

## **Krupa Global Investments significantly reduced its position in GAM Holding; Does not see clear strategy ahead**

*Prague, Czech Republic, March 12, 2020*

**Krupa Global Investments (KGI) sold most of its GAM shares after recent full year results announced in February 2020.**

KGI reduces its position in GAM Holding after management failed to show meaningful strategy for shareholders. Based on the report, GAM introduced another 40m of cost cutting and forecast 2022 underlying pretax profit of CHF 100m. As we can see from the analysis below, in order to reach this profit target, AUM needs to increase by 20% in next 3 years. The goal is quite challenging in our view, when GAM still loses AUM every quarter. If we look at the closest competitors such as Amundi, Schroders and Julius Baer, most of them recorded net positive inflow in AUM except GAM Holding. At the moment, we are in a period when markets are at the all time highs, when markets turn negative it might be bad for the GAM.

KGI is willing to come back as significant shareholder with strategic investor or when GAM will actively seek for strategic investor who is necessary for GAM in order to grow AUM, which is the key to GAM's future success in our opinion. Strategic investor has to come from similar industry such asset management or insurance business, strong PE group or fund won't help GAM to move forward.

In this market situation, markets are hit with corona virus and its impact on global growth will be significant in following months. Oil prices are hitting lows after price war between Saudi Arabia and Russia. KGI thinks that GAM's strategic plans are too ambitious to execute at this time.

## GAM – 2019 full year results comments

Reported figures in the main items are in-line with the prior announcement published on January 17th, 2020. No big surprise, so we focused on a different angle of the results.

Income Statement (CHF M)	2017	2018	2019
Net management fees and commissions	503,6	495,4	317,1
Net performance fees	44,1	4,5	12,8
<b>Net fee and commission income</b>	<b>547,7</b>	<b>499,9</b>	<b>329,9</b>
Net other (expenses)/income	2,2	0,3	-3,7
<b>Total Operating Income</b>	<b>549,9</b>	<b>500,2</b>	<b>326,2</b>
y/y	14,9%	-9,0%	-34,8%
Personnel expenses	264,6	239,6	197,0
y/y	7,5%	-9,4%	-17,8%
% of Total Operating Income	48,1%	47,9%	60,4%
General expenses	106,1	127,7	99,6
<b>EBITDA</b>	<b>179,2</b>	<b>132,9</b>	<b>29,6</b>
EBITDA margin	32,6%	26,6%	9,1%
Depreciation and amortisation	6,7	6,2	19,1
<b>Expenses</b>	<b>377,4</b>	<b>373,5</b>	<b>315,7</b>
<b>Underlying profit before taxes</b>	<b>172,5</b>	<b>126,7</b>	<b>10,5</b>
Underlying PBT margin	31,1%	25,3%	4,3%
Underlying income tax expense	35,4	28,5	5,6
Underlying effective tax rate	20,5%	22,5%	53,3%
<b>Underlying net (loss)/profit</b>	<b>137,1</b>	<b>98,2</b>	<b>4,9</b>
<b>IFRS net (loss)/profit</b>	<b>123,2</b>	<b>-929,1</b>	<b>-3,5</b>
<b>Diluted underlying EPS (CHF)</b>	<b>0,86</b>	<b>0,63</b>	<b>0,03</b>

GAM reported revenues of CHF 326.2 mil., which is 34.8% less than in 2018. Half of the 2018 was already affected by scandal, so it is interesting to look at the first half of 2018 only, when revenues were CHF 287 mil. In 2H 2017 revenues were even higher at CHF 292.4 mil.

Based on the following information, GAM today is company half of its size in 2018.

GAM responded to the decline in revenues, so the total costs decreased by 57.8 mil. CHF, which is 15.5%.

GAM met (even slightly exceed) previously announced savings plan of CHF 40 mil. in fixed personnel expenses and general expenses, but it is not enough compared to huge drop in revenues.

We don't even think it's their fault. It is not possible to reduce costs quickly if they have to provide adequate services to their clients.

As a result, underlying profit before taxes is CHF 10.5 mil. compared to CHF 126.7 mil. in 2018. Meanwhile, net performance fees for 2019 were CHF 12.8 mil. compared to 4.5m year ago. If the performance of market would not be that strong this year, profit would be close to 0.

