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Mattioli Woods PLC
02 September 2020

**2 September 2020**

# Mattioli Woods plc

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

## Final results

Mattioli Woods plc (AIM: MTW.L), the specialist wealth management and employee benefits business, today reports its final results for the year ended 31 May 2020.

### Financial highlights

- Revenue up 1.6% to £58.4m (2019 restated: £57.5m)
- Recurring revenues[1,2] represent 92.1% (2019 restated: 90.0%) of total revenue
- Operating profit before financing up 38.7% to £12.9m (2019 restated: £9.3m):
  - Significantly ahead of expectations at start of the year
  - Reflects action taken to protect financial position in light of COVID-19, including rebasing executive salaries, not paying bonuses and close management of fixed and discretionary spend
- Adjusted EBITDA[2,3] up 34.0% to £18.9m (2019 restated: £14.1m):
  - Adjusted EBITDA margin[4] of 32.4% (2019 restated: 24.5%)
- Profit before tax up 36.7% to £13.4m (2019 restated: £9.8m)
- Adjusted profit before tax[2,5] up 33.9% to £15.8m (2019 restated: £11.8m)
- Basic EPS up 29.0% to 37.8p (2019 restated: 29.3p)
- Adjusted EPS[2,6] up 34.4% to 47.7p (2019 restated: 35.5p)
- Proposed final dividend of 12.7p (2019: 13.67p), giving a total dividend of 20.0p (2019: 20.0p)
- Strong financial position, with £26.0m (2019: £23.2m) of cash at year end

1 Annual pension consultancy and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual management charges.
2 This is an alternative performance measure ("APM") the Group reports to assist stakeholders in assessing performance alongside the Group's results on a statutory basis. APMs may not be directly comparable with other companies' adjusted measures and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in the Alternative performance measure workings section of this report.
3 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).
4 Adjusted EBITDA divided by revenue.
5 Definition amended to no longer add-back non-cash interest on provisions, following adoption of IFRS 16. Now calculated as profit before tax, adding back amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and acquisition-related costs.
6 Adjusted profit after tax used to derive adjusted EPS is calculated as adjusted profit before tax less income tax at the standard rate of 19.0% (2019: 19.0%).

### Operational highlights and recent developments

- Total client assets of the Group and its associate[7] of £9.3bn (2019: £9.4bn)
- Gross discretionary AuM[2,8] of £2.6bn (2019: £2.6bn), with net inflows of over £200m in year
- Primarily fee-based revenue profile is less sensitive to market movements
- Improved operational efficiency pre and post COVID-19
- Delivered an uninterrupted service to clients during COVID-19
- Building capacity to enhance existing client service and drive future growth
- Continued investment in technology, compliance and training
- Recent acquisitions performing and integrating well
- Strategic acquisition of Hurley Partners Limited completed post year end

7 Includes £515.8m (2019: £409.0m) of funds under management by the Group's associate, Amati Global Investors Limited, excluding £54.1m (2019: £31.9m) of Mattioli Woods' client investment and £11.5m (2019: £11.9m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.
8 Includes £510.2m (31 May 2019: £452.8m) of funds under management by Amati Global Investors Limited, including Mattioli Woods' client investment and cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.

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

"I am pleased to report another successful year for Mattioli Woods. Revenue increased by 1.6% to £58.4m (2019 restated: £57.5m), despite the political and economic uncertainties that persisted throughout the period.

"COVID-19 is significantly impacting the UK and global economies. We have taken positive and decisive action to protect our clients and staff, and to ensure all our core business areas remain fully operational throughout this complex time. Our investment in technology has enabled our employees to work remotely and our thanks go to all our employees who have helped to protect the business by agreeing to forego bonuses that would have been paid in more normal trading conditions. In addition, certain of our higher paid employees significantly reduced their basic salaries, with these actions reducing costs for the year ended 31 May 2020 by £2.6m.

"The essence of what we do is looking after our clients' money and there is an expectation that we should apply the same diligence in looking after that of our business and our shareholders.  Current trading is in line with our expectations and we can see light at the end of the COVID-19 tunnel.

"Adjusted EBITDA was up 34.0% to £18.9m (2019 restated: £14.1m) and adjusted EBITDA margin increased to 32.4% (2019 restated: 24.5%), primarily as a result of the one-off reduction in bonuses and other cost savings made in response to the COVID-19 pandemic, with an increased contribution from our 49% associate Amati and further efficiencies and cost savings realised following the planned restructuring of our client facing operations and the migration of acquired pension portfolios onto our proprietary MWeb administration platform prior to COVID-19.  In addition, the adoption of IFRS 16 on 1 June 2019 decreased other administrative expenses by £0.9m and increased depreciation and interest on lease liabilities by £0.8m and £0.1m respectively, driving £0.9m of the increase in adjusted EBITDA.

"Adjusted EPS increased 34.4% to 47.7p (2019: 35.5p).  In light of the uncertain trading conditions, the Board believes it is prudent to protect the Group's financial position and balance the interests of all stakeholders.  Accordingly, the Board proposes a lower final dividend than might have been proposed in more normal circumstances of 12.7 pence per share (2019: 13.67 pence).  This makes a proposed total dividend for the year of 20.0 pence (2019: 20.0 pence).  We recognise the huge effort of our people and their contribution to delivering these results.  In line with our desire to balance the interests of all stakeholders, we intend to release interim bonus payments in respect of the current financial year over the next few months.  The Board also recognises the importance of dividends to shareholders and intends to return to growing the dividend, while maintaining an appropriate level of dividend cover, when it is an appropriate time to do so.

"Recent acquisitions are performing and integrating well, with the financial result for the year including a full 12 months from the Broughtons and SSAS Solutions businesses acquired in the prior year and a positive contribution from The Turris Partnership following its acquisition in December 2019.

"In July, we were pleased to announce the post year-end acquisition of Hurley Partners, which serves a similar client base to Mattioli Woods, with many complementary elements between our businesses.  Consolidation within our core markets is expected to continue and we will seek to build on our track record of successful acquisitions by continuing to assess and progress opportunities that meet our strict criteria.

"We expect that uncertainty around Brexit and the impact of COVID-19 will continue to influence investor and consumer sentiment in the short-term, but we believe the opportunity for Mattioli Woods is significant, as people seek to take charge of their money and manage it through the generations.  At the same time, savings and investments are becoming more complicated.  Clients need long-term advice and strategies more than ever before.  We will continue to provide quality solutions, maintaining our focus on client service and continuing to adapt our business model to the changing market, integrating asset management and financial planning to build upon our established reputation for delivering sound advice and consistent investment performance, while looking to reduce clients' costs.

"We are confident that our focus on addressing the changing needs of our clients positions us well to deliver future growth and continued sustainable shareholder returns".


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**Analyst presentation**

There will be an analyst presentation held via webinar to discuss the results at 09:30am today.

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.

**Investor presentation**

There will be an investor presentation to discuss the results at 10.00am on Monday, 7 September 2020.

The presentation will be hosted through the digital platform Investor Meet Company. Investors can sign up to the platform and "Add to Meet" Mattioli Woods plc via the following link https://www.investormeetcompany.com/mattioli-woods-plc/register-investor. Those investors who have already registered to meet the Company will automatically be invited. Questions can be submitted pre-event to julia.tilley@camarco.co.uk or in real time during the presentation via the "Ask a Question" function.

**Strategic report**
**Chairman's statement**

I am pleased to report another successful year for Mattioli Woods. Revenue increased by 1.6% to £58.4m (2019 restated: £57.5m), despite the political and economic uncertainties that persisted throughout the period. A 0.5% fall in organic revenue was more than offset by a full year's contribution from Broughtons Financial Planning Limited ("Broughtons") and SSAS Solutions (UK) Ltd ("SSAS Solutions"), which were acquired in the prior financial year, plus a positive contribution from The Turris Partnership Limited ("Turris"), which has integrated well since its acquisition in December 2019.

As the Coronavirus (COVID-19) pandemic began to impact the UK our focus was to protect the health of our staff and clients, whilst continuing to deliver an uninterrupted service to our clients and supporting key workers and the wider community. We have remained fully operational throughout, maintaining our focus on client service and continuing to develop our customer proposition. From the start of lockdown we decided that we would not take support from the government, recognising that our long-term financial prudence has placed the business on a strong footing and not wishing to add to the burden that will have to be met by the UK taxpayer as we emerge from the crisis in the coming years.

In anticipation of the likely trading conditions created by the pandemic, we implemented a number of mitigating actions to protect the Group's financial position, realising total cost savings of approximately £2.6m through all plc Board directors reducing their basic remuneration and confirming that remaining staff bonuses and all plc Board directors' bonuses in respect of the financial year would not be paid.

As highlighted in our July trading update, these actions combined with ongoing improvements in operational efficiency resulted in profits being significantly ahead of our expectations at the start of the year. Consequently, profit before tax increased 36.7% to £13.4m (2019 restated: £9.8m). This exceptional result provides a buffer for the business to respond to further challenges arising from the COVID-19 pandemic and we expect the Group to revert to a normal level of profitability for the coming year.

We believe the benefits of operating a responsibly integrated business will enable us to secure great client outcomes, whilst delivering strong, sustainable shareholder returns through the complex conditions we face, currently and over the longer term.

Unlike many wealth managers, the majority of the Group's revenues are fee-based, rather than being linked to the value of assets under management, administration or advice, giving our business a revenue profile that is less sensitive to market performance. However, a fall in market values and recent interest rate cuts have resulted in an associated reduction in the Group's income streams linked to the value of clients' funds under management and advice and banking revenue.

The Board believes it is prudent to protect the Group's financial position and balance the interests of all stakeholders. Accordingly, the Board proposes a lower final dividend than might have been proposed in more normal circumstances of 12.7p per share (2019: 13.67p). This makes a proposed total dividend for the year of 20.0p (2019: 20.0p), in line with the prior year.

The Board recognises the importance of dividends to shareholders and intends to return to growing the dividend, while maintaining an appropriate level of dividend cover, when it is an appropriate time to do so.

**Our strategy**

Previously, we set out our ambition to grow revenue to £100m and total client assets to £15bn, while maintaining an EBITDA margin of 20%+. As we work towards these goals our strategy remains focused on achieving sustainable levels of organic growth, supplemented by strategic acquisitions that enhance value and broaden or deepen our expertise and services to better serve our clients.

In July, we were pleased to announce receipt of the regulatory approval to complete the post year-end acquisition of Hurley Partners Limited ("Hurley Partners"), a private client adviser and asset management business with offices in London, Surrey and Manchester. We will seek to build on our track record of successfully executing and integrating acquisitions by continuing to assess a diverse pipeline of potential acquisition opportunities that meet our strict criteria.

**Our people**

We thank all our staff for their continued commitment, enthusiasm and professionalism, which combined with our investment in cloud-based technology and infrastructure allowed us to move quickly to an operating model that included implementing home working for almost 600 of our staff.

I deeply appreciate our people's dedication and how they have dealt with our clients' affairs throughout this period. We are committed to developing our staff and building the capacity to deliver sustainable growth over the long-term. As part of our normal planning, we monitor the Group's capabilities and assess what new skills are necessary to strengthen the business over time, taking account of the existing balance of knowledge, experience and diversity.

Our culture is based on professionalism, putting clients first and adopting a collegiate approach. Retaining the integrity, expertise and passion of our people remains a priority of the Board and at the heart of our success.

**Governance and the board**

We strive for high standards in our corporate governance and disclosure and have adopted the QCA Corporate Governance Code to facilitate this. The Board remains committed to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business.

After 15 years as Chief Financial Officer, Nathan Imlach has decided to stand down from the Board at the Company's next Annual General Meeting ("AGM") on 19 October 2020. Nathan will remain with the Group, where his focus will be on acquisitions and contributing to its future direction as Chief Strategic Adviser. Nathan has been instrumental to the success of the Group and we look forward to continuing to benefit from his experience and insight in this new role.

He will be succeeded by Ravi Tara, Group Finance Director, who joined the Company in July 2019 as part of its succession planning. Ravi's experience of improving operational delivery and cost efficiency in his previous roles will add real value to our proposition as we position the Group for further growth.

The Board believes it is the right time to strengthen the executive team through the further appointments of Michael Wright and Iain McKenzie to the Board as Group Managing Director and Group Operating Officer respectively.

Michael joined Mattioli Woods in 2004. As head of our wealth management business, Michael led the development of the graduate programme, training and competence scheme, and client service delivery strategy. In October 2019 he was appointed Group Managing Director, where his focus is on the strategic development of the Group's wealth management and employee benefits propositions. Michael also leads the Group's consultancy and administration teams, whilst continuing to advise clients.

Iain joined the Company in August 2018 as Executive Risk Consultant and was instrumental in developing the Group Risk and Internal Audit functions. Having taken on the role of Group Operating Officer, Iain oversees the day-to-day operations of the Group and has played a key role in ensuring the Group has remained fully operational throughout the current COVID-19 pandemic.

Ravi, Michael and Iain will join the Board immediately following regulatory approval of their appointments. We anticipate that after Nathan steps down as a director the Company will have, for a period of time, a Board comprising four executive and three non-executive directors. The Board intends to appoint another non-executive director and the Group is in discussion with potential candidates. Following this appointment, the Company will have a balanced board, which we believe represents the right governance structure for the business.

**Shareholders**

During the year we have engaged with shareholders through various channels, including company-hosted events, group meetings and one-to-one meetings, with these activities having been hosted online since March as a result of COVID-19.

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

**Outlook**

The Board is positive about the Group's prospects given all the actions we have taken to reinforce its financial position, ensuring we remain a business that is sustainable and here for the long term. Creating and preserving wealth, our focus remains on ensuring our trusted advice gives clients the understanding to achieve their objectives.

We expect that uncertainty around Brexit and the impact of COVID-19 will continue to influence investor and consumer sentiment in the short-term, but we are confident that our focus on addressing the changing needs of our clients positions us well to deliver future growth and continued sustainable shareholder returns.

**Joanne Lake**
Chairman
1 September 2020

**Strategic report**
**Chief Executive's review**

**Introduction**

We are dedicated to maintaining our culture of putting clients first, developing our service offering and building a business that is sustainable over the long-term. I am pleased to report that even in these unprecedented times we are continuing to grow and develop the business, both organically and by strategic acquisition. The Group's financial performance in the first nine months of the year ended 31 May 2020 was in line with the Board's expectations but, as anticipated, in the final quarter the impact of the

COVID-19 pandemic on financial markets resulted in a reduction in the Group's income streams linked to the value of clients' assets and its banking revenue.

Revenue for the year was up 1.6% to £58.4m (2019 restated: £57.5m), with growth driven by a full 12 months' revenues of £2.1m (2019: £1.1m) from the Broughtons and SSAS Solutions businesses acquired in the prior year, plus £0.2m of revenues from Turris following its acquisition in December 2019.

Although the flow of new business generated by our consultancy team continued to be impacted by ongoing political and economic uncertainties, a total of 558 (2019: 762) new SIPP, SSAS and personal clients with assets totalling £155m (2019: £213m) chose to use Mattioli Woods during the year. Our continued investment in technology allowed us to adapt quickly to remote working as a means of servicing clients and generating new business. We hosted client and introducer webinars in the last quarter, attracting many times the number of attendees that we would have expected via our pre COVID-19 seminar programmes. We are confident that in this new environment we can continue to generate and convert new business opportunities.

Operating profit before financing was up 38.7% to £12.9m (2019 restated: £9.3m) and profit before tax was up 36.7% to £13.4m (2019 restated: £9.8m), enhanced by an increased share of profit of £0.6m (2019: £0.5m) from our 49% associate Amati, with the team's strong investment performance gaining further recognition through its fund managers being awarded "VCT Manager of the Year" at the Small Cap Awards 2020.

Adjusted EBITDA was up 34.0% to £18.9m (2019 restated: £14.1m) and adjusted EBITDA margin increased to 32.4% (2019 restated: 24.5%), primarily as a result of the one-off reduction in bonuses and other cost savings made in response to the COVID-19 pandemic, with an increased contribution from Amati and further efficiencies and cost savings realised following the planned restructuring of our client facing operations and the migration of acquired pension portfolios onto our proprietary MWeb administration platform prior to COVID-19. In addition, the adoption of IFRS 16 on 1 June 2019 decreased other administrative expenses by £0.9m and increased depreciation and interest on lease liabilities by £0.8m and £0.1m respectively, driving £0.9m of the increase in adjusted EBITDA and 1.5% of the increase in adjusted EBITDA margin.

With the expected reversal of bonus cost savings in future periods, we believe profit margins will revert towards our sustainable longer-term targets. We continue to seek ways to reduce clients' costs across the value chain and believe the benefits of operating a responsibly integrated model, including the opportunity to secure economies of scale such as lower fund manager and platform charges, will allow us to improve client outcomes and further reduce clients' total expense ratios ("TERs").

Our success has been based upon the delivery of quality advice, growing our clients' assets and enhancing their financial outcomes. We enjoy strong, intergenerational client retention and have seen sustained demand for advice from clients set around the complexities we are all facing. We anticipate there will be a sustained demand for advice, driven by changes in lifestyle, increasing longevity, tax and other legislative changes, particularly when the implications of the UK's withdrawal from the European Union become clearer.

We continue to deliver strong investment performance across both portfolios and funds. In meeting our clients' investment needs we generally use third parties' funds, but where we have a particular expertise and a more appropriate investment product, we look to meet those needs in-house. This has led to the innovative development of our Private Investors Club, Custodian REIT plc ("Custodian REIT") and the Mattioli Woods Structured Products Fund, in addition to the funds managed by Amati.

Despite continued market and political uncertainty, we achieved aggregate net inflows (before market movements) of £200.2m (2019: £265.2m) into the Group's bespoke investment services, albeit this uncertainty resulted in lower flows than in the prior year. Gross discretionary assets under management by the Group and its associate decreased to £2.55bn (2019: £2.57bn) at the year end, primarily due to the impact of COVID-19 on the value of property held by Custodian REIT, with valuers assuming a three-month rent deferral and overall increase in yield to all assets let to tenants which had ceased or significantly curtailed trading, in line with Royal Institute of Chartered Surveyors ("RICS") advice to valuers.

The value of assets held within our Discretionary Portfolio Management service increased by 1.4% to £1.41bn (2019: £1.39bn), of which £128.0m or 9.1% (2019: £132.3m or 9.5%) is invested within funds managed by the Group and its associate. We plan to continue developing new products and services to better deal with our clients' needs, using the best of what we have and the best of what other providers can offer.

**Market overview**

Mattioli Woods operates within the UK's financial services industry, which is subject to the effects of volatile markets, economic conditions and regulatory changes. Our markets are highly fragmented and remain competitive, serviced by a wide range of suppliers offering diverse services to both individual and corporate clients.

The UK retail savings and investment market has demonstrated considerable growth in recent years. It remains dominated by pension schemes but is evolving as a result of societal, economic, regulatory and technological changes. The impact of COVID-19, over a decade of low interest rates and evolving client preferences, including environmental, social and governance ("ESG") considerations, have created challenges for people seeking to generate income, while preserving and growing their capital. At the same time, there is a growing awareness of the gap between the level of current UK savings and that which is necessary to provide a reasonable standard of living in retirement. Employers continue to withdraw from defined benefit pension schemes, requiring individuals to be more self-reliant in planning for their own long-term needs. Individuals who have generated substantial personal and family wealth are increasingly seeking solutions that help them fulfil their personal ambitions, and we believe events such as the current pandemic are likely to drive an increased demand for the holistic planning and expert advice we provide.

In addition, there are a number of changes in regulation and legislation that may shift the landscape of financial advice.

*Regulation*

The FCA has been proactive in its response to COVID-19, with the FCA's Executive Director of Supervision setting out the FCA's priorities and long-term expectations for the wealth management and advice industry in June this year. The FCA's focus is on firms' operational and financial resilience, including the preservation of client assets and money, and it expects firms to take reasonable steps to ensure they continue to meet the challenges the pandemic poses to customers and staff, particularly through their business continuity plans.

Acting with integrity, charging appropriate fees for delivered services and the prevention of fraud, financial crime and market abuse are all important parts of this. On 31 July 2020 the FCA's new rules aimed at making it easier for consumers to transfer fund investments between platforms came into effect. We believe these changes should be beneficial for advisers in ensuring that, subject to individual suitability assessments, clients are on the most appropriate platform for their needs.

As the demand for high-quality, personalised advice and the potential market for our products and services continue to grow, so do the costs of regulation. Previously, we reported increases in the Financial Services Compensation Scheme ("FSCS") levy had resulted in the Group's regulatory fees and levies more than doubling to £0.8m for the 2019/20 year. The Group's regulatory fees and levies for the 2020/21 year have increased to £1.1m, driven by further increases in the FSCS levy due to SIPP and pension advice claims in the wider market, and we expect these costs will continue to increase over the next few years.

As regulators focus on protecting consumers, legislation is becoming increasingly stringent and the level of public scrutiny on conduct and cost is increasing, with clients able to more easily view the cost of the services they receive following the introduction of the Markets in Financial Instruments Directive II ("MiFID II") last year.

Last year the EU published rules introducing a bespoke prudential regime for investment firms, the Investment Firm Directive and Regulation ("IFD/IFR"), to be implemented by 26 June 2021. The UK is no longer a member of the EU and will not be obliged to implement the EU's rules. However, the FCA is now consulting on the introduction of a UK regime that will achieve similar outcomes as the IFD/IFR but, for the first time, be designed with investment firms in mind, replacing many rules largely designed for deposit-taking credit institutions and lowering the on-going regulatory cost for investment firms.

The proposed rules represent significant change. UK investment firms would be subject to liquidity requirements across the board and there would be a new methodology for calculating capital requirements, the 'K-factor' approach. There would also be new remuneration and disclosure requirements.

The need to comply with these and other regulatory changes, including the extension of the Senior Managers and Certification Regime ("SMCR") to investment firms in December 2019, means we continue to invest in our people, technology and infrastructure as we look to build upon our success to date.

*EU withdrawal ("Brexit")*

While the "divorce agreement" part of Brexit has now happened, we remain subject to EU rules and will be implementing those that come in before the end of the transition period at the end of December 2020.

A regulatory imperative to offer ESG propositions and collect information on a client's ESG preferences looks likely from 2021, in the form of MiFID II amendments, and preparation may require investment in the short term. Tools may be developed, similar to those used to assess clients' attitude to risk, to enable firms to assess ESG preferences in a consistent repeatable manner.

