

# 2011 Financial Year - Half Year Results Presentation



Phil Butterworth - Chief Executive Officer

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

An abstract graphic design on a dark blue background. It features several curved, overlapping shapes in various shades of blue and white. On the right side, there are two large, white, curved lines that resemble a stylized 'D' or a partial circle. In the center, there are three smaller, white, curved rectangular shapes stacked vertically. On the left, there are several larger, semi-transparent blue curved shapes that overlap each other and the other elements.

# DKN Profit Stability - Despite Sector Issues



## Profitable:

- ✦ Half year underlying profit after tax of \$3.5m, compared to pcp of \$3.87m
- ✦ Non-cash write back of \$241k
- ✦ Reported Net Profit After Tax of \$3.73m

## Scale and leverage:

- ✦ FUA \$7.92b up 6.5% since end June 2010
- ✦ Maintaining operating Expense to Net Operating Revenue 58%

## Strong balance sheet:

- ✦ Cash of \$7.8m

## Dividends:

- ✦ Expected unfranked Interim Dividend of 2 cents\*

## Effective use of capital:

- ✦ Post tax ROCV from equity positions 13%

(\*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).

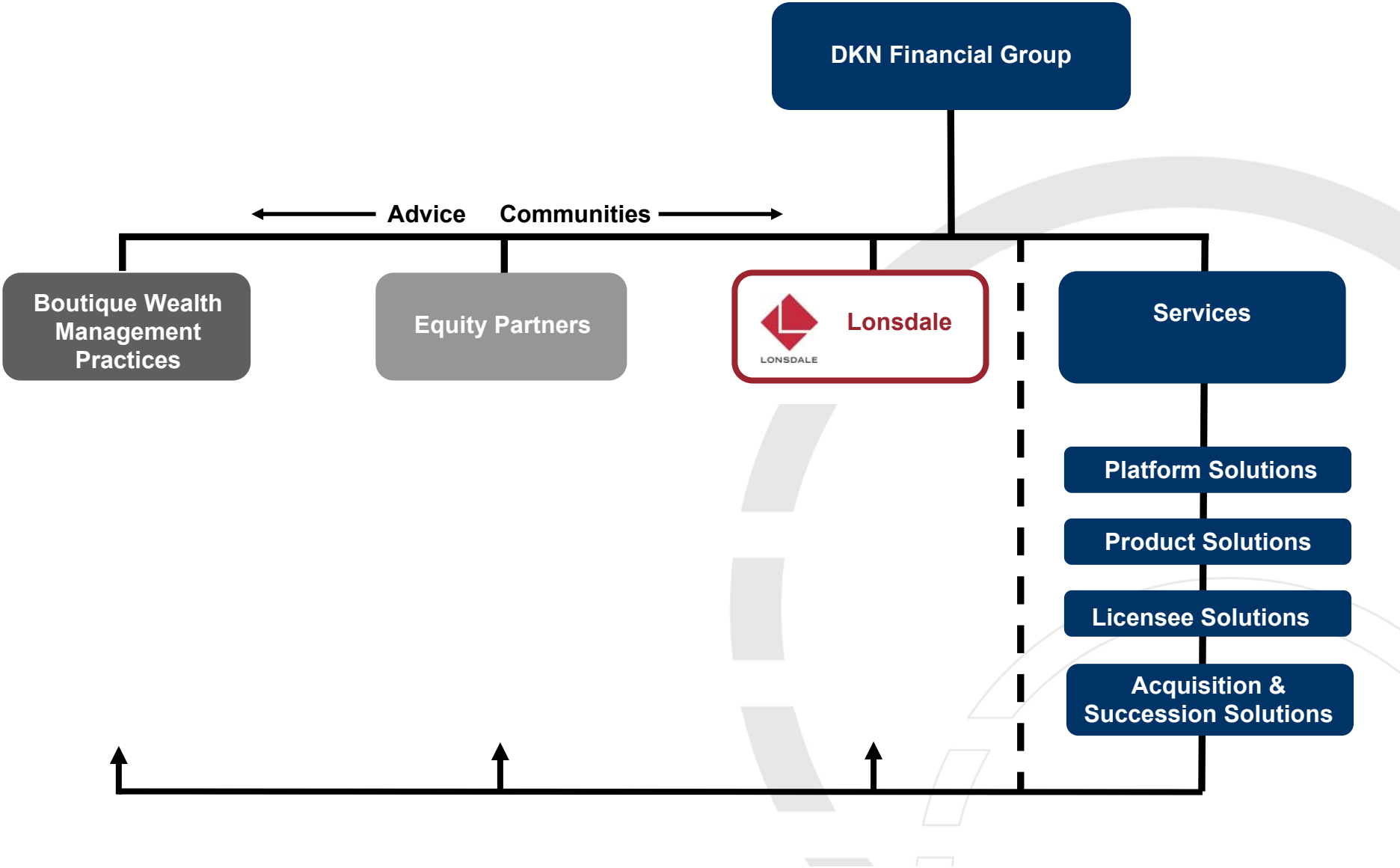
# DKN Overview



## Industry Respected Service Provider to Wealth Management Practices

- ✦ Well positioned to leverage opportunities that arise from the proposed financial industry regulatory 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 @ \$7.92b
- ✦ 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



