Anticipated business development

In the field of old-age provision, MLP expects reservations regarding signing long-term old-age provision policies to continue throughout the market. This is primarily due to the low interest rate phase and the further reduction to the maximum technical interest rate performed on January 1, 2017. These are driving forward changes in the product landscape of the old-age provision area. 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. The planned legislation to strengthen occupational pension provision in Germany is also likely to provide positive stimulus for occupational pension provision. In the field of old-age provision, we are anticipating recording new business and revenues in 2017 that will be around the previous year’s level.

In the field of health insurance, public discussions regarding the possible introduction of “citizens insurance” could lead to uncertainty in the run-up to the German parliamentary elections in 2017. At the same time, higher premiums throughout the market could have a negative impact on the market for private comprehensive health insurance. The supplementary insurance area holds growth potential. Overall, we expect MLP to record a small increase in revenues in the health insurance area in 2017. We are anticipating positive stimulus from the additional premiums likely to be charged in the statutory health insurance segment, which will increase the willingness of statutory insurance policy holders to switch to private providers. Due to their above-average income, this is likely to have a pronounced effect on those MLP clients currently holding statutory insurance. We also believe that the occupational health insurance area has a promising future.

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 of the Group’s target client groups. More and more clients in the consumer business of MLP Finanzdienstleistungen AG are approaching the age at which financial investments become significantly more important, not least due to their increasing personal wealth. At FERI, we benefit from our comprehensive expertise in alternative forms of investment, particularly given the current framework conditions.

However, we also expect the capital market environment to remain difficult overall with high volatilities. It is therefore safe to assume that investors – both private and institutional – will continue to display risk-averse behaviour. Volume-based and performance-based remuneration could also decline. In an unchanged market situation with no radical events or severe effects on the capital markets, we expect to record stable revenues in the wealth management segment for 2017 and a slight increase in the assets under management segment.

On the basis of the successful integration of DOMCURA, we are anticipating further slight increases in revenue for the non-life insurance area in 2017. The commercial non-life insurance business is one area that offers growth potential. Some initial new concepts are currently being developed for the corporate clients served by MLP in this field of consulting, such as practice owners. MLP’s private client base provides further potential for growth. We have established comprehensive system support through DOMCURA to leverage this.

Alongside listed buildings, we are also continuously expanding our brokerage activities for new, existing and concept-driven properties as a way of establishing a broader basis for our consulting services in and around the real estate area. We expect “Other commission and fees” to remain at the same level as the previous year in 2017.

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

Sales revenue estimates: 2017 (in comparison with the previous year)

2017	
Revenue from old-age provision	Unchanged
Revenue from health insurance	Slight increase
Revenue from wealth management	Unchanged
Revenue from non-life insurance	Slight increase

Strategic restructuring accelerated

In order to also sustainably increase the earnings level in spite of the ongoing difficult market conditions in the field of old-age provision, MLP has further accelerated the strategic restructuring since the beginning of 2016. Initiated and successful growth initiatives will be continued to this end.

Further acquisitions possible

Further acquisitions and joint ventures that offer potential for profitable inorganic growth are generally possible in the market of our subsidiaries FERI and DOMCURA.

MLP also expects the ongoing consolidation of the broker market to continue. Should brokerage companies in the core business of MLP Finanzdienstleistungen AG become available for purchase in future, the Executive Board will undertake accurate analyses to determine whether their structure and culture fit in with MLP.

We are also driving the further diversification of our revenue basis through continuous expansion of our consulting fields beyond old-age provision, focussing in particular on non-life insurance and wealth management.

Digitalisation remains in focus

With the relaunch and added functionality of our websites, our activities on social media platforms and the launch of online policy sales, we made important progress within the scope of our digitalisation strategy in 2016. Measures planned for 2017 that will build on this include further establishment and expansion of online product sales as a way of winning new clients and self-service for existing clients. At the same time, MLP is continuing to expand its client acquisition activities on social media platforms. The new MLP client portal, which began its pilot phase at the end of 2016, is also to be made available to all clients in the coming financial year. The application will run on smartphones and, alongside banking functionalities, will include a “digital budget book”. With our combination of individual consulting and supplementary digital offers, we believe that we are well-positioned to compete with fintechs.

Alongside client-facing activities, however, the processes performed in the back office are particularly crucial. Unlike many fintechs, we have taken an important step with the integration of DOMCURA and are keen to use this to help our consultants develop the non-life insurance business as efficiently as possible. We are currently developing a further functionality which will enable users to optimise non-life insurance policies in an app. We will continue to drive these process improvements throughout the Group in 2017.

New applications support client consultants

In the reporting year, we developed two new applications which provide our consultants with targeted support during client meetings. Once the pilot phase has been successfully completed, both the “Budget guide” application and its counterpart “Budget guide easy” for the provision of consultancy services to young clients will be rolled out in stages starting in 2017. The introduction will be supported by a comprehensive training concept.

