WALKERCRIPS GROUP PLC

News Release

Walker Crips Group plc

Steady growth and significant investment for future development

Walker Crips Group plc ("Walker Crips", the "Company" or the "Group"), the financial services group, with activities covering stockbroking, investment and wealth management services, announces audited results for the year ended 31 March 2016.

Highlights

- Group revenues increased by 13.5% to £26.1 million (2015: £23.0 million)
- Gross profit (net revenues) increased by 15.0% to £17.6 million (2015: £15.3 million)
- Operating profit, before exceptional expenses, up 20.4% to £0.65 million (2015: £0.54 million)
- Exceptional costs of £0.8 million incurred in upgrade of client information and communication systems
- One-off gain of £0.9 million on sale of Euroclear shares
- Reported pre-tax profit more than doubled to £0.94 million (2015: £0.44 million)
- Non-broking income as a percentage of total income increased to 61.8% (2015: 56.3%), reflecting further reduction in reliance on transaction-driven commission revenue
- Discretionary and advisory assets under management increased by 15.0% to a high of £2.3 billion (2015: £2.0 billion)
- Proposed final dividend increased by 8.5% to 1.27 pence per share (2015: 1.17 pence per share) bringing total dividends for the year to 1.85 pence per share (2015: 1.70 pence per share)

David Gelber, Chairman, Walker Crips, says:

"We continue to achieve substantial growth and to refine our strategy and business model to make further strides towards attaining our long-term strategic goals. Against a background of difficult markets, we have striven to set higher regulatory standards and client service levels as we deliver our strategy for growth.

"At a macro level the extent of the economic and political instability created by Brexit is difficult to predict. In addition, at a micro level, we face significant demands from continuing regulatory initiatives and their associated costs over the next 18 months.

"We will monitor diligently the impact of these factors and will react promptly as we consider appropriate. Nonetheless, despite these challenges, we consider that it is our emphasis on integrity, service and good customer outcomes which will drive our public profile and competitive positioning to deliver underlying stability and growth in the next phase of the Group's development."

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Further information on Walker Crips Group is available on the Company's website: www.wcgplc.co.uk

Chairman and Chief Executive’s Statement

Performance overview

It is pleasing to report that despite the particularly difficult markets in the second half of the year a rise in revenue of 13.5% to a record £26.1 million for the current full year has driven the strong increase in profit before tax and exceptional items to £0.8 million, an increase of 20% reflecting the continuing impact of our strategy for growth. After including exceptional costs, profits on disposal of available-for-sale investments and net investment income, profit before tax has more than doubled to £0.9 million (2015: £0.4 million).

Dividend / earnings per share

In recognition of this year's further progress the Board is recommending an 8.5% increase in the final dividend to 1.27 pence per share (2015: 1.17 pence per share) reflecting its continued confidence in the Group's long-term prospects.

Combined with the interim dividend of 0.58 pence per share (2015: 0.53 pence per share), this makes a higher total dividend for the year of 1.85 pence per share (2015: 1.70 pence per share), an 8.8% increase, made possible by the 20% increase in pre-exceptional operating profit before tax.

The final dividend will be paid on 12 August 2016 to shareholders on the register at the close of business on 29 July 2016.

Earnings per share for the year were 2.11 pence (2015: 0.69 pence) which includes the effect of the one-off gain on sale of our Euroclear shares.

Strategy

We have continued to advance the delivery of our strategy for growth and have consolidated the progress we have made over the previous three years whilst preserving our healthy cash balance as a buffer for unforeseen events which may lie ahead in these turbulent times.

The delivery of personal investment management advice remains at the core of our approach.

In particular, alongside our focus on growing the discretionary and fee-paying portion of the business, there have been opportunities which have been taken to capitalise on our larger competitors' reluctance to continue offering the more heavily regulated and costly advisory component of our proposition to clients.

Exceptional costs

During the second half of the year our Executive Directors and investment managers have, with the assistance of external advisers, been heavily engaged in a major upgrading of our systems and our record-keeping to meet our own rising regulatory standards and those seen across our sector.

This has led to a significant redefinition of the way in which we communicate with our substantial client base with a much greater use of technology. We are moving forward to complete this exercise next year. The outcome is intended to reinforce our current offering to our clients by first building and maintaining a deeper understanding of each client's circumstances and thus the suitability of the service being provided.

We are hugely appreciative of our clients' understanding throughout this time-consuming, but important process. We firmly believe it will underpin our future prosperity with a stronger foundation to ensure a Company-wide emphasis on achieving good client outcomes in a manner aligned with our culture.