As a UK business with no operations in other EU countries, no material dependencies on goods or people from other EU countries and a predominantly UK client base, we anticipate that the operational impacts on our business will be relatively small. We remain conscious that the political situation could impact equity markets, interest rates and consumer confidence, raising unexpected challenges, including any broader impact that Brexit might have on the UK economy or on the operation of European funds, such as the Mattioli Woods Structured Products Fund. However, we are confident we have the right structures in place to ensure the continued operation of our business in the event of a no-deal Brexit.

*Changes to the tax regime*

Following HM Treasury's review of the tapered annual allowance and its impact on NHS staff, the Chancellor of the Exchequer announced significant changes to the tapered annual pensions allowance for higher earners in the March 2020 Budget that mean from 2020-21 the "threshold income" will be £200,000, so individuals with income below this level will not be affected by the tapered annual allowance, and the annual allowance will only begin to taper down for individuals who also have an "adjusted income" above £240,000.

In July, the Chancellor announced £30bn worth of stimulus measures in the government's 'Plan for Jobs' to boost job creation in the UK, building on the action taken in the March 2020 Budget in response to the immediate threat posed by COVID-19. Having announced unprecedented levels of state support in recent months, the emergency packages will need to be repaid in one way or another and some have warned that savings or pensions could be targeted for this.

The Office of Tax Simplification ("OTS") has been asked by the Chancellor to review capital gains tax ("CGT") with particular reference to individuals and smaller businesses. Separately, a project being funded by the London School of Economics and CAGE Warwick is considering whether a UK wealth tax is desirable and deliverable. Whilst the CGT review has been instigated by the Chancellor, no official government review has been commissioned in respect of a wealth tax.

We expect any changes in the tax regime to create further demand for our financial planning and advisory services.

*Outlook*

Investment markets look likely to remain volatile but we believe the opportunity for Mattioli Woods is significant, as people seek to take charge of their money and manage it through the generations. At the same time, savings and investments are becoming more complicated and regulatory requirements continue to increase. The inherent agility within our business model allows us to adapt to the changing wealth and asset management marketplace. Clients need long-term advice and strategies more than ever before. We will continue to provide quality solutions, maintaining our focus on client service and continuing to adapt our business model to the changing market, integrating asset management and financial planning to build upon our established reputation for delivering sound advice and consistent investment performance, while looking to reduce clients' costs.

**Our services**

Our core pension and wealth management offering serves the higher end of the market, including controlling directors and owner-managed businesses, professionals, executives and retirees. Our broad range of employee benefit services is targeted towards medium-sized and larger corporates. The Group has developed a broader wealth management proposition in recent years, which has grown from its strong pensions advisory and administration expertise. The mix of income derived from the Group's four key revenue streams changed slightly during the year, summarised as follows:

- 45.9% investment and asset management (2019 restated: 45.2%);
- 35.3% pension consultancy and administration (2019 restated: 35.5%);
- 9.2% property management (2019 restated: 9.6%); and
- 9.6% employee benefits (2019 restated: 9.7%).

We aim to operate a seamless structure, allowing us to cover all aspects of wealth management and employee benefits. Our key objectives are:

- Maintaining long-term relationships and delivering great outcomes for our clients;
- Proactively anticipating our clients' needs to deliver on their expectations;
- Investing in our people and technology to service greater business volumes at a lower cost;
- Sharing knowledge and ideas between ourselves and others for mutual benefit;
- The development of our market standing through the integrity and expertise of our people;
- Extending our range of products and services, seeking to attract new clients both organically and via strategic acquisitions; and
- Being proud of our charitable and community spirit, supporting staff and local and national charities.

**Assets under management, administration and advice**

Unlike many wealth managers, the majority of the Group's revenues are fee-based, rather than being linked to the value of assets under management, administration or advice[9], giving our business a revenue profile that is less sensitive to market performance. The acquisition of Turris during the year added £68.4m of client assets, with total client assets of the Group and its associate of £9.3bn at 31 May 2020 (2019: £9.4bn) as follows:

9 Revenue for the year ended 31 May 2020 was split 53% (2019 restated: 52%) fixed, initial or time-based fees and 47% (2019 restated: 48%) ad valorem fees based on the value of assets under management, advice and administration.

| Assets under management, administration and advice[10] | *SIPP and SSAS[11] £m* | *Employee benefits £m* | *Personal wealth and other assets £m* | *Sub-total £m* | *Amati[12] £m* | *Total £m* |
|---|---|---|---|---|---|---|
| At 1 June 2019 | 6,051.6 | 1,196.7 | 1,725.2 | 8,973.5 | 409.0 | 9,382.5 |
| Acquisition during the year | - | - | 68.4 | 68.4 | - | 68.4 |
| Net inflows/(outflows), including market movements | (22.6) | (172.5) | (62.3) | (257.4) | 106.8 | (150.6) |
| At 31 May 2020 | 6,029.0 | 1,024.2 | 1,731.3 | 8,784.5 | 515.8 | 9,300.3 |

Our discretionary portfolio management service has continued to deliver strong investment performance relative to the market, with aggregate net inflows of over £200m into this and the Group's other bespoke investment services during the year. The movement in total client assets is analysed as follows:

- A £22.6m fall (2019: £565.7m increase) in SIPP and SSAS funds under trusteeship, with a 1.7% fall (2019: 5.6% increase) in the number of schemes being administered at the year end, comprising a 0.7% (2019: 3.7%) increase in the number of direct[13] schemes to 6,453 (2019: 6,405) and a 5.0% decrease (2019: 7.9%) in the number of schemes the Group operates on an administration-only basis to 4,480 (2019: 4,714). In recent years, we have been appointed to operate or wind-up several SIPP portfolios following the failure of their previous operators, with the lower number of schemes due in part to the transfer of certain members of these distressed portfolios to more appropriate arrangements;
- A £172.5m (2019: £41.2m) decrease in the value of assets held in the corporate pension schemes advised by our employee benefits business, following the loss of two large corporate clients in the first half. However, revenues in our employee benefits business are not linked to the value of client assets in the way that certain of our wealth management revenue streams are and our corporate client portfolio remains well diversified;

- A £6.1m (2019: £5.8m) increase in personal wealth and other assets under management and advice, with the acquisition of Turris and 180 (2019: 254) new personal clients won during the year partially offsetting some natural client attrition, resulting in a 2.1% decrease (2019: 2.5% increase) in the total number of personal clients[14] to 5,925 (2019: 6,052); and
- A £106.8m (2019: £123.0m) increase in Amati's funds under management (excluding Mattioli Woods' client investments), primarily through the growth of the TB Amati UK Smaller Companies Fund to £400.4m (2019: £291.1m) at 31 May 2020.

Amati continues to perform strongly since Mattioli Woods' investment, seeing gross funds under management[15] increase to £581.4m (31 May 2019: £452.8m) at the year end. As a result of Amati's strong performance the Group's share of its profits increased to £0.6m (2019: £0.5m). Co-managed by Amati's Chief Executive Dr Paul Jourdan, David Stevenson and Anna Macdonald, the TB Amati UK Smaller Companies Fund is a top-quartile performer in The Investment Association UK Smaller Companies sector over three and five years and has recently been added to Hargreaves Lansdown's Wealth Shortlist,

In addition, in October 2019 the Amati AIM VCT published a prospectus to raise up to £25m (with an over-allotment facility of a further £20m). Amati reached capacity in the £25m offer in April 2020 and having considered the current rate of investment activity, the VCT is now seeking to raise a further £20m under the over-allotment facility prior to the offer closing on 16 October 2020.

10 Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.
11 Value of funds under trusteeship in SIPP and SSAS schemes administered by Mattioli Woods and its subsidiaries.
12 Assets under management of £515.8m (2019: £409.0m) excludes £54.1m (2019: £31.9m) of Mattioli Woods' client investment included within SIPP and SSAS, employee benefits and personal wealth and other assets and excludes £11.5m (2019: £11.9m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.
13 SIPP and SSAS schemes where the Group acts as pension consultant and administrator. SIPP and SSAS schemes administered by SSAS Solutions reclassified as direct during the year.
14 Includes personal wealth clients' with SIPP and SSAS schemes operated by third parties.
15 Includes Mattioli Woods' client investment and £11.5m (2019: £11.9m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

**Key performance indicators**

The directors consider the key performance indicators ("KPIs") for the Group are as follows:

| Strategy/objective | Performance indicator | Further explanation |
|---|---|---|
| Organic growth and growth by acquisition | **Revenue -** total income (excluding VAT) from all revenue streams. | See 'Our business model' and 'Revenue'. |
| Operating efficiency | **Adjusted EBITDA margin** - profit generated from the Group's operating activities before financing income or costs, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax), divided by revenue. | See 'Profitability and earnings per share'. |
| Shareholder value and financial performance | **Adjusted Earnings Per Share ("EPS")** - total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition-related costs, gain on revaluation of derivative financial assets, non-cash interest charges on the unwinding of discounts on long-term provisions and the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue. | See 'Profitability and earnings per share'. |
| Growth in the value of assets under management, administration and advice | **Assets under management, administration and advice** - the value of all client assets the business gives advice upon, manages or administers. | See 'Assets under management, administration and advice'. |
| Excellent client service and retention | **Client attrition** - the number of direct SSAS and SIPP schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period. | See 'Segmental review'. |
| Financial stability | **Debtors' days** - this is the average number of days' sales outstanding in trade receivables at any time. | See 'Cash flow'. |
| Financial stability | **Surplus on regulatory capital requirement** - this is the aggregate surplus on the total regulatory capital requirement of the Group. | See 'Regulatory capital'. |

**Financial performance and future developments**

*Revenue*

Group revenue was up 1.6% to £58.4m (2019 restated: £57.5m), with organic revenues supplemented by a full 12 months' revenues of £2.1m (2019: £1.1m) from the Broughtons and SSAS Solutions businesses acquired in the prior year, plus £0.2m of revenues from Turris following its acquisition in December 2019.

On 1 June 2018 the Group adopted the accounting standard IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 brought a new and detailed approach to how and when revenue is recognised from contracts with customers. Fees and commissions receivable on the arrangement of insurance by the Group's property management business on behalf of its clients were previously reported gross, with the premiums payable on the arrangement of the insurance on the clients' behalf previously reported as other administrative expenses. Having revisited the terms of these insurance arrangements, we have concluded the revenue that should be recognised under IFRS 15 is the net amount of consideration that the Group retains after paying the other party the consideration received in exchange for the insurance services to be provided by that party.

Accordingly, we have restated revenue recognised in respect of the year ended 31 May 2019 to reduce revenue by £1.0m and restated other administrative expenses to reduce costs for the year by an equal amount. There is no impact on total equity and no impact on profit or earnings per share for the year.

Performance measures impacted by the restatement to revenue and other administrative expenses, including fee-based revenue, recurring revenue, operating profit margin, adjusted EBITDA margin and debtors' days have been corrected by restating each of the alternative performance measures for the prior year.

*Employee benefits expense*

As in previous years, the major component of the Group's operating costs is our employee benefits expense of £27.6m (2019: £31.2m) representing 47.3% of revenue (2019 restated: 54.3%). Securing economies of scale and operational efficiencies, particularly through the integration of acquired businesses and clients, are key elements of our aim to reduce clients' TERs and we are pleased to have increased average consultant and client relationship manager caseloads during the year, partly through the migration of acquired pension portfolios onto our bespoke MWeb administration platform.

In addition, we pre-emptively implemented a number of mitigating actions to protect the Group's strong financial position in light of the trading conditions created by the COVID-19 pandemic, realising £0.15m of cost savings through all plc Board directors reducing their basic remuneration plus a further £2.4m on confirmation that remaining staff bonuses and all plc Board directors' bonuses in respect of the financial year will not be paid.

The Group's total headcount increased to 597 (2019: 586) at 31 May 2020, with Turris' experienced team of five staff in Glasgow being retained following its acquisition. In addition, the number of consultants increased to 120 (2019: 115) following the launch of a new consultancy development programme in December 2018.

We continue to invest in our IT systems, compliance and training across all parts of the Group, with the aim of delivering further operational efficiencies and benefiting from further economies of scale as the business continues to grow.

*Other administrative expenses*

Other administrative expenses increased to £10.9m (2019 restated: £10.8m), with additional professional, regulatory and compliance costs incurred following the appointment of RSM Risk Assurance Services LLP to provide internal audit services in December 2018, increased regulatory fees and levies and the introduction of SMCR during the period.

The Group adopted the new accounting standard IFRS 16 'Leases' with effect from 1 June 2019, where lessees now recognise an asset representing the right to use the leased item and a lease obligation for future lease payables. In addition, one lease where the Group is lessor that was previously classified as an operating lease under IAS 17 has been reclassified as a finance lease under IFRS 16, giving rise to the recognition of a finance lease receivable and the partial de-recognition of the right of use asset representing the head lease for the property.

These changes had the following impact on the Group's financial statements:

- A £0.9m decrease in other administrative expenses for the period, with the lease expense under IAS 17 for operating leases replaced with £0.8m of depreciation of the right-of-use assets and £0.1m interest on the lease liabilities; and
- Recognition in the Statement of Financial Position at 31 May 2020 of £2.6m of right-of-use assets, lease liabilities of £2.9m and a finance lease receivable of £0.3m.

Other administrative expenses in the prior year were lower due to the £0.5m reversal of unused provision for onerous contracts due to the actual costs incurred on the Group's exit from its previous premises at Grove Park being significantly lower than anticipated.

*Share-based payments*

Share-based payments costs were £1.3m (2019 restated: £1.5m). The Group's trading performance and actions taken in response to the COVID-19 pandemic resulted in profits being significantly ahead of our expectations at the start of the year, increasing the number of options expected to vest under the Company's long-term incentive plans and the associated non-cash share-based payments cost recognised in the year, the impact of which was partially offset by the vesting period for some of the new awards granted under the Mattioli Woods 2010 Long Term Incentive Plan ("the LTIP") during the period being extended from three to five years.

Separately, following a detailed review of our option valuation model we identified the model had not been correctly updated to reflect the likely outcome of non-market based conditions as determined at each period end using the data available at the time. The correction of historical calculations to reflect the expectations of achieving performance conditions at previous reporting dates has increased the share-based payments costs recognised in respect of the year ended 31 May 2019 by £0.5m, and in respect of the three years ended 31 May 2019 by approximately £0.8m in aggregate. Accordingly, we have restated share-based payments costs for the year ended 31 May 2019 to increase the cost recognised by £0.5m and restated the value of the reserves transfer re-allocating the cost of exercised or lapsed share options from equity-share based payments to retained earnings to reflect a £0.1m increase in the share-based payments costs associated with these options. Corresponding deferred tax assets have been restated resulting in a reduction in income tax expense in respect of the year ended 31 May 2018 by £0.1m and 31 May 2019 by £0.1m. Retained earnings as at 31 May 2018 were reduced by £0.4m and at 31 May 2019 by £0.7m, and the equity-share based payments reserve as at 31 May 2018 was increased by £0.4m and at 31 May 2019 by £0.9m.

Performance measures impacted by the restatement to share-based payments costs, including operating profit before financing, EBITDA, adjusted EBITDA, profit before tax, adjusted profit before tax, profit after tax, adjusted profit after tax, effective taxation rate, basic EPS and adjusted EPS, have been corrected by restating each of the impacted financial statement line items and alternative performance measures for the prior year.

*Gain on revaluation of derivative financial instrument*

Given the success of our investment in Amati, which contributed an increased share of profits of £0.6m (2019: £0.5m) during the year, we believe the Group retaining a 49% minority interest is the optimal structure for all stakeholders and in June 2019 cancelled our option to acquire the other 51% of Amati, in return for a £0.75m payment from the Amati management team. Accordingly, there was no gain or loss (2019: £0.1m gain) in the value of the Group's option that was cancelled during the period.

*Net finance costs*

The Group has maintained a positive net cash position throughout the year, with increased net finance costs of £0.16m (2019: £0.03m) reflecting credit interest of £0.10m (2019: £0.06m) being offset by £0.14m (2019: £0.09m) of non-cash notional finance charges on the unwinding of discounts on long-term provisions and £0.12m of interest on the lease liabilities recognised on adoption of IFRS 16.

*Taxation*

The effective rate of taxation on profit on ordinary activities was 24.2% (2019 restated: 20.1%), above the standard rate of tax of 19.0% (2019: 19.0%), primarily due to deferred tax liabilities being recognised at an increased rate of tax following reversal of the government's planned cut in the standard rate of tax to 17.0% from 6 April 2020. In addition, certain expenses associated with sponsorship and other business development activities were not deductible for tax purposes.

The net deferred taxation liability carried forward at 31 May 2020 was £3.6m (2019: £3.8m).

*Alternative performance measures*

The Group has identified certain measures that it believes will assist in the understanding of the performance of the business. Recurring revenues, adjusted EBITDA, adjusted profit before tax ("adjusted PBT"), adjusted profit after tax ("adjusted PAT") and adjusted EPS are non-GAAP alternative performance measures, considered by the Board to provide additional insight into business performance compared with reporting the Group's results on a statutory basis only.

These alternative performance measures may not be directly comparable with other companies' adjusted measures and are not intended to be a substitute for, or superior to, any IFRS measures of performance. However, the Board considers them to be important measures for assessing performance, used widely within the business and by research analysts covering the Company.

Supporting calculations for alternative performance measures and reconciliations between alternative performance measures and their IFRS equivalents are set out in the Alternative performance measure workings section of the Annual Report.

*Profitability and earnings per share*

Profit before tax was up 36.7% to £13.4m (2019 restated: £9.8m), with adjusted profit before tax up 33.9% to £15.8m (2019 restated: £11.8m), driven by the mitigating actions taken to protect the Group's financial position in light of the COVID-19 pandemic, together with the efficiencies and cost savings realised following the restructuring of our client facing operations before COVID-19. These changes, coupled with the impact of adopting IFRS 16 during the period, translated into growth in operating profit before financing of 38.7% to £12.9m (2019 restated: £9.3m) and adjusted EBITDA up 34.0% to £18.9m (2019 restated: £14.1m), with adjusted EBITDA margin of 32.4% (2019 restated: 24.5%).

The Board considers adjusted EBITDA to be a relevant measure for investors who want to understand the underlying profitability of the Group, adjusting for items that are non-cash or affect comparability between periods as follows:

| | *2020* *£m* | *2019 (restated)* *£m* |
|---|---|---|
| Statutory operating profit before financing | 12.9 | 9.3 |
| Amortisation of acquired intangibles | 2.1 | 1.9 |
| Amortisation of software | 0.4 | 1.0 |
| Depreciation | 2.5 | 1.3 |
| EBITDA[16] | 17.9 | 13.6 |
| Share of associate profits (net of tax) | 0.6 | 0.5 |
| Acquisition-related costs | 0.3 | 0.1 |

| | | |
|---|---|---|
| Gain on revaluation of Amati option | - | (0.1) |
| Adjusted EBITDA[17] | 18.9 | 14.1 |

16 Earnings before interest, taxation, depreciation, amortisation and impairment.

17 Figures in table may not add due to rounding.

Adjusted PBT, adjusted PAT and adjusted EPS are additional measures the Board considers to be relevant for investors who want to understand the underlying earnings of the Group, excluding items that are non-cash or affect comparability between periods as follows:

| | *Profit 2020 £m* | *EPS 2020 pps* | *Profit 2019 (restated) £m* | *EPS 2019 (restated) pps* |
|---|---|---|---|---|
| Statutory profit before tax | 13.4 | 49.9 | 9.8 | 36.6 |
| Income tax expense | (3.2) | (12.1) | (2.0) | (7.4) |
| Statutory profit after tax / Basic EPS | 10.2 | 37.8 | 7.8 | 29.3 |
| Statutory profit before tax | 13.4 | 49.9 | 9.8 | 36.6 |
| Amortisation of acquired intangibles | 2.1 | 7.7 | 1.9 | 7.1 |
| Gain on revaluation of Amati option | - | - | (0.1) | (0.4) |
| Acquisition-related costs | 0.3 | 1.2 | 0.1 | 0.5 |
| Adjusted PBT | 15.8 | 58.8 | 11.7 | 43.8 |
| Income tax expense at standard rate | (3.0) | (11.2) | (2.2) | (8.3) |
| Adjusted PAT / Adjusted EPS[18] | 12.8 | 47.7 | 9.5 | 35.5 |

As explained in Note 11, client portfolios acquired through business combinations are recognised as intangible assets. The amortisation charge for the year of £2.1m (2019: £1.9m) associated with these intangible assets has been excluded from adjusted PAT and adjusted EPS because the Board reviews the performance of the business before these charges, which are non-cash and do not apply evenly to all business units.

Adjusted EPS[19] increased 34.4% to 47.7p (2019 restated: 35.5p), while basic EPS was up 29.0% to 37.8p (2019 restated: 29.3p), driven by increased revenues and the significant cost reductions mentioned above. EPS was also impacted by the higher effective tax rate of 24.2% (2019 restated: 20.1%) and the issue of 169,497 (2019: 380,766) shares under the Company's share plans. There were no shares (2019: 239,825) issued as consideration for acquisitions during the year. Diluted EPS was 36.6p (2019 restated: 28.5p).

18 Figures in table may not add due to rounding.

19 Before acquisition-related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and non-cash interest charges on provisions.

*Dividends*

In light of the uncertain trading conditions, the Board believes it is prudent to protect the Group's financial position and balance the interests of all stakeholders. Accordingly, the Board proposes a lower final dividend than might have been proposed in more normal circumstances of 12.7p per share (2019: 13.67p). This makes a proposed total dividend for the year of 20.0p (2019: 20.0p), in line with the prior year (2019: 17.6% increase).

The Board recognises the importance of dividends to shareholders and intends to return to growing the dividend, while maintaining an appropriate level of dividend cover, when it is an appropriate time to do so. If approved, the final dividend will be paid on 23 October 2020 to shareholders on the register at the close of business on 11 September 2020, having an ex-dividend date of 10 September 2020.

The Company offers shareholders the option to invest their dividends in a Dividend Reinvestment Plan ("DRIP"). The DRIP is administered by the Company's registrar, Link Asset Services ("Link"), which uses cash dividend payments to which participants in the DRIP are entitled to purchase shares in the market, which means the Company does not need to issue new shares and avoids diluting existing shareholdings.

For the DRIP to apply to the proposed final dividend for the year ended 31 May 2020, shareholders' instructions must be received by Link by 25 September 2020.

