

COLLINS ♦ STEWART ♦ TULLETT

Interim Results 2004

September 2004

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Overview

- ❑ First “clean” results of Collins Stewart and Tullett Liberty
- ❑ Pro forma operating profit* up 9% to £46.9m and overall margin up to 17.1% (2003:15.5%)
- ❑ Tullett Liberty margin 13.4% (2003 : 11.8%)
- ❑ 79% of group’s turnover and 62% of group’s operating profit* from IDB business
- ❑ Pro forma EPS* up 20%
- ❑ Interim dividend up by 10% to 2.75p
- ❑ Credit ratings obtained and issued subordinated Eurobond
- ❑ Announced today proposed acquisition of Prebon

* before goodwill amortisation and exceptionals

Collins Stewart Tullett Statutory Results

	H1 2004 £m	H1 2003 £m	FY 2003 £m
Turnover	274.7	196.1	473.9
Operating profit before goodwill & option charge	49.8	35.1	77.8
Operating profit before goodwill	46.9	33.9	75.3
Profit before taxation	39.4	27.7	66.9
Profit after tax	21.7	14.8	38.2
Profit attributable to ordinary shareholders	21.2	13.9	37.6
EPS before goodwill amortisation & exceptionals	16.2p	12.4p	27.3p
Dividend per share	2.75p	2.5p	7.75p

Note: statutory figures, include Tullett Liberty results from 10th March 2003

Collins Stewart Tullett Proforma Results

	H1 2004 £m	H1 2003 £m	FY 2003 £m
Turnover	274.7	277.5	555.3
Operating profit before goodwill & option charge	49.8	44.3	87.2
Operating profit before goodwill	46.9	43.1	84.7
Profit before taxation	39.4	35.1	74.7
Profit after tax	21.7	18.1	41.9
Profit attributable to the ordinary shareholders	21.2	17.1	41.2
EPS before goodwill amortisation & exceptionals	16.2p	13.5p	28.4p
Operating profit margin	17.1%	15.5%	15.3%

Note: these pro forma figures assume that Tullett Liberty was acquired and the CS preference shares were redeemed on 1st January 2003 per Appendix 2 of Interim results 30 June 2004

Acquisition of Prebon

Transaction Summary

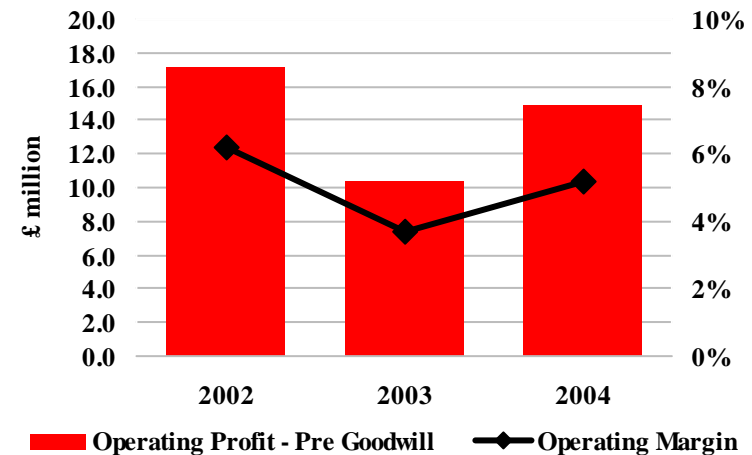
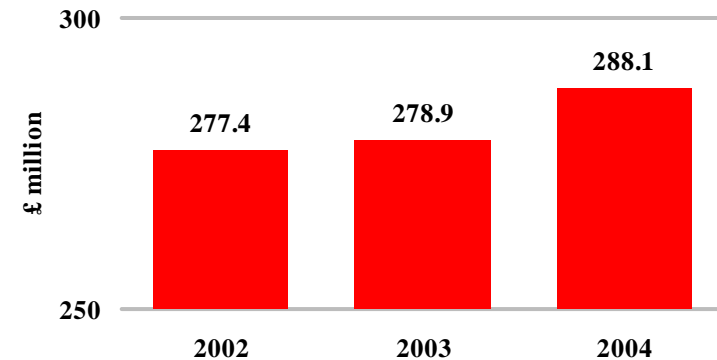
- ❑ CST to acquire Prebon, the fourth largest inter-dealer broker
- ❑ In line with stated strategy to consolidate and strengthen CST's position in the IDB market
- ❑ Enterprise value of £125.3 million⁽¹⁾ :
 - £69.5 million equity value
 - £55.8 million debt⁽¹⁾ to be assumed or repaid on completion
- ❑ Acquisition of Prebon equity funded through cash payment of £49.6 million and issue of £19.9 million of new CST shares to the vendors
- ❑ Fully underwritten equity placing of £55 million to meet the Group's Tier 1 capital requirement
 - Equity placing conditional on acquisition proceeding