The decline from operating profits last year to an operating loss this year is due to: the exceptional costs associated with these changes and improvements; and, to some extent, the consequence of the inevitable diversion away from new business generation.

Disposal of available-for-sale investment

In December 2015, the Group took the opportunity of participating in a corporate buy-back programme and disposed of its holding of 1,809 shares in Euroclear plc, a relatively illiquid investment which had been held since February 2000, for a cash consideration of £1,017,000, crystallising a gain on disposal of £942,000.

Operations

Encouragingly, following its acquisition in March 2015, Barker Poland Asset Management (BPAM) has made its first full contribution to our results above expectation which has helped our stated aim of materially increasing the proportion of our revenues earned as fees, rather than through transaction-driven commissions. This is a key performance indicator reflecting the changing shape of the business from traditional stockbroking to an integrated investment and wealth management model.

Despite an increase in administrative expenses, a material proportion of which relate to

the development and growth of acquired businesses, as well as a 30% increase in our Financial Services Compensation Scheme (FSCS) levy and a one-off property cost provision of £132,000 relating to the change of ownership and premature forthcoming termination of the lease of our London head office, costs were strictly monitored and headcount largely restricted to incoming revenue earners and their support teams.

The uncontrollable costs levied by the FSCS of £402,000 (2015: £310,000) are an indication of the costs of absorbing a share of losses incurred by failed competitors.

Investment Management

The Company's assets under management have continued growing to unprecedented levels in a climate in which portfolio valuations have been affected by market uncertainty and substantial falls in some sectors of the FTSE 100 and other major indices.

We recognise the growing importance of scale which gives clients and market participants some degree of reassurance of the security of their assets as well as confidence in the strength and stability of the organisation. With total Assets under Management and Administration (AUMA) at the year end standing at a high of £4.1 billion (31 March 2015: £3.8 billion), despite declines in equity markets, our target of £5 billion AUMA by 2018 is within reach, with £10 billion being a potential milestone over the next ten years.

Discretionary and Advisory assets under management (AUM) at the year end were £2.3 billion (31 March 2015: £2.0 billion), reflecting the inflows from the clients of new advisers and investment managers and the longer term revenue benefits of our asset gathering strategy alongside transactional brokerage. Commission income from broking remained stable, whilst Investment Management fees increased by 30.6% to £13.6 million (2015: £10.4 million).

Gross revenues from the Investment Management division increased by 14.8% during the period to £23.6 million (2015: £20.6 million), another marked improvement and clear demonstration that the scope for additional expansion continues to be a realistic prospect.

Further boosts to the ISA regime were provided by the last budget with the addition to the ISA product stable of another savings product called the Lifetime ISA (LISA) and the increase in the subscription allowance to £20,000 for April 2017. Investors and savers of all age groups now have much greater flexibility ensuring "cradle to grave" access to ISAs, and the ISA AUM grew by 4.2% to over £600 million. The forthcoming additional tax-efficient transferability allowances will also encourage inherited funds to remain invested under our management.

The Structured Investments team has continued to broaden its intermediary client base and increase assets under management over the financial year. Our competitive range of structured investment products continues to garner strong demand amongst financial advisers and their clients. With the addition of new product lines we anticipate another strong contribution from this key offering over the coming year.

Wealth Management

Our innovative Wealth Management division, run from York, continues to be driven by focused management and a competent team of advisers, who provide a committed, high quality service to its widening client base.

Complementing this division and also operating from York is our Pensions unit administering Self Invested Personal Pensions (SIPP) and Small Self Administered Schemes (SSAS), along with a small number of Funded Unapproved Retirement Benefit Schemes (FURBS). Importantly and despite difficult market conditions AUMA of the combined divisions (an increasingly significant measure) increased to £501 million (2015: £495 million).

Turnover across both divisions remained stable; however, strong headwinds including a large increase in regulatory fees, combined with provision for potential claims and increased non-recurring costs and investment in the back and mid-office support functions, led to a decrease in profitability for this sector of the business.

Looking ahead there are sound reasons for optimism with revenue boosted by several initiatives and a stronger level of work in progress in the opening weeks of the new year.

Regulation

Preparations are well underway to meet the challenges posed by the MiFID II initiative. We continue to fully support and reinforce the Financial Conduct Authority (FCA) guidance on its drive to ensure advice given to clients by our account executives is suitable and properly recorded. Our culture of serving clients in their best interests is well established in our DNA as we continue to strive to deliver good customer outcomes.

