax expense		966	625	1,293
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>7,349</b>	<b>5,905</b>	<b>12,264</b>
Increase in trade and other receivables		(646)	(1,589)	(2,018)
(Decrease)/increase in trade and other payables		(2,369)	(1,977)	1,762
Decrease in provisions		(417)	(97)	(1,544)
<b>Cash generated from operations</b>		<b>3,917</b>	<b>2,242</b>	<b>10,464</b>
Interest paid		-	(2)	(2)
Income taxes paid		(904)	(805)	(1,700)
<b>Net cash flows from operating activities</b>		<b>3,013</b>	<b>1,435</b>	<b>8,762</b>
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment		33	40	126
Purchase of property, plant and equipment	8	(5,517)	(3,547)	(8,225)
Purchase of software	9	(283)	(278)	(616)
Consideration paid on acquisition of subsidiaries		(2,704)	(3,491)	(3,490)
Consideration paid for shares in associate		-	-	(1,646)
Cash received on acquisition of subsidiaries		-	172	172
Interest received		34	31	39
Loans advanced to investment syndicates		(2,002)	(541)	(541)
Loan repayments from investment syndicates		1,243	75	571
<b>Net cash from investing activities</b>		<b>(9,196)</b>	<b>(7,539)</b>	<b>(13,610)</b>
<b>Financing activities</b>				
Proceeds from the issue of share capital		394	247	524
Repayment of borrowings acquired in business combinations		-	884	884
Dividends paid	6	(2,430)	(2,187)	(3,390)
<b>Net cash from financing activities</b>		<b>(2,036)</b>	<b>(1,056)</b>	<b>(1,982)</b>
Net decrease in cash and cash equivalents		(8,219)	(7,160)	(6,830)
Cash and cash equivalents at start of period		22,979	29,809	29,809
<b>Cash and cash equivalents at end of period</b>		<b>14,760</b>	<b>22,649</b>	<b>22,979</b>

## **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 5 February 2018.

The principal activities of the Group are described in Note 4.

### **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 2017, 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 2017 and the six months ended 30 November 2016 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 2017 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 2017.

In August 2015 the Group announced plans to build a new central Leicester office on the site of the former Leicester City Council headquarters at New Walk. Construction commenced in May 2016. The cost of property under construction is based on valuation of progress in the reporting period and includes any costs directly attributable to bringing the property to the condition necessary for it to become available for use.

Depreciation will be provided on all property from the point at which the property is available for use at rates calculated to write each asset down to its estimated residual value over its expected useful life.

#### *Standards affecting the financial statements*

In the current period, there have been no new or revised standards and interpretations that have been adopted and have affected the amounts reported in these financial statements.

#### *Standards not affecting the financial statements*

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

<u><i>Standard or interpretation</i></u>	<u><i>Periods commencing on or after</i></u>
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017
IAS 7 (amended) Disclosure Initiative	1 January 2017
IAS 12 (amended) Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

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.

#### *Future new standards and interpretations*

A number of new standards and amendments to standards and interpretations will be effective for future annual and interim periods and, therefore, have not been applied in preparing these condensed consolidated interim financial statements. At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

<i>Standard or interpretation</i>	<i>Periods commencing on or after</i>
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
IFRS2 (amended) Classification and Measurement of Share-based Payments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IAS 40 (amended) Transfers of Investment Property	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Accounting for uncertain tax treatments	1 January 2019
IAS 28 (amended) Long Term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

IFRS 9 'Financial Instruments' and IFRS 16 'Leases' are expected to have a significant effect on the condensed consolidated interim financial statements and the consolidated financial statements of the Group. Other than to expand certain disclosures within the financial statements, the Directors do not expect the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods.

#### *IFRS 9 Financial Instruments*

IFRS 9 'Financial instruments' was issued in July 2014, is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 June 2018.

IFRS 9 introduces changes to the classification of financial assets and a new impairment model for financial assets, which will result in earlier recognition of impairment losses. Under the expected credit loss model, loss allowances equal to either the 12 month or lifetime expected credit losses are recognised on initial recognition of financial assets, depending on assessed credit risk. The latter is applied where there has been a significant deterioration in credit quality of the asset, although a simplified approach for calculating expected credit losses on trade receivables and contract assets is available, which looks only at lifetime expected credit losses. Additional disclosure requirements include both quantitative and qualitative disclosures supporting the basis and recognition of loss allowances, and the recognition of the loss allowance within provisions.

The Group is assessing the impact of the following accounting changes that will arise under IFRS 9:

- Provisions for impairment losses against financial assets will be recognised sooner as lifetime expected credit losses are recognised on initial recognition of those financial assets.
- The Group's trade receivables and accrued income ('contract assets' under IFRS 15) are generally short term and do not include a financing component. As a result, the Group expects to apply the simplified approach and reflect lifetime expected credit losses.

The classification of financial assets held by the Group is not expected to change.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014, is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 June 2018.

IFRS 15 will change the way revenue from some customer contracts is recognised, impacting both the timing at which revenue may be recognised, and the value of revenue recognised. Customer contracts are broken down into separate performance obligations, with contractual revenues being allocated to each performance obligation and revenue recognised on a basis consistent with the transfer of control of goods or services. Additional disclosure requirements include the reporting of disaggregated revenues, and the recognition of contract assets and contract liabilities on the face of the statement of financial position.

