

# 2010 Full Year Results Presentation

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*A leading financial services solutions provider to wealth management practices*

The background of the slide is a dark blue rectangle. It features several abstract, curved white and light blue lines that sweep across the space, creating a sense of motion and depth. The lines vary in thickness and curvature, some forming partial circles or arcs.

## DKN Performs Well - Despite Adverse Markets



### **Profitable:**

- ✦ Full year underlying profit after tax of \$7.64m, compared to pcp of \$6.19m up 23%
- ✦ Non-cash impairment charge to the value of \$0.44m
- ✦ Reported Net Profit After Tax of \$7.20m

### **Scale and leverage:**

- ✦ Reducing operating Expense to Net Operating Revenue 59%

### **Strong balance sheet:**

- ✦ Net cash of \$7.44m

### **Dividends:**

- ✦ Expected unfranked final dividend of 2.5 cents\*

### **Effective use of capital:**

- ✦ Post tax ROCV from equity positions 7.8%

(\*Tax – DKN has claimed significant deductions post the Lonsdale transaction. This has resulted in no tax payments for 2008, 2009 and 2010. These claims are yet to be assessed by the tax office. Note that this affects cash only and not NPAT – income tax has been provided in full and presented as a deferred provision for tax).

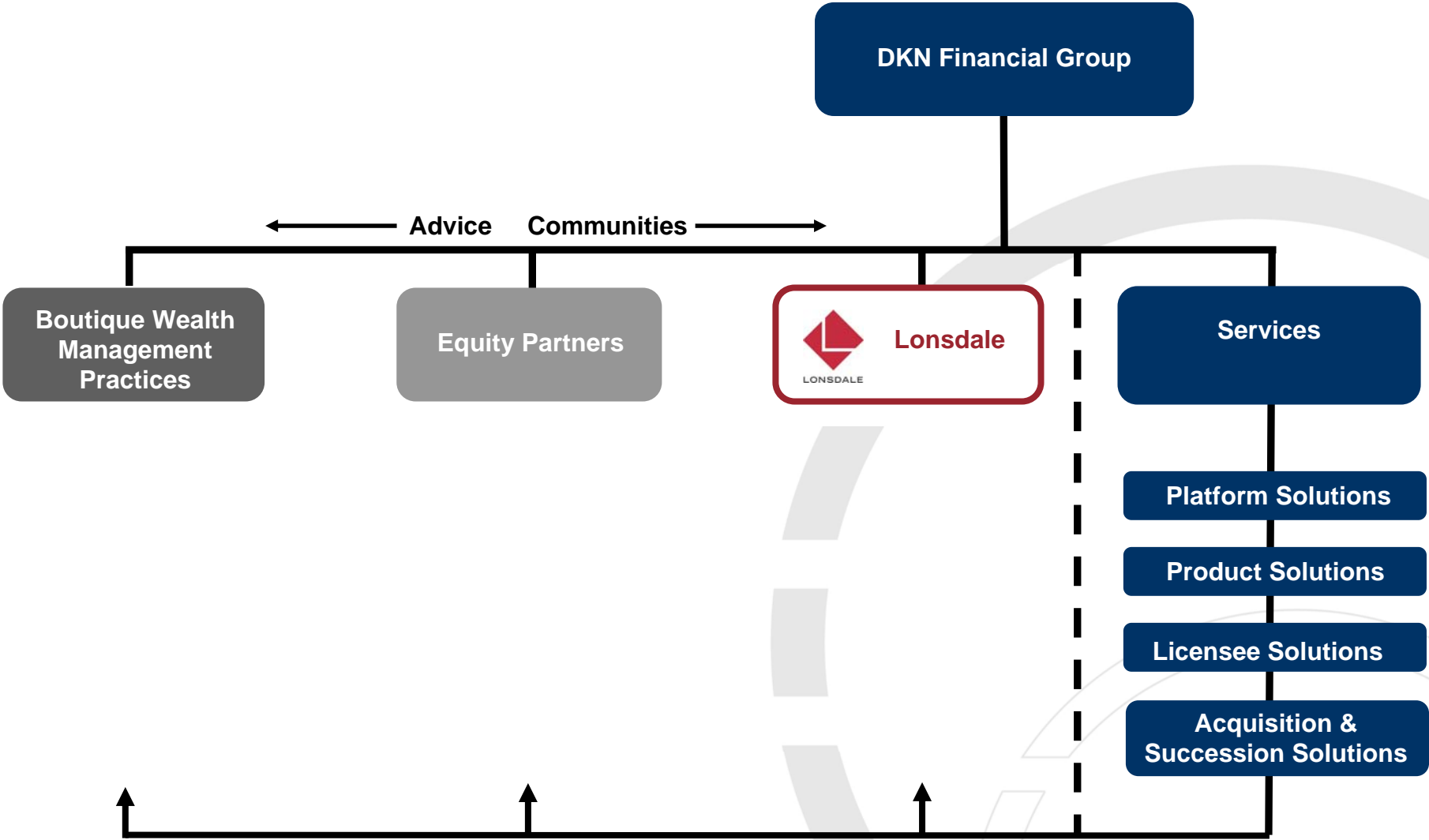
# DKN Overview



## Industry Respected Service Provider to Wealth Management Practices

- ✦ Proven innovative business model
- ✦ Well positioned to leverage opportunities that arise from the proposed financial industry reforms
- ✦ 300 quality wealth management practices
- ✦ Approximately 750 associated advisers accessing DKN services
- ✦ 100% ownership of Lonsdale – highly respected and quality dealer group
- ✦ Scale in FUA @ \$7.43 b
- ✦ Consistent positive net flows into our core platforms
- ✦ Diversified business model:
  - ✦ Dealer services solution through Lonsdale
  - ✦ Platform solutions