## Half Year – Underlying Profit



	HY 2011	HY 2010	Change	FY June 10
FUA (\$b)	7.92	7.75	2%	7.43
Revenue (\$m)	12.62	13.53	(7)%	26.47
Operating Costs (\$m)	7.32	7.58	(3)%	15.73
<b>Underlying profit post tax (\$m)</b>	<b>3.50</b>	<b>3.87</b>	<b>(9)%</b>	<b>7.64</b>

## Underlying Profit Reconciliation



	HY 2011	HY 2010	Change
<b>Statutory profit (NPAT) (\$m)</b>	<b>3.73</b>	<b>3.87</b>	
Write Back (\$m)*	0.24	-	
<b>Underlying profit (\$m)</b>	<b>3.50</b>	<b>3.87</b>	<b>(9)%</b>

\*The write back of \$241m is the reversal of prior impairments to Equity Partners

# Platform Solutions



	HY 2011	HY 2010
Revenue	\$8.11m	\$8.21m
EBIT	\$6.70m	\$6.80m
FUA	\$6.70b	\$6.57b

## Division Overview:

Division sources and manages the distribution of platforms to wealth management practices.

Platforms create efficiencies in the management of investment and superannuation portfolios.

Practices benefit by accessing cost effective platforms for their clients and ongoing integration support from DKN.

## Commentary:

- ✦ Positive platform net inflows \$221m for HY11
- ✦ Investor confidence negatively impacting new flows
- ✦ Pending legislative reforms impacting on Practice focus and growth
- ✦ In excess of \$5.5bn with BT Financial Group packaged platforms
- ✦ Approx \$1bn through IOOF sourced platforms

# Product Solutions



	HY 2011	HY 2010
Revenue	\$ .81m	\$ .82m
EBIT	\$ .60m	\$ .41m
FUA	\$1.22b	\$1.18b

## Division Overview:

DKN utilises its distribution capabilities to facilitate the relationship between investment and insurance providers and DKN's associated practices.