The Group is assessing the impact of the following accounting changes that will arise under IFRS 15:

- Timing of recognition of some non-recurring revenues may be deferred where contract performance conditions are deemed not to have been met at the reporting date; assessment performed so far indicates the impact will not be material.
- Contract balances will be reclassified in the statement of financial position, but this is not expected to impact net current assets reported.
- Additional disclosures will be included in the annual report of the Group to disclose revenues from customer contracts on a disaggregated basis.

### *IFRS 16 Leases*

IFRS 16 'Leases' was issued in January 2016, is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 June 2019.

IFRS 16 will primarily change lease accounting for lessees. Lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantially different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group. The Group is assessing the impact of the following accounting changes that will arise under IFRS 16:

- Right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.
- Liabilities will be recorded for discounted future lease payments in the Group's consolidated statement of financial position for the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments. The amount of lease liabilities will not equal the lease commitments reported on 31 May 2017, but may not be dissimilar.
- Lease expenses will be for depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.
- Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

The Group is continuing to assess the impact of these and other accounting changes that will arise under IFRS 16 and cannot reasonably estimate the impact; however, the changes highlighted above are expected to have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows after adoption on 1 June 2019:

- EBITDA is likely to rise because the lease expense under IAS 17 for operating leases will be removed and replaced with additional depreciation and finance costs. The profit profile of the business will also change as more expense is recognised in earlier periods and less in later periods compared to the straight-line amount recognised under IAS 17.
- For leases classified as operating leases under IAS 17, there will be a significant impact on the Statement of Financial Position as these assets and corresponding liabilities have to be recognised. This will impact on gearing levels and potentially on covenants provided to prospective lenders and others.

When IFRS 9, IFRS 15 and IFRS 16 are adopted, they can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with their cumulative retrospective impact applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS15 and IFRS 16 on each line item in the financial statements in the reporting period.

Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which method will be adopted or which expedients will be applied on adoption of these standards.



## *Financial statements for the year ending 31 May 2018*

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 2018, 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 intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

### *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 each client portfolio are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and expenses 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% (1H17: 2.5%), which management considers conservative against industry average long-term growth rates.

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 carrying amount of client portfolios at 30 November 2017 was £24.3m (1H17: £26.1m). No impairments have been made during the period (1H17: £nil) 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

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 2017 was £17.3m (1H17: £17.3m). No impairments have been made during the period (1H17: £nil) based upon the Directors' review.

#### *Internally generated 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 'Intangible Assets'. 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 internally generated capitalised software at 30 November 2017 was £1.1m (1H17: £1.1m).

#### *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 2017 was £0.7m (1H17: £1.0m).

### *Interests in associates*

Associates are entities in which the Group owns less than 100% of voting rights and has significant influence, but not control or joint control over the financial and operating policies. In determining whether control exists, this requires significant judgements in assessing factors such as the structure of the investment and the contractual agreement. The existence of significant influence is evidenced by the Group having representation on the board and the ability to participate in decisions but not being able to control the vote. The carrying amount of the investment in associate at 30 November 2017 was £3.6m (1H17: £nil).

### *Derivative financial assets*

Derivative financial assets comprise an option contract to acquire the remaining ordinary share capital of an associate of the Group. Derivative financial assets are carried at fair value, with gains and losses arising from changes in fair value taken directly to the Statement of Comprehensive Income. Fair values of derivatives are determined using valuation techniques, including discounted cash flow models and option pricing models as appropriate. The carrying amount of derivative financial assets at 30 November 2017 was £0.5m (1H17: £nil).

### *Recoverability of accrued time costs and disbursements*

The Group recognises accrued income in respect of time costs and disbursements 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 and disbursements incurred but not invoiced to clients. The carrying amount of accrued time costs at 30 November 2017 was £5.0m (1H17: £5.0m).

### *Accrued income*

Accrued income is recognised in respect of 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 2017 was £4.1m (1H17: £3.5m).

### *Acquisitions and business combinations*

When an acquisition arises the Group is required under IFRS to calculate the Purchase Price Allocation ("PPA"). The PPA requires companies to report the fair value of assets and liabilities acquired and it establishes useful lives for identified assets. The identification and valuation of any separately identifiable intangible assets acquired involves estimation and judgement when determining whether the recognition

criteria are met. The classification of consideration payable as either purchase consideration or remuneration is an area of judgement and estimate.

#### *Contingent consideration payable on acquisitions*

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A financial instrument 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 business and determine a suitable discount rate for the calculation of the present value of any contingent consideration payments. The carrying amount of contingent consideration provided for at 30 November 2017 was £1.7m (1H17: £4.4m).

#### *Provisions*

As detailed in Note 15, the Group recognises provisions for client claims, contingent consideration payable on acquisitions, commission clawbacks, dilapidations, onerous contracts 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 wealth management and employee benefits 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.

### **4. Segment information**

The Group's operating segments comprise the following:

- Pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes. Additional fees are generated from consultancy services provided for special one-off activities and the provision of bespoke scheme banking arrangements;
- Investment and asset management – income generated from the placing of investments on behalf of clients;

- Property management – income generated where Custodian Capital manages collective property investment vehicles, facilitates direct commercial property investments on behalf of clients or acts as the external discretionary manager for Custodian REIT plc; 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.

### *Operating Segments*

The operating segments defined above all 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).