The operating margin fell to 4.3% from 25.3% in 2018. The newly set target is to achieve an operating margin of 30% in 2022. It would be a return to pre-scandal levels, with over 30% in 2017 and 1H 2018.

The situation for GAM to grow their business will be difficult because cost savings will no longer be enough. GAM will have to start growing AuM again.

## AuM

CHFM	2017	2018	2019
------	------	------	------

### INVESTMENT MANAGEMENT

AuM at the end of the period (CHF b)	84,4	56,1	48,4
Change in %	23,8%	-33,5%	-13,7%
Net flows	8,6	-10,5	-11,1
Market performance	6,6	-6,4	5,9
FX impact	1,0	-0,4	-0,6
Acquisition / ARBF		-11,0	-1,9

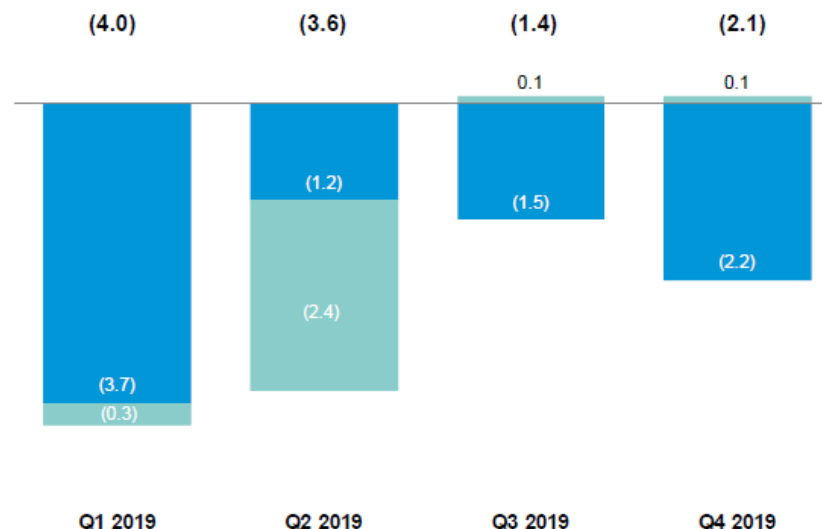
### PRIVATE LABELLING

AuM at the end of the period (CHF b)	74,3	76,1	84,3
Change in %	41,5%	2,4%	10,8%
Net flows	15,7	8,3	1,1
Market performance	4,1	-5,1	9,0
FX impact	2,0	-1,4	-1,9
Disposal			

In the case of the Investment Management division, AuM decreased by CHF. **7.7 billion year-on-year**. From the detailed look, it can be seen that net outflow was CHF 11.1 bln., with more than half offset by market performance (+ CHF 5.9 billion).

Private labelling shows that virtually all growth is market performance (CHF 9 billion). Net flows were only CHF 1.1 billion, so even here there is no significant inflow of new clients.

### Net flows<sup>1</sup> (in CHF bn)



■ Net flows ex. ARBF and ex. money market and money-market-like strategies

■ Money market and money-market-like strategies<sup>2</sup>, typically with low duration and margins

In this graph, we can see detailed view on net flows by quarter. In the third quarter, it seemed that the outflow gradually stopped, but in the fourth quarter increased again. In our opinion, this is a clear negative signal that a turn for the better has not yet taken place.

**Investment management AuM by client segment**

(CHF bn)	% zastoupení	30.06.2018	31.12.2018	30.06.2019	31.12.2019	% zastoupení	30.6.18 - 31.12.19
Intermediaries	49,5%	41,8	27,4	23,9	23,0	47,5%	-18,8
Institutional clients	44,5%	37,6	24,7	24,5	21,8	45,0%	-15,8
Private clients	5,9%	5,0	4,0	3,7	3,6	7,4%	-1,4
<b>Celkem</b>		<b>84,4</b>	<b>56,1</b>	<b>52,1</b>	<b>48,4</b>		

**Investment management net flows by client**

(in CHF bn)

	H1 2018	H2 2018	H1 2019	H2 2019
Intermediaries	2.7	(9.8)	(4.5)	(0.3)
Institutional clients	0.2	(2.8)	(2.5)	(2.7)
Private clients	(0.3)	(0.5)	(0.6)	(0.5)
<b>Total</b>	<b>2.6<sup>4</sup></b>	<b>(13.1)<sup>4</sup></b>	<b>(7.6)<sup>4</sup></b>	<b>(3.5)<sup>4</sup></b>

These two tables show the structure of AuM by client type and their change after the scandal. It can be seen that the structure of clients has not changed much. The percentage of Intermediaries decreased by 2%. The share of private clients and also institutional clients slightly increased.