*Cash flow*

Cash balances at 31 May 2020 totalled £26.0m (2019: £23.2m). Opening cash balances at the start of the period included £0.08m (2019: £3.5m) of VAT reclaimed on behalf of clients, with £0.04m (2019: £3.4m) repaid during the period. Cash generated from operations was £13.9m or 78% of EBITDA (2019 restated: £11.0m or 81%), with operating profit margin before changes in working capital and provisions improving to 33.0% (2019: 25.8%), with an increase in the Group's working capital requirement[20] of £5.4m (2019: £3.6m), comprising:

- A £4.6m decrease (2019: £4.2m) in trade and other payables, primarily due to:
  - a £3.5m decrease in accruals and deferred income following confirmation that remaining staff bonuses and all directors' bonuses for the year ended 31 May 2020 would not be paid;
  - a £1.0m decrease in trade payables due to the annual cost of client insurance policies being paid prior to 31 May 2020; and
  - a £0.2m decrease in social security and other taxes outstanding at the year end.
- A £0.8m increase (2019: £0.7m decrease) in trade and other receivables, primarily due to:
  - a £1.0m increase in other receivables, with £1.0m of client insurance costs due to be recharged following the year end;
  - a £0.5m decrease in prepayments and accrued income; and
  - a £0.4m increase in trade receivables.

20 Working capital defined as trade and other receivables less trade and other payables.

There was a net £nil change in provisions during the year (2019: £0.5m decrease), with £0.6m (2019: £0.8m) of contingent consideration paid on the Broughtons acquisition being offset by the £0.7m recognised on the acquisition of Turris during the year.

Outstanding trade receivables increased to 34 days (2019 restated: 33 days), with credit control continuing to be an area of focus. Trade payables reduced to 21 days (2019: 40 days) with lower balances at the year end due to the Group not being invoiced clients' annual property insurance premiums, which are subsequently recharged to clients and paid monthly over the next 12 months, until after the year end, when in the prior year the Group was invoiced before the year end .

A new accelerated corporation tax payment regime became effective for accounting periods beginning on or after 1 April 2019, increasing income taxes paid in the year to £4.4m (2019: £2.2m), with quarterly tax payments now all due within the relevant accounting period, rather than two instalments being paid after the end of it as previously. This resulted in the Group paying six quarterly instalments (2019: four) in this financial year.

Capital expenditure of £1.0m (2019: £2.0m) comprised £0.4m on the purchase of new company cars, £0.3m investment in new computer hardware and office equipment and £0.2m on software development. In the prior financial year we reviewed our capitalised investment in IT, resulting in the accelerated amortisation of some IT systems that have since been taken out of service. We intend to continue investing in technology to develop our client relationship platforms and improve our client service propositions.

*Regulatory capital*

The Group's regulatory capital requirement has increased in recent years. In addition, the Group's capital is reduced when it makes acquisitions due to the requirement for intangible assets arising on acquisition to be deducted from Tier 1 Capital.

However, the Group continues to enjoy significant headroom on its regulatory capital requirement, allowing us to pursue further acquisition opportunities.

**Segmental review**

*Investment and asset management*

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 3.1% to £26.8m (2019: £26.0m).

The Group's gross discretionary assets under management ("AuM"), including the multi asset funds which sit at the heart of our discretionary portfolio management service ("DPM"), Custodian REIT, the Mattioli Woods Structured Products Fund ("MW SPF") and the funds managed by our associate company, Amati, were £2.6bn (2019: £2.6bn) at the year end, with movements during the year as follows:

| *Assets under management* | *DPM £m* | *Custodian REIT £m* | *MW SPF £m* | *Amati £m* | *Gross AuM £m* | *Cross-holdings in DPM[21] £m* | *Cross-holdings in Amati funds[22] £m* | *Net AuM £m* |
|---|---|---|---|---|---|---|---|---|
| At 1 June 2019 | 1,394.0 | 483.3 | 242.5 | 452.8 | 2,572.6 | (132.3) | (11.9) | 2,428.4 |
| Inflows | 173.5 | 13.9 | 10.5 | 159.0 | 356.9 | 4.4 | 0.4 | 361.7 |
| Outflows | (125.5) | - | (21.8) | (9.3) | (156.6) | - | - | (156.6) |
| Market movements | (29.4) | (142.7) | (27.2) | (21.0) | (220.3) | - | - | (220.3) |
| At 31 May 2020 | 1,412.6 | 354.5 | 204.0 | 581.5 | 2,552.6 | (127.9) | (11.5) | 2,413.2 |

Income from both initial and ongoing portfolio management charges increased to £16.3m (2019: £15.0m), with £173.5m (2019: £174.8m) of inflows into our discretionary portfolio management service during the year.

Fees for services provided by the Group's subsidiary Custodian Capital Limited ("Custodian Capital") to Custodian REIT are included in the 'Property management' segment with annual management charges on the MW SPF of £1.3m (2019: £1.3m) despite the negative market movement in the last quarter resulting from the steep sell-off of markets generally.

Adviser charges based on gross assets under advice of £2.0bn (2019: £2.0bn) fell to £9.2m (2019: £9.7m), with the lower revenue margin illustrating how we continue to reduce clients' charges and TERs, particularly on those assets invested in Custodian REIT, the MW SPF and Amati funds.

Growth in total assets 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 92.1% (2019 restated: 90.0%). Notwithstanding our fee-based advisory model, as with other firms, these income streams are linked to the value of funds under management and advice, and are therefore affected by the performance of financial markets, with the impact of the COVID-19 pandemic on financial markets resulting in a reduction in these income streams in the final quarter of the year.

21 Comprises £25.2m (2019: £29.7m) in Custodian REIT, £57.6m (2019: £76.6m) in MW SPF and £45.1m (2019: £26.0m) in Amati funds.
22 Cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

*Pension consultancy and administration*

Pension consultancy and administration revenues were up 1.0% to £20.6m (2019: £20.4m), with an increased level of client activity partially offset by the total number of SIPP and SSAS schemes administered by the Group falling 1.7% to 10,933 (2019: 11,119).

Direct[23] pension consultancy and administration fees increased 5.2% to £16.3m (2019: £15.5m). Retirement planning remains central to many of our clients' wealth management strategies and the number of direct schemes increased to 6,453 (2019: 6,405[24]), with 339 new schemes gained in the year (2019: 471). Our focus remains on the quality of new business, with the value of a new scheme averaging £0.3m (2019: £0.3m). We continue to enjoy strong client retention, with a decrease in the external loss rate[25] to 1.8% (2019: 2.2%) and an overall attrition rate[26] to 3.6% (2019: 3.4%).

The number of SSAS and SIPP schemes the Group operates on an administration-only basis fell to 4,480 (2019: 4,714) at the year end. In prior years the Group has been appointed to administer a number of SIPPs following the previous operators' failure. Work continues in connection with schemes previously administered by Stadia Trustees Limited, HD Administrators, Pilgrim Trustees Services Limited and The Freedom SIPP Limited, but due to a lower level of transactional activity and the payment of compensation from the FSCS direct to individuals, rather than their pension schemes, third party administration fees fell 11.6% to £3.8m (2019: £4.3m).

Following the default transfer of schemes from Stadia Trustees in 2016, we have helped claim almost £10m in compensation after submitting more than 350 claims to the FSCS and we will continue to assist clients with their claims over the coming months.

The Group's banking revenue was £0.5m (2019: £0.6m). Following the Bank of England's cut in the base rate to a historic low of 0.1%, our banking revenue is expected to be negligible going forward,

Segment margin improved to 30.6% (2019 restated: 20.7%) with operational efficiencies and cost savings realised pre COVID-19 following the planned restructuring of our client facing operations. In addition, the operations of MC Trustees, which was based in Hampton-in-Arden until 30 November 2018, have been absorbed into our Leicester administration team, with margin improved through a smaller team now administering this portfolio using our bespoke MWeb administration platform and cost savings associated with no longer occupying the Hampton-in-Arden premises.

While we anticipate continued regulatory scrutiny of the pension market, with some other SIPP and SSAS operators in the spotlight due to issues arising with esoteric and non-standard investments. However, the market opportunity remains strong, with SIPP and SSAS arrangements still benefitting from the introduction of the pension freedoms and being favoured as a way of allowing individuals to have greater access, control, flexibility and responsibility over their pension savings. SIPPs are increasingly the pension vehicle of choice for the mass affluent and having been appointed to administer SIPPs previously operated by a number of failed operators in recent years there may be similar opportunities in the future.

We like to see our clients withdrawing funds to enjoy in their retirement. Following the introduction of pension freedoms and a broader market shift away from accumulation and steady savings, we anticipate there will continue to be some natural outflows from our clients' SIPP and SSAS schemes, particularly as the "baby boom" generation reaches retirement. We expect any such decumulation to have a positive impact on the Group's results, linking-in with our strength in the provision of advice around the cascading of wealth through the generations, inheritance tax and other planning.

23 SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.
24 SIPP and SSAS schemes administered by SSAS Solutions reclassified as direct during the year.
25 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the year.
26 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the year.

*Property management*

Property management revenues were £5.4m (2019 restated: £5.5m), with our subsidiary Custodian Capital having assets under management and administration of £466.7m (2019: £585.6m) at 31 May 2020, following the sharp decline in the value of Custodian REIT due to the impact of COVID-19 on commercial property valuations. Recurring annual management charges represented 91.4% (2019 restated: 88.7%) of property management revenues, the majority of which are derived from the services provided by Custodian Capital to Custodian REIT.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and 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 £16.6m (2019: £27.9m) invested in six (2019: seven) new syndicates in the first half, with no new syndicates completed in the second half due to the prevailing market conditions.

*Employee benefits*

Employee benefits revenues were £5.6m (2019: £5.6m), with new client wins offsetting the loss of two large corporate pension clients during the year, ensuring our portfolio of corporate clients remains well diversified.

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 represents an opportunity for us to realise synergies between our employee benefits and wealth management businesses.

**Acquisitions**

We have invested over £56m since our admission to AIM in 2005 in bringing 23 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and subsequent integration of such transactions.

In December 2019, we announced the acquisition of The Turris Partnership, which followed the acquisitions of SSAS Solutions and Broughtons in the prior year, which are all integrating well and have contributed positively to our trading results since acquisition, increasing earnings and enhancing value.

In July 2020, we were pleased to complete the post year-end acquisition of Hurley Partners, which serves a similar client base to Mattioli Woods, with many complementary elements between our businesses enhancing our specialist pension knowledge, discretionary portfolio management and financial planning propositions. The broader range of products and services that the enlarged Group has to offer will support the excellent outcomes from which our clients already benefit. In addition, there are cost savings to be realised from combining our operations in London and Manchester.

Consolidation within both wealth management and SIPP administration is expected to continue, and we will seek to build on our track record of successful acquisitions by continuing to assess and progress opportunities that meet our strict criteria.

**Relationships**

The Group's performance and shareholder value are influenced by other stakeholders, principally our clients, suppliers, employees, the government and our strategic partners. Our approach to all these parties is founded on the principle of open and honest dialogue, based on a mutual understanding of needs and objectives.

Relationships with our clients are managed on an individual basis through our client relationship managers and consultants. Employees have performance development reviews and employee forums also provide a communication route between employees and management. Mattioli Woods also participates in trade associations and industry groups, which give us access to client and supplier groups and decision-makers in government and other regulatory bodies. Mattioli Woods is a member of the Association of Member-directed Pension Schemes and the Quoted Companies Alliance.

**Resources**

The Group aims to safeguard the assets that give it competitive advantage, including its reputation for quality and proactive advice, its technical competency and its people.

Our core values provide a framework for integrity, leading to responsible and ethical business practices. Structures for accountability from our administration and consultancy teams through to senior management and the Group's Board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit Committee and the Risk and Compliance Committee and take into account ethical considerations, including procedures for 'whistle-blowing'.

**Our people**

I cannot express enough how much I appreciate our people's endeavour and their commitment, enthusiasm and professionalism in dealing with our clients' affairs during these complex times.

As our business grows, the Board recognises the continued importance of good communication and will ensure that the strong client-centric behaviours that are embedded within the business are preserved. Outside of board meetings, non-executive directors have held a number of meetings with employees across the business to share experiences more directly.

Our total headcount at 31 May 2020 had increased to 597 (2019: 586) and we remain committed to developing our people and maintaining the capacity to deliver sustainable growth. 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 year 62% of eligible staff had invested in the Plan (2019: 57%) and we continue to encourage broader staff participation.

In May 2019 the Mattioli Woods Employee Benefit Trust ("the Trust") commenced making market purchases of the Company's shares. The Trust holds shares for the benefit of the Group's employees and, in particular, to satisfy the vesting of awards made under the Company's various share schemes. The acquisition of shares by the Trust helps to avoid dilution of shareholders by reducing the need for the Company to issue new shares.

**Forward-looking statements**

The strategic report is prepared for the members of Mattioli Woods and should not be relied upon by any other party for any other purpose. Where the report contains forward-looking statements these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risks underlying such forward-looking statements and information. The Group undertakes no obligation to update these forward-looking statements.

**Principal risks and uncertainties**

The Board is ultimately responsible for risk management and regularly considers the most significant and emerging threats to the Group's strategy, as well as establishing and maintaining the Group's systems of internal control and risk management and reviewing the effectiveness of those systems. The Board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the annual Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses the principal risks facing the Group. Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

Day-to-day, our risk assessment process considers both the impact and likelihood of risk events which could materialise and affect the delivery of the Group's strategic goals. Throughout the Group, all employees have a responsibility for managing risk and adhering to our control framework.

There are a number of potential risks which could hinder the implementation of the Group's strategy and have a material impact on its long-term performance. These arise from internal or external events, acts or omissions which could pose a threat to the Group. The principal risks identified as having a potential material impact on the Group are detailed below, together with the principal means of mitigation. The risk factors mentioned do not purport to be exhaustive as there may be additional risks that materialise over time that the Group has not yet identified or deemed to have a potentially material adverse effect on the business:

**Industry risks**

| **Risk type** | **Description** | **Mitigating factors** | **Chance** | **Impact** | **Change in risk** |
|---|---|---|---|---|---|
| Changes in investment markets and poor investment performance | The COVID-19 pandemic is affecting economic and financial markets. Volatility may adversely affect trading and/or the value of the Group's assets under management, administration and advice, from which we derive revenues. | · Majority of clients' funds held within registered pension schemes or ISAs, where less likely to withdraw funds and lose tax benefits.<br>· Broad range of investment solutions enables clients to shelter from market volatility through diversification, while continuing to generate revenues for the Group.<br>· Market volatility is closely monitored by the Investment Committee. | High | Medium | Increase |
| Changing markets and increased competition | The Group operates in a highly competitive environment with evolving characteristics and trends. | · The Group seeks to maintain strong working relationships with clients underpinned by high levels of service, quality products and a continued focus on product development and innovation.<br>· Consolidating market position is enhancing the Group's competitive advantage.<br>· Control over scalable and flexible bespoke pension administration platform.<br>· Experienced management team with a strong track record.<br>· Loyal customer base and strong client retention.<br>· Broad service offering gives diversified revenue streams.<br>· In response to COVID-19 our investment in people, cloud-based technology and infrastructure allowed us to move quickly to an operating model that includes home working for circa 600 staff and specific shift rotations for our people carrying out essential tasks in our administration hubs across the country | High | High | No change |

**Industry risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Regulatory risk | The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. | · Strong compliance culture, with appropriate oversight and reporting supported by training.<br>· External professional advisers are engaged to review and advise upon control environment.<br>· Business model and culture embraces FCA principles, including treating clients fairly.<br>· Decision to withdraw from providing advice on safeguarded pensions.<br>· Financial strength provides comfort should capital resource requirements be increased. | Medium | Medium / High | No change |

**Operational risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Damage to the Group's reputation | There is a risk of reputational damage as a result of employee misconduct, failure to manage inside information or conflicts of interest, fraud, improper practice, poor client service or advice. | · Strong compliance culture with a focus on positive customer outcomes.<br>· High level of internal controls, including checks on new staff.<br>· Well-trained staff who ensure the interests of clients are met in the services provided. | Medium | High | No change |
| Errors, breakdown or security breaches in respect of the Group's software or information technology systems | Serious or prolonged breaches, errors or breakdowns in the Group's software or information technology systems could negatively impact customer confidence. It could also breach contracts with customers and data protection laws, rendering us liable to disciplinary action by governmental and regulatory authorities, as well as to claims by our clients. | · Ongoing review of data security, including penetration testing and "phishing" exercises.<br>· IT performance, scalability and security are deemed top priorities by the Board, with additional controls introduced during the year.<br>· Experienced in-house team of IT professionals and established name suppliers.<br>· Audit of secure remote working, information security and operational resilience undertaken in response to the COVID-19 pandemic. | High | High | No change |
| Business continuity and operational resilience | In addition to the failure of IT systems, there is a risk of disruption to the business as a result of power failure, fire, flood, acts of terrorism, re-location problems and the like. | · Periodic review and approval of Business Continuity Plan, considering best practice methodologies.<br>· Periodic review and approval of Disaster Recovery Plan and disaster recovery teams (including IT support) on call to deal with major incidents at short notice. Business impact analysis has been conducted by department.<br>· Loss of revenue is covered by business interruption insurance (subject to certain limits and exclusions).<br>· Response to COVID-19 pandemic demonstrates all Group operations can move to "working from home" at short notice, with little or no interruption to day-to-day business operations. | Medium | Medium | No change |

**Operational risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Fraud risk | There is a risk an employee or third party defrauds either the Group or a client. | · The Group ensures the control environment mitigates against the misappropriation of client assets, with additional controls being introduced to safeguard client assets.<br>· The Group does not hold client money.<br>· Strong corporate controls require dual signatures or online approvals for all payments. Executive committee approval for all expenditure greater than £5,000 and Board approval for all expenditure greater than £100,000.<br>· Assessment of fraud risk every six months discussed with the Audit Committee, Risk and Compliance Committee and external auditors.<br>· Clients have view-only access to information.<br>· Ongoing review of risk of fraud due to external attack on the Group's IT systems, including audit of secure remote working, information security and operational resilience undertaken in response to the COVID-19 pandemic.<br>· All staff are required to complete structured training on Information Security, Cyber Crime, Fighting Fraud and Anti Money Laundering each year, with accelerated completion of all modules required by 31 May 2020 this year to address heightened fraud risk arising from COVID-19. | High | Medium | Increase |
| Key personnel risk | The loss of, or inability to recruit, key personnel could have a material adverse effect on the Group's business, results of operations or financial condition. | · Succession planning is a key consideration throughout the Group.<br>· Success of the Group should attract high calibre candidates.<br>· Share-based schemes in operation to incentivise staff and encourage retention.<br>· Recruitment programmes in place to attract appropriate new staff.<br>· Cross functional acquisition team brought into acquisition projects at an early stage.<br>· Ensuring the health and wellbeing of our people has been a priority throughout COVID-19. The way our people work has changed, with the adoption of training, talent and resource management and leadership in a remote environment. | Low | Medium | No change |

**Operational risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Litigation or claims made against the Group | Risk of liability related to litigation from clients or third parties and assurance that a claim or claims will not be covered by insurance or, if covered, will exceed the limits of available insurance coverage, or that any insurer will become insolvent and will not meet its obligations to provide the Group with cover. | · Appropriate levels of Professional Indemnity insurance cover regularly reviewed with the Group's advisers.<br>· Comprehensive internal review procedures, including compliance sign-off, for advice and marketing materials.<br>· Maintenance of three charging models; time cost, fixed and asset based, which are aligned to specific service propositions and agreed with clients.<br>· Restricted status for our consultants to enable the recommendation of our own products and others in the market. | High | Medium | No change |
| Reliance on third parties or outsourcing risk | Any regulatory breach or service failure on the part of an outsourced service provider could expose the Group to the risk of regulatory sanctions and reputational damage. | · Due diligence is part of the selection process for key suppliers, including assurance on their controls over shared data.<br>· Key contracts with third parties handling sensitive data are escalated for review and approval.<br>· Service level agreements in place with key suppliers.<br>· Ongoing review of relationships and concentration of risk with key business partners.<br>· Review of outsourcing is a key area of focus in Internal Audit plan.<br>· Our operational risk assessment considers the impact of disruptions on critical business functions, with the Business Continuity Plan updated to include an infectious disease section specifically relating to COVID- 19. | High | High | Increase |
| SIPP administration for non-advised clients ("third party SIPP administration") | Risk that through the provision of SIPP administration services to clients with no adviser or a third party adviser, we facilitate the client acting with no or bad advice. | · The Group recognises the duty of care owed to these clients.<br>· Evidence of the suitability of advice where pension investments are out of the ordinary (e.g. checking if client is a sophisticated investor).<br>· Credentials of third party advisers are checked against the FCA register. | High | Low | New risk |
| Strategic risk | Risk that management will pursue inappropriate strategies or implement the Group's strategy ineffectively. | · Experienced management team with successful track record to date.<br>· Management has demonstrated a thorough understanding of the market and monitors this through regular meetings with clients. | Low | Low | No change |

**Operational risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Conduct risk | The risk that we fail our clients through the flawed design or mis-selling of our products or services, or poor business conduct results in client outcomes that do not meet their needs and circumstances. | · Only appropriately authorised consultants can provide advice.<br>· Robust training and competence scheme in place.<br>· Operation of 'three lines of defence' model, including internal and external reviews of to monitor suitability of advice being given to clients.<br>· Compliance oversight by a dedicated team covering; conduct, product, complaints and technical.<br>· Non-standard investments require review and approval by the Group's Technical team.<br>· Professional Indemnity ("PI") insurance in place. | Medium | Medium | No change |
| Conduct risk (acquisitions) | The risk that acquired clients have been failed by the acquired business through the flawed design or mis-selling of products or services, or poor business conduct resulting in outcomes that do not meet their needs and circumstances. | · Due diligence process used to identify and assess risk in acquired client portfolios.<br>· Run-off PI insurance cover and specific indemnities provided by the sellers of acquired businesses to mitigate the Group's risk exposure.<br>· Active dialog with the FCA, especially where we identify specific risks associated with the target business. | High | Low | New risk |
| Information security (or cyber) risk | The risk that the security controls over our IT systems are compromised by internal or external influences, resulting in unauthorised access to our client or corporate confidential data. | · External security provider scans for intrusion threats across our network 24/7.<br>· Electronic data is protected by user access controls. Data privacy training provided to all staff.<br>· Robust firewalls and patches maintained to prevent unauthorised access to IT systems, including utilisation of third party providers to protect corporate networks.<br>· Electronic data is protected by user access controls. Data privacy training is provided across the Group.<br>· Compliance with the Data Protection Act and registration with the Information Commissioner's Office.<br>· Two step verification of any client instruction received by email or post.<br>· Audit of secure remote working, information security and operational resilience undertaken in response to the COVID-19 pandemic. | High | High | Increase |

**Financial risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Counterparty default | That the counterparty to a financial obligation will default on repayments. | · The Group trades only with recognised, creditworthy third parties.<br>· Customers who wish to trade on credit terms are subject to credit verification procedures.<br>· All receivables are reviewed on an ongoing basis for risk of non-collection and any doubtful balances are provided against. | Medium | Medium | No change |

**Financial risks**

| Risk type | Description | Mitigating factors | Chance | Impact | Change in risk |
|---|---|---|---|---|---|
| Bank default | The risk that a bank could fail. | · We only use banks with strong credit ratings.<br>· Client deposits spread across multiple banks.<br>· Regular review and challenge of treasury policy by management. | Medium | High | No change |
| Concentration risk | A component of credit risk, arising from a lack of diversity in business activities or geographical risk. | · The client base is broad, without significant exposure to any individual client or group of clients.<br>· Broad service offering gives diversified revenue streams. | Medium | Medium | No change |

Emerging risks, including legislative and regulatory change, have the potential to impact the Group and its strategy. The Board, Audit Committee and Risk and Compliance Committee continue to monitor emerging risks and threats to the financial services sector including, for example, cyber threats, regulatory change, climate change and scenarios potentially arising from political and economic developments, including Brexit and the COVID-19 pandemic, and intend to continue to focus on operational resilience and enhancing the control environment over the next 12 months.