Note

1 At 31 August 2004; debt at completion may vary depending on fx rates and accrued interest; does not include Prebon cash

Overview of Prebon

- Grown through a series of transactions in 1980s and 1990s which brought together, inter alia, the Fulton, Babcock & Brown and Marshall broking businesses
- Development of product offering and geographic representation through 1990s
- Association with Yamane of Japan led to Prebon Yamane becoming main trading name
- Today, Prebon is fourth⁽¹⁾ largest IDB
- After reporting losses in 2001, has traded profitably for the last three years
- Revenues of £288.1 million and operating profit of £14.9 million^(2, 3)



Note

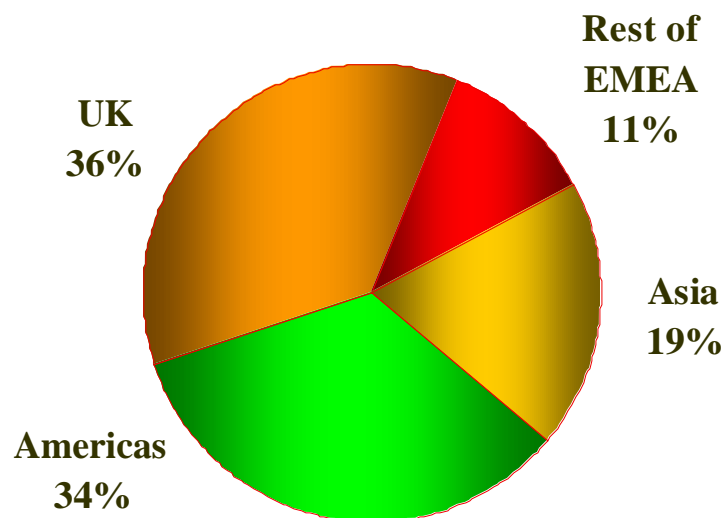
1 By revenues

2 In 12 months to 31 March 2004

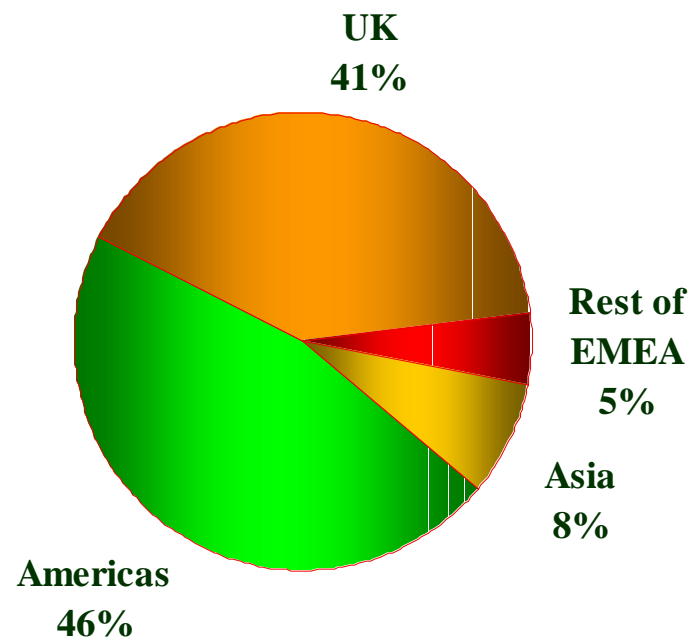
3 Continuing activities and including Mawlaw Group businesses; pre goodwill