Statement of financial position

As at 31 March 2016, the Group maintained a steady level of net assets of £20.6 million (2015: £20.9 million), including net cash of £7.2 million (2015: £6.5 million).

Going concern

The Group continues to maintain a robust financial position. Having conducted detailed cash flow and working capital forecasts and appropriate stress-testing on liquidity, profitability and regulatory capital, taking account of possible adverse changes in trading performance, the Board has sufficient grounds to believe the Group is well placed to manage its business risks adequately, and that it will be able to operate within the level of its current financing arrangements and regulatory capital limits. Accordingly, the Board continues to adopt the going concern basis for the preparation

Viability Statement

The Directors have assessed the outlook of the Company over longer periods than the twelve months required by the "Going Concern" statement in accordance with the 2014 UK Corporate Governance Code.

The Directors' assessment has been made with reference to the historic resilience of the Group, strong cash flows, its current strategy, the Board's risk appetite and the Group's principal risks and how these are managed.

The assessment relied on the Group's annual 21 month budget, a three year stress-tested forecast of profitability, cash flow and regulatory capital and its Internal Capital Adequacy Assessment Process (ICAAP) which incorporates an evaluation of the Group's principal risks and uncertainties, including those that would threaten its business model, future performance or solvency.

In addition, in light of the decision for Britain to leave the European Union following the recent referendum, the directors have also considered the impact of this event on its ability to continue as a Going Concern as well as other areas of risk where critical accounting judgements and estimation uncertainty have been considered.

Following this assessment, the Directors have concluded that the Viability Statement should cover a period of three years. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period from its review of its five year forecasts, this period has been chosen because a three year time horizon has a much greater degree of certainty and thus provides a more appropriate longer-term outlook in our potentially volatile investment sector.

Taking account of the Group's current position and principal risks, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years.

Directors, account executives and staff

After another year of increasing numbers of revenue generators and the absorption of their additional investment business, through transfers of clients and their assets, we would like to thank all our fellow Directors, investment managers and advisers, and members of our operations team for their continuing hard work and diligence in shouldering this burden.

Management have worked hard to continue increasing the level of communication with our personnel to impart up-to-date information and encourage feedback whilst re-emphasising the culture and behaviour essential to the core values of the Company. Integrity, courtesy, fairness, diligence, responsibility and loyalty make it an appealing firm for prospective clients and professionals to join.

Annual General Meeting

This year’s Annual General Meeting will be held at the South Place Hotel, 3 South Place, London EC2M 2AF on 3 August 2016 at 11.00 a.m.

Outlook

We continue to achieve substantial growth and to refine our strategy and business model to make further strides towards attaining our long-term strategic goals.

Against a background of difficult markets, we have striven to set higher regulatory standards and client service levels as we deliver our strategy for growth.

Trading activity in the opening weeks of the new financial year has been quiet and your Board correspondingly looks to the immediate future with cautious optimism.

At a macro level the extent of the economic and political instability created by Brexit is difficult to predict. In addition, at a micro level, we face significant demands from continuing regulatory initiatives and their associated costs over the next 18 months.

We will monitor diligently the impact of these factors and will react promptly as we consider appropriate. Nonetheless, despite these challenges, we consider that it is our emphasis on integrity, service and good customer outcomes which will drive our public profile and competitive positioning to deliver underlying stability and growth in the next phase of the Group's development.

David Gelber Chairman	Rodney FitzGerald FCA Chief Executive Officer

30 June 2016

Consolidated income statement

Year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Continuing operations			
Revenue	6	26,070	22,994
Commission payable		(8,433)	(7,653)
Gross profit		17,637	15,341
Share of after tax profits of joint ventures		10	13
Administrative expenses – other		(16,996)	(14,810)
Administrative expenses – exceptional item	3	(778)	(329)
Total administrative expenses		(17,774)	(15,139)
Operating (loss)\profit		(127)	215
Analysed as:			
Profit before tax and exceptional item		651	544
Administrative expenses – exceptional item	3	(778)	(329)
Operating (loss)\profit		(127)	215
Gain on disposal of investment	4	942	—
Investment revenues		131	225
Finance costs		(2)	(1)
Profit before tax		944	439
Taxation		(149)	(182)
Profit for the year attributable to equity holders of the Company		795	257
Earnings per share			
Basic	2	2.11	0.69
Diluted	2	2.11	0.68