  - ✦ Minority ownership in wealth management practices
  - ✦ Practice management solutions for wealth management practices (including accountants)
  - ✦ Licence solutions for self licensed wealth management practices
- ✦ Highly scalable with fixed costs expected to be relatively stable over the next 3 years

# DKN Service Offer



# DKN Recurring Revenue Drivers



## **Distribution (Platform / Product)**

- ✦ FY Recurring Revenue of \$18m
- ✦ \$7.43b in FUA, up 9% from end June 2009
- ✦ Positive Platform net inflows \$525m
- ✦ Strong profit leverage through recurring revenue based on asset fees on FUA

## **Lonsdale Financial Group**

- ✦ FY Recurring Revenue of \$6.8m
- ✦ 110 practices through Lonsdale Dealer License - 7 New Lonsdale Associates
- ✦ Stable revenue through set annual fee for services

## **Equity Partners**

- ✦ FY revenue contribution of \$887k
- ✦ Profit generated through provision of advice on a fee for service basis - equity accounted
- ✦ 7 minority equity positions in Wealth Management Practices
- ✦ Fully impaired one underperforming investment due to poor performance

## Underlying Profit Reconciliation



	FY June 10	FY June 09	10 / 09 Change
<b>Statutory profit (NPAT) (\$m)</b>	<b>7.20</b>	<b>(11.54)</b>	
Impairment charges (\$m)*	0.44	17.74	
<b>Underlying profit (\$m)</b>	<b>7.64</b>	<b>6.19</b>	<b>23%</b>

\*The impairment \$0.44m charge is the net result of the full impairment of one Equity Partner investment of \$1.31m, and the reversal of prior impairments to Equity Partners for \$0.87m:

## June 2010 Full Year – Underlying Profit



	FY June 10	FY June 09	10 / 09 Change
FUA (\$b)	7.43	6.83	8.8%
Revenue (\$m)	26.47	24.14	9.6%
Operating Costs (\$m)	15.73	15.32	2.6%
<b>Underlying profit post tax (\$m)</b>	<b>7.64</b>	<b>6.19</b>	<b>23.4%</b>

## FY Segment Contributions



Division (\$m)	2010 Net Contribution	2009 Net Contribution
Platform	13.54	12.53
Lonsdale	0.06	(0.520)
Product	1.01	1.52
Equity Partners	0.53	0.76