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 November 2017 and 2016, and the year ended 31 May 2017 respectively:

<i>Unaudited</i> <i>Six months ended 30 Nov 2017</i>	<i>Investment and asset management</i> £000	<i>Pension consultancy and administration</i> £000	<i>Property management</i> £000	<i>Employee benefits</i> £000	<i>Total segments</i> £000	<i>Corporate costs</i> £000	<i>Consolidated</i> £000
<b>Revenue</b>							
External client	12,268	10,688	2,670	2,807	28,433	-	28,433
<b>Total revenue</b>	<b>12,268</b>	<b>10,688</b>	<b>2,670</b>	<b>2,807</b>	<b>28,433</b>	<b>-</b>	<b>28,433</b>
<b>Profit before tax</b>							
Segment result	3,756	2,438	507	(31)	6,670	(1,284)	5,386
<i>Unaudited</i> <i>Six months ended 30 Nov 2016</i>	£000	£000	£000	£000	£000	£000	£000
<b>Revenue</b>							
External client	10,291	9,005	2,379	2,611	24,286	-	24,286
<b>Total revenue</b>	<b>10,291</b>	<b>9,005</b>	<b>2,379</b>	<b>2,611</b>	<b>24,286</b>	<b>-</b>	<b>24,286</b>
<b>Profit before tax</b>							
Segment result	2,409	1,732	590	41	4,772	(1,190)	3,582

<i>Audited Year ended 31 May 2017</i>	<i>Investment and asset management £000</i>	<i>Pension consultancy and administration £000</i>	<i>Property syndicates £000</i>	<i>Employee benefits £000</i>	<i>Total segments £000</i>	<i>Corporate costs £000</i>	<i>Consolidated £000</i>
<b>Revenue</b>							
External client	21,079	18,869	5,178	5,407	50,533	-	50,533
Total revenue	21,079	18,869	5,178	5,407	50,533	-	50,533
<b>Profit before tax</b>							
Segment result	5,008	3,569	1,198	458	10,233	(2,584)	7,649

The following table presents segment assets of the Group's operating segments as at 30 November 2017 and 2016, and at 31 May 2017 (the date of the last annual financial statements):

	<b>Unaudited</b> <b>30 Nov</b> <b>2017</b> <b>£000</b>	<i>Unaudited</i> <i>30 Nov</i> <i>2016</i> <i>£000</i>	<i>Audited</i> <i>31 May</i> <i>2017</i> <i>£000</i>
Pension consultancy and administration	<b>24,015</b>	24,581	23,831
Investment and asset management	<b>23,606</b>	20,210	22,870
Property management	<b>1,486</b>	1,089	1,360
Employee benefits	<b>11,354</b>	11,875	11,649
<b>Total segments</b>	<b>60,461</b>	57,755	59,710
<b>Corporate assets</b>	<b>34,587</b>	32,738	37,546
<b>Total assets</b>	<b>95,048</b>	90,493	97,256

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 headcount or 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.

#### *Corporate costs*

Certain administrative expenses including acquisition costs, amortisation of software, depreciation of property, plant and equipment, irrecoverable VAT, 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 and tangible assets.

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.



	<b>Unaudited</b> <b>30 Nov</b> <b>2017</b> <b>£000</b>	<i>Unaudited</i> <i>30 Nov</i> <i>2016</i> <i>£000</i>	<i>Audited</i> <i>31 May</i> <i>2017</i> <i>£000</i>
<i>Reconciliation of profit</i>			
Total segments	<b>6,670</b>	4,772	10,233
Acquisition-related costs	-	(308)	(378)
Depreciation	<b>(465)</b>	(270)	(606)
Amortisation and impairment	<b>(137)</b>	(112)	(259)
Loss on disposal of assets	<b>(59)</b>	(44)	(61)
Unallocated overheads	<b>(831)</b>	(339)	(1,030)
Gain on revaluation of derivative financial asset	<b>401</b>	-	93
Bank charges	<b>(12)</b>	(11)	(22)
Finance income	<b>34</b>	31	45
Finance costs	<b>(93)</b>	(137)	(291)
Dilapidations	<b>(122)</b>	-	(75)
<b>Group profit before tax</b>	<b>5,386</b>	3,582	7,649

	<b>Unaudited</b> <b>30 Nov</b> <b>2017</b> <b>£000</b>	<i>Unaudited</i> <i>30 Nov</i> <i>2016</i> <i>£000</i>	<i>Audited</i> <i>31 May</i> <i>2017</i> <i>£000</i>
<i>Reconciliation of assets</i>			
Segment operating assets	<b>60,461</b>	57,755	59,710
Property, plant and equipment	<b>14,631</b>	5,907	9,671
Intangible assets	<b>2,111</b>	1,774	1,964
Investments	<b>88</b>	79	86
Deferred tax asset	<b>676</b>	965	798
Prepayments and other receivables	<b>1,810</b>	1,364	1,938
Derivative financial asset	<b>511</b>	-	110
Cash and short-term deposits	<b>14,760</b>	22,649	22,979
<b>Total assets</b>	<b>95,048</b>	90,493	97,256

## 5. 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 income and share data used in the basic and diluted earnings per share computations is as follows:

	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<i>Unaudited Six months ended 30 Nov 2016 £000</i>	<i>Audited Year ended 31 May 2017 £000</i>
Net profit and diluted net profit attributable to equity holders of the Company	<b>4,420</b>	2,957	6,356
Weighted average number of ordinary shares:	<b>000s</b>	<i>000s</i>	<i>000s</i>
Issued ordinary shares at start period	<b>25,789</b>	25,205	25,205
Effect of shares issued during the year ended 31 May 2017	<b>-</b>	148	455
Effect of shares issued during the current period	<b>243</b>	178	178
Basic weighted average number of shares	<b>26,032</b>	25,531	25,838
Effect of dilutive options at the statement of financial position date	<b>122</b>	256	101
Diluted weighted average number of shares	<b>26,154</b>	25,787	25,939

The Company has granted options under 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 3.66% 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 2017 the conditions attaching to 822,319 options granted under the LTIP are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 16.4 pence per share (1H17: 11.1 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, changes in the fair value of derivative financial assets, notional finance income and charges 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.