## Commentary:

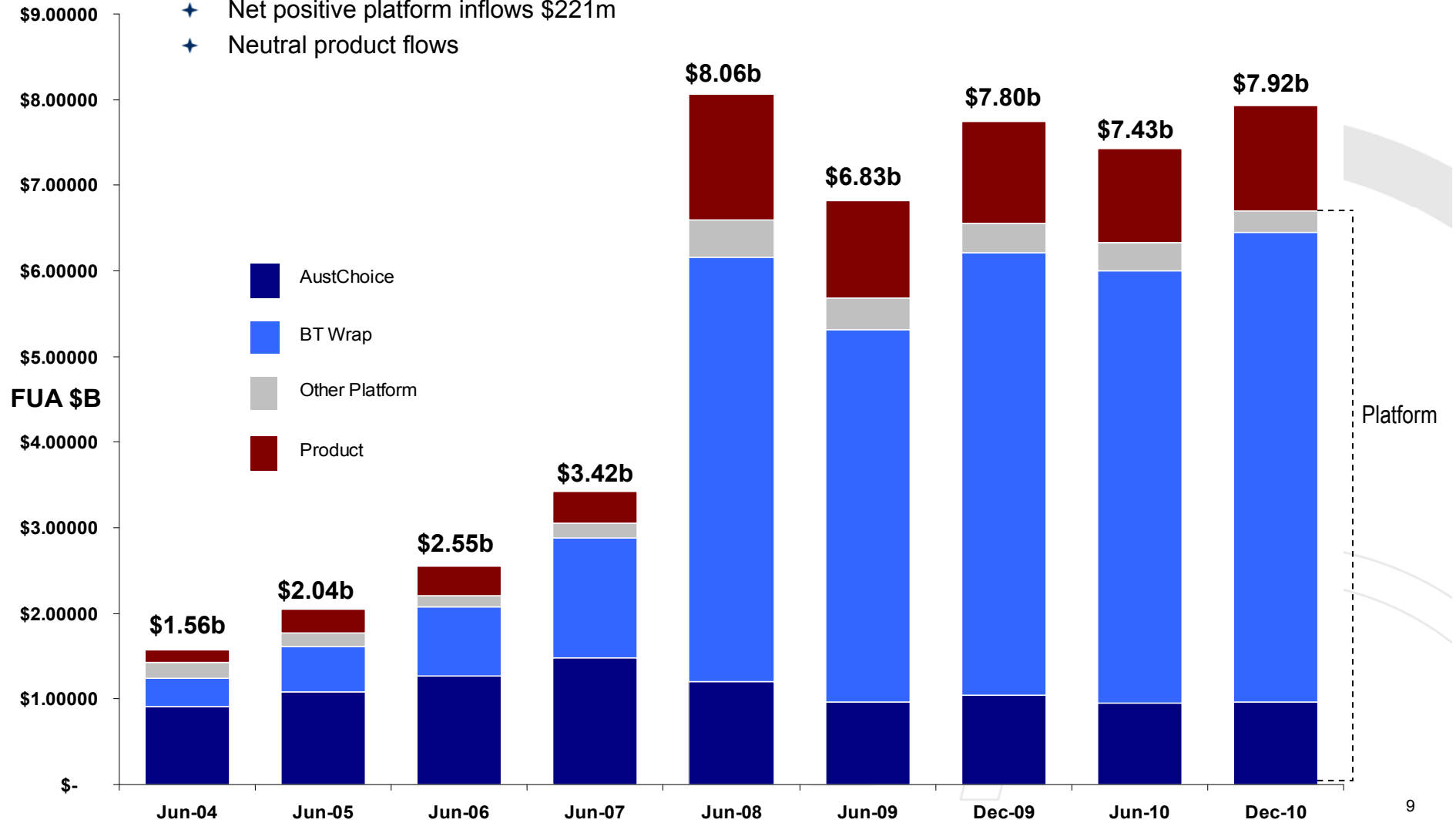
- ✦ Reduced margin due to high use of cash products
- ✦ Cost re-allocations with other divisions has also impacted this EBIT

# FUA Update



6 Months from June 2010:

- ✦ FUA up 6.5%
- ✦ Net positive platform inflows \$221m
- ✦ Neutral product flows



# FUA Asset Composition



## ✦ Markets for the 12 Months to 31 December 2010:

- ✦ Australian S&P ASX 300 up 1.90%\*
- ✦ Australian Listed Property down 0.68%\*
- ✦ International down 1.44%\*