Revenues by Geography

Prebon⁽¹⁾



Tullett Liberty⁽²⁾



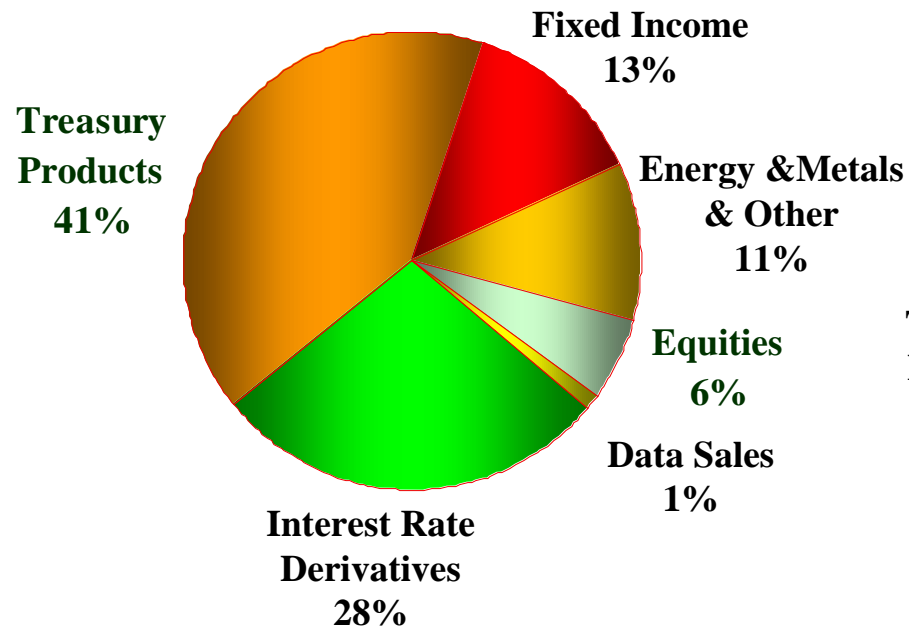
Note

1 For 12 months to 31 March 2004 including Mawlaw Group businesses

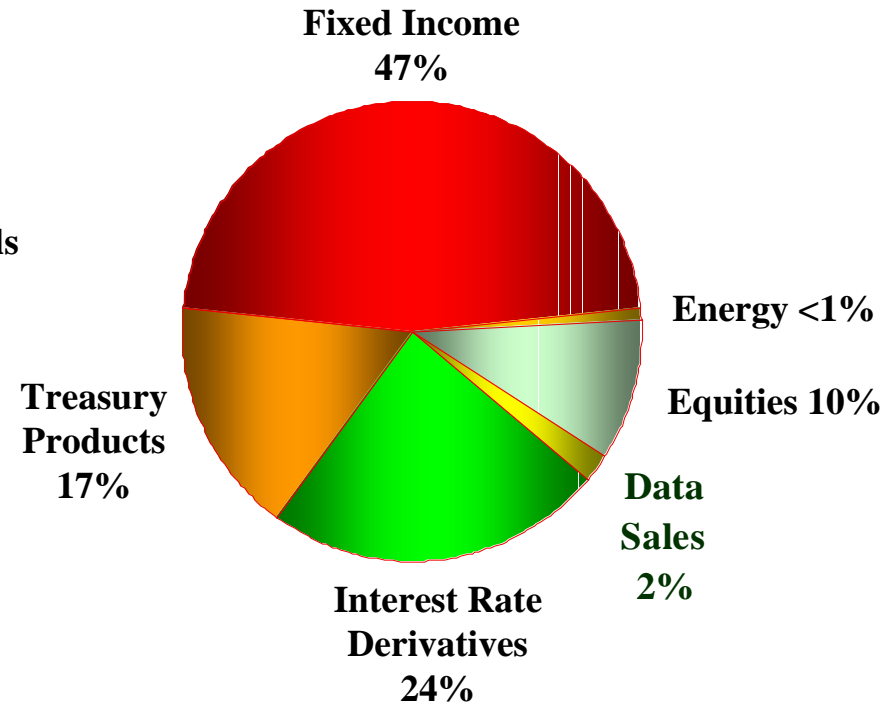
2 For 12 months to 31 December 2003

Revenues by Product

Prebon⁽¹⁾



Tullett Liberty⁽²⁾



Note

1 For 12 months to 31 March 2004 including Mawlaw Group businesses

2 For 12 months to 31 December 2003

Comparison with Sector

Company	Turnover (£m)	Operating Margin ⁽¹⁾	Turnover/Employee £'000	Staff Cost/Turnover
ICAP	801.4	20.1%	280.2	59%
Tullett Liberty	427.4	10.1%	244.6	68%
Tradition	357.7	7.8%	195.5	69%
Prebon	288.5	5.2%	173.3	71%
GFI	161.6	10.3%	241.8	63%
eSpeed	95.2	34.0%	284.1	23%

Note

1 Pre goodwill

Acquisition Rationale

Overview

- ❑ Experienced management team to implement detailed integration plan

- ❑ Creation of a larger counterparty able to offer customers:
 - A greater breadth of product coverage
 - Deeper pools of liquidity
 - Enhanced geographical coverage

- ❑ Improve margins at Prebon

Acquisition Rationale

Forecast Financial Impact

- ❑ Pre-tax cost savings of £60m p.a. forecast by 2006 through:
 - Leveraging single operating IT and communications platforms
 - Integration of back office functions
 - Closure of relatively underperforming desks within both Tullett Liberty and Prebon
 - Removal of overlapping support and management functions
- ❑ Cost savings equal to 9% of combined Tullett Liberty & Prebon cost base⁽¹⁾
- ❑ Modest reduction in aggregate revenues
- ❑ Operating margins targeted to improve
- ❑ One-off pre-tax restructuring costs of £80m, expected to be incurred by end 2005

Note

1 Based on year to 31 December 2003 for Tullett Liberty and year to 31 March 2004 for Prebon

Funding Details