## Platform Solutions



	FY June 10	FY June 09
Revenue	\$16.46m	\$14.86m
EBIT	\$13.54m	\$12.53m
FUA	\$6.43b	\$5.68b

- ✦ Market volatility impacted directly on FUA
- ✦ Positive net inflows of \$525m despite low investor confidence
- ✦ 13 new platform practices

## Product Solutions



	FY June 10	FY June 09
Revenue	\$1.573m	\$2.12m
EBIT	\$1.01m	\$1.52m
FUA	\$1b	\$1.14b

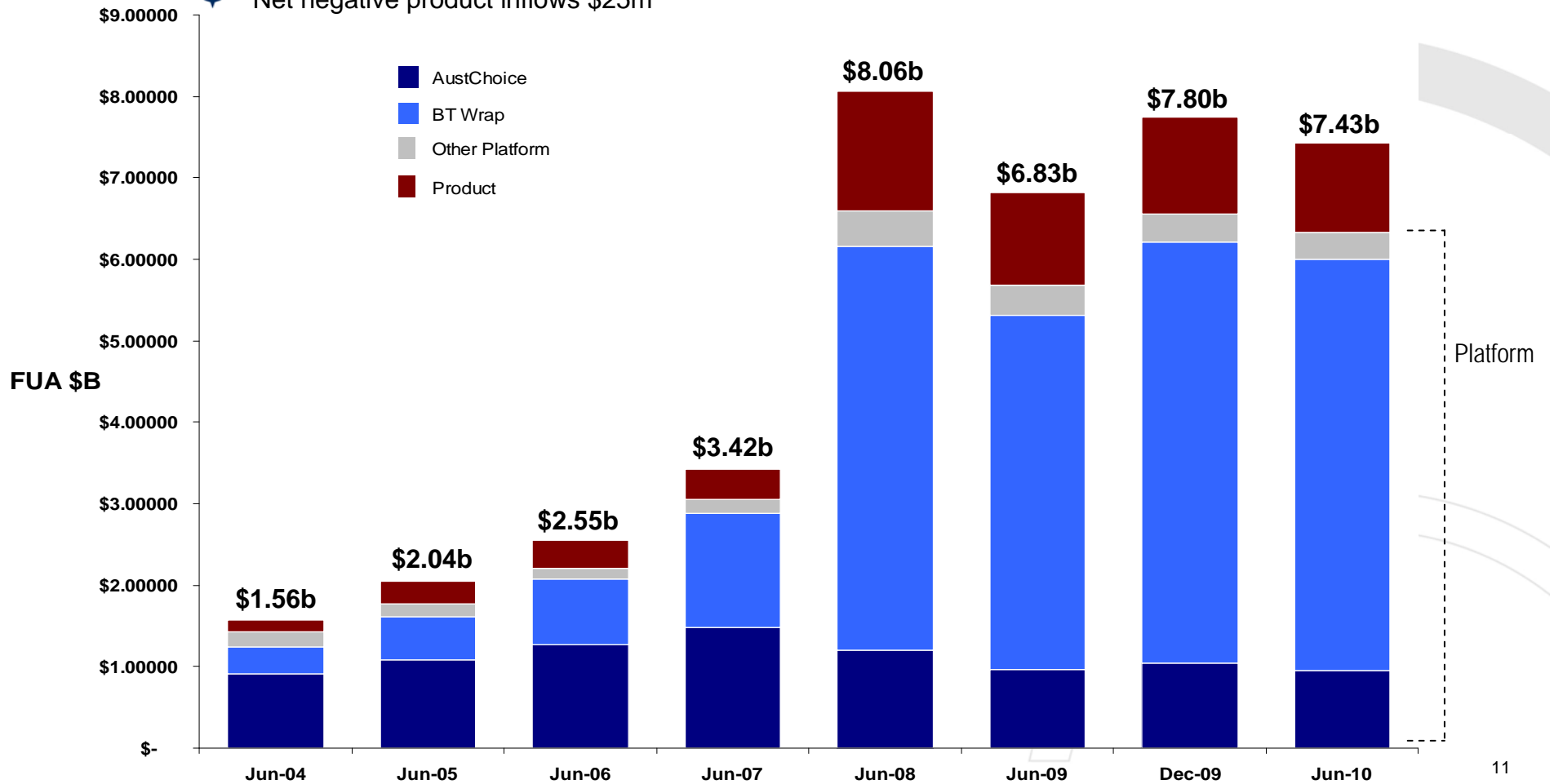
- ✦ Negative market impacted on FUA
- ✦ Net outflows of \$25m due to:
  - ✦ Flight to cash
  - ✦ Market uncertainty leading to reluctance to invest