\*Source Lonsec

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

- ✦ Australian shares 43%
- ✦ International Shares 13%
- ✦ Property 4%
- ✦ Fixed Interest 7%
- ✦ Diversified 12%
- ✦ Cash 20%

As at 31 December 2010

## FUA – Net Flows



	<b>HY 2011 (\$m's)</b>	<b>FY 2010 (\$m's)</b>	<b>FY 2009 (\$m's)</b>	<b>FY 2008 (\$m's)</b>
Platform Net Flows	221	525	348	936
Product Net Flows	-	(25)	(46)	55
<b>Total Net Flows</b>	<b>221</b>	<b>500</b>	<b>302</b>	<b>991</b>

	HY 2011	HY 2010
Revenue	\$2.82m	\$3.67m
EBIT	(\$0.07m)	\$0.05m
Associated Practices	111	108

### Division Overview:

Lonsdale provides the necessary operational framework for a wealth management practices to function in a compliant and efficient manner. This enables them to deliver quality services and advice to their clients.

### Commentary:

- ✦ Attracted 3 net new Associate Practices representing 10 new Lonsdale Authorised Representatives
- ✦ Division is on target to generate a small profit for the full year. Lower revenue is associated with changing accounting treatment and timing.
- ✦ Key focus has been to assist all Associated Practices to be 'Reform Ready'

# Equity Partners



	Carrying Value	Post Tax Profit Contribution HY 2011	Post Tax Profit Contribution HY 2010
All Practices	\$12m	\$0.22m	\$0.40m

## Division Overview:

Division acquires equity positions in wealth management practices to generate a return on investment through profit share and the practice support of the DKN associated services (i.e. platforms).

## Commentary:

- ✦ Revenue from the underlying investments is reflective of the 2010HY however the Division revenue contribution is down due to reduced interest income from loans to advisors (capital repaid)
- ✦ Transaction costs for the Division increased by approximately \$100k due to legal and professional expenses associated with completed and pending transaction activity
- ✦ Annualised return on carrying value (post tax) from the investments is 13% including profit share and returns from support of DKN associated platforms
- ✦ All Equity Partners are expecting growth in the second half.

# DKN Competitively Positioned



## Barriers to Entry:

- ✦ Aligning quality practices to support the Group services – DKN has @ 300
- ✦ Scale in platform offering – DKN has @ \$6.70b
- ✦ 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 Strategies - Context



- ✦ 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
- ✦ The industry is adapting and reforming as a result of influences arising from the GFC, media focus and regulatory change
- ✦ 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 '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 to support growth initiatives
- ✦ Leverage position of scale with selected core suppliers
- ✦ Respond positively to regulatory changes

## Condensed Balance Sheet HY 2011



	HY 2011 \$m	HY 2010 \$m
<b>Current Assets</b>	10.61	20.72
<b>Non-Current Assets:</b>		
Investments	12.06	10.29
Intangible Assets	134.94	134.91
Other	1.58	1.46
<b>Total Assets</b>	<b>159.19</b>	<b>167.38</b>
<b>Current Liabilities</b>	2.68	13.27
<b>Non-current Liabilities</b>	8.97	7.95
<b>Total Liabilities</b>	<b>11.65</b>	<b>21.22</b>
<b>Net Assets</b>	<b>147.54</b>	<b>146.16</b>

## Capital Structure HY 2011



	Shares Held (m)	%
Zurich	44	31%
IOOF	26	18%
Remainder of Top 20 Shareholders	48	33%
Other Shareholders	26	18%
<b>Total Shares on Issue</b>	<b>144</b>	<b>100%</b>
Options	13.2	