Consolidated statement of comprehensive income

Year ended 31 March 2016

	2016 £'000	2015 £'000
Loss on revaluation of available-for-sale investments taken to equity	-	(88)
Reversal of revaluation of available-for-sale investments	(959)	
Deferred tax on loss on available-for-sale investments	-	28
Reversal of deferred tax charge on revaluation of available-for-sale investments	192	—
Net loss recognised directly in equity	(767)	(60)
Profit for the year	795	257
Total comprehensive income for the year attributable to equity holders of the Company	28	197

Consolidated statement of financial position

31 March 2016

	Group 2016 £'000	Group 2015 £'000
Non-current assets		
Goodwill	4,388	4,388
Other intangible assets	7,992	6,631
Property, plant and equipment	841	1,110
Interest in joint ventures	28	28
Available-for-sale investments	57	2,417
	13,306	14,574
Current assets		
Trade and other receivables	38,799	28,332
Trading investments	1,237	2,701
Cash and cash equivalents	7,257	6,635
	47,293	37,668
Total assets	60,599	52,242
Current liabilities		
Trade and other payables	(36,424)	(27,537)
Current tax liabilities	(141)	(239)
Deferred tax liabilities	(517)	(741)
Bank overdrafts	(77)	(134)
Shares to be issued	(912)	(298)
	(38,071)	(28,949)
Net current assets	9,222	8,719
Long term liability – deferred cash consideration	(1,556)	(1,930)
Long term liability – shares to be issued	(218)	(453)
Long term liability – dilapidation provision	(132)	-
Net assets	20,622	20,910
Equity		
Share capital	2,595	2,545
Share premium account	2,279	1,988
Own shares	(312)	(312)
Retained earnings	11,392	11,254
Revaluation reserve	-	767
Other reserves	4,668	4,668
Equity attributable to equity holders of the Company	20,622	20,910

Consolidated statement of cash flows

Year ended 31 March 2016

	2016 £'000	2015 £'000
Operating activities		
Cash (used)/generated by operations	(1,119)	3,806
Interest received	85	78
Interest paid	(2)	(1)
Tax paid	(120)	(337)
Net cash (used)/generated by operating activities	(1,156)	3,546
Investing activities		
Purchase of property, plant and equipment	(247)	(565)
Net sale/(purchase) of investments held for trading	1,464	(1,031)
Net sale proceeds/cost of available-for-sale investments	2,044	—
Consideration paid on acquisition of businesses	(810)	(765)
Consideration paid on acquisition of subsidiary	(13)	(1,875)
Dividends received	54	46
Net cash generated/(used) by investing activities	2,492	(4,190)
Financing activities		
Dividends paid	(657)	(958)
Net cash used by financing activities	(657)	(958)
Net increase/(decrease) in cash and cash equivalents	679	(1,602)
Net cash and cash equivalents at beginning of year	6,501	8,103
Net cash and cash equivalents at end of year	7,180	6,501
Cash and cash equivalents	7,257	6,635
Bank overdrafts	(77)	(134)
	7,180	6,501

Notes to the accounts

Year ended 31 March 2016

1. Going concern

The Group has healthy financial resources together with a long established, well proven and tested business model. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current difficult climate.

After conducting enquiries, the Directors believe that the Company and the Group have adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2. Earnings per share

The calculation of basic earnings per share for continuing operations is based on the post-tax profit for the financial year of £795,000 (2015: £257,000) and on 37,678,525 (2015: 37,017,924) Ordinary Shares of $6^{2}/_{3}$ pence, being the weighted average number of Ordinary Shares in issue during the year.

3. Administrative expenses – exceptional item

As a result of its materiality the Directors decided to disclose certain amounts separately in order to present results which are not distorted by significant non-recurring events.

	2016 £'000	2015 £'000
Short Term Lending Fund winding down costs	—	68
Costs incurred on acquisitions	—	261
Costs incurred on suitability project	**778**	—
	778	329

During the period to 31 March 2016, the Group incurred legal and professional adviser costs relating to enhancements made to the Group's regulatory control framework in relation to suitability of advice given to clients.

Towards the end of the prior year, a decision was made to wind down our Short Term Lending Fund. All investors received a full return of the sums invested. Administrative costs associated with the wind down were provided for in the prior year's results. Prior year acquisition costs are largely made up of legal and professional costs being incurred and payable on completion of the acquisition of BPAM on 6 March 2015.