*COVID-19*

The COVID-19 pandemic is affecting economic and financial markets. We have considered the risks associated with a general economic downturn, including financial market volatility, deteriorating credit, liquidity concerns, government intervention, increasing unemployment, furlough, redundancies and other potential impacts.

The UK is in a deep recession as the virus restricts economic activity and equity markets have not fully recovered to pre-COVID levels, but we believe the world is learning to live with the virus and will be able to contain new outbreaks with targeted regional measures that are less disruptive than previous national lockdowns.

We recognise the short term impacts of the pandemic and the risk of a disorderly Brexit at the end of 2020 may weigh on confidence and consumer spending. However, in the medium term a bigger-than-expected fiscal stimulus could lift demand by more than expected and we believe the UK household savings ratio is likely to surge, providing new opportunities for wealth and asset managers like Mattioli Woods.

*Brexit*

Brexit remains likely to have a significant political and economic impact on the UK. The UK left the European Union ("EU") on 31 January 2020 and has entered a transition period, which is due to operate until 31 December 2020. During the transition period, EU law continues to apply in the UK and new EU legislation that takes effect before the end of the transition period will also apply to the UK. The UK and the EU have indicated, in a Political Declaration, that they intend to reach agreement on the future relationship between the UK and the EU by the end of 2020. The UK government has legislated against extending the transition. The implication of this is that if a new trade deal cannot be agreed by the end of the transition period, EU-UK trade will take place on basic World Trade Organisation trade terms.

We continue to monitor Brexit-related developments closely. Brexit will bring no changes to the basis or nature of the services we provide to the vast majority of our clients and investors who are based in the UK. However, we recognise the impact of Brexit more generally, which could affect the value of our clients' funds under management, advice and administration.

Investors in the Mattioli Woods Structured Product Fund (which is a Luxembourg-based SICAV) are likely to see some changes to the basis on which this fund is distributed. It is also possible that there may be some implications for the small number of our private clients based in other EU countries, depending on the exact nature of the services they receive and regulatory framework agreed in the transitional period or in the event of an exit from the EU without an agreement. We continue to review the investment implications of Brexit for client portfolios and our range of funds, and regularly communicate our views through formal and informal briefings to clients and our consultants.

**Section 172 statement**

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 ("the Act") by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

*Engaging with stakeholders*

The continued success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us and working together towards shared goals assists us in delivering long-term sustainable success.

To fulfil their duties the senior management team, the Directors of each subsidiary company and the Directors of the Group itself take care to have regard to the likely consequences on all stakeholders of the decisions and actions they take, with a long-term view in mind and with the highest standards of conduct, in line with Group policies. Where possible, decisions are carefully discussed with affected groups and are therefore fully understood and supported when taken.

Reports are regularly made to the Board by the senior management team about the strategy, performance and key decisions taken, which provides the Board with assurance that proper consideration is given to stakeholder interests in decision-making, and it uses this information to assess the impact of decisions on each stakeholder group as part of its own decision-making process.

The Group's governance structure allows the Board and the senior management team to have due regard to the impact of decisions on the following matters specified in Section 172 (1) of the Act:

| **Section 172 factor** | **Approach taken** |
|---|---|
| (a) Consequences of any decision in the long term | The business model and strategy of the Company is set out within the Strategic Report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval.<br><br>At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three year forecast model. The senior management team reports non-financial and financial key performance indicators to the Board each month, including but not limited to the measures set out in the 'Key performance indicators' section of the Strategic report, which are used to assess the outcome of decisions made.<br><br>The Board's commitment to keeping in mind the long term consequences of its decisions underlies its focus on risk, including risks to the long term success of the business, leading to the conclusion that during the current period of heightened political and market uncertainty both in the UK and globally, a prudent level of cash resources should be maintained such that the payment of dividends to shareholders and variable remuneration to employees are balanced.<br><br>The strategy of the Group is focussed on positive client outcomes that can deliver sustainable shareholder returns over the long term and as such the long term is firmly within the sights of the Board when all material decisions are made. |
| (b) Interests of employees | The Group is committed to developing our people and maintaining the capacity to deliver sustainable growth. How the Directors have regard to the interests of the individuals responsible for delivery of its products and services is set out in the 'Our people' sections of the Strategic report and 'Employees' section of the Directors' report.<br><br>Employees are represented on the Board by Carol Duncumb. |
| (c) Fostering business relationships with suppliers, customers and others | How business relationships with suppliers, clients and other counterparties is set out in the 'Relationships' section of the Strategic report. Suppliers and other counterparties are typically professional firms such as banks, investment houses, platform providers, accounting firms and legal firms with which the senior management team often has a longstanding relationship.<br><br>Where material counterparties are new to the business, checks, including anti money laundering checks are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also periodically reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015. The Company pays suppliers in accordance with pre-agreed terms.<br><br>Because the Group's focus is on holistic planning and providing high levels of personal service, maintaining close relationships with all our clients, it has open lines of communication with clients and can understand and resolve any issues promptly. |
| (d) Impact of operations on the community and the environment | The interaction of the Company with the wider community is explained in the 'Relationships' and 'Corporate Social Responsibility' sections of the Strategic report.<br><br>The Group's impact on the environment is limited due to the nature of the Group's business operations as set out in the 'Environmental performance and strategy' section of the Strategic report and 'Environmental' section of the Directors' report. However, the Board is committed to limiting the impact of the business on the environment where possible.<br><br>The Board takes overall responsibility for the Company's impact on the community and the environment. The Company's approach to sustainability, preventing bribery, money laundering, slavery and human trafficking is disclosed in the 'Corporate Social Responsibility' section of the Strategic report. |
| (e) Maintaining high standards of business conduct | The Board believes that the ability of the Company to conduct its business and finance its activities depends in part on the reputation of the Board and senior management team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically.<br><br>The Board is responsible to shareholders for the proper management of the Group and how the Board discharges its duties is set out in the Corporate governance report.<br><br>The principal risks and uncertainties facing the business are set out in that section of the Strategic report. |

| Section 172 factor | Approach taken |
|---|---|
| (f) Acting fairly between members | The Company's shareholders are a very important stakeholder group. The Board oversees a formal investor relations programme which involves the Directors and senior management team engaging routinely with the Company's shareholders. The programme is managed by the Company's brokers and the Board receives prompt feedback from both its brokers and its financial public relations adviser on the outcomes of meetings.<br><br>The Board aims to be open with shareholders and available to them, subject to compliance with relevant securities laws. The Chairman of the Company and other Non-Executive Directors make themselves available for meetings as appropriate and all attend the Company's Annual General Meeting ("AGM").<br><br>The investor relations programme is designed to promote formal engagement with investors and is typically conducted after each half-yearly results announcement. The Group also engages with existing investors who may request meetings and with potential new investors on an ad hoc basis throughout the year, including where prompted by Company announcements. Shareholder presentations are made available on the Company's website. The Company has a single class of shares in issue with all members of the Company having equal rights. |

*Methods used by the Board*

The main methods used by the Directors to perform their duties include:

- Board strategy days, which are held at least annually, to review all aspects of the Group's business model and strategy and assess the long-term sustainable success of the Group and its impact on key stakeholders;
- The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. Throughout the peak of the COVID-19 pandemic in the UK the Board met on an at least weekly basis;
- The Board is responsible for the Company's ESG activities set out in the Strategic report;
- The Board's risk management procedures set out in the Corporate governance report identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to the Company and wider stakeholders;
- The Board sets the Company's purpose, values and strategy, detailed in the 'Our approach' and 'Strategy' sections of the Strategic report, and the senior management team ensures they align with its culture;
- The Board carries out direct shareholder engagement via the AGM and Directors attend shareholder meetings on an ad hoc basis;
- External assurance is received through internal and external audits and reports from brokers and advisers; and
- Specific training for existing Directors and induction for new Directors as set out in the Corporate governance report.

*Principal decisions in the year*

Mattioli Woods comprises a number of operating segments, all of which have extensive engagement with their own unique stakeholders as well as other businesses in the Group. The governance framework delegates day-to-day operational authority to the Management Engagement Committee, subject to a list of matters which are reserved for decision by the Governance Committee or the full Board only, up to defined levels of cost and impact.

The Board has a formal schedule of matters specifically reserved to it for decision, including strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements.

The principal non-routine decisions taken by the Board during the year were:

- The purchase of The Turris Partnership, which was an important strategic acquisition as we had been looking to expand our operations in Scotland for some time. Turris' clients and staff continue to benefit from our strong ethos and culture of putting the clients' interests at the heart of everything we do. These values were an embedded part of both Turris' and Mattioli Woods' operations and a key reason why the transaction was such a good fit. The additional resources and support available as part of Mattioli Woods will benefit Turris' clients and staff, and the business has positively contributed to the Group's financial results since acquisition, enhancing shareholder returns. The acquisition is further detailed in Note 3 to the financial statements;
- The purchase of Hurley Partners, in line with the Group's strategy to explore high quality acquisition opportunities alongside organic growth. The acquisition is further detailed in Note 3 to the financial statements, with key elements of the strategic rationale being:
  - Extending the Group's geographic footprint into Surrey and adding scale to its existing London and Manchester operations;
  - Adding direct equity investment expertise to the Group's existing discretionary management proposition;
  - Adding nine advisers to the Group's consultancy team;
  - The migration of Hurley Partners' SSAS portfolio onto Mattioli Woods' proprietary pension administration platform offers potential operational efficiencies; and
  - Material financial benefits are expected from the acquisition, which is expected to be earnings enhancing in the first full year of ownership, with annual cost savings of approximately £0.5m expected to be fully realised by the end of the first year, with the opportunity to realise revenue synergies through a new distribution channel for Mattioli Woods' services.
- Response to the COVID-19 pandemic. Our primary focus was to help manage the health emergency, whilst continuing to deliver an uninterrupted service to our clients and the wider community. The Group has remained fully operational throughout, maintaining our focus on client service and developing our customer proposition. The Board decided it would not take advantage of any of the government initiatives to assist businesses navigate their way through the challenges and pressures that emerged, reducing the burden that will have to be met by the UK taxpayer as we emerge from the crisis and recognising that past financial prudence had placed the Group on a strong footing. In anticipation of the likely trading conditions created by the pandemic, we implemented a number of mitigating actions to protect the Group's financial position, realising total cost

savings of approximately £2.6m through all Directors reducing their basic remuneration and confirming that remaining staff bonuses and all directors' bonuses in respect of the financial year would not be paid.
· Determination of dividend. In light of the uncertain trading conditions, the Board believes it is prudent to protect the Group's financial position and balance the interests of all stakeholders, including those employees that have foregone salary and bonus in respect of the year ended 31 May 2020. Accordingly, the Board has proposed a lower final dividend for the year than might have been proposed in more normal circumstances.
· Agreeing a further three-year term to Custodian Capital's ongoing engagement as external discretionary fund manager of Custodian REIT from 1 June 2020. The revised Investment Management Agreement secures further cost reductions for investors in Custodian REIT and an important long-term revenue stream for the Group. Another three year term allows the Group to commit to further investment in Custodian Capital's dedicated systems and people providing its services under the IMA and the fee changes will be beneficial to the Group's clients who are investors in Custodian REIT.

Due to the nature of these decisions, a variety of stakeholders had to be considered as part of the Board's discussions. Each decision was announced at the time, so that all stakeholders were aware of the decisions.

*Stakeholders*

Details of the Group's key stakeholders and how we engage with them are set out below.

· Shareholders: As owners of the Group we rely on our shareholders' support and their opinions are important to us. We have an open dialogue with our shareholders through one-to-one meetings, group meetings, webcasts and the AGM. Discussions with shareholders cover a wide range of topics including financial performance, strategy, outlook, governance and ethical practices. Shareholder feedback along with details of movements in our shareholder base are regularly reported to and discussed by the Board and their views are considered as part of decision-making.
· Employees: Our people are the key to our success, and we want them to be successful individually and as a team. There are many ways we engage with and listen to our people including employee surveys, forums, well-being discussions, face-to-face briefings, internal communities and newsletters. During the pandemic there has been an increased focus on health and well-being, in addition to development opportunities, pay and benefits.
· Our clients: We are passionate about looking after our clients' financial affairs. Creating and preserving wealth, our focus remains on ensuring our trusted advice gives clients the understanding to achieve their objectives. We recognise that a significant number of our clients are being affected by the challenging economic conditions. We resolved not to alter any of our fee structures or implement any annual fee increases, which will continue to give our clients the benefit of reduced TERs. We are confident our combination of lower costs alongside strong investment performance will ensure we continue to deliver good financial outcomes for our clients.
· Suppliers: We build strong relationships with our suppliers to develop mutually beneficial and lasting partnerships. Engagement with suppliers is primarily through a series of interactions and formal reviews. Key areas of focus include innovation, enhancing our client propositions, health and safety and sustainability. The Board recognises that relationships with suppliers are important to the Group's long-term success and is briefed on supplier feedback and issues on a regular basis.
· Communities: We engage with the communities in which we operate to build trust and understand the local issues that are important to them. Key areas of focus include how we can support local causes and issues, create opportunities to recruit and develop local people and help to look after the environment. We partner with local charities and organisations at an individual office level to raise awareness and funds. The impact of decisions on the environment both locally and nationally is considered with such considerations as the use of and disposal of paper and plastic.
· Government and regulators: We engage with the government and regulators through a range of industry consultations, forums, meetings and conferences to communicate our views to policy makers relevant to our business. Mattioli Woods is a member of the Association of Member-directed Pension Schemes and the Quoted Companies Alliance. Key areas of focus are compliance with laws and regulations, health and safety. The Board is updated on legal and regulatory developments and takes these into account when considering future actions.

Further information on the ways in which the Board engages with stakeholders is set out in the Corporate governance report and Strategic report.

**Environmental performance and strategy**

Due to the Group's activities, Mattioli Woods impacts the local and global environment. The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 implement the government's policy on Streamlined Energy and Carbon Reporting, requiring disclosure of the environmental performance of the Group's assets through calculating the Group's greenhouse gas ("GHG") emissions and subsequently, setting strategies to minimise these emissions. The following information summarises the Group's environmental performance over the year.

*Methodology*

GHG emissions are quantified and reported according to the Greenhouse Gas Protocol. Consumption data has been collated and converted into $CO_2$ equivalent using the UK Government 2019 Conversion Factors for Company Reporting to calculate emissions from corresponding activity data. To collect consumption data, the Group has reviewed utility invoicing and its staff expense software to track business mileage in Group-owned vehicles and own vehicles.

This information has been prepared in accordance with the GHG Protocol's Scope 2 Guidance on both location-based and market-based Scope 2 emissions figures. Data collected relates to the most recent 12 month period where data was available. Comparative information has not been disclosed as this is the Group's first year of mandatory reporting.

We have calculated energy intensity and emissions intensity using total floor area which is considered to best represent the scale of the business compared to using alternative measure such as headcount, as the majority of energy usage is from buildings and the COVID-19 pandemic is expected to make the level of fuel consumption for Group vehicles volatile in the short-term.

As part of the data collection, a materiality assessment was applied to determine which indicators were relevant to the Group. We have assessed each indicator in terms of its impact on the Group and its perceived importance to stakeholders.

Sustainability is a key priority for Mattioli Woods and we are working towards putting in place an environmental vision and strategy, including the development and implementation of key performance indicators and long-term targets for Scope 1 and 2 emissions. No electricity or gas consumption is currently from renewables. This strategy will also involve setting a plan of building and car fleet optimisation opportunities.

*Reporting boundaries and limitations*

The GHG sources that constitute our operational boundary for the reporting period are:

- Scope 1**:** Natural gas combustion within boilers, gas oil combustion within generators and road fuel combustion within owned vehicles.
- Scope 2: Purchased electricity consumption for our own use.
- Scope 3: Water consumption and fuel consumption from employee-owned cars for business use.

Fuel connected with employee train travel for business use has been excluded as amounts are likely to be immaterial and we consider it impractical to make estimations as only the cost of travel is recorded in the Group's expense records. Fugitive gasses from office air conditioning are also considered immaterial.

*Assumptions and estimations*

In some instances data is missing, including:

- The utility costs for Group's Manchester and London offices (which represent circa 2.5% of the Group's total floor area), where utilities are included in rent payable; and
- Water usage in the Group's Scottish offices has been estimated as they pay rates rather than using meters.

In such cases, estimations have been applied to fill the gaps, calculated either through extrapolation of available data from the reporting period or through data from other similar offices as a proxy.

*Performance*

The table below shows absolute performance and like-for-like performance of our Scope 1, 2 and 3 emissions for the year, which represents the Group's first year of reporting under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018:

| **GHG emissions ($tCO_2e$)** | | **2020** |
|---|---|---|
| Scope 1 | Fuel consumption (gas office heating) (kWh) | **490767** |
| | Associated GHG ($tCO_2e$) | **90** |
| | Fuel consumption (company vehicles) (miles) | **612,808** |
| | Fuel consumption (company vehicles) (MWh) | **714** |
| | Associated GHG ($tCO_2e$) | **175** |
| Scope 2 | Electricity consumption (office and company car electricity) (kWh) | **1,036,440** |
| | Associated GHG ($tCO_2e$) | **265** |
| | Total Scope 1 & 2 emissions | **530** |
| Scope 3 | Fuel consumption (own cars for business use) (miles) | **147,569** |
| | Fuel consumption (own cars for business use) (MWh) | **176** |
| | Associated GHG ($tCO_2e$) | **42** |
| | Water consumption (m3) | **3,236** |
| | Associated GHG ($tCO_2e$) | **3** |
| | Total Scope 3 emissions | **45** |
| | Gross Scope 1, 2 and 3 emissions | **575** |
| | Total floor area (sqft) | **90,742** |
| | Scope 1 & 2 emissions intensity ($tCO_2e$/sqft/yr) | **0.0058** |
| | Scope 3 emissions intensity ($tCO_2e$/sqft/yr) | **0.0005** |

**Corporate social responsibility**

*Our commitment to operating responsibly*

As never before, the events of 2020 have challenged and impacted all businesses across all sectors. Mattioli Woods is no different, however, our dedicated team has allowed us to rise to these challenges and continue making a positive contribution to our stakeholders - our clients, shareholders, staff, suppliers and chosen charity partners alike. We believe this is responsible business in action.

Our approach to achieving good governance comes from a passion to ensure we do the right things for our clients and this is embedded in the culture of the Mattioli Woods team, where staff are encouraged to thrive and develop in their roles and the business in turn supports them in their own career development. Our record of growing our own and promoting from within the Group adds to the sense of teamship which underpins everything we do.

*Sustainability*

The Group has continued to grow over the last year and we recognise that we have a responsibility to support our profitable expansion by operating in a sustainable manner. As we continue to deal with, and learn from, the impact of COVID-19, we have demonstrated we can deliver great client outcomes in different ways, with the majority of our staff currently 'working from home'. This will inform our thinking as to how we can deliver strong and sustainable shareholder returns, including investing in new technology to facilitate efficient growth over the long term.

Whilst our environmental footprint has inevitably reduced in the period of lockdown, this does not detract from our focus on ensuring that, wherever possible, we minimise any negative impact in this area. The modern design and construction methods used in our Leicester office means that we are harnessing the latest technology to support our environmental aims and, whilst this is a major contributor in itself, we recognise that smaller changes to how we do things can make incremental contributions. These include reducing the amount of paper we use through the adoption of new technologies, including an on-line portal to deliver client valuations, supporting our move to a paperless environment. In addition, our consultancy team is making increasing use of hybrid and efficient fuel technology in the vehicles they use.

We are exploring how we can offer our clients access to bespoke "ESG responsible" investment propositions, with a view to adding such an option in the coming year.

*Charities and communities*

Making a difference within our local communities matters to us and we continue to have a high level of engagement in this area. Each year, we sponsor businesses, sports and community awards. Our business has benefited greatly from winning numerous awards and we feel it's right to help other businesses reap the rewards of such accolades. In addition, we sponsor a variety of local clubs, business and sports related events across the country.

In 2019, we launched a new national partnership with Alzheimer's Research UK, a charity focused on boosting research, improving treatments and raising awareness about dementia. Like many charities, the impact of the COVID-19 pandemic on Alzheimer's Research UK has been significant and some of the activities we had planned to support them, such as members of the Mattioli Woods family running the Virgin Money London Marathon, have had to be put on hold.

However, this has not stopped our enthusiasm to help where possible and the team was delighted to participate in "Jay's Virtual Pub Quiz" in April 2020, co-hosted by Stephen Fry and sponsored by Mattioli Woods, which raised a total of £340,000, aided by a £50,000 contribution by Mattioli Woods.

We believe dementia is one of the biggest problems facing health services today and one that is impacting the lives of many of our employees and clients. We will continue to explore ways of engaging employees, clients and partners to raise money for the charity where and when we can.

Every year, the Group's associate company Amati has a commitment to donate 10% of its profits to good causes. We want to further that tradition and this year asked our staff to suggest good causes they felt deserving of a donation. This meant we could contribute to numerous other charities throughout the UK that are local to where our staff live, which has helped to further enhance our impact on the communities where we live, with total charitable donations by the Group and its employees (through payroll giving) totalling over £0.6m during the year.