# FUA Update



12 Months to June 2010:

- ✦ Platform FUA up 12%
- ✦ Product FUA down 5%
- ✦ Net positive platform inflows \$525m
- ✦ Net negative product inflows \$25m



## FUA – Net Flows



	FY June 2010 (\$m's)	FY June 2009 (\$m's)	FY June 2008 (\$m's)
Platform Net Flows	525	348	936
Product Net Flows	(25)	(46)	55
Total Net Flows	500	302	991

# FUA Asset Composition



- ✦ Markets for the 12 months to 30 June 2010:
  - ✦ Australian S&P ASX 300 up 13.10%\*
  - ✦ Australian Listed Property up 20.30%\*
  - ✦ International up 5.80%\*

\*Source Lonsec

- ✦ Approximately 72% of DKN (BT) Platform assets allocated to market

- ✦ Australian shares 41%
- ✦ International Shares 14%
- ✦ Property 4%
- ✦ Fixed Interest 9%
- ✦ Diversified 13%
- ✦ Cash 19%

as at 30 June 2010

# Lonsdale



	<b>FY June 10</b>	<b>FY June 09</b>
Revenue	\$6.89m	\$5.78m
EBIT	\$0.06m	(\$0.52m)
Associated Practices	110	103

- ★ Attracted 7 net new Associate Practices representing 14 new Lonsdale Authorised Representatives
- ★ Attracted 5 new Licensee Solutions Practices
- ★ Division aims to generate small profit with value associated with support of platform clients
- ★ Focus on assisting all associated practices to be 'Reform Ready'

## Equity Partners



	<b>Carrying Value</b>	<b>Post Tax Profit Contribution FY 2010</b>	<b>Post Tax Profit Contribution FY 2009</b>
All Practices	\$10.29m	\$0.79	\$0.66m

- ★ Full year operating results demonstrate increased profitability from the majority of the investments
- ★ Return on carrying value (post tax) from the investments is 7.8% up from 6.4% in 2009
- ★ DKN remains committed to assisting financial planning and accounting practices with either internal succession strategies or acquisition plans illustrated by a new investment being made by the Group in January 2010 and a pipeline of opportunities being assessed
- ★ This Division incurred an impairment \$0.443m which is the net result of the full impairment of one Equity Partner investment for \$1.38m, and the reversal of prior impairments to Equity Partners for \$0.865m

# The Future of Financial Advice

(The Announcement 26 April 2010, Chris Bowen, the Federal Minister for Financial Services, Superannuation and Corporate Law)



Overriding objective of the proposed reforms is to ensure greater alignment between the provision of financial product advice and the client's best interests and to minimise distortions to remuneration which undermine this outcome

- ✦ DKN supports this objective
- ✦ DKN is absolute in its belief that wealth management advice is of value and that that the provider of the advice should be recompensed by way of fee for service. In addition DKN is of the belief that wealth management practices have the ability to be sustainable profitable businesses particularly when they team with the right solution provider
- ✦ Our clients (wealth management practices) are heavily weighted toward 'Fee for Service'
- ✦ The focus of our platform pricing strategy is to attract fee for service advisers where they generate their fees from their clients and are not reliant on rebates – currently DKN pays small rebates to AFSL's for scale

