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Elite Asset Management Plc, Company Announcement, 28 August 2017, 9:00 a.m. (EET)

Elite Asset Management Plc half-year report 1 Jan – 30 June 2017 – Business developed as expected

Elite Asset Management Plc’s January–June 2017 in brief (comparison with the financial period 1–6/2016) (The figures have not been audited.)

- The Group’s comparable* turnover increased by 3.6% and was EUR 9.5 million (EUR 9.2 million 1–6/2016).
- The Group's reported turnover declined by 5.9% and was EUR 8.7 million (EUR 9.2 million 1–6/2016).
- Comparable turnover from ongoing agreements was approximately EUR 7.2 million or approximately 76% (75 % 1-12/2016) of the total turnover.
- The Group’s operating profit before depreciation and amortization fell by 5.3% and was EUR 0.65 million (EUR 0.69 million 1–6/2016).
- Operating profit for the period was down 48.1% and came to EUR 0.2 million (EUR 0.4 Million 1–6/2016).
- The profit for the period was adversely affected by the acquisition of the Finnish operations of Alfred Berg, which took place after the review period, ongoing regulatory and digitalisation projects, costs associated with new business operations and the depreciation of goodwill from investments made in earlier periods.
- Earnings per share were EUR 0.01 (EUR 0.04 1–6/2015).

The client and insurance assets (incl. investment commitments) of Elite Asset Management Plc (”Elite Asset Management", "Company") were EUR 1,633 million on 30 June 2017 (EUR 1,616 million on 31 December 2016). As a result of the completed Alfred Berg acquisition, the total amount of client assets will increase to approximately EUR 3 billion and the number of Elite Asset Management clients will increase by approximately 3,000 new clients to approximately 10,000 clients.

The growth of Elite Asset Management’s comparable* turnover continued as a result of the Company’s sales and funding activities and a favourable market trend. Turnover growth was slowed down by a decline in performance-based fees from funds managed for external parties of approximately EUR 0.25 million. Since these performance-based fees are paid as is to the external parties, the decline has no impact on the Group’s profitability. Adjusted for the decline in performance-based fees paid to external parties, comparable turnover increased by 6.4%.

Operating profit before depreciation and amortization for the first six months was practically unchanged despite the acquisition of the Finnish operations of Alfred Berg after the end of the review period, ongoing regulatory and digitalisation projects, and costs associated with new business, most of which are accrued at an early stage.

During the period the Company started negotiations on the acquisition of Alfred Berg’s Finnish operations and completed the acquisition on 1 August 2017. At the same time the Company concluded a major cooperation agreement with BNP Paribas Asset Management, which became a stockholder in the Company with a 19% holding as a result of the arrangement. This arrangement will significantly increase the Company’s turnover, client assets under management and profitability in the future.

Key figures (more detailed information available in the appendix to this release)

Key figures, 1,000 EUR	1–6/2017	1–6/2016	Change %	1–12/2016
Comparable* turnover	9,538	9,205	3.62	17,260
Revenue	8,664	9,205	-5.87	17,114
Operating profit before depreciation and amortization	652	688	-5.27	1,282
Operating profit	208	400	-48.12	661
Profit for the period	142	344	-58.68	592
Earnings per share	0.01	0.04	-60.84	0,06

*The Group's reported turnover was reduced by the temporary removal (12/2016–4/2017) of Elite Institutional Services Ltd and its subsidiary Elite Real Estate Development Ltd from the Group to become associated companies before the merger of Elite Institutional Services into Elite Asset Management on 30 April 2017. This reduced turnover by EUR 873,571.41, and the comparable revenue was EUR 9,537,872.09.

Operating environment

During the first half of 2017, global economic growth increased in both developed and emerging economies compared to the pace of growth for the previous year. As growth appears more sustainable and the economy is on a more solid footing, economic uncertainty is mostly based on concerns associated with the easing of stimulus by central banks and its impact on especially the continuing slow growth-rate of developed economies. The US Fed increased its federal funds rate twice in the first half of the year and the market expects a third increase to take place during 2017. In Europe, tightening of monetary policy is not expected until sometime in 2018.

Favourable development in different investment markets continued during the first half of 2017. Broad economic growth especially boosted the strong improvement of the equity market. Growth forecasts for the real economy and also for corporate earnings potential remained higher than before, which supported market improvement. With the exception of the United States, stronger economic performance did not lead to tighter monetary policy.

Markets, especially equities and emerging-market fixed income investments, move hand-in-hand with investors' willingness to take risk, and the positive trend of 2016 continued in the first half of 2017.

The stronger economy of the first half of the year resulted in increased investor activity, which accelerated sales and new client asset acquisition for Elite Asset Management. The rise in equity markets also had a positive impact on fee income. On the other hand, fee income growth was slowed down by a substantial but protracted real estate deal. At the end of June, Elite Real Estate Fund I acquired a substantial EUR 30 million commercial space portfolio, which will increase fee income in the second half of the year.

Despite a stronger economic outlook, continuing market uncertainty may impact the Company's growth in the short term. Nevertheless, the Company's new business and completed corporate acquisitions provide excellent ground for stronger growth in the medium term.

Elite Asset Management Group's January–June 2017

In the first half of 2017, Elite Asset Management Group continued to develop its services, especially in energy efficiency and infrastructure projects and in investing in private debt. Real estate fund activities also developed favourably especially thanks to the growth of the Elite Rental Yield Fund.

