Anticipated business development

Over the course of the next few years, we generally expect to see an increased need for consulting services in the field of professional wealth management among all the Group's target client groups. More and more clients of MLP Banking AG are approaching the age at which financial investments become significantly more important to them, not least because of their increasing personal wealth. Above all we see significant growth opportunities through the massive potential of this consulting field among our client base at MLP. FERI continues to benefit from its comprehensive expertise in alternative forms of investment. In light of low interest rates, a weaker economic environment and an overall rather restrictive monetary policy, however, the capital market environment is likely to be characterised by pronounced volatility and remain challenging in the financial year 2019. It is therefore safe to assume that both private and institutional investors will continue to display risk-averse behaviour. Volume-based and performance-based compensation could also decline. The MLP Group anticipates a slight overall increase in revenue in this consulting field.

In the old-age provision area MLP expects the reluctance to sign long-term provision contracts to continue throughout the market, primarily because of the ongoing period of low interest rates. The product landscape in the old-age provision area is continuing to change as a result of this. Alternative guarantee concepts are enjoying ever-increasing demand and gaining ground throughout the market. MLP has already assumed a pioneering role in the brokerage of these concepts, and we are increasingly benefiting from this. Exactly what concrete actions the German government is likely to take in future because of the evaluation report of the Life Insurance Reform Act (LVRG) currently remains unclear, leading to uncertainty in the life insurance sector. However we are not yet anticipating any direct effects of a potential commission cap in the life insurance sector in 2019.

On the other hand, the legislation to strengthen occupational pension provision in Germany, which came into force in 2018, is likely to continue providing positive stimulus for the occupational pension provision sector. To this end, MLP is planning to introduce a digital occupational pension provision portal for small and medium-sized companies in 2019. The objective here is to make it easier for employers to manage their occupational pension provision contracts, while providing employees with clearly structured and compact information on their company's occupational pension provision offers.

We are anticipating overall new business in the old-age provision area to be slightly above the previous year's level in the financial year 2019. Following the increase in 2018, we expect revenue to be at the same level as the previous year for the anticipated revenue mix.

In the non-life insurance area, we continue to see growth potential both on the concept side (DOMCURA) and from a sales perspective (MLP Finanzberatung). Following the successful introduction of product bundles in the private client arena by DOMCURA and the introduction of luggage insurance on the basis of blockchain technology, further target group concepts (e.g. product bundles for students and young employees and medical malpractice insurance) are planned for 2019. There is also further growth potential in MLP's customer base in terms of catering even more comprehensively for existing requirements in the non-life insurance area. Overall we therefore expect a slight increase in revenue in the non-life insurance area for 2019.

Market conditions in the field of health insurance are unlikely to display any significant improvement in the short term. The Statutory Health Insurance Contribution Relief Act (GKV-VEG), which came into force on January 1, 2019, will not improve the competitive position of comprehensive private insurance providers. The supplementary insurance area holds growth potential. We also believe that the occupational health insurance business has a promising future. Overall we expect revenues in the field of health insurance in 2019 to be at the previous year's level.

Within the scope of the holistic investment strategy and in light of the low interest rates, we currently see real estate as one of the most popular investment opportunities for our target group. Indeed, we see particularly great growth potential in the brokerage of new buildings and concept-driven properties (microliving, property with nursing care). We are therefore expecting to broker significantly more real estate in 2019 than in the previous year and accordingly anticipate sales revenue to increase quite strongly. In addition, we are expecting a strong increase in revenue in the loans and mortgages business.

However, a degree of uncertainty remains in all consulting fields because of the overall challenging market environment.

Revenue estimates: 2019 (in comparison with the previous year)

2019	
Revenue from old-age provision	Unchanged
Revenue from wealth management	Slight increase
Revenue from non-life insurance	Slight increase
Revenue from health insurance	Unchanged
Revenue from real estate	Strong increase
Revenue from loans and mortgages	Strong increase

Continuation of the growth initiatives

In order to maintain this earnings level in spite of the ongoing difficult market conditions in the old-age provision area, MLP will continue to drive forward the strategic further development of the previous years. Growth activities already successfully initiated will be continued to this end.

Greater focus on physicians

For 2019 we are planning to focus our activities even more keenly on the physician market, among other things by developing the target group area of entrepreneurial physicians, through diversification of activities in the field of classic practices, expansion of association work and cooperations, as well as the intensification of the qualification measures for MLP consultants.

Further acquisitions possible

Consolidation is taking place in the market of MLP Finanzberatung SE's line of business. Horizontal acquisitions are to be reviewed in detail, as the structure and culture of these companies must suit MLP. There are also opportunities for vertical acquisitions, i.e. for extending or strengthening the added value chain, in MLP Finanzberatung SE's line of business. Acquisitions and joint ventures are generally also possible in the markets of FERI and DOMCURA, facilitating profitable inorganic growth and strengthening of the business models.