## 2011 Guidance

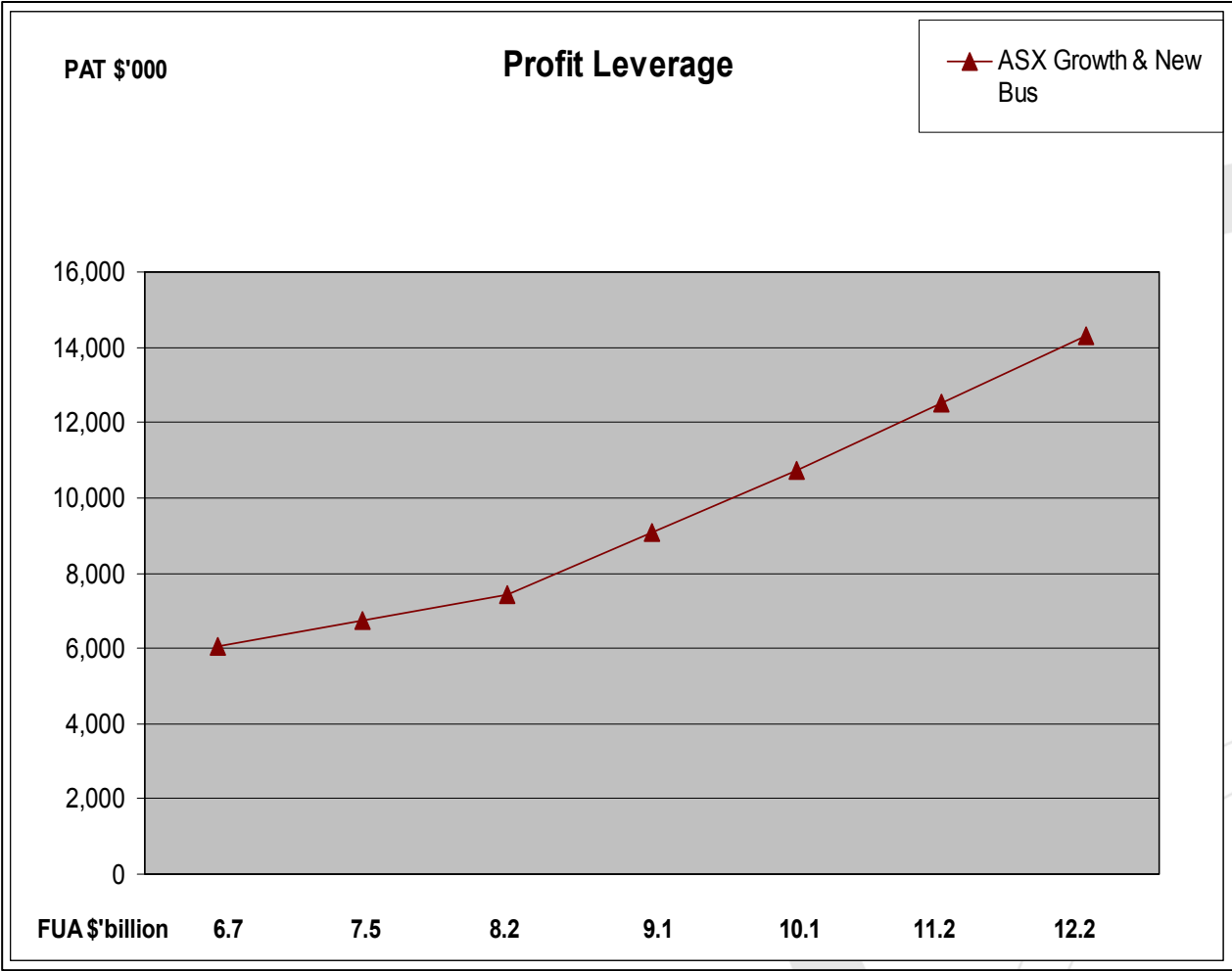


Subject to maintaining current levels of net flows, stable markets and no impairments, DKN expect to deliver an underlying profit in excess of the reported results for the 2010 financial year.

# 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

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