Acquisition		Funding	
Equity	69.5	Vendor Shares	19.9
Debt	<u>55.8</u>	Placing	<u>55.0</u>
Enterprise Value	125.3	Tier 1 Capital	74.9
Reorganisation Costs ⁽¹⁾	56.0	Own Resources	113.4
Transaction costs	7.0		
	<u>188.3</u>		<u>188.3</u>
	<u><u>188.3</u></u>		<u><u>188.3</u></u>

Note

1 After tax relief @ 30%

Impact on Group Regulatory Capital

	Current	Goodwill on Acquisition	New Shares	Post Acquisition
Tier 1 Capital	110.0	(121.6)	74.9	63.3
Tier 2&3 Capital ⁽¹⁾	165.0			165.0
Financial Resources	275.0	(121.6)	74.9	228.3

- ❑ Financial resources enhanced by Eurobond
- ❑ Equity required to maintain Tier 1 : Tier 2 & 3 ratios
- ❑ Financial resources requirement increases post acquisition
- ❑ Group has retained appropriate “excess” capital

Note

1 After subordinated eurobond and repayment of existing debt facilities

Expected Timetable⁽¹⁾

- ❑ **26 May** Heads of Agreement signed
- ❑ **24 Sep.** Announcement of:
 - Prebon acquisition
 - CST interim results
 - Equity placing
- ❑ **12 Oct.** CST EGM
Competition and regulatory clearances expected by this time
- ❑ **13 Oct.** Admission of new shares to listing
Settlement
- ❑ **13 Oct.** Completion of acquisition

Note

1 These expected dates might be modified if necessary

Tullett Liberty

Tullett Liberty Results

	H1 2004 £m	H1 2003 £m	FY 2003 £m
Turnover	216.4	220.8	427.4
Operating profit before goodwill & option charge	30.1	26.1	43.2
Operating profit before goodwill	29.0	26.1	43.2
Pre-tax profit (Note 1,2)	27.4	21.0	42.6
Profit after tax	15.5	9.4	22.8
Operating profit margin	13.4%	11.8%	10.1%
Effective tax rate (Note 3)	41.3%	44.4%	40.7%

Results are full year pro-forma

Note 1: Including share of profits/(losses) in associates, exceptional items and profits on sale of businesses