Driving forward digitalisation, establishing a digital culture

MLP also strives to be the dialogue partner for all financial matters on the web and on social media. We are keen to anchor these principles as a programme in order to promote digital workflows throughout the MLP Group and gradually establish a digital culture. To this end, we launched a Digital Board with a Digital Officer and a Digital Task Force in 2018. Its primary task is to record central topics in all areas and promote digital working throughout the Group.

Future digital MLP Group projects will be broken down into three clusters: digital services for existing and potential customers (e.g. mlp.de, mlp-financify.de, MLP client portal), digital services for consultants (e.g. lead management system, MLP PolicyScan) and internal process improvements within the MLP Group.

The digitalisation strategy is closely linked to the new IT strategy and the new IT mission which was launched in 2018. This will lead to numerous measures over the course of the next few years, which in turn will lead to closer cooperation in cross-functional teams and be promoted through agile working models and project methodologies. For example we are planning to supplement our current IT world, which is based on operating our own data centres, with a cloud-based IT infrastructure and generally optimise our IT structures and processes. We will employ various approaches to achieve this in 2019, including the gradual introduction of new IT architecture and new working models. We will also start work on adapting existing consultant applications to the new requirements.

IT strategy as the basis for innovations

The MLP online client portal is to be extended in 2019, among other things to include an overview of all insurance policies. There are also plans for a mailbox offering secure communication between clients and consultants. Both facilities were previously already available to our clients via a separate module, but they will now be integrated into the client portal. In addition we are keen to apply the e-signature to all securities applications in the wealth management area with a view to making it possible for all business processes in the wealth management area to go paperless by the end of the year.

Online client portal being extended

Other focuses for MLP in 2019 include the continuous further development of its online presence and e-mail marketing and the expansion of the lead management system. By taking these steps we are keen to further improve the conversion rate of leads to actual clients. We have already established an app for policy scans in 2018 which, above all, makes portfolio transfers easier in the non-life insurance business. We will develop this further in 2019.

The continuous increase in the number of people with academic qualifications in gainful employment offers encouraging potential for MLP. This trend is likely to continue over the course of the next few years in light of the increasing numbers of students and graduates, as the unemployment rate among graduates is at a very low level. However, this also presents a challenge in terms of recruiting new consultants for MLP. The competition for graduates has intensified in the last few years, and good graduates typically have a choice between several attractive entry-level career offers. However, the realignment of our university segment in 2017 has placed our focus on the recruitment of new consultants, and we were already able to record the first positive results in the past year. We will consistently maintain and continue to drive forward this focus in 2019.

Number of prospective clients constantly on the rise

Recruiting new consultants therefore remains a focus topic in 2019. By pooling all of MLP's cross-location activities in the university segment we have established the necessary prerequisites to be successful here. The young consultants have successful and experienced consultants at their side in the form of regional managers and "university team leaders". In addition, we have optimised the training and qualification offers for this group of consultants. The process for joining MLP has also been significantly optimised for consultants with professional experience, making it even easier to make the switch to MLP. With these greater investments, we will create the basis for stronger future growth in terms of consultants, revenue and income.

Realignment of the university segment at MLP

To this end, we will strengthen our recruiting activities via our online presence (including expanding active sourcing activities). We are anticipating a net increase in the number of our consultants for 2019. Our overall assessment is based on the assumption that annual employee turnover will not exceed the target limit of around 10%.

We believe that the high quality of our basic and further training programme will continue to be the key to success. Indeed, we offer our consultants a programme that far surpasses the legally stipulated level. Modularising and expanding our training facilities should help us to slightly increase the number of central training days (including online seminars) at our Corporate University compared with the last financial year. This also applies to the total budget for qualifications and further training. We are anticipating expenses of around € 9.7 million for this in 2019.

We see the cost level that has currently been achieved as the basis for the next few years. Expenses will primarily be accrued within the scope of investments in the future, such as the recruitment of young consultants in the course of strengthening the university segment, as well as in IT for the ongoing implementation of our digitalisation strategy.

Consistent efficiency management programme supports growth strategy

Forecast

A consistent cost management approach is one of the pillars for continuously growing profitability. Despite additional investments in our own future, above all in the university segment, administration costs remained at a low level in 2018. The efficiency measures implemented in the past are bearing fruit.

Administration costs largely stable

We will continue to develop and optimise MLP in 2019. The forecast administration costs therefore still include expenses for investments in the future, in particular for recruiting young consultants within the scope of strengthening the university segment. Expenses incurred in this connection in 2018 were around € 6.7 million. On the basis of the successes already achieved in 2018 we will continue along this path, and further intensify our investments in strengthening the university segment in 2019. We are also anticipating additional expenses of around € 8 million for this in 2019. Although this may limit our growth in earnings in the short term, it will significantly increase our future profit potential in the long term. Added to this are further investments, in particular in IT, which are necessary for further implementation of our digitalisation strategy.