Since the reporting date and the date of completion of these financial statements the following transactions have taken place involving ordinary shares or potential ordinary shares:

- The issue of 30,112 ordinary shares to satisfy the exercise of options under the LTIP;
- The issue of 1,279 ordinary shares to satisfy the exercise of options under the Consultants' Share Option Plan; and
- The issue of 13,712 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

## 6. Dividends paid and proposed

	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<b>Unaudited Six months ended 30 Nov 2016 £000</b>	<b>Audited Year ended 31 May 2017 £000</b>
<i>Paid during the period:</i>			
Equity dividends on ordinary shares:			
- Final dividend for 2017: 9.40p (2016: 8.65p)	<b>2,430</b>	2,187	2,187
- Interim dividend for 2017: 4.70p (2016: 3.85p)	-	-	1,203
<b>Dividends paid</b>	<b>2,430</b>	2,187	3,390
<i>Proposed for approval:</i>			
Equity dividends on ordinary shares:			
- Interim dividend for 2018: 5.50p (2017: 4.70p)	<b>1,434</b>	1,203	-
- Final dividend for 2017: 9.40p (2016: 8.65p)	-	-	2,430
<b>Dividends proposed</b>	<b>1,434</b>	1,203	2,430

The interim dividend was approved on 5 February 2018.

## 7. 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, with deferred tax assets and liabilities recognised at the rate of corporation tax enacted or substantively enacted at the reporting date.

The primary component of the Group's recognised deferred tax assets include temporary differences related to share-based payments, provisions and other items.

The primary components of the Group'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 components of the deferred tax credit for the six months ended 30 November 2017 of £0.01m (1H17: £0.4m) are due to temporary differences on the amortisation of client portfolios and share-based payments at the reporting date.

The total deferred tax asset derecognised in the consolidated statement of changes in equity for the six months ended 30 November 2017 was £0.07m (1H17: £0.05m recognised in equity).

Deferred tax assets and liabilities at 30 November 2017 have been recognised using the lower corporation tax rate of 17% (1H17: 17%) to be effective from 1 April 2020 as introduced by the Finance Bill 2016, which received Royal Assent in September 2016.

#### *Reconciliation of effective tax rates*

The current tax expense for the six months ended 30 November 2017 was calculated based on the estimated average annual effective income tax rate of 17.9% (1H17: 17.4%), as compared to the standard rate of UK corporation tax at the reporting date of 19.0% (1H17: 20.0%). Differences between the estimated average annual effective income tax rate and statutory rate include, but are not limited to non-deductible expenses, tax incentives not recognised in profit or loss and under/(over) provisions in previous periods.

## 8. Property, plant and equipment

<i>Gross carrying amount:</i>	<i>Assets under construction</i> £000	<i>Computer and office equipment</i> £000	<i>Fixtures and fittings</i> £000	<i>Motor vehicles</i> £000	<i>Total</i> £000
At 1 June 2016	-	1,642	918	1,069	3,629
Arising on Acquisitions	-	14	4	-	18
Additions	3,729	262	19	237	4,247
Disposals	-	(73)	(98)	(141)	(312)
At 30 November 2016	3,729	1,845	843	1,165	7,582
Additions	3,709	181	87	225	4,202
Disposals	-	(2)	-	(179)	(181)
At 31 May 2017	7,438	2,024	930	1,211	11,603
Additions	5,168	114	28	207	5,517
Disposals	-	(116)	-	(85)	(201)
<b>At 30 November 2017</b>	<b>12,606</b>	<b>2,022</b>	<b>958</b>	<b>1,333</b>	<b>16,919</b>
<i>Depreciation:</i>					
At 1 June 2016	-	722	583	327	1,632
Charged for the period	-	137	26	108	271
On disposals	-	(50)	(87)	(91)	(228)
At 30 November 2016	-	809	522	344	1,675
Charged for the period	-	169	54	112	335
On disposals	-	(1)	-	(77)	(78)
At 31 May 2017	-	977	576	379	1,932
Charged for the period	-	227	125	113	465
On disposals	-	(52)	-	(57)	(109)
<b>At 30 November 2017</b>	<b>-</b>	<b>1,152</b>	<b>701</b>	<b>435</b>	<b>2,288</b>
<i>Carrying amount:</i>					
<b>At 30 November 2017</b>	<b>12,606</b>	<b>870</b>	<b>257</b>	<b>898</b>	<b>14,631</b>
At 30 November 2016	3,729	1,036	321	821	5,907
At 31 May 2017	7,438	1,047	354	832	9,671