In April 2017, Elite Institutional Services Ltd was merged into Elite Asset Management. The purpose of the merger was to streamline the structure and incentive systems of Elite Asset Management Group. In April, Elite Asset Management agreed with Omameklari Oy on an arrangement whereby Elite Asset Management will finance Omameklari's growth with a convertible bond. This arrangement may in the future lead to the Company having a majority holding in Omameklari. Omameklari was founded in 2015 and it is owned by its management and key employees. It is a Finnish insurance broker and manager that offers high-quality insurance management services mainly to SMEs and the agricultural sector.

In May, the Company renewed its incentive system for personnel and the management team. The Company set up a personnel fund as part of the incentive system which will, under its rules, invest at least 10% and not more than 50% of the performance-based fees it receives in the shares of Elite Asset Management Plc. Maximum performance according to the system's indicators by all those covered by the revised incentive system would increase the total variable bonuses of personnel by a sum that corresponds to 5% of the Group's operating result.

In the first half of the year, Elite Asset Management continued to invest significantly in to digitalisation to improve administrative and sales efficiency and to save costs. The new systems were taken into use at the end of 2016 and in early 2017. The digitalisation project, the purpose of which is to improve internal efficiency, is expected to be completed during the first half of 2018.

Events following the review period

In August, Elite Asset Management acquired 100% of Alfred Berg Asset Management Finland Ltd and Alfred Berg Funds Ltd. The majority of the acquisition was paid for by issuing new A and B series shares of Elite to the seller, Alfred Berg Asset Management AB. As a result of the deal, BNP Paribas Asset Management holds 19% of the shares of Elite Asset Management. The Company and Alfred Berg Group, which is a Nordic subsidiary of BNP Paribas Asset Management, have agreed to cooperate in developing their local functions and business operations in Finland. The deal will allow Elite Asset Management to offer its current and new clients a more comprehensive range of services and products. The deal is also expected to significantly cut administrative and IT costs after the next 6 to 12 months.

The deal will make Elite Asset Management the sole provider of BNP Paribas Asset Management's investment products in Finland and a part of BNP's global partner network. The cooperation will expand the range of investment solutions the Company offers to its clients and increase the number of Elite Asset Management Group's clients especially among institutional investors. The acquisition will increase the number of the Group's clients by some 3,000 new clients and its client assets to approximately EUR 3 billion (based on figures at 30 June 2017).

Following the deal, the Boards of Alfred Berg Funds Ltd and Elite Fund Administration Ltd have approved the merger plan according to which Alfred Berg Funds Ltd will merge into Elite Fund Administration Ltd. The purpose of the merger is to remove overlapping functions and to concentrate the fund management activities of Elite Asset Management Group into a single company. The planned date of the merger is 31 December 2017.

In August, Elite Sijoitus Oy, a subsidiary of Elite Asset Management, acquired all shares of Auta Invest Oy and Smart Money Oy. The acquired companies act as tied agent companies marketing investment and asset management services. As a result of the acquisition, the founders of Auta Invest Oy and Smart Money Oy will become private bankers at Elite Asset Management after a transition period. The acquisition is in line with Elite Asset Management's strategy, according to which the company strives to expand its organization of customer service and sales nationwide. Elite will open a new office in Espoo in the near future.

Future outlook

The company's financial outlook is strongly affected by the acquisition of the Finnish operations of Alfred Berg which took place at the beginning of August. As a result of the one-off costs of the acquisition, the operating margin forecast for 2017 was adjusted down to EUR 1.1–1.6 million. The Company had earlier estimated that its operating margin would increase to EUR 2–2.5 million in 2017. The Company will not change its forecast for the 2017 operating margin from EUR 1.1–1.6 million.

The Company estimates that the completed acquisition will increase Elite Asset Management's operating margin by approximately EUR 2.5–3 million in 2018, which it expects to lead to an operating margin of approximately EUR 5–6 million in 2018. The Company also estimates that the significant growth of its operations as a result of the completed transactions will increase its ability to improve profitability in the medium term above the EUR 5–6 million operating margin forecast for 2018.

The Company's operating risk mainly consists of an unexpected decline in the general development of the capital market. This will lead to a decline in both current continuing fees as a result of a reduction in client assets and to challenges in new sales. Elite Asset Management's goal is to further increase the assets under the Company's management. This will reduce operating risk as continuing fees will form an increasingly large share of the company's fee income.

Capital adequacy

Elite Asset Management's capital adequacy ratio was 18.25%, which is 4 percentage points lower than at the turn of the year. This is explained by the moderate reduction in the Company's own funds due to distribution of profits and an increase in intangible assets, but primarily by an increase in risk-weighted items. The Alfred Berg transaction concluded in August will substantially reinforce the Company's capital adequacy in the future.

When calculating capital adequacy indicators the Company has not included the profit accrued during the financial period and indicated by the report and its depreciation in Common Equity Tier 1 capital.

Publication of the financial statements release

The estimated publication date of the financial statements release of Elite Asset Management Plc for the financial period 1 January – 31 December 2017 is 27 February 2017.

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Elite Asset Management Plc is a profitable and growing investment service company offering versatile and high-quality asset management services for both consumer and professional investors. Elite Asset Management Plc is listed on the First North Finland market maintained by NASDAQ Helsinki (Helsinki Exchanges). Elite Asset Management Plc is the parent company of the Elite Group (Elite). Elite's customer base consists of individuals and corporations that the company serves nationwide in 14 different locations. The first company belonging to the current Elite Group was founded in 2000. Elite employs 105 investment professionals and over 40 tied agents. On behalf of its clients, the company manages assets of approximately EUR 3 billion in total. Check out Elite's services at www.elitevarainhoito.fi.

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Enclosure to the half-year report: tables and key figures
Bulletin in PDF format