We recognise that our tax contributions also play an important role for the communities in which we operate, with the Group's total tax contribution summarised as follows:

| **Total tax contribution** | *2020* *£000* | *2019* *£000* |
|---|---|---|
| Corporation tax | 3,244 | 1,963 |
| *Other taxes borne:* | | |
| Employer's National Insurance Contributions | 2,761 | 2,967 |
| Apprenticeship levy | 121 | 129 |
| Business rates | 514 | 451 |
| Irrecoverable input VAT | 799 | 946 |
| Insurance premium tax | 109 | 69 |
| Stamp duty land and stamp duty reserve tax | 9 | 57 |
| *Taxes collected:* | | |
| Income tax deducted under PAYE | 5,379 | 6,561 |
| Employees' National Insurance Contributions | 1,610 | 1,600 |
| Output VAT | 4,688 | 4,728 |
| | 19,234 | 19,471 |

*Developing our people*

The Group continues to create opportunities for young people and we operate a trainee consultant programme for aspiring advisors. We have introduced a 26-week plan to foster small groups of trainee advisers in a classroom setting, two days a week.

Each week is themed, including topics such as tax, pensions and investments, and aims to get trainees who have been with the Company for 18 months and have completed their level 4 qualification to the point where they are able to develop financial plans.

Trainees work alongside consultants in administrative roles and attend consultant-led client meetings. The scheme will continue to be rolled out for new groups of employees who demonstrate the potential to move into consultant roles at the firm. Mattioli Woods' graduate and apprenticeship schemes have been running for a number of years and, together with the trainee consultant programme, highlight the firm's motivation to 'grow our own'. Trainees work alongside consultants in administrative roles and attend consultant-led client meetings. The scheme will continue to be rolled out for new groups of employees who demonstrate the potential to move into consultant roles at the firm.

*Diversity and inclusion*

We are an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of race, sex, marital/civil partnership status, age, disability, religious belief, pregnancy, maternity, gender reassignment or sexual orientation.

*Modern slavery*

Mattioli Woods is committed to preventing modern slavery and human trafficking in all its activities, and to ensuring its supply chains are free from modern slavery and human trafficking. We welcomed the introduction of the Modern Slavery Act 2015 and a copy of our Modern Slavery and Human Trafficking Statement can be found on our website. We have also developed policies, reviewed our due diligence processes for suppliers and provided training to staff.

*Anti-bribery policy*

We value our reputation for ethical behaviour and upholding the utmost integrity and we comply with the FCA's clients' best interests rule. We understand that in addition to the criminality of bribery and corruption, any such crime would also have an adverse effect on our reputation and integrity.

Mattioli Woods has a zero tolerance approach to bribery and corruption and we ensure all of our employees and suppliers are adequately trained as to limit our exposure to bribery by:

- Setting out clear anti-bribery and corruption policies;
- Providing mandatory training to all employees;
- Encouraging our employees to be vigilant and report any suspected cases of bribery in accordance with the specified procedures; and
- Escalating and investigating instances of suspected bribery and assisting the police or other appropriate authorities in their investigations.

*Gender pay reporting*

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires all employers with 250 or more employees in the UK to publish details of their gender pay gap. Its aim is to achieve greater transparency about gender pay difference. The analysis is based on data as at 5 April of each year and shows the differences in the average pay between men and women.

However, the Government Equalities Office and the Equality and Human Right Commission have suspended gender pay gap reporting regulations for the 2019/20 reporting year, due to the COVID-19 pandemic. Ordinarily, the Group submits its data on gender pay to the government each year and publishes these details on our website.

**Approval**

The strategic report contains certain forward-looking statements, which are made by the Directors in good faith based on the information available to them at the time of their approval of this annual report. Statements contained within the strategic report should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. The strategic report has been prepared by Mattioli Woods to provide information to its shareholders and should not be relied upon for any other purpose.

The strategic report has been approved by the Board of Directors and signed on its behalf by:

**Ian Mattioli MBE**
Chief Executive Officer
1 September 2020

**Going concern**

The Group's business activities, performance and position, together with the risks it faces and the factors likely to affect its future development are set out in the Strategic report. The Board has assessed the Group's viability over a three-year period from 1 June 2020 through to 31 May 2023. This period is aligned with the Group's annual budgeting process, where the Board reviews and challenges the Group's budget in advance of each new financial year.

The Board has also considered the general business environment and the potential threats to the Group's business model arising from regulatory, demographic, political and technological changes. The COVID-19 pandemic is affecting economic and financial markets. The Board has considered the risks associated with a general economic downturn, including financial market volatility, deteriorating credit, liquidity concerns, government intervention, increasing unemployment, furlough, redundancies and other restructuring activities.

The Board has carried out a robust assessment of the principal risks facing the Group along with the stress tests and scenarios that would threaten the sustainability of its business model, future performance, solvency or liquidity. In assessing the future viability of the overall business, the Board has considered the current and future strategy, the results of the latest ICAAP and the risk management controls and procedures in place.

The directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections show that the Group should continue to be cash generative, maintain a surplus on its regulatory capital requirements and be able to operate within the level of its current financing arrangements. Accordingly, the directors continue to adopt the going concern basis for the preparation of the financial statements.

**Directors' responsibilities for the financial statements**

The directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare Group and Company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing each of the Group and Company financial statements, the directors are required to:

· Select suitable accounting policies and then apply them consistently;
· Make judgements and estimates that are reasonable and prudent;
· State whether they have been prepared in accordance with IFRSs adopted by the EU; and
· Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Mattioli Woods plc website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Consolidated Statement of Comprehensive Income**
**For the year ended 31 May 2020**

| | Note | ***2020*** <br> ***£000*** | *2019* <br> *Restated* <br> *£000* |
|---|---|---|---|
| **Revenue** | 4 | **58,407** | 57,494 |
| Employee benefits expense | | **(27,623)** | (31,239) |
| Other administrative expenses | | **(10,897)** | (10,771) |
| Share-based payments | 13 | **(1,335)** | (1,531) |
| Amortisation and impairment | 11 | **(2,437)** | (2,962) |
| Depreciation | 9,10 | **(2,547)** | (1,288) |
| Impairment loss on financial assets | | **(605)** | (358) |
| Loss on disposal of property, plant and equipment | | **(18)** | (125) |
| Gain on revaluation of derivative financial instrument | 12 | **-** | 100 |
| **Operating profit before financing** | | **12,945** | 9,320 |

| | | | |
|---|---|---|---|
| Finance revenue | | **99** | 60 |
| Finance costs | | **(260)** | (86) |
| Net finance costs | | **(161)** | (26) |
| Share of profit from associate, net of tax | 12 | **633** | 480 |
| **Profit before tax** | | **13,417** | 9,774 |
| Income tax expense | | **(3,244)** | (1,963) |
| **Profit for the year** | | **10,173** | 7,811 |
| *Items that will not be reclassified to profit or loss* | | | |
| Other comprehensive income for the year, net of tax | | **(15)** | 6 |
| **Total comprehensive income for the year, net of tax** | | **10,158** | 7,817 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **10,158** | 7,817 |
| **Earnings per ordinary share:** | | | |
| Basic (pence) | 7 | **37.8** | 29.3 |
| Diluted (pence) | 7 | **36.6** | 28.5 |
| Proposed total dividend per share (pence) | 8 | **20.0** | 20.0 |

Details of the restatement to comparative financial information are disclosed in Note 2.

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements.

## Consolidated and Company Statements of Financial Position

Registered number: 03140521

**As at 31 May 2020**

| | | ***2020*** | | *2019* | |
|---|---|---|---|---|---|
| | | ***Group*** | ***Company*** | *Group Restated* | *Company Restated* |
| | Note | ***£000*** | ***£000*** | *£000* | *£000* |
| **Assets** | | | | | |
| Property, plant and equipment | 9 | **15,636** | **3,115** | 16,665 | 3,469 |
| Right of use assets | 10 | **2,584** | **2,188** | - | - |
| Intangible assets | 11 | **48,102** | **36,638** | 48,734 | 38,505 |
| Deferred tax asset | | **888** | **874** | 704 | 701 |
| Investments in subsidiaries | 12 | **-** | **14,534** | - | 12,803 |
| Investment in associate | 12 | **3,732** | **3,732** | 4,211 | 4,211 |
| Derivative financial asset | 14 | **-** | **-** | 750 | 750 |
| Total non-current assets | | **70,942** | **61,081** | 71,064 | 60,439 |
| Trade and other receivables | | **17,208** | **27,192** | 16,384 | 28,111 |
| Income tax receivable | | **390** | **1,403** | - | - |
| Finance lease receivable | | **324** | **324** | - | - |
| Investments | 12 | **40** | **40** | 80 | 80 |
| Cash and short-term deposits | 15 | **25,959** | **17,584** | 23,248 | 14,095 |
| Total current assets | | **43,921** | **46,543** | 39,712 | 42,286 |
| **Total assets** | | **114,863** | **107,624** | 110,776 | 102,725 |
| **Equity** | | | | | |
| Issued capital | 16 | **269** | **269** | 268 | 268 |
| Share premium | 16 | **32,891** | **32,891** | 32,137 | 32,137 |
| Merger reserve | 16 | **10,639** | **10,639** | 10,639 | 10,639 |
| Equity - share based payments | 16 | **3,848** | **3,848** | 3,208 | 3,208 |
| Capital redemption reserve | 16 | **2,000** | **2,000** | 2,000 | 2,000 |
| Own shares | 16 | **(597)** | **-** | (99) | - |
| Retained earnings | 16 | **42,576** | **38,037** | 37,632 | 33,223 |
| **Total equity attributable to equity holders of the parent** | | **91,626** | **87,684** | 85,785 | 81,475 |
| **Non-current liabilities** | | | | | |
| Deferred tax liability | | **4,482** | **3,092** | 4,345 | 3,150 |
| Lease liability | 18 | **1,944** | **1,622** | - | - |
| Financial liabilities and provisions | 17 | **1,713** | **1,683** | 1,976 | 1,951 |
| Total non-current liabilities | | **8,139** | **6,397** | 6,321 | 5,101 |
| **Current liabilities** | | | | | |
| Trade and other payables | | **9,923** | **8,706** | 14,527 | 12,806 |
| Income tax payable | | **-** | **-** | 536 | - |
| Lease liability | 18 | **964** | **880** | - | - |
| Financial liabilities and provisions | 17 | **4,211** | **3,957** | 3,607 | 3,343 |
| Total current liabilities | | **15,098** | **13,543** | 18,670 | 16,149 |
| Total liabilities | | **23,237** | **19,940** | 24,991 | 21,250 |

| | | | | |
|---|---|---|---|---|
| **Total equities and liabilities** | **114,863** | **107,624** | 110,766 | 102,725 |

Details of restatement to comparative financial information are disclosed in Note 2.
The profit of the Company for the financial year, after taxation, was £10.0m (2019 restated: £8.5m).

The financial statements were approved by the Board of directors and authorised for issue on 1 September 2020 and are signed on its behalf by:

**Ian Mattioli MBE** — Chief Executive Officer

**Nathan Imlach** — Chief Financial Officer

**Consolidated and Company Statements of Changes in Equity**
**For the year ended 31 May 2020**

| ***Group*** | *Issued capital (Note 16) £000* | *Share premium (Note 16) £000* | *Merger reserve (Note 16) £000* | *Equity - share based payments Restated (Note 16) £000* | *Capital redemption reserve (Note 16) £000* | *Own shares (Note 16) £000* | *Retained earnings Restated (Note 16) £000* | *Total equity £000* |
|---|---|---|---|---|---|---|---|---|
| As at 1 June 2018 | 261 | 31,283 | 8,781 | 3,456 | 2,000 | - | 33,001 | 78,782 |
| Profit for the year | - | - | - | - | - | - | 7,811 | 7,811 |
| Share of other comprehensive income from associates | - | - | - | - | - | - | 6 | 6 |
| Total comprehensive income | - | - | - | - | - | - | 7,817 | 7,817 |
| *Transactions with owners of the Group, recognised directly in equity* | | | | | | | | |
| Issue of share capital | 7 | 854 | 1,858 | - | - | - | - | 2,719 |
| Share-based payment transactions | - | - | - | 1,270 | - | - | - | 1,270 |
| Deferred tax recognised in equity | - | - | - | (135) | - | - | - | (135) |
| Current tax taken to equity | - | - | - | 134 | - | - | - | 134 |
| Reserves transfer | - | - | - | (1,517) | - | - | 1,517 | - |
| Own shares | - | - | - | - | - | (99) | - | (99) |
| Dividends | - | - | - | - | - | - | (4,703) | (4,703) |
| As at 31 May 2019 | 268 | 32,137 | 10,639 | 3,208 | 2,000 | (99) | 37,632 | 85,785 |
| Profit for the year | - | - | - | - | - | - | 10,173 | 10,173 |
| Share of other comprehensive income from associates | - | - | - | - | - | - | (15) | (15) |
| Total comprehensive income | - | - | - | - | - | - | 10,158 | 10,158 |
| *Transactions with owners of the Group, recognised directly in equity* | | | | | | | | |
| Issue of share capital | 1 | 754 | - | - | - | - | - | 755 |
| Share-based payment transactions | - | - | - | 1,066 | - | - | - | 1,066 |
| Deferred tax recognised in equity | - | - | - | (50) | - | - | - | (50) |
| Current tax taken to equity | - | - | - | 29 | - | - | - | 29 |
| Reserves transfer | - | - | - | (405) | - | - | 405 | - |
| Own shares | - | - | - | - | - | (498) | - | (498) |
| Dividends | - | - | - | - | - | - | (5,619) | (5,619) |
| **As at 31 May 2020** | **269** | **32,891** | **10,639** | **3,848** | **2,000** | **(597)** | **42,576** | **91,626** |

Details of restatement to comparative financial information are disclosed in Note 2.

**Consolidated and Company Statements of Changes in Equity**
**For the year ended 31 May 2020 (continued)**

| ***Company*** | *Issued capital (Note 16) £000* | *Share premium (Note 16) £000* | *Merger reserve (Note 16) £000* | *Equity - share based payments Restated (Note 16) £000* | *Capital redemption reserve (Note 16) £000* | *Retained earnings Restated (Note 16) £000* | *Total equity £000* |
|---|---|---|---|---|---|---|---|
| As at 1 June 2018 | 261 | 31,283 | 8,781 | 3,456 | 2,000 | 27,874 | 73,655 |
| Profit for the year | - | - | - | - | - | 8,529 | 8,529 |
| Share of other comprehensive income from associates | - | - | - | - | - | 6 | 6 |
| Total comprehensive income | - | - | - | - | - | 8,535 | 8,535 |
| *Transactions with owners of the Company, recognised directly in equity* | | | | | | | |
| Issue of share capital | 7 | 854 | 1,858 | - | - | - | 2,719 |
| Share-based payment transactions | - | - | - | 1,270 | - | - | 1,270 |
| Deferred tax recognised in equity | - | - | - | (135) | - | - | (135) |
| Current tax taken to equity | - | - | - | 134 | - | - | 134 |
| Reserves transfer | - | - | - | (1,517) | - | 1,517 | - |
| Dividends | - | - | - | - | - | (4,703) | (4,703) |
| As at 31 May 2019 | 268 | 32,137 | 10,639 | 3,208 | 2,000 | 33,081 | 81,475 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Profit for the year | - | - | - | - | - | 10,043 | 10,043 |
| Share of other comprehensive income from associates | - | - | - | - | - | (15) | (15) |
| Total comprehensive income | - | - | - | - | - | 10,028 | 10,028 |
| *Transactions with owners of the Company, recognised directly in equity* | | | | | | | |
| Issue of share capital | 1 | 754 | - | - | - | - | 755 |
| Share-based payment transactions | - | - | - | 1,066 | - | - | 1,066 |
| Deferred tax recognised in equity | - | - | - | (50) | - | - | (50) |
| Current tax taken to equity | - | - | - | 29 | - | - | 29 |
| Reserves transfer | - | - | - | (405) | - | 405 | - |
| Dividends | - | - | - | - | - | (5,619) | (5,619) |
| **As at 31 May 2020** | **269** | **32,891** | **10,639** | **3,848** | **2,000** | **38,037** | **87,684** |

Details of restatement to comparative financial information are disclosed in Note 2.

As permitted by s408 of the Companies Act 2006, no separate profit or loss account or statement of comprehensive income is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's statement of financial position.

## Consolidated and Company Statements of Cash Flows

**For the year ended 31 May 2020**

| | Note | ***Group 2020 £000*** | ***Company 2020 £000*** | *Group 2019 Restated £000* | *Company 2019 Restated £000* |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit for the year | | **10,173** | **10,042** | 7,811 | 8,529 |
| *Adjustments for:* | | | | | |
| Depreciation | 9,10 | **2,547** | **1,781** | 1,288 | 840 |
| Amortisation | 11 | **2,437** | **2,039** | 2,962 | 2,723 |
| Impairment | 12 | **-** | **-** | - | 14,935 |
| Investment income | | **(99)** | **(490)** | (60) | (512) |
| Interest expense | | **260** | **241** | 86 | 691 |
| Share of profit from associate | 12 | **(633)** | **(633)** | (480) | (480) |
| Gain on revaluation of derivative financial asset | 12 | **-** | **-** | (100) | (100) |
| Loss on disposal of property, plant and equipment | | **18** | **16** | 125 | 114 |
| Equity-settled share-based payments | 13 | **1,335** | **1,335** | 1,531 | 1,531 |
| Dividend income | | **-** | **(3,500)** | - | (18,835) |
| Income tax expense | | **3,244** | **2,208** | 1,963 | 1,031 |
| **Cash flows from operating activities before changes in working capital and provisions** | | **19,282** | **13,039** | 15,126 | 10,467 |
| (Increase)/decrease in trade and other receivables | | **(806)** | **1,327** | 656 | 1,101 |
| Decrease in trade and other payables | | **(4,586)** | **(4,061)** | (4,231) | (3,580) |
| Increase/(decrease) in provisions | | **36** | **55** | (537) | (687) |
| **Cash generated from operations** | | **13,926** | **10,360** | 11,014 | 7,301 |
| Interest paid | | **-** | **-** | (1) | - |
| Income taxes paid | | **(4,392)** | **(3,863)** | (2,221) | (1,640) |
| **Net cash flows from operating activities** | | **9,534** | **6,497** | 8,792 | 5,661 |
| **Investing activities** | | | | | |
| Proceeds from sale of property, plant and equipment | | **124** | **124** | 117 | 117 |
| Purchase of property, plant and equipment | 9 | **(818)** | **(814)** | (1,680) | (1,648) |
| Purchase of software | 11 | **(173)** | **(173)** | (297) | (297) |
| Contingent consideration paid on acquisition of subsidiaries | 17 | **(600)** | **(600)** | (763) | (763) |
| Acquisition of subsidiaries | 3 | **(861)** | **(990)** | (4,537) | (4,537) |
| Cash received on acquisition of subsidiaries | 3 | **111** | **-** | 1,845 | - |
| Dividends received from associate undertakings | 12 | **1,078** | **1,078** | - | - |
| Proceeds from disposal of derivative financial assets | 14 | **750** | **750** | - | - |
| Other investments | | **45** | **45** | - | - |
| Loans advanced to property syndicates | | **(35)** | **(35)** | (211) | (211) |
| Loan repayments from property syndicates | | **44** | **44** | 467 | 467 |
| Interest received | | **83** | **44** | 54 | 34 |
| Dividends received | | **-** | **3,500** | - | 1,500 |
| **Net cash flows from investing activities** | | **(252)** | **2,973** | (5,005) | (5,338) |
| **Financing activities** | | | | | |
| Proceeds from the issue of share capital | | **487** | **487** | 595 | 595 |
| Cost of own shares acquired | | **(498)** | **-** | (99) | - |
| Dividends paid | 8 | **(5,619)** | **(5,619)** | (4,703) | (4,703) |
| Payment of lease liabilities | 18 | **(941)** | **(849)** | - | - |
| **Net cash flows from financing activities** | | **(6,571)** | **(5,981)** | (4,207) | (4,108) |

| | | | | | |
|---|---|---|---|---|---|
| Net increase in cash and cash equivalents | | **2,711** | **3,489** | (420) | (3,785) |
| Cash and cash equivalents at start year | 15 | **23,248** | **14,095** | 23,668 | 17,880 |
| **Cash and cash equivalents at end of year** | 15 | **25,959** | **17,584** | 23,248 | 14,095 |

Details of restatement to comparative financial information are disclosed in Note 2.

**Notes to the 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 publicly traded on the AIM market of the London Stock Exchange plc. The nature of the Group's operations and its principal activities are set out in the Chief Executive's Review.

## 2 Basis of preparation and accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries ("the Group") as at 31 May each year. The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, and are presented in pounds, with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the financial statements. The financial statements were authorised for issue in accordance with a resolution of the directors on 1 September 2020.

2.2 Restatement of comparative financial information

*Revenue*

Fees and commissions receivable on the arrangement of insurance by the Group's property management business on behalf of its clients were previously reported gross, with the premiums payable on the arrangement of the insurance on the clients' behalf previously reported as other administrative expenses.

Having revisited the terms of these insurance arrangements, we have concluded that in these circumstances the Group is acting as agent, not principal, and hence the revenue that should be recognised under IFRS 15 is the net amount of consideration that the Group retains after paying the other party the consideration received in exchange for the insurance services to be provided by that party.

Accordingly, we have restated revenue recognised in respect of the year ended 31 May 2019 to reduce revenue by £970,000 and restated other administrative expenses to reduce costs for the year by an equal amount. There is no impact on total equity and no impact on profit or earnings per share for the year.

Performance measures impacted by the restatement to revenue and other administrative expenses have also been restated, including fee-based revenue, recurring revenue, operating profit margin, adjusted EBITDA margin and debtors' days.

*Share-based payments costs*

Following a detailed review of our option valuation model we identified the model had not been correctly updated to reflect the likely outcome of non-market based conditions as determined at each period end using the data available at the time. The correction of historic calculations has increased the share-based payments costs recognised in respect of the year ended 31 May 2019 by £471,000, and in respect of the three years ended 31 May 2019 by £806,000 in aggregate. Accordingly, we have restated share-based payments cost for the year ended 31 May 2019 to increase the cost recognised by £471,000 and restated the value of the reserves transfer re-allocating the cost of exercised or lapsed share options from equity-share based payments to retained earnings to reflect the increased share-based payments cost by £90,000.

The deferred tax asset in respect of share based payments as at 31 May 2018 has been increased by £82,000, and as at 31 May 2019 by £192,000. In respect of the year ended 31 May 2019 income tax expense has been reduced by £85,000 and deferred taxation charge in equity share based payments reserve has been reduced by £25,000,

Retained earnings as at 31 May 2018 were reduced by £364,000 and at 31 May 2019 by £660,000, with the equity-share based payments reserve as at 31 May 2018 increased by £446,000 and at 31 May 2019 by £852,000.