## 9. Intangible assets

<i>Gross carrying amount:</i>	<i>Internally generated software</i> £000	<i>Software</i> £000	<i>Client portfolios</i> £000	<i>Goodwill</i> £000	<i>Other</i> £000	<i>Total</i> £000
At 1 June 2016	1,434	1,080	31,832	16,361	35	50,742
Arising on acquisitions	-	-	1,522	869	-	2,391
Fair value adjustment on acquisition in the prior period	-	-	-	29	-	29
Additions	103	175	-	-	-	278
<b>At 30 November 2016</b>	<b>1,537</b>	<b>1,255</b>	<b>33,354</b>	<b>17,259</b>	<b>35</b>	<b>53,440</b>
Fair value adjustment on acquisition in the prior period	-	-	-	(6)	-	(6)
Additions	52	286	-	-	-	338
<b>At 31 May 2017</b>	<b>1,589</b>	<b>1,541</b>	<b>33,354</b>	<b>17,253</b>	<b>35</b>	<b>53,772</b>
Additions	35	248	-	-	-	283
<b>At 30 November 2017</b>	<b>1,624</b>	<b>1,789</b>	<b>33,354</b>	<b>17,253</b>	<b>35</b>	<b>54,055</b>
<i>Amortisation and impairment:</i>						
At 1 June 2016	349	557	6,391	-	35	7,332
Amortisation	72	40	859	-	-	971
<b>At 30 November 2016</b>	<b>421</b>	<b>597</b>	<b>7,250</b>	<b>-</b>	<b>35</b>	<b>8,303</b>
Amortisation in period	73	74	878	-	-	1,025
<b>At 31 May 2017</b>	<b>494</b>	<b>671</b>	<b>8,128</b>	<b>-</b>	<b>35</b>	<b>9,328</b>
Amortisation in period	73	64	878	-	-	1,015
<b>At 30 November 2017</b>	<b>567</b>	<b>735</b>	<b>9,006</b>	<b>-</b>	<b>35</b>	<b>10,343</b>
<i>Carrying amount:</i>						
<b>At 30 November 2017</b>	<b>1,057</b>	<b>1,054</b>	<b>24,348</b>	<b>17,253</b>	<b>-</b>	<b>43,712</b>
At 30 November 2016	1,116	658	26,104	17,259	-	45,137
At 31 May 2017	1,095	870	25,226	17,253	-	44,444

## 10. Investment in associate

The movement in the Group's investment in associate is as follows:

	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<i>Unaudited Six months ended 30 Nov 2016 £000</i>	<i>Audited Year ended 31 May 2017 £000</i>
<i>Investment in associate</i>			
At 1 June	<b>3,476</b>	-	-
Investment in Amati Global Investors Limited	-	-	3,368
Share of profit for the period	<b>127</b>	-	120
Share of other comprehensive income	<b>5</b>	-	5
Amortisation of fair value intangibles	<b>(34)</b>	-	(17)
At end of period	<b>3,574</b>	-	3,476

Other comprehensive income represents a movement in Amati's revaluation reserve recognised directly in equity. The results of Amati from the beginning of the period and its aggregated assets and liabilities as at 30 November 2017 are as follows:

<i>Name</i>	<i>Country of incorporation</i>	<i>Assets £000</i>	<i>Liabilities £000</i>	<i>Revenue £000</i>	<i>Profit £000</i>	<i>Interest held</i>
Amati Global Investors Limited	Scotland	2,307	674	1,392	258	49%
Group's share of profit					127	

The net assets of Amati as at 1 June 2017 were £1,364,382. At 30 November 2017 the net assets of Amati had increased by £268,887 to £1,633,269, increasing the Group's interest in the associate by £131,755 during the period.

## 11. Derivative financial asset

The only derivative financial instrument held by the Group is an option contract over shares in the Group's associate. The option contract is carried at fair value.

	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<b>Unaudited Six months ended 30 Nov 2016 £000</b>	<b>Audited Year ended 31 May 2017 £000</b>
<i>Derivative financial asset</i>			
At 1 June	110	-	-
Arising on acquisition	-	-	17
Movement in fair value	401	-	93
At end of period	511	-	110

The fair value of the option contract at 1 June 2017 was £109,974. At 30 November 2017, the fair value of the option contract was £510,897 (1H17: £nil). A stochastic model has been used to calculate the fair value of the option contract, which models the variability of future market-based conditions, such as Mattioli Woods' share price and the value of Amati over 100,000 simulations. For every simulation, the economic value at the exercise date is calculated and the average value of all 100,000 simulations is taken. The fair value is then derived by discounting the average of the outcomes back to present value using the risk-free rate of return.

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

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

	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<b>Unaudited Six months ended 30 Nov 2016 £000</b>	<b>Audited Year ended 31 May 2017 £000</b>
<i>Cash flows from operating activities</i>			
Cash receipts from customers	27,786	22,697	48,514
Cash paid to suppliers and employees	(23,869)	(20,455)	(38,050)
Cash generated from operations	3,917	2,242	10,464

## 13. Share-based payments

### *Consultants' Share Option Plan*

The Company 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:



<i>Date of grant</i>	<i>Exercise price</i>	<i>At 31 May 2017 No.</i>	<i>Granted during the period No.</i>	<i>Exercised during the period No.</i>	<i>Lapsed during the period No.</i>	<i>At 30 Nov 2017 No.</i>
4 September 2007	£2.79	38,011	-	(38,011)	-	-
8 September 2009	£2.16	62,342	-	(12,087)	-	<b>50,255</b>
		100,353	-	(50,098)	-	<b>50,255</b>

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. All options have vested as a result of the option holders achieving certain individual performance hurdles. The contractual life of each option expires 10 years after the date of grant. At 30 November 2017 the total number of options exercisable under the Consultants' Share Option Plan was 50,255 (1H17: 120,425).