# Reform Impact On DKN Platforms

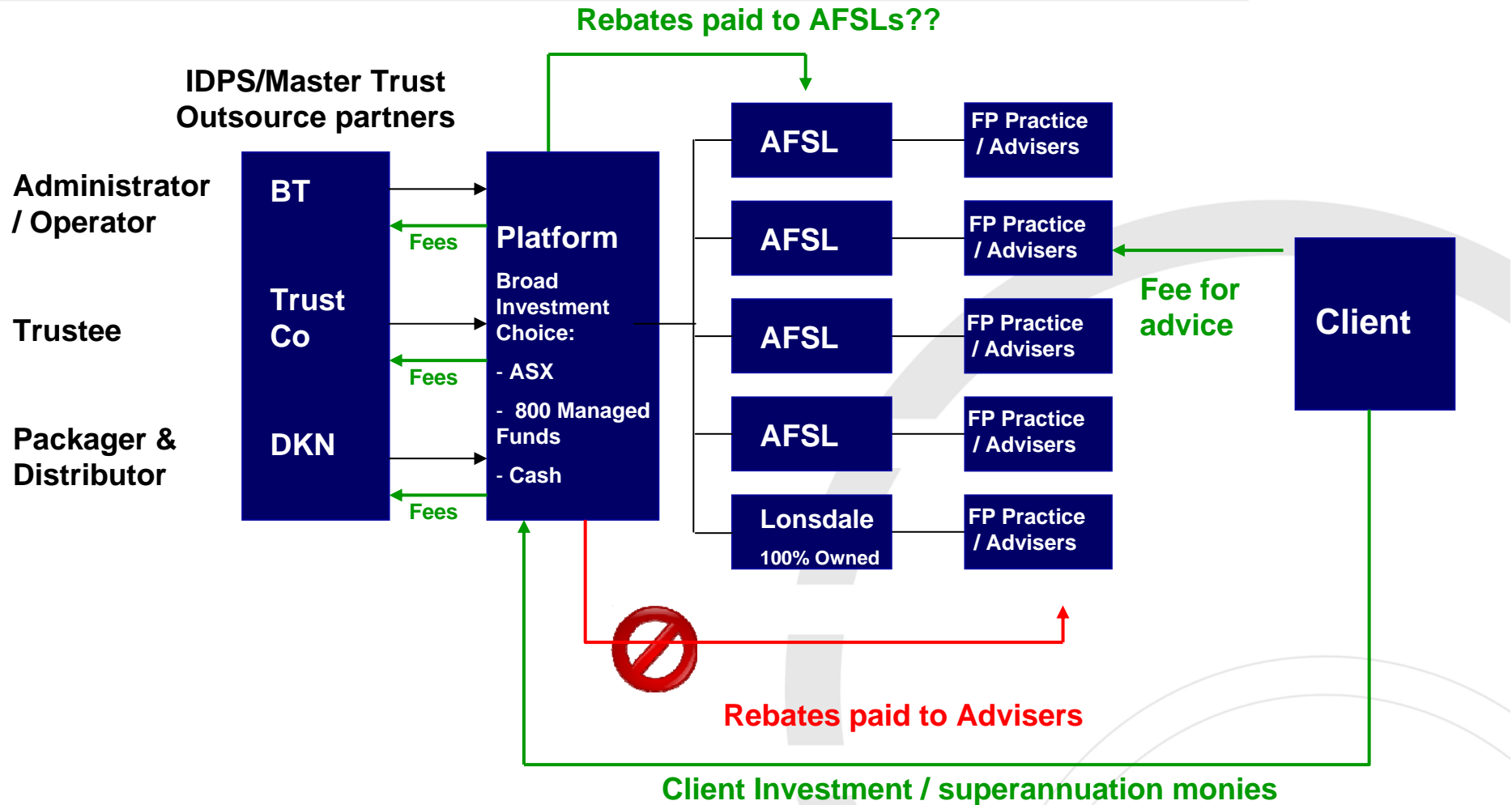


- ✦ DKN is responsible for the packaging and distribution of its platforms to wealth management practices and generates fees for performing these activities

The fees generated do not give rise to the conflicts of interest as:

- ✦ the distribution and packaging activities undertaken by DKN do not involve the provision of any financial product advice by DKN
  - ✦ the fees generated are derived from a margin controlled by DKN therefore the fees generated are not a volume rebate
- 
- ✦ It is DKN's view that on the basis of the information released to date, the Government's proposal to ban commissions and volume based payments will not impact on the fees DKN receives under its existing distribution contracts with its core platforms