Performance measures impacted by the restatement to share-based payments costs have also been restated, including operating profit before financing, EBITDA, adjusted EBITDA, profit before tax, adjusted profit before tax, profit after tax, adjusted profit after tax, effective taxation rate, basic EPS and adjusted EPS.

2.3 Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence. In forming this view, the directors have considered the Company's and the Group's prospects for a period of at least 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.4 Developments in reporting standards and interpretations

*Standards affecting the financial statements*

This is the first set of the Group's financial statements where IFRS 16 has been applied. This new standard was adopted from 1 June 2019. Under the transition method chosen, comparative information is not restated. Changes to significant accounting policies are described in Note 2.

*IFRS 16 Leases*

IFRS 16 has primarily changed lease accounting for lessees. Lease agreements now give rise to the recognition of an asset representing the right to use the leased item and a lease liability obligation for the present value of future lease payments. Lease costs are recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 is similar in many respects to the existing IAS 17 'Accounting for finance leases' but is substantially different to previous accounting for operating leases where rental charges were recognised on a straight-line basis and no lease asset or lease loan obligation was recognised.

Lessor accounting under IFRS 16 is similar in many respects to IAS 17 accounting, but is different in the classification of leases for sublets of lease assets, which are now made by reference to the term of the head lease, rather than the life of the leased asset itself.

Transition

On transition to IFRS 16, the Group has applied the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance sheet. There is no restatement of the comparative information, which continues to be reported under IAS 17.

On adoption, lease agreements under which the Group is lessee have given rise to both a right-of-use asset and a lease liability. For leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 June 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments on the Group statement of financial position at the date of transition.

Lease liabilities are subsequently measured by adjusting the carrying amount to reflect the interest charge, the lease payments made and any reassessment or lease modifications. Right-of-use assets are subsequently depreciated on a straight-line basis over the shorter of the expected life of the asset and the lease term, adjusted for any remeasurements of the lease liability.

On adoption, the classification of lease agreements under which the Group is lessor have been reviewed and one lease previously classified as an operating lease under IAS 17 has been classified as a finance lease under IFRS 16. This has given rise to both a finance lease receivable, reported within trade and other receivables, and the partial de-recognition of the right of use asset in respect of the head lease for the property. De-recognition of right of use assets were measured at an amount equal to the lease receivable, adjusted by the amount of any prepaid or accrued lease payment on the Group statement of financial position at the date of transition.

The Group has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- 'Grandfathering' the assessment of which contracts are leases and applied IFRS 16 only to those that were previously identified as leases. Contracts not identified as leases under IAS 17 were not reassessed as to whether there is a lease. The identification of a lease under IFRS 16 was therefore only applied to contracts entered into (or modified) on or after 1 June 2019; and
- Applying the exemption not to recognise right-of-use assets and liabilities for leases with a term of less than 12 months and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The impact on the consolidated statement of financial position as at 1 June 2019 is as follows:

| | *As reported 31 May 2019* | *Adjustments* | ***On adoption 1 June 2019*** |
|---|---|---|---|

| | *£000* | *£000* | ***£000*** |
|---|---|---|---|
| **Assets** | | | |
| Right of use assets | - | 3,190 | **3,190** |
| Finance lease receivable | - | 356 | **356** |
| Trade and other receivables | 16,384 | (76) | **16,308** |
| **Total assets** | 110,584 | 3,470 | **114,054** |
| **Liabilities** | | | |
| Trade and other payables | 14,527 | (37) | **14,490** |
| Lease liabilities | - | 3,507 | **3,507** |
| **Total liabilities** | 24,991 | 3,470 | **28,461** |
| **Equity** | | | |
| Retained earnings | 38,292 | - | **38,292** |
| **Total equity** | 85,593 | - | **85,593** |
| **Total equity and liabilities** | 110,584 | 3,470 | **114,054** |

The adjustments to the consolidated balance sheet reflect the initial application of IFRS 16.

Impact on the financial statements for the year ended 31 May 2020

In the year ended 31 May 2020, the Group recognised an interest charge arising on lease liabilities of £122,000, a depreciation charge on the right-of-use assets of £842,000 and interest income arising on finance lease receivables from sub-leased assets of £16,000. In the year ended 31 May 2019, the Group recognised lease costs of £1,054,000 and sublet rental income of £48,000 in accordance with IAS 17.

Disclosure of the change in value of the right-of-use assets during the period is included in Note 10.

When measuring lease liabilities, the Group discounted its lease payments using incremental borrowing rates between 3.08% and 4.47% at 1 June 2019, depending on the remaining term of the lease.

The Group is required to identify the difference between the present value of its operating lease commitments disclosed at 31 May 2019 under IAS 17, discounted using the Group's incremental borrowing rate, and its lease liabilities recognised at the date of initial application to IFRS 16. This reconciliation is presented as follows:

| | ***£000*** |
|---|---|
| Operating lease commitment at 31 May 2019 | 3,975 |
| Amendments to lease commitment workings | (85) |
| Impact of discounting at the incremental borrowing rate | (383) |
| **Lease liabilities at 1 June 2019** | **3,507** |

*Standards not affecting the financial statements*

In addition to IFRS 16 the following new and revised standards and interpretations have been adopted in the current year:

| *Standard or interpretation* | | *Periods commencing on or after* |
|---|---|---|
| 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 |
| IAS 19 (amendments) | Plan amendment, curtailment or settlement | 1 January 2019 |
| IFRS 9 (amendments) | Prepayment Features with Negative Compensation | 1 January 2019 |

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 periods and, therefore, have not been applied in preparing these consolidated financial statements. At the date of authorisation of these financial statements, the following standards and interpretations have not been applied in these financial statements were in issue but not yet effective:

| *Standard or interpretation* | *Periods commencing on or after* |
|---|---|
| Amendments to References to the Conceptual Framework in IFRS standards | 1 January 2020 |
| Amendments to IFRS 3 Business Combinations | 1 January 2020 |

| | |
|---|---|
| Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform | 1 January 2020 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 1 January 2020 |
| IFRS 17 Insurance Contracts including Amendments to IFRS 17 | 1 January 2023 |

Other than to expand certain disclosures within the financial statements, the Directors do not expect the adoption of these standards and interpretations listed above to have a material impact on the financial statements of the Group in future periods.

## 2.5 Principal accounting policies

*Basis of consolidation*

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 the 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.

*Business combinations*

Business combinations are accounted for using the purchase accounting method. This involves assessing whether any assets acquired meet the criteria for recognition as separately identifiable intangible assets. Intangible assets are measured on initial recognition at their fair value at the date of acquisition. Client portfolios are valued by discounting their expected future cash flows over their expected useful lives, based on the Group's historical experience. Expected future cash flows are estimated based on the historical revenues and costs associated with the operation of that client portfolio. The discount rates used estimate the cost of capital, adjusted for risk.

*Associates*

The Company's share of profits from associates is reported separately in the Statement of Comprehensive Income and the investment is recognised in the Statement of Financial Position using the equity method. The investment is initially recorded at cost and subsequently adjusted to reflect the Company's share of the cumulative profits of the associate since acquisition. Appropriate adjustments to the Company's share of the profits or losses after acquisition are made to account for additional amortisation of the associate's amortisable assets based on the excess of their fair values over their carrying amounts at the time the investment was acquired.

*Own shares*

Own shares consist of shares held within an employee benefit trust. The Company has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings.

*Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable for each contractual obligation, excluding discounts, rebates, and other sales taxes or duty. Terms of business with customers typically include payment periods of up to 60 days, although specific payment terms can be agreed between the parties. The following information details the nature and timing of the satisfaction of performance obligations in contracts with customers.

<u>Investment and asset management</u>

Commission income and adviser charges are recognised as follows:

- At a point in time: Initial commission (less provision for clawbacks, as explained in Note 17) and initial adviser charges are recognised on a 'point in time' basis as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.
- Over time: Ongoing adviser charges, based on the value of assets invested, are recognised on an 'over time' basis during the period the assets are held in the portfolio or investment fund and have been compared to observable rates from other providers on a stand-alone basis, with initial charges recognised by the residual approach to ensure that the allocation of the selling price remains appropriate.

Discretionary portfolio management ("DPM") charges are recognised as follows:

- At a point in time: Initial charges on the placing of investments are recognised on a 'point in time' basis as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.

- Over time: Ongoing DPM charges based on the value of assets invested are recognised on an 'over time' basis during the period the assets are held in the portfolio or investment fund.

Our ongoing adviser and DPM charges have been compared to observable rates from other providers on a stand-alone basis, with initial charges being recognised by the residual approach, to ensure that the allocation of the selling price remains appropriate.

Pension consultancy and administration

Pension consultancy and administration fees are recognised as follows:

- At a point in time: Mattioli Woods generally invoices pension clients on a six-monthly basis in arrears for costs incurred in advising on and administering their affairs. Where revenue is contingent on completion of a service, revenue is recognised on a 'point in time' basis at the point that those contractual performance conditions are satisfied. No revenue is recognised if there are significant uncertainties regarding recovery of the time incurred.

- Over time: To the extent that the Group has a contractual right to invoice for services rendered, revenue is recognised on an 'over time' basis as time is incurred on the provision of services, with an estimate being made of what proportion of uninvoiced time costs will be recoverable. Recoverability is measured as a percentage of the total time costs incurred on clients' affairs compared to the proportion of historical time costs actually invoiced.

Pension consultancy and administration fees have been compared to observable rates from other providers on a stand-alone basis, with establishment charges being recognised by the residual approach, to ensure that the allocation of the selling price remains appropriate.

Property management

Property management fees are recognised as follows:

- At a point in time: Initial charges on the establishment of a private investment syndicate are recognised on a 'point in time' basis when the syndicate completes its investment.

- Over time: Fund management and private investment syndicate charges, including charges based on the value of assets held, are recognised on an 'over time' basis during the period the assets are held in the fund or syndicate.

Employee benefits

Employee benefits fees are recognised as follows:

- At a point in time: Fee income from services provided on the set up of an employee benefits scheme or provision of non-recurring employee benefits services are recognised on a 'point in time' basis on completion of rendering those services, being the point that those contractual performance conditions are satisfied.

- Over time: Ongoing management charges on employee benefits schemes are recognised on an 'over time' basis over the period to which they relate.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

2.6 Critical accounting judgements and sources of significant estimation uncertainty

The preparation of the 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.

*Critical accounting judgements*

The Group does not believe that there are any critical accounting judgements at 31 May 2020 which require disclosure.

*Sources of significant estimation uncertainty*

Impairment of acquired client portfolios and goodwill

For the purposes of impairment testing, acquired client portfolios and goodwill are allocated to the group of cash-generating units ("CGUs") that are expected to benefit from the business combination.

The Group reviews whether acquired client portfolios are impaired on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios.

The key assumptions 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.

Value in use calculations are utilised to calculate recoverable amounts of a CGU. Value in use is calculated as the net present value of the projected pre-tax cash flows of the CGU in which the client portfolio is contained. The net present value of cash flows is calculated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset, based on the Group's pre-tax Weighted Average Cost of Capital ("WACC"). The Group has applied a WACC of 13.3% to each of its operating segments.

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 long-term growth rate of 2.5% (2019: 2.5%), which management considers conservative against industry average long-term growth rates.

The carrying amount of client portfolios at 31 May 2020 was £25.4m (2019: £26.8m). No impairment provisions have been made during the year (2019: £nil) based upon the Directors' review.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the CGU are discounted to their present value using a pre-tax discount rate of 13.3%, reflecting current market assessments of the time value of money and the risks specific to that asset, based on the Group's WACC.

The carrying amount of goodwill at 31 May 2020 was £21.1m (2019: £20.2m). No impairment provisions have been made during the year (2019: £nil) based upon the Directors' review.

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, and discount rates. Of these, the most sensitive assumption is the discount rate used to measure the value in use. Increasing the discount rate by 1.0% would reduce the value in use of the Group's operating segments by £14.6m (2019: £13.2m).

<u>Recoverability of accrued time costs and disbursements</u>

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 unbilled time costs and disbursements.

The estimated rate of recovery of 66.9% (2019: 68.0%) is based on historic actual recovery rates measured over a period of three (2019: twelve) months, calculated based on the value of invoices, net of credit losses, divided by the gross value of the charges based on internal charge out rates. The period over which the recovery rate is measured has been temporarily reduced to three months as this is considered a more appropriate reflection of any impact from the Covid-19 pandemic. The carrying amount of accrued time costs and disbursements at 31 May 2020 was £4.8m (2019: £4.6m).

The sensitivity of a 1.0% and a 3.0% change in the estimated recoverability of time costs and disbursements incurred but not invoiced to clients, with all other variables held constant, is £0.07m and £0.21m of the Group's profit before tax respectively. There is no material impact on the Group's equity.

*Other areas of focus*

<u>Acquisitions and business combinations</u>

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 the valuation of the assets and liabilities 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.

Subjectivity is also involved in the PPA with the estimation of the future value of brands, technology, customer relationships and goodwill. The fair value of separately identifiable intangible assets acquired during the year was £1.6m (2019: £5.2m), with the key assumptions used to calculate these fair values being those around the estimated useful lives of the acquired customer relationships, the estimated future cash flows expected to arise from these relationships and the appropriate discount rate to be used to discount these cash flows to their present value.

The sensitivity of the fair value of the customer relationships acquired during the year to changes in the key assumptions is as follows:

| *Assumption* | *Sensitivity* | *Change in assumption* | *Increase / (decrease) in fair value £000* |
|---|---|---|---|
| Estimated useful life | 10 years | -5 years | (160) |
| Short-term growth rate in years 2 to 5 | Nil | -2.5% | (41) |
| Long-term growth rate from year 6 | Nil | -2.5% | (19) |

| | | | |
|---|---|---|---|
| Discount rate | 14.7% | +1.0% | (22) |

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.

Using forecasts approved by the Board covering the contingent consideration period, provisions are recognised based on the maximum expected value of contingent consideration expected to fall due. A material change to the carrying value would only occur if the acquired business achieved 80% or less of the target earnings. The carrying amount of contingent consideration provided for at 31 May 2020 was £2.8m (2019: £2.7m).

The key assumption used in determining the value of these provisions is the forecast financial performance as applied in the terms of the contingent consideration arrangement. A 10% reduction in achievement of forecast contingent consideration targets would reduce the value of provisions required by £0.3m.

Provisions

As detailed in Note 17, 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. Business combinations**

The Group completed one acquisition during the year. Transaction costs of £ 0.3m (2019: £0.1m) incurred during the year to 31 May 2020 have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income and operating cash flows in the consolidated statement of cash flows in the period in which they were incurred.

*Acquisition of The Turris Partnership Limited*

On 19 December 2019, Mattioli Woods acquired the entire issued share capital of The Turris Partnership Limited ("Turris"), a financial planning and wealth management business based in Glasgow. The acquisition of Turris helps us expand our Wealth Management operations in Scotland.

The fair values of the assets and liabilities of Turris as at the date of acquisition are set out in the table below:

| | *Fair value recognised on acquisition £000* | *Fair value adjustments £000* | *Previous carrying value £000* |
|---|---|---|---|
| Tangible fixed assets | 2 | - | 2 |
| Right of use assets | 88 | - | 88 |
| Client portfolio | 712 | 712 | - |
| Other receivables | 16 | (129) | 145 |
| Prepayments and accrued income | 23 | - | 23 |
| Cash | 111 | - | 111 |
| Assets | 952 | 583 | 369 |
| Accruals and deferred income | (15) | - | (15) |
| Income tax | (33) | - | (33) |
| Lease liability | (88) | - | (88) |
| Provisions | (12) | - | (12) |
| Deferred tax liability | (121) | (121) | - |
| Liabilities | (269) | (121) | (148) |
| Total identifiable net assets at fair value | 682 | | |
| Goodwill arising on acquisition | 920 | | |
| Total acquisition cost | 1,602 | | |
| Analysed as follows: | | | |
| Initial cash consideration | 800 | | |
| Net assets adjustment to initial consideration | 61 | | |
| Deferred consideration payable | 800 | | |
| Discounting of deferred consideration | (59) | | |
| Total acquisition cost | 1,602 | | |

| Cash outflow on acquisition | |
|---|---|
| Cash paid | 800 |
| Cash acquired | (111) |
| Acquired net assets adjustment | 61 |
| Acquisition costs | 73 |
| Net cash outflow | 823 |

Turris specialises in providing chartered financial planning and wealth management advice to its clients and has over £65 million of assets under advice. Turris was established in 2003 and its experienced team of five staff based in Glasgow have been retained by Mattioli Woods following the acquisition.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life of 15 years based on the Group's historical experience.

From the date of acquisition Turris has contributed £0.2m to Group revenue and £0.1m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £59.6m and the profit for the period would have been £10.5m.

*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 the remaining contingent consideration payable is £2.8m (2019: £2.7m) (see Note 17).

On 19 December 2019 the Group acquired Turris for total consideration of up to £1.6m, comprising initial consideration of £0.8m in cash plus contingent consideration of up to £0.8m payable in cash in the two years following completion if certain financial targets based on growth in earnings before interest, tax, depreciation and amortisation are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2020 to be £0.8m using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 27 March 2019 the Group acquired SSAS Solutions for total consideration of up to £4.9m, comprising initial consideration of £1.25m in cash plus 162,654 new ordinary shares of 1p each in Mattioli Woods plus contingent consideration of up to £1.5m payable in cash in the two years following completion if certain financial targets based on growth in earnings before interest, tax, depreciation and amortisation are met. Following the year end, the Group has agreed to amend the terms of the share purchase agreement to defer the second year of the contingent consideration period by one year in light of the expected impact of Brexit and the COVID-19 pandemic on the revenues of SSAS Solutions (Note 21). The Group estimates the fair value of the remaining contingent consideration at 31 May 2020 to be £1.4m (2019: £1.4m) using cash flows approved by the Board covering the contingent consideration period and expects the maximum remaining contingent consideration will be payable.

On 8 August 2018 the Group acquired Broughtons for total consideration of up to £4.4m, comprising initial consideration of £2.5m in cash plus 77,171 new ordinary shares of 1p each in Mattioli Woods plus contingent consideration of up to £1.3m payable in cash in the two years following completion if certain financial target based on growth in earnings before interest, tax, depreciation and amortisation are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2020 to be £0.8m (2019: £1.3m) using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

**4. Revenue**

The Group derives its revenue from the rendering of services over time and at a point in time across all operating segments. Further details of accounting policies for the recognition of revenue are disclosed in Note 2. The timing of recognition of the revenues of each operating segment is analysed as follows:

| *Timing of revenue recognition* | ***2020 £000*** | *2019 Restated £000* |
|---|---|---|
| *At a point in time:* | | |
| Investment and asset management | **2,002** | 2,873 |
| Pension consultancy and administration | **1,097** | 1,276 |
| Property management | **464** | 620 |
| Employee benefits | **1,043** | 973 |
| | **4,606** | 5,742 |
| *Over time:* | | |
| Investment and asset management | **24,846** | 23,124 |
| Pension consultancy and administration | **19,464** | 19,129 |
| Property management | **4,952** | 4,853 |
| Employee benefits | **4,539** | 4,646 |
| | **53,801** | 51,752 |
| | **58,407** | 57,494 |

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period:

| *Contract liabilities* | ***Group 2020 £000*** | *Group 2019 £000* | ***Company 2020 £000*** | *Company 2019 £000* |
|---|---|---|---|---|
| Investment and asset management | **-** | - | **-** | - |
| Pension consultancy and administration | **2,219** | 2,353 | **1,051** | 1,205 |
| Property management | **36** | 36 | **-** | - |
| Employee benefits | **515** | 491 | **515** | 491 |
| | **2,770** | 2,880 | **1,566** | 1,696 |

The Group expects that 100% of the transaction price allocated to the unsatisfied contracts as at 31 May 2020 will be recognised as revenue during the next reporting period, amounting to £2,770,000.

The following table shows the movement in contract liabilities in the period:

| *Contract liabilities* | *Group £000* | *Company £000* |
|---|---|---|
| At 1 June 2019 | 2,880 | 1,696 |
| Revenue recognised on completion of performance obligations | (2,880) | (1,696) |
| Consideration received allocated to performance obligations that are unsatisfied at the period end | 2,770 | 1,566 |
| **At 31 May 2020** | **2,770** | **1,566** |

**5. Segment information**

The Group's objective is to fully integrate the businesses it acquires, to enable it to deliver holistic solutions across its wide and diverse client base. 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 management and placing of investments on behalf of clients;
- Property management - Income generated where Custodian Capital manages private investor syndicates, 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 from corporate clients for consultancy and administration of employee benefits offering including group personal pensions and other insurance products.

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 broadly 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 two years ended 31 May 2020 and 2019 respectively.

| *Year ended 31 May 2020* | *Investment and asset management £000* | *Pension consultancy and administration £000* | *Property management £000* | *Employee benefits £000* | *Total segments £000* | *Corporate costs £000* | *Consolidated £000* |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External customers | 26,848 | 20,561 | 5,416 | 5,582 | 58,407 | - | 58,407 |
| **Results** | | | | | | | |
| Segment profit before tax | 9,629 | 6,488 | 1,107 | 1,146 | 18,370 | (4,953) | 13,417 |

| *Year ended 31 May 2019* | *Investment and asset management £000* | *Pension consultancy and administration £000* | *Property management £000* | *Employee benefits £000* | *Total segments £000* | *Corporate costs £000* | *Consolidated £000* |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External customers (restated) | 25,997 | 20,405 | 5,473 | 5,619 | 57,494 | - | 57,494 |
| **Results** | | | | | | | |
| Segment profit before tax (restated) | 7,242 | 4,602 | 510 | 755 | 13,109 | (3,335) | 9,774 |

*Segment assets*

The following table presents segment assets of the Group's operating segments:

| | ***31 May 2020 £000*** | *31 May 2019 £000* |
|---|---|---|
| Pension consultancy and administration | **26,539** | 26,825 |
| Investment and asset management | **27,508** | 28,092 |
| Property management | **1,468** | 1,559 |
| Employee benefits | **9,239** | 9,626 |
| Segment operating assets | **64,754** | 66,102 |
| Corporate assets | **50,109** | 44,482 |
| Total assets | **114,863** | 110,584 |

Segment operating 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.

| *Reconciliation of assets* | ***31 May 2020 £000*** | *31 May 2019 £000* |
|---|---|---|
| Segment operating assets | **64,754** | 66,102 |
| Property, plant and equipment | **15,636** | 16,665 |
| Right of use assets | **2,584** | - |
| Intangible assets | **1,579** | 1,766 |
| Deferred tax asset | **888** | 512 |
| Derivative financial asset | **-** | 750 |
| Prepayments and other receivables | **2,709** | 1,461 |
| Income tax receivable | **390** | - |
| Finance lease receivable | **324** | - |
| Investments | **40** | 80 |
| Cash and short-term deposits | **25,959** | 23,248 |
| Total assets | **114,863** | 110,584 |

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.

| *Reconciliation of profit before tax* | ***31 May 2020 £000*** | *31 May 2019 Restated £000* |
|---|---|---|
| Total segments | **18,370** | 13,109 |
| Depreciation | **(2,547)** | (1,288) |
| Irrecoverable VAT | **(900)** | (868) |
| Professional indemnity insurance | **(610)** | (513) |
| Amortisation and impairment | **(359)** | (1,054) |
| Acquisition-related costs | **(334)** | (123) |
| Finance costs | **(260)** | (321) |
| Bank charges | **(24)** | (18) |
| Loss on disposal of assets | **(18)** | (125) |
| Gain on revaluation of derivative financial asset | **-** | 100 |
| Finance income | **99** | 292 |
| Decrease in provisions | **-** | 583 |
| Group profit before tax | **13,417** | 9,774 |

*Country-by-country reporting*

HM Treasury has transposed the requirements set out under the Capital Requirements Directive IV ("CRD IV") and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Mattioli Woods plc (together with its subsidiaries) to publish certain additional information split by country, on a consolidated basis, for the year ended 31 May 2020.