Winning new consultants also remains a focus of investments in 2017. We have laid important foundations in the last two years with activities such as the introduction of a training allowance for new client consultants or closer networking between university management and recruiting. Our aim is to increase our presence at universities over the course of the next few years. We will therefore bundle all cross-location activities of MLP in the university segment. To this end, MLP has appointed a new divisional board member for the university segment, who will work alongside the four other divisional board members for the regions. The objective here is to further accelerate the acquisition of new clients and young consultants. In support of this, we will further intensify our recruiting activities through our online and social media presences. We are anticipating a stable net development of consultant numbers for 2017. Although the changes made at our subsidiary ZSH within the scope of our efficiency programme will initially lead to a slight decline throughout the Group, we then expect to record a slight increase again over the course of the year as a result of our announced focus on the university segment and the intensified activities to win new consultants associated with this. Our overall assessment is based on the fact that annual consultant turnover will not exceed the target limit of around 10%.

Consultant recruiting remains a key focus

We believe that the high quality of our training offers will continue to be the key to success. Indeed, we offer our consultants a programme that exceeds the legally stipulated level. This should help us increase the number of central training days (including online seminars) at our Corporate University slightly compared with the last financial year. This also applies to the total budget for qualifications and further training.

Forecast

To accompany and support the aforementioned growth initiatives, MLP implemented comprehensive efficiency measures in 2016 to further significantly reduce the cost base in the financial year 2017 and subsequent years. As announced, this incurred one-off expenses of € 15.4 million, which will lead to a drop in the administrative cost base of around € 15 million in 2017 relative to 2015 – based on the administrative expenses of DOMCURA for the whole of 2015.

Administrative expenses down

We will continue to develop and optimise MLP in 2017. The forecast administrative expenses therefore still include expenses for future investments.

Alongside administration expenses, the cost of sales (primarily commission expenses) are also relevant for our cost structure. Alongside expenses in the financial services and FERI segments, commission expenses at DOMCURA, which was acquired in August 2015 were included for a full year for the first time from the start of 2016. Since 2015, MLP has also offered a training allowance for new client consultants to support them in their start to self-employment. These costs are also recognised under commissions paid. In 2017, we expect to record a comparable overall ratio of commission income to commission expenses as in the reporting year.

We also expect loan loss provisions to remain at the previous year’s level.

Based on our expected revenues and costs, we are anticipating a significant increase in EBIT for the financial year 2017 over both 2016 and also 2015 (€ 30.7 million). Our forecast therefore still corresponds to the assessment we presented for 2017 in the 2015 Annual Report.

Forecast: Significant increase in EBIT anticipated

Despite markets that remain challenging and the need for comprehensive capital expenditure, including investments to support the ongoing implementation of the digitalisation strategy and the winning of new consultants, we still expect to record profitable growth. This forecast is based on the assumption that the framework conditions in our core markets will not become significantly worse.

As was already the case in the previous year, we once again expect the finance cost to be slightly negative. The tax rate in 2016 was 21.6%. Set against the background of a significant rise in anticipated earnings, we also expect the tax rate to increase significantly in 2017.

In February 2017 MLP decided to further optimise the corporate structure of the Group. This will result in one-off expenses. This matter and its effects on the forecast are outlined under → events subsequent to the reporting date.

Dividends of € 0.08 per share

As a general rule, our dividend policy is aligned to the respective financial and earnings position, as well as the company's future liquidity requirements. Since MLP employs a comparatively low capital-intensive business model, we intend to maintain an attractive and consistent dividend policy for the future. At the same time, we will retain a portion of the profit to comply with the revised capital requirements resulting from the amended definition of equity capital, as well as the stricter capital adequacy requirements as per Basel III. Set against this background, we have been paying out between 50% and 70% of Group net profit as dividends since the financial year 2014.

On this basis, the Executive Board and Supervisory Board will propose a dividend of € 0.08 per share at the Annual General Meeting on June 29, 2017. The one-off expenses accrued within the scope of our efficiency measures had an impact on Group net profit in 2016 and thereby also on the dividends. The distribution rate is around 60%. However, we will continue to pay out between 50% and 70% of Group net profit as dividends 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. This therefore makes us largely non-reliant on developments in the capital markets. Even increasing interest rates or more restrictive issuing of loans 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 was € 18.4 million in the last financial year, whereby the focus remained on IT. You can find more detailed information on this in the chapter entitled → "Economic report – Performance". We will continue to make investments in the financial year 2017, focusing primarily on IT. Due to the capital expenditure of the last few years, however, we anticipate an annual investment volume significantly below the 2016 level. 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.

Significant increase in return on equity anticipated

The return on equity declined from 5.1% to 3.8% in the financial year 2016. This decrease can essentially be attributed to the one-off expenses accrued within the scope of our efficiency measures. However, we are anticipating a significant increase for 2017.

The Group's liquidity rose from € 174 million to around € 265 million in the financial year 2016. However, the overall liquidity situation remains good. Liquidity will be reduced by the intended dividend payment of € 8.7 million for the financial year 2016. It will increase again in the second half of 2017 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 2017. As a result of the successfully implemented efficiency measures, we are anticipating a significant increase in EBIT over the 2015 figure of € 30.7 million – and also the 2016 figure. We therefore expect to see a positive overall development within the Group. We are financially strong and, in combination with our strong market position as an independent consulting firm, this will enable us to further expand our competitive position.

Prognoses

This documentation includes certain prognoses and information on future developments founded on the conviction of MLP AG's Executive Board, as well as on assumptions and information currently available to MLP AG. 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 AG accepts no liability to the general public for updating or correcting prognoses. All prognoses and predictions are subject to various risks and uncertainties, which can lead to the actual results differing from expectations. The prognoses reflect the points of view at the time when they were made.