#### *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:

<i>Number of options</i>	<i>Unaudited 30 Nov 2017 Equity-settled No.</i>	<i>Unaudited 30 Nov 2017 Cash-settled No.</i>	<i>Unaudited 30 Nov 2016 Equity-settled No.</i>	<i>Unaudited 30 Nov 2016 Cash-settled No.</i>	<i>Audited 31 May 2017 Equity-settled No.</i>	<i>Audited 31 May 2017 Cash-settled No.</i>
Outstanding at start of period	<b>807,445</b>	<b>118,501</b>	696,574	266,650	696,574	266,650
Granted during the period	<b>238,825</b>	-	290,305	-	294,340	-
Exercised during the period	<b>(142,104)</b>	<b>(118,501)</b>	(37,756)	-	(183,269)	(148,149)
Forfeited during the period	<b>(1,470)</b>	-	-	-	(200)	-
Outstanding at end of period	<b>902,696</b>	-	949,123	266,650	807,445	118,501
Exercisable at end of period	<b>80,377</b>	-	175,478	148,148	29,965	-

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

<i>Date of grant</i>	<i>Exercise price</i>	<i>At 1 June 2017 No.</i>	<i>Granted during the period No.</i>	<i>Forfeited during the period No.</i>	<i>Exercised during the period No.</i>	<i>At 30 Nov 2017 No.</i>
5 September 2013	£0.01	29,966	-	-	(14,272)	<b>15,694</b>
16 September 2014	£0.01	190,765	-	-	(126,082)	<b>64,683</b>
15 October 2015	£0.01	292,374	-	(1,470)	(1,750)	<b>289,154</b>
6 September 2016	£0.01	294,340	-	-	-	<b>294,340</b>
4 September 2017	£0.01	-	238,825	-	-	<b>238,825</b>
		807,445	238,825	(1,470)	(142,104)	<b>902,696</b>

#### *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 51,864 (1H17: 42,832) new ordinary shares were issued to the 348 employees who participated in the SIP during the period. At 30 November 2017, 575,867 shares were held in the SIP on their behalf. There were no 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:

	<i>Unaudited 30 Nov 2017 Equity-settled £000</i>	<i>Unaudited 30 Nov 2017 Cash-settled £000</i>	<i>Unaudited 30 Nov 2016 Equity-settled £000</i>	<i>Unaudited 30 Nov 2016 Cash-settled £000</i>	<i>Audited 31 May 2017 Equity-settled £000</i>	<i>Audited 31 May 2017 Cash-settled £000</i>
LTIP	<b>570</b>	<b>119</b>	436	393	950	661
SIP	<b>170</b>	-	103	-	291	-
<b>Total</b>	<b>740</b>	<b>119</b>	539	393	1,241	661

#### *Valuation assumptions*

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

	<i>LTIP (Equity- settled) 2017</i>	<i>LTIP (Equity- settled) 2016</i>	<i>LTIP (Equity- settled) 2015</i>	<i>LTIP (Equity- settled) 2014</i>	<i>LTIP (Equity- settled) 2013</i>	<i>CSOP 2009</i>
Share price at grant date (£)	8.41	6.55	6.13	4.32	3.27	2.13
Exercise price (£)	0.01	0.01	0.01	0.01	0.01	2.16
Expected volatility (%)	17.0	17.5	20.0	20.0	22.5	17.0
Expected life (years)	4.5	4.5	4.5	4.5	4.5	7.0
Risk free rate (%)	1.0	0.81	1.25	2.02	1.54	3.33
Expected dividend yield (%)	1.84	2.21	2.30	2.30	3.00	1.60

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 2017 was £nil (1H17: £1.7m) (Note 15).

#### 14. Financial instruments

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value:

	<i>Carrying amount as at 30 November 2017 £000</i>	<i>Quoted prices in active markets for identical instruments Level 1 £000</i>	<i>Significant other observable inputs Level 2 £000</i>	<i>Significant unobservable inputs Level 3 £000</i>
<i>Financial assets</i>				
Derivative financial instruments	511	-	-	511
<b>At 30 November 2017</b>	<b>511</b>	<b>-</b>	<b>-</b>	<b>511</b>
<i>Financial liabilities</i>				
Contingent consideration	1,667	-	-	1,667
<b>At 30 November 2017</b>	<b>1,667</b>	<b>-</b>	<b>-</b>	<b>1,667</b>

The fair value of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term nature.

## 15. Provisions

<i>Group</i>	<i>Contingent consideration</i> £000	<i>Client claims</i> £000	<i>Dilapidations</i> £000	<i>Clawback</i> £000	<i>Employers' NIC on share options</i> £000	<i>Onerous Contracts</i> £000	<i>LTIP cash liability</i> £000	<i>FSCS levy</i> £000	<i>Other</i> £000	<i>Total</i> £000
At 1 June 2016	5,800	532	413	308	624	152	1,263	-	-	9,092
Arising during period	914	158	-	150	235	-	393	-	2	1,852
Used during period	(2,250)	(240)	-	(150)	(39)	-	-	-	-	(2,679)
Acquisitions	-	63	30	-	-	-	-	-	-	93
Unwinding of discount	120	-	-	-	-	-	16	-	-	136
Unused amounts reversed	(157)	(27)	-	(9)	-	-	-	-	-	(193)
At 30 Nov 2016	4,427	486	443	299	820	152	1,672	-	2	8,301
Arising during period	-	352	90	-	184	-	268	-	-	894
Used during period	-	(147)	-	(166)	(267)	-	(1,111)	-	-	(1,691)
Unwinding of discount	122	-	-	-	-	-	15	-	-	137
Unused amounts reversed	(131)	(164)	(16)	(9)	-	(77)	-	-	(2)	(399)
At 31 May 2017	4,418	527	517	124	737	75	844	-	-	7,242
Arising during period	-	506	122	75	165	274	132	100	-	1,374
Used during period	(2,703)	(112)	(13)	(76)	(333)	-	(989)	-	-	(4,226)
Unwinding of discount	80	-	-	-	-	-	13	-	-	93
Unused amounts reversed	(128)	(1)	(7)	-	-	-	-	-	-	(136)
<b>At 30 Nov 2017</b>	<b>1,667</b>	<b>920</b>	<b>619</b>	<b>123</b>	<b>569</b>	<b>349</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>4,347</b>
Current	1,667	920	308	123	365	349	-	100	-	3,832
Non-current	-	-	311	-	204	-	-	-	-	515
At 30 Nov 2017	1,667	920	619	123	569	349	-	100	-	4,347

### *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 fair value of contingent consideration payable within the next 12 months is £1.7m (1H17: £2.8m).