# Platform Flow of Fees



# The Future of Financial Advice - Opportunities



- ★ **Lonsdale** – There will be fewer dealer group offerings in the market place that are not aligned to the major institutions this will provide Lonsdale with the ability to recruit more quality practices
- ★ **Expansion of Equity Partners** – The reforms will generate significant consolidation by wealth management practices
- ★ **Industry consolidation** – not only is there an opportunity for DKN to participate but as a consequence there will be fewer albeit larger competitors
- ★ **Wealth Management Practices** -There will be many advisers and practices that exit the industry resulting in fewer competitors - the practices that can adapt and be forward thinkers will benefit significantly

## DKN Strategies - Context



- ✦ The industry is adapting and reforming as a result of influences arising from the GFC, media focus and regulatory change
- ✦ Strong sector that remains attractive to investors however hesitant due to reforms
- ✦ Value of advice is being tested and this will lead to changes to how it is priced and paid for
- ✦ Significant 'Land Grab' opportunity over the next two years as a result of industry reform – players who are adaptable will be the most successful
- ✦ Consolidation continues post GFC - there are however fewer targets of quality/scale

# DKN Competitively Positioned



## Barriers to Entry:

- ✦ Aligning quality practices to support the Group services – DKN has @ 300
- ✦ Scale in platform offering – DKN has @ \$6.43b
- ✦ Quality service offering – DKN through Lonsdale have been evolving over 20 years
- ✦ Ability to attract quality team – DKN talent pool highly regarded

## Industry Growth Dynamics:

- ✦ Australia has the 4<sup>th</sup> largest private pension market
- ✦ Our superannuation market is one of the world's fastest growing underpinned by government mandate
- ✦ Australia has a strong culture of savings
- ✦ Proposed reforms will position the wealth management sector as a 'true' sustainable profession

## DKN 'Land Grab' Strategies



- ✦ Be the service provider of choice for quality boutique wealth management practices
- ✦ Drive strategic transactions to increase profit, scale and diversity of offer
- ✦ Use capital to invest into quality wealth management practices
- ✦ Leverage position of scale with selected core suppliers
- ✦ Deliver quality services to drive efficiency through our community of practices
- ✦ Respond positively to regulatory changes

## Condensed Balance Sheet FY 2010



	June 2010 \$m	June 2009 \$m
<b>Current Assets</b>	20.72	18.19
<b>Non-Current Assets:</b>		
Investments	10.29	10.40
Intangible Assets	134.91	135.07
Other	1.46	3.22
<b>Total Assets</b>	<b>167.38</b>	<b>166.88</b>
<b>Current Liabilities</b>	13.27	8.37
<b>Non-current Liabilities</b>	7.96	14.26
<b>Total Liabilities</b>	<b>21.23</b>	<b>22.63</b>
<b>Net Assets</b>	<b>146.15</b>	<b>144.25</b>

\$10.2m debt is all current with view to reduce or refinance later in November 2010 when current facility expires

## Capital Structure FY 2010



	Shares Held (m)	%
Zurich	44	31%
IOOF	26	19%
Remainder of Top 20 Shareholders	43	31%
Other Shareholders	29	19%
<b>Total Shares on Issue</b>	<b>142</b>	<b>100%</b>
Options	9.5	

# 2010 Guidance



Guidance was based on:

- ✦ First half levels of net flows
- ✦ Market volatility i.e. market down since end December 2009
- ✦ No impairments