The second table shows that in H2 2018 (immediately after the scandal) the Intermediaries (CHF -9.8 billion) were the fastest to outflow. Their outflow continued in H1 2019 (CHF -4.5 billion), but was already minimal in H2 2019 (CHF 0.3 billion). To compare, institutional investors leave continuously from 2.5 to 2.8 billion every half year. We also looked at the comparison with the competition and it is obvious that the outflow is a problem only for GAM.

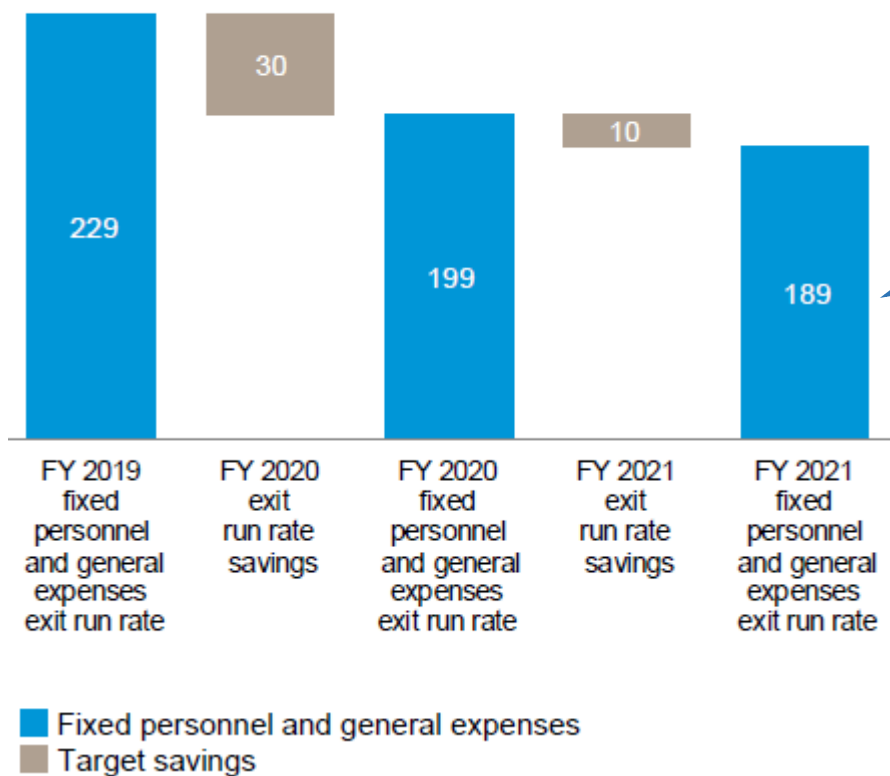
See the chart below:

srovnání vývoje AuM		2018	2019	y/y	Management fees	Total costs/Revenue
<b>GAM</b> - investment management	CHF bn	56,1	48,4	<b>-13,7%</b>	54,2	96,8%
<b>Julius Baer</b>	CHF bn	382,1	426,1	<b>11,5%</b>	46,0	71,1%
<b>Amundi</b>	EUR bn	1 425,0	1 653,0	<b>16,0%</b>	18,4	50,9%
<b>Schroder*</b>	GBP bn	363,5	393,7	<b>8,3%</b>	44,0	67,0%

\* - pouze divize Asset management za období 1H 2019

## Fixed personnel and general expenses

(in CHF m)



After successful reduction of fixed personnel expenses and general expenses by CHF 40 mil., which GAM executed during 2019, GAM wants to reduce these costs by another CHF 40 million over the next two years.

To meet the new objective of achieving a pre-tax profit of CHF 100 mil., cost reduction of another CHF 40 mil. is not enough. Based on the calculations, for profit growth of CHF 100 mil. by 2022 GAM will require to grow AuM of at least 20% compared to the current level.

## New financial targets by FY 2022<sup>1</sup>

- Underlying pre-tax profit of **CHF 100m**
- Operating margin of **30%**
- Compensation ratio of **45-50%**