Note 2: Excluding goodwill amortisation arising on the purchase of Tullett Liberty by Collins Stewart Tullett plc

Note 3: Pre goodwill amortisation and costs relating to the acquisition of Tullett Liberty but after profits / (losses) from disposals

Regional Analysis of Turnover

	H12004 £m	H12003 £m	FY2003 £m
Europe	103.4	100.3	194.3
North America	93.6	102.1	196.5
Asia Pacific	19.4	18.4	36.6
	216.4	220.8	427.4

Breakdown of Turnover/Margin by Activity

	H12004		H12003		FY2003	
	Turnover £m	Margin	Turnover £m	Margin	Turnover £m	Margin
Securities Broking	115.3	11.6%	127.0	12.2%	240.4	9.3%
Derivatives, Energy & Money Broking	97.0	15.2%	89.5	11.4%	179.1	10.6%
Information Sales	4.1	22.0%	4.3	9.3%	7.9	24.0%
	216.4	13.4%	220.8	11.8%	427.4	10.1%

Collins Stewart

Collins Stewart Results

	H12004 £m	H12003 £m	FY2003 £m
Turnover	58.3	56.7	127.9
Operating profit pre goodwill & option charge	19.7	18.2	44.0
Operating profit pre goodwill	17.9	17.0	41.5
Pre-tax profit (<i>Notes 1,2</i>)	15.6	13.8	35.3
Profit after tax	9.7	8.3	22.2
Operating profit margin (<i>Note 3</i>)	30.7%	30.0%	32.4%

Note 1 : Excludes goodwill amortisation arising on purchase of Tullett Liberty

Note 2: Assumes all head office overheads are borne by Collins Stewart

Note 3 : Pre goodwill amortisation

Breakdown of Turnover by Divisions

	H12004 £m	H12003 £m	FY2003 £m
Turnover			
Small to Medium Companies	22.0	27.6	64.9
Larger Companies	13.7	13.5	25.2
Investment Trusts	3.5	2.1	6.7
Fixed Interest	2.7	1.9	3.5
Private Clients	16.4	11.6	27.6
	<u>58.3</u>	<u>56.7</u>	<u>127.9</u>

Breakdown of Turnover by Activity

	H12004 £m	H12003 £m	FY2003 £m
Turnover			
Market Making	7.2	6.0	13.0
Commissions	25.2	21.4	44.6
Corporate Finance	18.9	24.6	59.2
Management Fees	6.9	4.6	10.8
Other	0.1	0.1	0.3
	<u>58.3</u>	<u>56.7</u>	<u>127.9</u>

Collins Stewart Tullett

Balance Sheet

	Jun 04 £m	Dec 03 £m
Goodwill	276.9	282.2
Other fixed assets	31.6	35.3
Net funds (cash & cash equivalents less debt)	106.7	183.5
Net creditors	(2.8)	(106.5)
Net assets	412.4	394.5
Share capital/premium	246.5	243.2
Merger reserve ⁽¹⁾	100.4	100.4
Profit and loss account	61.2	43.3
Shareholders Funds	408.1	386.9
Equity minority Interests	4.3	7.6
	412.4	394.5

Note: (1) Merger reserves arise from acquisition of Tullett Liberty when CST plc issued new shares.

Analysis of Net Funds

	Jun 04 £m	Dec 03 £m
Net cash	88.1	176.8
Loan notes due within 1 year	(1.3)	(1.3)
Loans due within 1 year	(8.8)	(8.3)
Loans due after 1 year	(38.4)	(43.2)
Finance lease/hire purchase	(2.6)	(3.2)
	(51.1)	(56.0)
Current asset investments	69.7	62.7
Net Funds	106.7	183.5

Subordinated Eurobond

- ❑ Investment grade ratings received from both Moodys & Fitch
- ❑ £150m subordinated eurobond issue in August
- ❑ Coupon – 8.25% fixed
- ❑ Maturity 12 August 2014, callable by CST on 12 August 2009
- ❑ Eligible as regulatory capital
- ❑ Existing borrowings of £47.6m repaid, as at USD exchange rate on 30 June 2004

Interim Results 2004

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