On 7 September 2016 the Group acquired MC Trustees for an initial consideration comprising cash of £1.2m (excluding cash acquired with the business) and 38,081 shares in Mattioli Woods, plus contingent consideration of £1.0m payable in cash in the two years following completion if certain profit targets are met. The Group estimates the fair value of the remaining contingent consideration at 30 November 2017 to be £0.5m (1H17: £0.9m) using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 8 September 2015 the Group acquired Taylor Patterson for an initial consideration comprising cash of £2.1m (excluding cash acquired with the business) and 419,888 shares in Mattioli Woods, plus contingent consideration of £3.3m payable in cash in the three years following completion if certain profit and revenue targets are met. The Group estimates the fair value of the remaining contingent consideration at 30 November 2017 to be £1.1m (1H17: £2.2m) using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 23 June 2015 the Group acquired Boyd Coughlan for initial consideration comprising cash of £3.9m (excluding cash acquired with the business) and 235,742 shares in Mattioli Woods, plus contingent consideration of £2.5m payable in cash in the two years following completion if certain profit targets are met. The fair value of the remaining contingent consideration at 30 November 2017 is £nil (1H17: £1.2m).

### *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 when management believes it is probable the claim will crystallise. No discount rate is applied to the projected cash flows due to their short term nature.

### *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 fair 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.

### *Onerous contracts*

Mattioli Woods plc has entered into three commercial leases for its premises at Grove Park, Enderby ("the Grove Park leases"). The lease for its registered office, MW House, has a duration of 20 years, from 10 June 2005. The first lease for part of the ground floor of Gateway House (an office building adjacent to MW House) has a duration of 10 years from 1 February 2008. A second lease for part of the ground floor of Gateway House has a duration of 10 years from 1 December 2009.

Onerous lease provisions are recognised when a leased property is expected to become vacant and no longer used in the Group's operations. Amounts recognised in the period represent the Group's best estimate of the unavoidable costs committed to under the Grove Park leases, based on the expected void period between the premises being vacated and subsequently sub-let once the Group takes occupation of its new office at New Walk.

The future minimum rentals payable under the Grove Park leases as at 30 November 2017 totalled £1.6m, comprising £1.4m for MW House and £0.2m for Gateway House.

### *LTIP cash liability*

The Group has granted cash settled options to certain Executive Directors. The amounts of any cash entitlement on vesting of an award will be directly linked to the value of a specified number of the Company's shares at the vesting date. At 30 November 2017 there were no cash awards outstanding.

### *FSCS levy*

The arrangements put in place by the Financial Services Compensation Scheme ("FSCS") to protect depositors and investors from loss in the event of failure of financial institutions have resulted in significant levies on the industry in recent years.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises. A provision of £0.1m has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2018.

*Other*

The Group receives property insurance commission on indemnity terms in respect of a block insurance policy for properties under management. The Group has provided for the anticipated level of commission clawback based on historic levels of property disposal.

## **16. Related party transactions**

### *Custodian REIT plc*

In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT plc ("Custodian REIT"), a closed-ended property investment company listed on the Main Market of the London Stock Exchange. The terms of the Investment Management Agreement ("IMA") between Custodian Capital and Custodian REIT were amended on agreement of a further three year term with 12 months' notice to Custodian Capital's ongoing engagement from 1 June 2017, with the fees payable to Custodian Capital under the IMA amended to include:

- A step down in the property management fee from 0.75% to 0.65% of net asset value ("NAV") applied to NAV in excess of £500m; and
- A step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m and a further step down to 0.05% of NAV applied to NAV in excess of £500m.

All other key terms of the IMA remain unchanged.

The Company's Chief Executive, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Chief Financial Officer and Company Secretary, Nathan Imlach, is Company Secretary of Custodian REIT. Ian Mattioli received £14,000 of director's fees from Custodian REIT during the six months ended 30 November 2017 (1H17: £13,750). Fees for Nathan Imlach's services are charged by Custodian Capital directly to Custodian REIT and are included in the annual management charges noted below.

Ian Mattioli, Nathan Imlach, Alan Fergusson, Richard Shepherd-Cross (the Managing Director of Custodian Capital) and the private pension schemes of Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross, Murray Smith, Mark Smith, Alan Fergusson, Joanne Lake and Carol Duncumb have a beneficial interest in Custodian REIT.

During the six months ended 30 November 2017 the Group received revenues of £1.9m (1H17: £1.6m) in respect of annual management charges, company secretarial and administration fees. Custodian REIT owed the Group £nil (1H17: £0.1m) at 30 November 2017.

During the six months ended 30 November 2017 the Group paid rent of £174,000 (1H17: £174,000) and service charges and other property related costs of £20,251 (1H17: £13,473) in respect of its office premises at MW House and Gateway House at Grove Park, Enderby where Custodian REIT is lessor.