4. Gains on disposal of investments

Net gains comprise:

	2016 £'000	2015 £'000
Gain on disposal of investment in Euroclear shares	942	—

During the period to 31 March 2016, the Group disposed of its holding of 1,809 shares in Euroclear plc realising a gain of £942,000.

During the period to 31 March 2015, there were no gains or losses on disposal of investments. Due to their level of materiality and one-off nature, the Board has decided to disclose these items separately.

5. Segmental analysis

For management purposes the Group is currently organised into two operating divisions – Investment Management and Wealth Management. These divisions, both of which conduct business in the United Kingdom only, are the basis on which the Group reports its primary segment information.

2016	Investment Management £'000	Wealth Management £'000	Consolidated year ended 31 March 2016 £'000
Revenue			
External sales	23,639	2,431	26,070
Result			
Segment result	987	165	1,152
Unallocated corporate expenses			(1,279)
Operating loss			(127)
Gain on disposal of investments			942
Investment revenues			131
Finance costs			(2)
Profit before tax			944
Tax			(149)
Profit after tax			795

2016	Investment Management £'000	Wealth Management £'000	Consolidated year ended 31 March 2016 £'000
Other information			
Capital additions	231	16	247
Depreciation	497	19	516
Statement of financial position			
Assets			
Segment assets	52,131	1,963	54,094
Unallocated corporate assets			6,505
Consolidated total assets			60,599
Liabilities			
Segment liabilities	39,018	543	39,561
Unallocated corporate liabilities			416
Consolidated total liabilities			39,977

2015	Investment Management £'000	Wealth Management £'000	Consolidated year ended 31 March 2015 £'000
Revenue			
External sales	20,590	2,404	22,994
Result			
Segment result	931	338	1,269
Unallocated corporate expenses			(1,054)
Operating profit			215
Investment revenues			225
Finance costs			(1)
Profit before tax			439
Tax			(182)
Profit after tax			257

2015	Investment Management £'000	Wealth Management £'000	Consolidated year ended 31 March 2015 £'000
Other information			
Capital additions	552	13	565
Depreciation	380	16	396
Statement of financial position			
Assets			
Segment assets	44,322	2,074	46,396
Unallocated corporate assets			5,846
Consolidated total assets			52,242
Liabilities			
Segment liabilities	30,532	615	31,147
Unallocated corporate liabilities			185
Consolidated total liabilities			31,332

6. Revenue

An analysis of the Group's revenue is as follows:

	2016 Broking income £'000	2016 Non-broking income £'000	2016 Total £'000	2015 Broking income £'000	2015 Non-broking income £'000	2015 Total £'000
Stockbroking commission	10,007	—	10,007	10,152	—	10,152
Fees and other revenue	—	13,632	13,632	—	10,438	10,438
Investment Management	10,007	13,632	23,639	10,152	10,438	20,590
Wealth Management	—	2,431	2,431	—	2,404	2,404
Revenue	10,007	16,063	26,070	10,152	12,842	22,994
Net investment revenue	—	129	129	—	224	224
Total income	10,007	16,192	26,199	10,152	13,066	23,218
% of total income	38.2	61.8	100.0	43.7	56.3	100.0

7. Contingent liability

The Group has received an assessment from HMRC to pay a significant sum of Income Tax and National Insurance plus interest. The assessment relates to moneys apparently paid to two of its former fund managers arising out of their employment with Walker Crips Asset Managers Limited (WCAM), a former wholly-owned subsidiary of the group which was sold on 12 April 2012.

The Directors believe that the amount assessed may relate to subsequent payments made to the two WCAM Managers by the purchasers of WCAM, a transaction in which the Group was not involved. Under the terms of the Sale and Purchase Agreement of 12 March 2012, the purchaser is considered by the Directors to be ultimately liable for any tax arising in respect of any such payments made to the Manager.

A successful appeal to postpone any tax payable has been made whilst a more detailed investigation is being undertaken. In the opinion of the Directors, there is insufficient information at the date of these financial statements to allow the Board to conclude that a liability exists at 31 March 2016. They have therefore made no provision in these financial statements in respect of this matter.

8. Basis of preparation of financial statements

The financial information set out in these financial statements does not constitute the Group's statutory accounts for the years ended 31 March 2016 and 2015.

The statutory accounts for 31 March 2016 to which these non-statutory accounts relate have not been delivered to the registrar of companies.

The auditor's report has been signed and was unqualified.

This preliminary announcement is based on the Group financial statements which are prepared in accordance with IFRS.