Alongside administration expenses, the costs of sales (primarily commission expenses) are also relevant for our cost structure. Since 2015, MLP has been offering a training allowance for new consultants to support them in their start to self-employment. These costs are also recognised under commissions paid. In 2019, we expect to record a comparable overall ratio of commission income to commissions paid as in the reporting year.

Following loan loss provisions of € +0.5 million in the reporting year 2018, we expect to maintain the previous year's level in the coming year.

Based on our estimates regarding revenue and costs, we are expecting a slight increase in EBIT for the financial year 2019 compared to the previous year – despite markets that remain challenging and substantial investments, mainly in our university segment but also in the ongoing implementation of our digitalisation strategy. This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse.

Forecast: slight increase in EBIT anticipated

As in the previous year, we once again expect the finance cost to be slightly negative. The tax rate in 2018 was 24.7%. For 2019 we are anticipating a slightly higher tax rate.

MLP's objective is to enable our shareholders to participate fairly in the Company's success, as well as to pay an attractive and reliable dividend corresponding to our dividend policy, determined by the Company's financial and earnings position and its future liquidity requirements. Since MLP employs a comparatively non-capital-intensive business model, we intend to maintain an attractive and consistent dividend policy for the future. At the same time, we will retain some profit to further strengthen the business model. We have been paying out between 50% and 70% of Group net profit as dividends since the financial year 2014.

Dividends of € 0.20 per share

Group net profit increased significantly in the last financial year. In comparison with the previous year's Group operating profit (assessment basis for the 2017 dividends) – i.e. earnings before one-off expenses for further development of the corporate structure – the development was stable.

On this basis, the Executive and Supervisory Boards will propose a dividend of € 0.20 per share at the Annual General Meeting on May 29, 2019, representing around 63% of Group net profit. We are keen to continue paying out between 50% and 70% of Group net profit in future.

Planned financing activities and investments

The MLP Group held sufficient shareholders' equity and cash holdings as of the balance sheet date. Our business model is not very capital intensive and generates high cash flows. From today's perspective this provides sufficient internal financing capacity for the forecast period, minimising our reliance on developments in the capital markets. Even rising interest rates or more restrictive lending by banks would not have a negative effect on our financing options or liquidity. We will use our cash flow to allow shareholders to participate in the Company's success, to strengthen the Group's financial power and for investments.

Our investment volume in the last financial year was € 26.6 million, which was above the level originally anticipated. This increase can be attributed to the acquisition of the business premises of FERI AG in Bad Homburg. In addition, IT remained the primary focus of investments. You can find more detailed information on this in the chapter entitled → "Economic report – Business performance". We will continue to make investments in future, above all in our IT systems. These essentially focus on the continuing implementation of our digitalisation strategy, in which we invested around € 4.4 million in the last financial year – and we estimate an additional investment volume of around € 25 million over the next two years. This means that we are anticipating a significantly lower overall investment volume for 2019 than in the previous year. Excluding investments for acquisition of the aforementioned business premises, we expect an investment volume above the previous year's level as measures for the implementation of our digital strategy are rolled out and/or intensified. Within our projects we use further funds that will flow directly into our income statement as expenses. We expect to be able to finance all investments from cash flow.

Slight increase in return on equity anticipated

Return on equity increased from 7.3% to 8.5% in the financial year 2018. Assuming unchanged shareholders' equity, we are anticipating a slight increase in return on equity for 2019.

The Group's liquidity rose from € 354 million to around € 436 million in the financial year 2018, and the overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 21.9 million for the financial year 2018. It will increase again in the second half of 2019 thanks to the typical year-end business. Acquisitions which we finance with cash holdings would also have a negative effect on the Group's liquidity and capital adequacy. We are not anticipating any liquidity squeezes for the coming financial year.

General statement by corporate management on the expected development of the Group

MLP anticipates that the challenging market conditions will continue throughout the financial year 2019. In terms of EBIT, we are anticipating a slight increase over the 2018 figure. We therefore expect to see a positive overall development within the Group. We enjoy a sound financial standing, which we are keen to use to further extend our strong market position.

Prognoses

This documentation includes certain prognoses and information on future developments based on the beliefs of MLP SE's Executive Board, as well as on assumptions and information currently available to MLP SE. Terms such as "expect", "anticipate", "estimate", "assume", "intend", "plan", "should", "could", "might", "project" and any other phrases used in reference to the Company describe prognoses based on certain factors subject to uncertainty.

Many factors can contribute to the actual results of the MLP Group differing significantly from the prognoses made in such statements.

MLP SE accepts no liability to the general public for updating or correcting prognoses. All prognoses and predictions are subject to different kinds of risks and uncertainties, which can lead to the actual results deviating from expectations. The prognoses reflect points of view at the time when they were made.