#### *Amati Global Investors Limited*

On 6 February 2017 the Company purchased 49% of the issued share capital of Amati. The Company has also entered into an option agreement to acquire the remaining 51% of the issued share capital of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares.

Three of the Company's senior management team were appointed to the board of Amati on the date of investment. Ian Mattioli is Deputy Chairman, the Group's Chief Investment Officer, Simon Gibson, is a Non-Executive Director and Chief Operating Officer, Mark Smith is an Executive Director. During the six months ended 30 November 2017 each of these individuals were paid £2,500 (1H17: £nil) of directors' fees by Amati.

#### *Gateley (Holdings) plc*

The Company's Non-Executive Chairman, Joanne Lake, is a non-executive director of Gateley (Holdings) Plc, which is the holding company of Gateley Plc, a provider of commercial legal services. During the period the Group paid Gateley Plc a total of £2,753 (1H17: £nil) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £12,147 (1H17: £nil) in respect of the employee benefits services provided to Gateley Plc in the period.

#### *Vista Insurance Brokers Limited*

Vista Insurance Brokers Limited, a broker of insurance products, is party to a dormant joint venture agreement with the Company. The Group received revenues of £1,120 (1H17: £2,658) in respect of employee benefits services provided to Vista Insurance Brokers Limited during the period.

#### *Key management compensation*

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 18 (1H17: 16) other executives, received total compensation of £3.9m for the six months ended 30 November 2017 (1H17: £3.4m). Total remuneration is included in "employee benefits expense" and analysed as follows:



	<b>Unaudited Six months ended 30 Nov 2017 £000</b>	<i>Unaudited Six months ended 30 Nov 2016 £000</i>	<i>Audited Year ended 31 May 2017 £000</i>
Wages and salaries	<b>3,006</b>	2,814	5,450
Social security costs	<b>689</b>	384	977
Pension	<b>93</b>	106	207
Benefits in kind	<b>81</b>	67	139
	<b>3,869</b>	3,371	6,773

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £0.5m (1H17: £0.6m).

#### *Transactions with other related parties*

At 30 November 2017, Ian Mattioli owed £nil to the Company (1H17: £4,630). Directors' balances carry no coupon and have no fixed repayment date.

Following the transfer of Mattioli Woods' property syndicate business to Custodian Capital, the legal structure of the arrangements offered to investors changed to a limited partnership structure, replacing the previous trust-based structure. Each 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 partners have appointed Custodian Capital as the operator of the partnerships pursuant to an operator agreement between the general partner and Custodian Capital.

#### *FP Mattioli Woods Balanced Fund*

The Company is the investment manager of the FP Mattioli Woods Balanced Fund, an open ended investment company which aims to achieve long-term growth while managing volatility so that, other than on very short term measures, outperformance comes with a lower beta than the benchmark. As at 30 November 2017 the Group held an investment with a market value of £49,139 (1H17: £43,727) in the FP Mattioli Woods Balanced Fund.

## *MW Properties (Huntingdon Non-Geared) Limited*

The Company holds a 2.04% interest in MW Properties (Huntingdon Non-Geared) Limited, a nominee for a property syndicate. During the period, the Group received dividend income of £1,020 from MW Properties (Huntingdon Non-Geared) Limited. As at 30 November 2017 the Group held an investment with a market value of £14,137 (1H17: £14,956) in the syndicate.

### **17. Commitments and contingencies**

#### *New Walk*

At 30 November 2017 the Group had capital commitments amounting to £3.4m (1H17: £11.0m). In August 2015, Mattioli Woods (New Walk) Limited entered into a development agreement with Ingleby (1245) Limited, a company owned and controlled by Sowden Group Limited to build a new 50,000 square foot office on the site of the former Leicester City Council headquarters at New Walk, Leicester.

The expected expenditure for the development is circa £15.0m including fit out costs and irrecoverable VAT, which will be funded through a combination of existing cash resources, bank funding and future operating cash flows. Construction commenced in May 2016, with construction approximately three months behind schedule as a result of delays in the delivery of materials and subsequent installation. The Group expects to take up occupancy in summer 2018.

There are pre-existing conditions retained by Leicester City Council over the transfer of title of the land to Mattioli Woods, which the directors are confident will be satisfied on completion of the development.

#### *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 from these contingencies where management believes it is probable the claim will crystallise (Note 15).

#### *FSCS levy*

The arrangements put in place by the Financial Services Compensation Scheme ("FSCS") to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises. On 4 January 2018, the FSCS announced a

supplementary levy of £24m for 2017/18 following the 'continuing growth' of SIPP claims. At the time of writing, it is not clear how the supplementary levy is to be applied across the industry.

A provision of £0.1m has been made in these financial statements for the supplementary levy and any further FSCS interim levies in the year ending 31 May 2018 (Note 15).

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

### *Group re-organisation*

On 31 December 2017 the trade and assets of Boyd Coughlan Limited were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of the business as at 31 December 2017, attracting annual interest on the outstanding principal of a rate of 3% above the Bank of England base rate.

### *Taxation*

On 15 September 2016 the Finance Bill 2016 received Royal Assent, enacting proposals that were announced in the 2016 budget, the Autumn Statement 2015 and the Summer Budget 2015. The rate of corporation tax fell to 19% in April 2017 and will fall to 17% from April 2020.

These rate changes will affect the amount of 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 in the Group's statement of financial position.

## **19. Copies of interim report**

Copies of the interim report will be posted to shareholders in due course and are available from the Group's head office at: MW House, 1 Penman Way, Grove Park, Enderby, Leicester LE19 1SY.