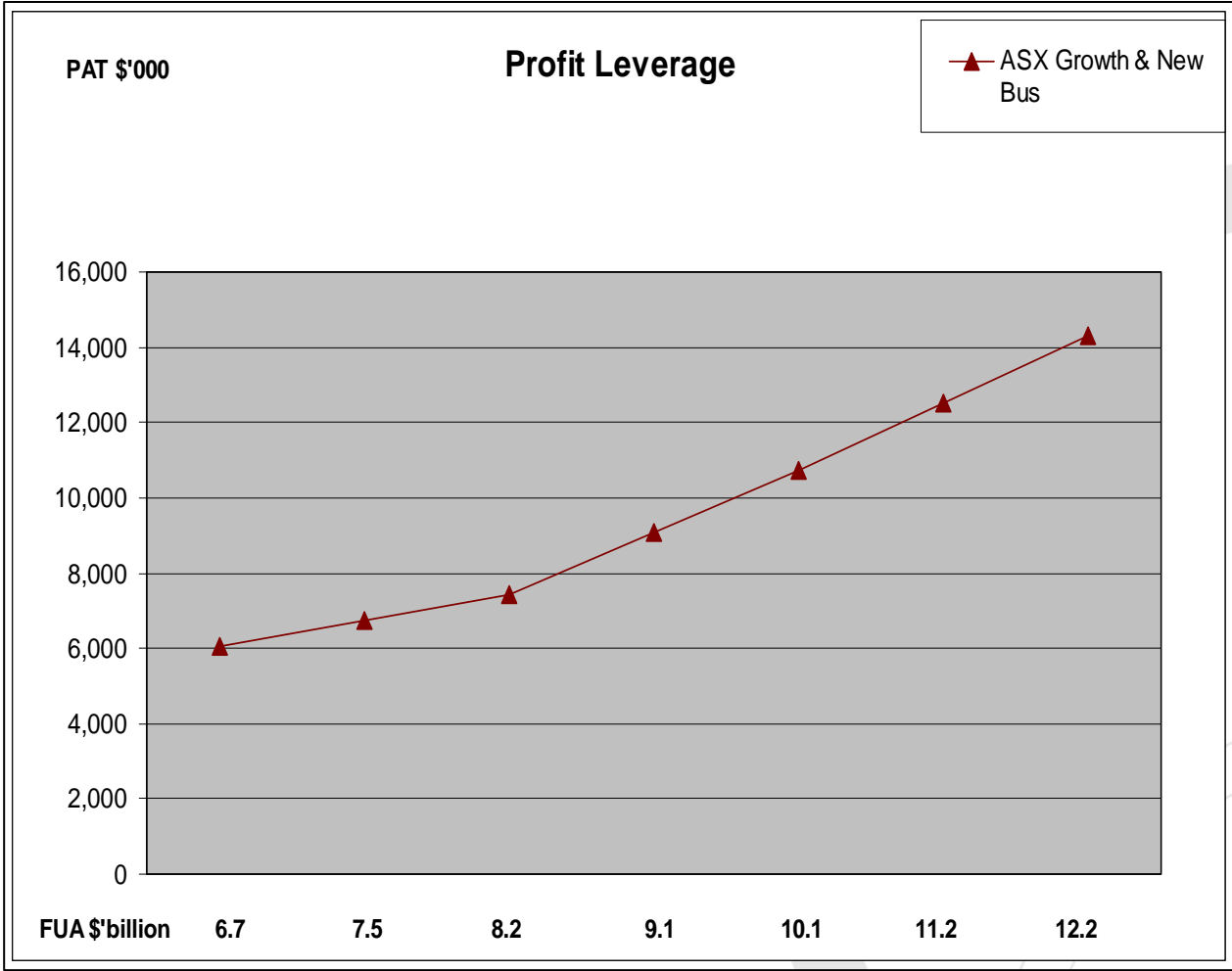
	FY 2010 Guidance	FY 2010 Actual
1. FUA	\$8 billion	\$7.43 billion
2. Underlying profit after tax	At least \$7.5m	\$7.64m

- ✦ Comments on the outlook for 2011 will be provided at the Annual General Meeting later this calendar year.

# Relationships and FUA Scale Drives Profit



The following table is not a forecast it represents the correlation of FUA to NPAT.



Source: Internal modelling

## DKN well positioned 2011



- ✦ Scale a key “Barrier to Entry”
- ✦ Industry Growth Dynamics
- ✦ Profit supported by strong recurring revenue
- ✦ Scalable business model with strong organic growth
- ✦ Strong balance sheet
- ✦ Quality team and expanded quality community of wealth management practices

## Important Notice



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