Mattioli Woods plc and its subsidiaries are all incorporated in and operate from the United Kingdom. All employees of the Group hold contracts of employment in the United Kingdom. All turnover (revenue) and profit before tax is recognised on activities based in the United Kingdom. All tax paid and any subsidies received are paid to and received from UK institutions.

### 7. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, excluding own shares of 76,578 (2019: 12,248).

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 year 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:

| | ***2020 £000*** | *2019 Restated £000* |
|---|---|---|
| Net profit and diluted net profit attributable to equity holders of the Company | **10,158** | 7,817 |
| Weighted average number of ordinary shares: | ***000s*** | *000s* |
| Issued ordinary shares at start of period | **26,770** | 26,150 |
| Effect of shares issued during the year ended 31 May 2019 | **-** | 440 |
| Effect of shares issued during the year ended 31 May 2020 | **127** | 95 |
| Basic weighted average number of shares | **26,897** | 26,685 |
| Effect of dilutive options at the statement of financial position date | **258** | 36 |
| Diluted weighted average number of shares | **27,155** | 26,721 |

The Company has granted options under the Share Option Plan, the Consultants' Share Option Plan and the LTIP to certain of its senior managers and directors to acquire (in aggregate) up to 3.30% of its issued share capital (see Note 16). Under IAS 33

'Earnings Per Share', contingently issuable ordinary shares are treated as outstanding and are included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 31 May 2020 the conditions attached to 630,940 options granted under the LTIP were not satisfied (2019: 680,440). If the conditions had been satisfied, diluted earnings per share would have been 36.6p per share (2019 restated: 28.5p).

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 842,866 ordinary shares as initial consideration payable on the acquisition of Hurley Partners (see Note 21);
- The issue of 25,986 ordinary shares under the Mattioli Woods plc Share Incentive Plan; and
- The issue of 1,650 ordinary shares to satisfy the exercise of options under the LTIP.

**8. Dividends paid and proposed**

| | ***2020 £000*** | *2019 £000* |
|---|---|---|
| *Declared and paid during the year:* | | |
| Equity dividends on ordinary shares: | | |
| - Final dividend for 2019: 13.67p (2018: 11.5p) | **3,660** | 3,024 |
| - Interim dividend for 2020: 7.3p (2019: 6.33p) | **1,959** | 1,679 |
| Dividends paid | **5,619** | 4,703 |
| *Proposed for approval by shareholders at the AGM:* | | |
| Final dividend for 2020: 12.7p (2019: 13.67p) | **3,532** | 3,664 |

**9. Property, plant and equipment**

| *Group* | *Assets under construction £000* | *Land and buildings £000* | *Computer and office equipment £000* | *Fixtures and fittings £000* | *Motor vehicles £000* | *Total £000* |
|---|---|---|---|---|---|---|
| *Gross carrying amount:* | | | | | | |
| At 1 June 2018 | 14,457 | - | 2,137 | 960 | 1,492 | 19,046 |
| Additions | 790 | 27 | 323 | 72 | 468 | 1,680 |
| Arising on acquisitions | - | - | 5 | 25 | - | 30 |
| Disposals | - | - | (144) | (2) | (394) | (540) |
| Reclassifications | (15,247) | 10,753 - | 27 | 4,467 | - | - |
| At 31 May 2019 | - | 10,780 | 2,348 | 5,522 | 1,566 | 20,216 |
| Additions | - | - | 308 | 154 | 356 | 818 |
| Arising on acquisitions | - | - | 2 | - | - | 2 |
| Disposals | - | - | (4) | - | (291) | (295) |
| **At 31 May 2020** | **-** | **10,780** | **2,654** | **5,676** | **1,631** | **20,741** |
| *Depreciation:* | | | | | | |
| At 1 June 2018 | - | - | 1,316 | 768 | 479 | 2,563 |
| Charged for the year | - | 168 | 259 | 597 | 264 | 1,288 |
| On disposals | - | - | (92) | - | (208) | (300) |
| At 31 May 2019 | - | 168 | 1,483 | 1,365 | 535 | 3,551 |
| Charged for the year | - | 252 | 341 | 842 | 270 | 1,705 |
| On disposals | - | - | (1) | - | (152) | (153) |
| **At 31 May 2020** | **-** | **420** | **1,823** | **2,207** | **653** | **5,103** |
| *Carrying amount:* | | | | | | |
| **At 31 May 2020** | **-** | **10,360** | **831** | **3,469** | **978** | **15,638** |
| At 31 May 2019 | - | 10,612 | 865 | 4,157 | 1,031 | 16,665 |
| At 31 May 2018 | 14,457 | - | 821 | 192 | 1,013 | 16,483 |

| *Company* | *Assets under construction £000* | *Computer and office equipment £000* | *Fixtures and fittings £000* | *Motor vehicles £000* | *Total £000* |
|---|---|---|---|---|---|
| *Gross carrying amount:* | | | | | |
| At 1 June 2018 | 877 | 1,984 | 882 | 1,498 | 5,241 |
| Additions | 790 | 321 | 69 | 468 | 1,648 |
| Reclassification | (1,667) | 27 | 1,640 | - | - |
| Disposals | - | (137) | - | (394) | (531) |

| | | | | | |
|---|---|---|---|---|---|
| At 31 May 2019 | - | 2,195 | 2,591 | 1,572 | 6,358 |
| Additions | - | 305 | 154 | 355 | 814 |
| Disposals | - | (1) | - | (291) | (292) |
| **At 31 May 2020** | **-** | **2,499** | **2,745** | **1,636** | **6,880** |
| *Depreciation:* | | | | | |
| At 1 June 2018 | - | 1,172 | 692 | 485 | 2,349 |
| Charged for the year | - | 255 | 321 | 264 | 840 |
| On disposals | - | (92) | - | (208) | (300) |
| At 31 May 2019 | - | 1,335 | 1,013 | 541 | 2,889 |
| Charged for the year | - | 338 | 420 | 271 | 1,029 |
| On disposals | - | (1) | - | (151) | (152) |
| **At 31 May 2020** | **-** | **1,672** | **1,433** | **661** | **3,766** |
| *Carrying amount:* | | | | | |
| **At 31 May 2020** | **-** | **827** | **1,312** | **976** | **3,115** |
| At 31 May 2019 | - | 860 | 1,578 | 1,031 | 3,469 |
| At 31 May 2018 | 877 | 812 | 190 | 1,013 | 2,892 |

**10. Right of use assets**

| *Group* | *Properties £000* | *Computer and office equipment £000* | *Total £000* |
|---|---|---|---|
| On adoption of IFRS 16 at 1 June 2019 | 2,512 | 678 | 3,190 |
| Additions | 282 | 39 | 321 |
| Arising on acquisitions | - | - | - |
| Disposals | (88) | - | (88) |
| **At 31 May 2020** | **2,706** | **717** | **3,423** |
| *Depreciation:* | | | |
| At 1 June 2019 | - | - | - |
| Charged for the period | 653 | 189 | 842 |
| On disposals | (3) | - | 3 |
| **At 31 May 2020** | **650** | **189** | **839** |
| *Carrying amount:* | | | |
| **At 31 May 2020** | **2,056** | **528** | **2,584** |
| At 31 May 2018 & 31 May 2019 | **-** | **-** | **-** |

| *Company* | *Properties £000* | *Computer and office equipment £000* | *Total £000* |
|---|---|---|---|
| On adoption of IFRS 16 at 1 June 2019 | 2,105 | 678 | 2,783 |
| Additions | 118 | 39 | 157 |
| **At 31 May 2020** | **2,223** | **717** | **2,940** |
| *Depreciation:* | | | |
| At 1 June 2019 | - | - | - |
| Charged for the period | 563 | 189 | 752 |
| **At 31 May 2020** | **563** | **189** | **752** |
| *Carrying amount:* | | | |
| **At 31 May 2020** | **1,660** | **528** | **2,188** |

| At 31 May 2018 & 31 May 2019 | - | - | - |
|---|---|---|---|

**11. Intangible assets**

| *Group* | *Internally generated software £000* | *Software £000* | *Client portfolios £000* | *Goodwill £000* | *Other £000* | *Total £000* |
|---|---|---|---|---|---|---|
| *Gross carrying amount:* | | | | | | |
| At 1 June 2018 | 1,693 | 2,417 | 33,354 | 17,253 | 35 | 54,752 |
| Arising on acquisitions | - | - | 5,190 | 2,962 | - | 8,152 |
| Additions | 97 | 248 | - | - | - | 345 |
| Disposals | (217) | (738) | - | - | - | (955) |
| At 31 May 2019 | 1,573 | 1,927 | 38,544 | 20,215 | 35 | 62,294 |
| Arising on acquisitions | - | - | 712 | 920 | - | 1,632 |
| Additions | 173 | - | - | - | - | 173 |
| **At 31 May 2020** | **1,746** | **1,927** | **39,256** | **21,135** | **35** | **64,099** |
| *Amortisation and impairment:* | | | | | | |
| At 1 June 2018 | 656 | 978 | 9,884 | - | 35 | 11,553 |
| Amortisation during the year | 270 | 785 | 1,907 | - | - | 2,962 |
| Disposals | (217) | (738) | - | - | - | (955) |
| At 31 May 2019 | 709 | 1,025 | 11,791 | - | 35 | 13,560 |
| Amortisation during the year | 175 | 184 | 2,078 | - | - | 2,437 |
| **At 31 May 2020** | **884** | **1,209** | **13,869** | **-** | **35** | **15,997** |
| *Carrying amount:* | | | | | | |
| **At 31 May 2020** | **862** | **718** | **25,387** | **21,135** | **-** | **48,102** |
| At 31 May 2019 | 864 | 902 | 26,753 | 20,215 | - | 48,734 |
| At 31 May 2018 | 1,037 | 1,439 | 23,470 | 17,253 | - | 43,199 |

| *Company* | *Internally generated software £000* | *Software £000* | *Client portfolios £000* | *Goodwill £000* | *Total £000* |
|---|---|---|---|---|---|
| *Gross carrying amount:* | | | | | |
| At 1 June 2018 | 1,693 | 2,306 | 28,979 | 16,384 | 49,362 |
| Additions | 97 | 200 | - | - | 297 |
| Disposals | (217) | (738) | - | - | (955) |
| At 31 May 2019 | 1,573 | 1,768 | 28,979 | 16,384 | 48,704 |
| Additions | 172 | - | - | - | 172 |
| **At 31 May 2020** | **1,745** | **1,768** | **28,979** | **16,384** | **48,876** |
| *Amortisation and impairment:* | | | | | |
| At 1 June 2018 | 656 | 878 | 6,897 | - | 8,431 |
| Amortisation during the year | 270 | 774 | 1,679 | - | 2,723 |
| Disposals | (217) | (738) | - | - | (955) |
| At 31 May 2019 | 709 | 914 | 8,576 | - | 10,199 |
| Amortisation during the year | 175 | 185 | 1,679 | - | 2,039 |
| **At 31 May 2020** | **884** | **1,099** | **10,255** | **-** | **12,238** |
| *Carrying amount:* | | | | | |
| **At 31 May 2020** | **861** | **669** | **18,724** | **16,384** | **36,638** |
| At 31 May 2019 | 864 | 854 | 20,403 | 16,384 | 38,505 |
| At 31 May 2018 | 1,037 | 1,428 | 22,082 | 16,384 | 40,931 |

*Software*

Software is amortised over its useful economic life of four years on a reducing balance basis. Internally generated software represents the development costs of the Group's bespoke customer relationship management, administration and trading platform. The directors believe this technology will be the principal technology platform used throughout the Group for the foreseeable future. Internally generated software is amortised on a straight-line basis over an estimated useful life of 10 years.

*Client portfolios*

Client portfolios represent individual client portfolios acquired through business combinations. Client portfolios are amortised on a straight-line basis over an estimated useful life of between 10 and 25 years, based on the Group's historic experience.

*Goodwill*

Goodwill arises where the price paid for an acquisition is greater than the fair value of the net assets acquired. Goodwill arising on business combinations is subject to annual impairment testing.

**12. Investment in associate and related derivative**

*Investment in associate*

On 6 February 2017 the Group acquired 49% of the ordinary share capital of Amati Global Investors Limited ("Amati") from Amati Global Partners LLP plus an option to acquire the remaining 51% ordinary share capital of Amati in the two years commencing 6 February 2019 for a total consideration of £3.39m, comprising £1.65m in cash and £1.74m of new ordinary shares in Mattioli Woods.

Amati is a fund management firm founded in 2010 following the management buyout of Noble Fund Managers Limited. Amati's principal place of business is the United Kingdom. It focuses on small and mid-sized companies, with a universe ranging from fully listed constituents of the FTSE Mid 250 and FTSE Small Cap indices, to stocks quoted on AIM. At the date of investment Amati had approximately £120m of assets under management, including the TB Amati UK Smaller Companies Fund; two AIM Venture Capital Trusts (Amati VCT plc and Amati VCT 2 plc); and an AIM IHT portfolio service.

During the prior year the shareholders of Amati VCT plc voted to approve its merger with Amati VCT 2 plc, which has been renamed Amati AIM VCT plc. Amati's gross assets under management at 31 May 2020 had increased to £582m (2019: £453m).

The Group exercises significant influence by virtue of its contractual right to appoint a minority of directors to Amati's board of directors. The option held by the Group to acquire the remaining shares in Amati was not exercised at 6 February 2019 as the Company had agreed heads of terms with the counterparty to cancel the option in exchange for a payment of £750,000 from the counterparty, with the cancellation being completed during the year ended 31 May 2020. The Group has no other rights which would allow it to exercise control over Amati's operations. Therefore, the Group is not judged to control Amati and it is not consolidated.

Amati Global Investors Limited is incorporated in Scotland, and its registered office is 8 Coates Crescent, Edinburgh, Scotland, EH3 7AL.

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

| *Investment in associate - Group and Company* | ***2020 £000*** | *2019 £000* |
|---|---|---|
| At 1 June | **4,211** | 3,725 |
| Share of profit for the year | **682** | 548 |
| Amortisation of fair value intangibles | **(68)** | (68) |
| Share of other comprehensive income | **(15)** | 6 |
| Dividends received from associate | **(1,078)** | - |
| At 31 May | **3,732** | 4,211 |

| *Share of profit from associates in statement of comprehensive income:* | ***2020 £000*** | *2019 £000* |
|---|---|---|
| Share of profit for the year | **682** | 548 |
| Amortisation of fair value intangibles | **(68)** | (68) |
| Elimination of transactions with associate | **19** | - |
| | **633** | 480 |

Other comprehensive income represents a movement in Amati's revaluation reserve recognised directly in equity.

The results of Amati and its aggregated assets and liabilities as at 31 May 2020 are as follows:

| *Name* | *Country of incorporation* | *Assets £000* | *Liabilities £000* | *Revenue £000* | *Profit £000* | *Interest held* |
|---|---|---|---|---|---|---|
| Amati Global Investors Limited | Scotland | 3,920 | 1,618 | 5,552 | 1,392 | 49% |
| Group's share of profit | | | | | 682 | |

The net assets of Amati as at 1 June 2019 were £3,140,000. At 31 May 2020 the net assets of Amati were £2,302,000 following payment of dividends of £2,200,000 and other increases in net assets of £1,362,000, increasing the Group's interest in the associate (net of tax) by £667,000 during the year, comprising Mattioli Woods' share of Amati's profit after tax recognised in the statement of comprehensive income and Mattioli Woods' share of the movement in Amati's revaluation reserve recognised directly in equity.

*Derivative financial instruments*

As part of the transaction to acquire its holding in Amati, Mattioli Woods also entered into an option agreement with the Seller which entitled Mattioli Woods 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 Option"). If Mattioli Woods did not exercise the Option to acquire the remaining stake from the Seller, the Seller had an option to buy Mattioli Woods' shareholding back for the original consideration paid.

The fair value of the option contract at the date of acquisition was £17,000. During the year ended 31 May 2019 the Company signed heads of terms to cancel the option agreement in exchange for £750,000. The cancellation of the agreement was completed and settled during the year ended 31 May 2020.

**13. Share-based payments**

*Long-Term Incentive Plan*

During the year, 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:

| *LTIP options* | ***31 May 2020 Equity-settled No.*** | *31 May 2019 Equity-settled No.* |
|---|---|---|
| Outstanding as at 1 June | **757,463** | 806,489 |
| Granted during the year | **248,800** | 241,756 |
| Exercised during the year | **(66,418)** | (233,718) |
| Forfeited during the year | **(50,341)** | (57,064) |
| Outstanding at 31 May | **889,504** | 757,463 |
| Exercisable at 31 May | **258,564** | 77,023 |

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 final performance year. The amounts shown above represent the maximum opportunity for the participants in the LTIP.

*Share Incentive Plan*

The Company operates the Mattioli Woods plc Share Incentive Plan ("the SIP"). Participants in the SIP are entitled to purchase, at market value, up to a prescribed number of new 1p ordinary shares in the Company each year for which they will receive a like for like conditional 'matching share', subject to their continued employment for the three years following award of the matching share. These ordinary shares rank pari passu with existing issued ordinary shares of the Company. Movements in the shares held in the SIP on behalf of employees during the year were as follows:

| *SIP shares* | ***31 May 2020 No.*** | *31 May 2019 No.* |
|---|---|---|
| Scheme shares as at 1 June | **586,399** | 593,019 |
| Employee shares purchased | **48,886** | 50,989 |
| Matching shares awarded | **48,886** | 50,989 |
| Matching shares recycled | **(12,370)** | (16,072) |
| Reinvestment of dividends | **17,677** | 14,281 |
| Shares transferred out | **(89,816)** | (106,807) |
| Scheme shares at 31 May | **599,662** | 586,399 |
| Conditional matching shares at 31 May | **121,980** | 117,817 |

A total of 350 (2019: 359) employees participated in the SIP during the year.

*Share-based payments expense*

The expense for share-based payments made in respect of employee services under the LTIP is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2020 is £1,096,000 (2019 restated: £1,296,000), all of which arises from equity-settled share based payment transactions.

The expense for share-based payments in respect of matching shares issued under the SIP is recognised over the expected vesting period of the shares granted to the participating employee (see Note 16). The expense recognised during the year ended 31 May 2020 is £239,000 (2019: £235,000), which arises entirely from equity-settled share based payment transactions.

*Reserves transfer*

During the prior year, the Group reduced the value of the Equity - share based payments reserve by £359,000, reduced deferred tax assets by £68,000 and increased retained earnings by £291,000 in the year ended 31 May 2019 to reflect the impact of recognising the cost of 'matching shares' awarded under the Mattioli Woods plc Share Incentive Plan ("SIP") over the expected vesting period of the shares and the associated impact on deferred tax assets. Matching shares awarded under the SIP are subject to a three-year continued employment condition. Previously, the cost of matching shares was recognised in full at the date of the award.

*Summary of share options*

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

| *Share options* | **2020 No.** | **2020 WAEP £** | *2019 No.* | *2019 WAEP £* |
|---|---|---|---|---|
| Outstanding as at 1 June | **757,463** | **0.01** | 853,350 | 1.53 |
| Granted during the year | **248,800** | **0.01** | 241,756 | 0.01 |
| Exercised | **(66,418)** | **0.01** | (280,579) | 0.37 |
| Forfeited during the year | **(50,341)** | **0.01** | (57,064) | 0.01 |
| Outstanding at 31 May | **889,504** | **0.01** | 757,463 | 0.01 |
| Exercisable at 31 May | **258,564** | **0.01** | 77,023 | 0.01 |

The weighted average share price at the date of exercise for share options exercised during the year was £7.38 (2019: £7.27). For the share options outstanding at 31 May 2020, the weighted average remaining contractual life is 3.9 years (2019: 4.0 years). The WAEP for options outstanding at the end of the year was £0.01 (2019: £0.01).

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes Merton model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used to estimate the fair value of options granted during the year ended 31 May 2020:

| | *LTIP* |
|---|---|
| Share price at date of grant | £7.33 |
| Option exercise price | £0.01 |
| Expected life of option (years) | 6.5 |
| Expected share price volatility (%) | 30.0 |
| Dividend yield (%) | 3.00 |
| Risk-free interest rate (%) | 0.58 |

The share price at date of grant for options issued under the LTIP is based on the market value of the shares on that date. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

The share price at 31 May 2020 and movements during the year are set out in the Directors' Remuneration Report.

**14. Derivative financial asset**

| | ***Group 2020 £000*** | ***Company 2020 £000*** | *Group 2019 £000* | *Company 2019 £000* |
|---|---|---|---|---|
| Derivative financial asset (Note 12) | **-** | **-** | 750 | 750 |
| | **-** | **-** | 750 | 750 |

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

**15. Cash and short-term deposits**

For the purpose of the statement of cashflows, cash and cash equivalents comprise the following at 31 May 2020:

| | **Group 2020 £000** | **Company 2020 £000** | *Group 2019 £000* | *Company 2019 £000* |
|---|---|---|---|---|
| Cash at banks and on hand | **25,959** | **17,584** | 23,248 | 14,095 |
| Cash and cash equivalents | **25,959** | **17,584** | 23,248 | 14,095 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £26.0m (2019: £23.2m).

**16. Issued capital and reserves**

| *Group and Company* | *Ordinary shares of 1p* | *Share capital £000* | *Share premium £000* | *Merger reserve £000* |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| At 1 June 2018 | 26,149,774 | 261 | 31,283 | 8,781 |
| Exercise of employee share options | 280,579 | 3 | 101 | - |
| Shares issued under the SIP | 100,187 | 1 | 753 | - |
| Shares issued for consideration | 239,825 | 3 | - | 1,858 |
| At 31 May 2019 | 26,770,365 | 268 | 32,137 | 10,639 |
| Exercise of employee share options | 66,418 | - | - | - |
| Shares issued under the SIP | 103,079 | 1 | 754 | - |
| **At 31 May 2020** | **26,939,862** | **269** | **32,891** | **10,639** |

*Rights, preferences and restrictions on shares*

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. However:

- The former shareholder of Broughtons ("the Broughtons Seller") has entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 77,171 ordinary shares in Mattioli Woods during the two years ending 8 August 2020; and
- The former shareholders of SSAS Solutions ("the SSAS Solutions Sellers") have entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 162,654 ordinary shares in Mattioli Woods during the two years ending 27 March 2021.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

*Share schemes and share incentive plan*

The Company has two share schemes under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (Note 13).

The Company also operates a share incentive plan. Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company in any year. At the Directors' discretion, the Company may also award additional shares to participants in the SIP. Ordinary shares issued under the SIP rank pari passu with existing issued ordinary shares of the Company. Dividends paid on shares held within the SIP are used to buy new ordinary shares in the Company of 1p each.

*Own shares*

| | *Number of shares* | *Own shares £000* |
|---|---|---|
| At 1 June 2018 | - | - |
| Acquired during the year | 12,248 | 99 |
| At 31 May 2019 | 12,248 | 99 |
| Acquired during the year | 64,330 | 498 |
| **At 31 May 2020** | **76,578** | **597** |

Own shares represent the cost of the Company's own shares, either purchased in the market or issued by the Company, that are held by the Company or in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (Note 13). At 31 May 2020 76,578 (2019: 12,248) shares were held in the Mattioli Woods Employee Benefit Trust, representing 0.28% of issued share capital (2019: 0.05%).

*Other reserves*

Movements recognised in other reserves in the year are disclosed in the statement of changes in equity. The following table describes the nature and purpose of each reserve within equity:

| *Reserve* | *Description and purpose* |
|---|---|
| Share premium | Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised. |
| Merger reserve | Where shares are issued as consideration for >90% of the shares in a subsidiary, the excess of the fair value of the shares acquired over the nominal value of the shares issued is recognised in the merger reserve. |
| Capital redemption reserve | Amounts transferred from share capital on redemption of issued shares. |
| Equity - share based payments | The fair value of equity instruments granted by the Company in respect of share-based payment transactions less options exercised. |
| Own shares | The cost of the Company's own shares, purchased in the market, that are held in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (Note 13). |
| Retained earnings | All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere. |

The Company has issued options to subscribe for the Company's shares under two employee share schemes (Note 13). The cost of exercised or lapsed share options has been derecognised from equity-share based payments and re-allocated to retained earnings as required by IFRS 2 'Share-based Payments'.

**17. Financial liabilities and provisions**

| *Group* | *Contingent consideration £000* | *Client claims £000* | *Dilapidations £000* | *Clawbacks £000* | *Employers' NIC on share options £000* | *Onerous contracts £000* | *FSCS levy £000* | *Total £000* |
|---|---|---|---|---|---|---|---|---|
| At 1 June 2018 | 886 | 982 | 631 | 124 | 627 | 988 | 100 | 4,338 |
| Unwinding of discount | 75 | - | 10 | - | - | - | - | 85 |
| Arising during the year | 2,657 | 728 | 102 | 141 | 278 | 145 | 50 | 4,101 |
| Arising on acquisitions | - | 43 | 25 | - | - | - | - | 68 |
| Paid during the year | (763) | (230) | (376) | (142) | (263) | (368) | - | (2,142) |
| Unused amounts reversed | - | (245) | (44) | | (40) | (545) | - | (874) |
| Reclassification | (200) | 207 | - | - | - | - | - | 7 |
| At 31 May 2019 | 2,655 | 1,485 | 348 | 123 | 602 | 220 | 150 | 5,583 |
| Unwinding of discount | 125 | - | 13 | - | - | - | - | 138 |
| Arising during the year | 741 | 914 | 16 | 2 | 133 | 22 | 42 | 1,870 |
| Paid during the year | (600) | (422) | - | (45) | (67) | (97) | (83) | (1,314) |
| Unused amounts reversed | (78) | (96) | - | (22) | (34) | (123) | - | (353) |
| **At 31 May 2020** | **2,843** | **1,881** | **377** | **58** | **634** | **22** | **109** | **5,924** |
| Current 2019 | 1,260 | 1,485 | - | 123 | 369 | 220 | 150 | 3,607 |
| Non-current 2019 | 1,395 | - | 348 | - | 233 | - | - | 1,976 |
| At 31 May 2019 | 2,655 | 1,485 | 348 | 123 | 602 | 220 | 150 | 5,583 |
| **Current 2020** | **1,705** | **1,881** | **-** | **58** | **436** | **22** | **109** | **4,211** |
| **Non-current 2020** | **1,138** | **-** | **377** | **-** | **198** | **-** | **-** | **1,713** |
| **At 31 May 2020** | **2,843** | **1,881** | **377** | **58** | **634** | **22** | **109** | **5,924** |

| Company | Loan note £000 | Contingent consideration £000 | Client claims £000 | Dilapidations £000 | Clawbacks £000 | Employers' NIC on share options £000 | Onerous contracts £000 | FSCS levy £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 June 2018 | 16,940 | 886 | 946 | 601 | 119 | 627 | 988 | 100 | 21,207 |
| Finance costs | 606 | 75 | - | 10 | - | - | - | - | 691 |
| Arising during the year | - | 2,657 | 641 | 102 | 137 | 278 | 145 | 50 | 4,010 |
| Paid during the year | - | (763) | (194) | (376) | (137) | (263) | (368) | - | (2,101) |
| Unused amounts reversed | - | - | (168) | (14) | - | (40) | (545) | - | (767) |
| Waiver of loan note | (17,335) | - | - | - | - | - | - | - | (17,335) |
| Reclassification | (211) | (200) | - | - | - | - | - | - | (411) |
| At 31 May 2019 | - | 2,655 | 1,225 | 323 | 119 | 602 | 220 | 150 | 5,294 |
| Finance costs | - | 125 | - | 13 | - | - | - | - | 138 |
| Arising during the year | - | 741 | 859 | 11 | - | 133 | 22 | 34 | 1,800 |
| Paid during the year | - | (600) | (392) | - | (43) | (67) | (97) | (83) | (1,282) |
| Unused amounts reversed | - | (78) | (53) | - | (22) | (34) | (123) | - | (310) |
| Waiver of loan note | - | - | - | - | - | - | - | - | - |
| **At 31 May 2020** | **-** | **2,843** | **1,639** | **347** | **54** | **634** | **22** | **101** | **5,640** |
| Current 2019 | - | 1,260 | 1,225 | - | 119 | 369 | 220 | 150 | 3,343 |
| Non-current 2019 | - | 1,395 | - | 323 | - | 233 | - | - | 1,951 |
| At 31 May 2019 | - | 2,655 | 1,225 | 323 | 119 | 602 | 220 | 150 | 5,294 |
| **Current 2020** | **-** | **1,705** | **1,639** | **-** | **54** | **436** | **22** | **101** | **3,957** |
| **Non-current 2020** | **-** | **1,138** | **-** | **347** | **-** | **198** | **-** | **-** | **1,683** |
| **At 31 May 2020** | **-** | **2,843** | **1,639** | **347** | **54** | **634** | **22** | **101** | **5,640** |

*Loan notes due to subsidiary undertakings*

Loan note balances as at 1 June 2018 had arisen on the hive up of the trade and assets of subsidiaries; Boyd Coughlan Limited and the Taylor Patterson Group Limited and its subsidiaries Taylor Patterson Financial Planning Limited and Taylor Patterson Associates Limited (together "the Taylor Patterson Group"). The loan notes attracted annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 31 May 2019 the loan notes were waived and the capital and reserves of Boyd Coughlan Limited, Taylor Patterson Group Limited and its subsidiaries were each reduced to £2.

During the year ended 31 May 2019 the Company reclassified £0.2m of residual loan note balances owed to the subsidiary undertakings against current receivables due to the Company from them.

*Contingent consideration*

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration are summarised in Note 3. The Group estimates the net present value of the financial liability payable within the next 12 months is £1.7m (2019: £1.3m) and the Group expects to settle the non-current balance of £1.1m (2019: £1.4m) within the subsequent two years.

The balance reclassified in the year ended 31 May 2019 of £0.2m represented consideration which is no longer considered contingent but has yet to be paid, which was therefore recognised within Other Payables.

*Client claims*

A provision is recognised for the estimated potential liability when the Group becomes aware of a possible client claim. The value of the provision recognised is determined based on the nature of the potential liability, the Group's historic experience and any insurance recovery expected. No discount rate is applied to the projected cash flows due to their short-term nature.

The balance of £0.2m reclassified in the prior year represented potential liabilities of the Group recoverable under indemnities provided by the vendor of an acquired subsidiary, which are now recognised within Other Receivables.

*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 the 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*

Provision for onerous contracts at 31 May 2020 includes software licence costs due on an agreement under which the Group has served notice and will come to an end during the next financial year.

*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 £109,000 has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2021 (2019: £150,000).

**18. Lease liability**

| *Group* | **2020 £000** |
|---|---|
| Maturity analysis - Contractual undiscounted cash flows: | |
| Less than one year | **964** |
| One to five years | **1,746** |
| More than five years | **496** |
| **Total undiscounted cash flows** | **3,206** |
| **Total lease liabilities** | **2,908** |
| Current | **964** |
| Non-current | **1,944** |

| *Company* | **2020 £000** |
|---|---|
| Maturity analysis - Contractual undiscounted cash flows: | |
| Less than one year | **880** |
| One to five years | **1,527** |
| More than five years | **318** |
| **Total undiscounted cash flows** | **2,725** |
| **Total lease liabilities** | **2,502** |
| Current | **880** |
| Non-current | **1,622** |

**19. Commitments and contingencies**

*Capital commitments*

At 31 May 2020 the Group had no capital commitments (2019: £nil).

*Sponsorship agreement*

As part of the Group's strategy to strengthen its brand awareness the Group has a sponsorship agreement with rugby giants Leicester Tigers. The agreement includes shirt sponsorship on the Tigers' home and away shirts, a dedicated Mattioli Woods stand at the 26,000 capacity Welford Road stadium, corporate hospitality rights and the provision of exclusive content to Tigers fans. In November 2018 the Group entered into a new three-year sponsorship agreement with Leicester Tigers, which commenced on 1 July 2019 at a total cost of £1,230,000 over the three years of the agreement.

*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 out of contingencies.

*In-specie pension contributions*

As has been widely reported in the media, HMRC has challenged all SIPP providers on whether pension contributions could be made in-specie. As a result, there are a number of tax relief claims made on behalf of our clients that have been challenged and we have received or are awaiting assessment notices which are expected to amount to £0.9m. These assessments have been appealed, with proceedings stayed, pending the outcome of HMRC's appeal against the First-Tier Tribunal's ruling in favour of another SIPP operator in a similar case.

Should the result of the appeal be found to be in favour of HMRC, the impact on the financial position of the Group is expected to be mitigated by expected recovery from the affected clients whose tax liability it is. In recognition of the possibility that some clients may have insufficient assets to settle this liability, we have recognised a provision (Note 17) of £0.2m.

*Transfers from defined benefit schemes*

The FCA has been conducting an industry wide review of the advice being provided on transfers from defined benefit to defined contribution schemes since October 2015 ("the Review").

As previously reported, following consideration of the increasing costs of professional indemnity insurance, additional regulatory controls and the resources we would have to dedicate to this small part of our business, we have stopped giving pension transfer advice to individuals with safeguarded or defined benefits. The impact of this decision and the Review on the Group's financial performance is not expected to be material.

20. Related party disclosures

*Custodian REIT plc*

In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT, a closed-ended property investment company listed on the Main Market of the London Stock Exchange.

The Company's Chief Executive Officer, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Chief Financial Officer, Nathan Imlach, was Company Secretary of Custodian REIT until he resigned from this position on 17 June 2020 to be replaced by Ed Moore, Finance Director of the Group's subsidiary Custodian Capital Limited.

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

During the year the Group received revenues of £4.0m (2019: £4.0m) in respect of annual management charges, administration and marketing fees from Custodian REIT. Custodian REIT owed the Group £1,000 at 31 May 2020 (2019: £59,000).

During the year the Group paid rent of £nil (2019: £257,000), service charges and other property related costs of £nil (2019: £50,000) and dilapidations on exit of £nil (2019: £138,000) in respect of its former office premises at MW House and Gateway House, Leicester where Custodian REIT was the lessor.

*Amati Global Investors Limited*

On 6 February 2017 the Company purchased 49% of the issued share capital of Amati.

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 and the Group's Chief Investment Officer, Simon Gibson, is a Non-Executive Director.

On 14 August 2018 the Group entered into an agreement to sublet space in its Edinburgh office to Amati for a term of five years. During the year the Group received rent of £48,000 (2019: £48,000) from Amati as lessee, £15,000 (2019: £39,000) from the recharge of other property related costs and consultancy fees of £39,000 (2019: £nil).

*Gateley (Holdings) Plc*

The Company's 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 year, the Group paid Gateley Plc a total of £nil (2019: £2,000) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £40,000 (2019: £34,000) in respect of employee benefits services provided to Gateley Plc during the year.

*Key management compensation*

Key management personnel, representing those Executive Directors that served throughout the year and 19 (2019: 14) other executives, received compensation in the form of short-term employee benefits and equity compensation benefits which totalled £3.7m for the year ended 31 May 2020 (2019: £5.9m).

Total compensation is included in "employee benefits expense" and analysed as follows:

| | ***2020*** | *2019* |
|---|---|---|

| | **£000** | £000 |
|---|---|---|
| Wages and salaries | **2,844** | 4,907 |
| Social security costs | **585** | 803 |
| Pension | **123** | 86 |
| Benefits in kind | **104** | 96 |
| | **3,656** | 5,892 |

In addition, the cost of share-based payments disclosed separately in the statement of comprehensive income was £0.9m (2019 restated: £1.0m).

*Transactions with other related parties*

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 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 whilst managing volatility so that, other than on very short-term measures, outperformance comes with a lower beta than the benchmark. During the year, the Group disposed of an investment with a previous carrying value of £40,000 (2019: £40,000) in the FP Mattioli Woods Balanced Fund for proceeds totalling £45,000, recognising a gain on disposal of £5,000.

*MW Properties No 25 Limited*

The Company holds a 9.40% interest in MW Properties No 25 Limited, a nominee for a property syndicate. As at 31 May 2020 the Group held an investment with the value of £27,334 (2019: £26,282) in the syndicate.

*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. As at 31 May 2020 the Group held an investment with a value of £10,953 (2019: £14,201) in the syndicate.

## 21. Events after the reporting date

*Acquisition of Hurley Partners Limited*

On 31 July 2020, Mattioli Woods completed the acquisition of the entire issued share capital of Hurley Partners Limited ("Hurley Partners"), a private client adviser and asset management business with offices in London, Surrey and Manchester.

The provisional fair values of the identifiable assets and liabilities of Hurley Partners as at the date of acquisition are set out in the table below. Due to the proximity of the date of acquisition to the date of issue of these consolidated financial statements, the provisional fair values of the identifiable assets and liabilities of Hurley Partners are estimates and remain subject to the detailed review of completion accounts by Mattioli Woods:

| | *Provisional fair value recognised on acquisition £000* | *Provisional fair value adjustments £000* | *Previous carrying value £000* |
|---|---|---|---|
| Property, plant and equipment | 112 | - | 112 |
| Right of use assets | 606 | 606 | - |
| Client portfolio | 8,818 | 8,818 | - |
| Cash at bank | 2,271 | - | 2,271 |
| Prepayments and accrued income | 629 | (42) | 671 |
| Other receivables | 825 | - | 825 |

| | | | |
|---|---|---|---|
| Assets | 13,261 | 9,381 | 3,879 |
| Trade and other payables | (273) | - | (273) |
| Accruals and deferred income | (71) | 146 | (217) |
| Other taxation and social security | (116) | - | (116) |
| Income tax | (275) | - | (275) |
| Lease liabilities | (577) | (577) | - |
| Provisions | (162) | (162) | - |
| Deferred tax liability | (1,687) | (1,675) | (12) |
| Liabilities | (3,161) | (2,268) | (893) |
| Total identifiable net assets at fair value | 10,100 | | |
| Goodwill | 9,489 | | |
| Total acquisition cost | 19,589 | | |
| Analysed as follows: | | | |
| Initial cash consideration | 10,666 | | |
| New shares in Mattioli Woods | 5,921 | | |
| Contingent consideration | 3,473 | | |
| Discounting of contingent consideration | (471) | | |
| Total acquisition cost | 19.589 | | |

| Cash outflow on acquisition | *£000* |
|---|---|
| Cash paid | 10.666 |
| Cash acquired | (2,271) |
| Acquisition costs | 293 |
| Net cash outflow | 8,688 |

Founded in 2013, Hurley Partners is an established wealth management business with specialist pension expertise and a discretionary investment management offering. It is an excellent cultural and strategic fit with Mattioli Woods' existing business, providing services to clients with assets comprising approximately

· £363m of discretionary funds under management;
· £54m of non-discretionary assets; and
· £125m of other pension assets.

The acquisition brings additional scale to Mattioli Woods' existing operations and offers the opportunity to promote additional services to existing and prospective clients of Hurley Partners. In addition, the acquisition adds further specialist expertise to the Group and Hurley Partners' experienced management and staff have remained with the business. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Hurley Partners with those of the Group. The primary components of this residual goodwill comprise:

· Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
· Operational efficiencies expected to be realised on the migration of Hurley Partners' SSAS portfolio onto Mattioli Woods' proprietary pension administration platform;
· The workforce;
· The knowledge and know-how resident in Hurley Partners' modus operandi; and
· New opportunities available to the combined business, as a result of both Hurley Partners and the existing business becoming part of a more sizeable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

*Variation of share purchase agreement*

On 27 March 2019 the Group acquired SSAS Solutions (see Note 3). The share purchase agreement ("the Agreement") states contingent consideration of up to £1.5m is payable in cash in the two years following completion if certain financial targets are met based on growth in EBITDA generated by SSAS Solutions during the period.

In light of the expected impact of Brexit and the COVID-19 pandemic on the revenues of SSAS Solutions the parties have agreed to vary the Agreement such that contingent consideration of up to £0.8m that was referable to SSAS Solutions' financial result for the 12 months ending 27 March 2021 is now referable to SSAS Solutions' financial result for the 12 months ending 27 March 2022.

22. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 May 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and

(iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

23. Distribution of the annual report and accounts to members

The annual report and accounts will be posted to shareholders who have requested a hard copy in due course, and will be available on our website (www.mattioliwoods.com) and for inspection by the public at the Group's registered office address: 1 New Walk Place, Leicester, LE1 6RU during normal business hours on any weekday. Further copies will be available on request.

**Alternative performance measure workings**

*Recurring revenue*

A measure of sustainable revenue, calculated as revenue earned from ongoing services as a percentage of total revenue.

| *Timing of revenue recognition* | ***2020*** ***£000*** | *2019 Restated £000* |
|---|---|---|
| *At a point in time:* | | |
| Investment and asset management | **2,002** | 2,873 |
| Pension consultancy and administration | **1,097** | 1,276 |
| Property management | **464** | 620 |
| Employee benefits | **1,043** | 973 |
| Non recurring revenue | **4,606** | 5,742 |
| *Over time:* | | |
| Investment and asset management | **24,846** | 23,124 |
| Pension consultancy and administration | **19,464** | 19,129 |
| Property management | **4,952** | 4,853 |
| Employee benefits | **4,539** | 4,646 |
| Recurring revenue | **53,801** | 51,752 |
| Total revenue | **58,407** | 57,494 |
| Recurring revenue | **92.1%** | 90.0% |

*Adjusted EBITDA*

A measure of the underlying profitability, excluding items that are non-cash or affect comparability between periods, calculated as statutory operating profit before financing income or costs, tax, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition related costs, including share of profit from associates (net of tax).

| | ***2020*** ***£000*** | *2019 Restated £000* |
|---|---|---|
| Statutory operating profit before financing | **12,945** | 9,320 |
| Amortisation of acquired intangibles | **2,077** | 1,907 |
| Amortisation of software | **360** | 1,055 |
| Depreciation | **2,547** | 1,288 |
| EBITDA | **17,929** | 13,570 |
| Share of profit from associates, net of tax | **633** | 480 |
| Acquisition related costs | **334** | 126 |
| Gain on revaluation of derivative financial instrument | **-** | (100) |
| Adjusted EBITDA | **18,896** | 14,076 |

*Adjusted PBT*

A measure of profitability before taxation, excluding items that are non-cash or affect comparability between periods, calculated as statutory profit before tax excluding amortisation of acquired intangibles, acquisition related costs, non-cash interest charges on provisions and changes in valuation of derivative financial instruments.

| | ***2020*** ***£000*** | *2019 Restated £000* |
|---|---|---|
| Statutory profit before tax | **13,417** | 9,774 |
| Amortisation of acquired intangibles | **2,077** | 1,907 |
| Acquisition related costs | **334** | 126 |
| Gain on revaluation of derivative financial instrument | **-** | (100) |
| Adjusted PBT | **15,828** | 11,707 |

*Adjusted PAT*

A measure of profitability, net of taxation, excluding items that are non-cash or affect comparability between periods, calculated as statutory profit before tax excluding amortisation of acquired intangibles, acquisition related costs, non-cash interest charges on provisions, changes in valuation of derivative financial instruments and deducting tax at the standard rate of 19%.

| | ***2020*** | *2019* |
|---|---|---|
| | | *Restated* |
| | ***£000*** | *£000* |
| Adjusted PBT | **15,828** | 11,707 |
| Income tax expense at standard rate of 19% | **(3,007)** | (2,224) |
| **Adjusted PAT** | **12,821** | 9,483 |

*Adjusted EPS*

A measure of total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition related costs, changes in valuation of derivative financial instruments, non-cash interest charges on provisions and the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue.

| | ***2020*** | *2019* |
|---|---|---|
| | | *Restated* |
| | ***£000*** | *£000* |
| Adjusted PAT | **12,821** | 9,483 |
| Basic weighted average number of shares (see Note 7) | **26,897** | 26,685 |
| **Adjusted EPS** | **47.7p** | 35.5p |



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