

Equities

28 June 2012 | 14 pages

Hargreaves Lansdown PLC (HRGV.L)

All eyes on Q4 for clarity on policy and HL's new pricing structure

- **FSA Paper Contains Few Surprises** — CP12/12 was published yesterday, setting out proposals that consumers should pay for platforms through a platform charge, and that cash rebates to consumers for non-advised business should be banned. As expected¹, this paper has not materially changed our Neutral view on HL. Key points:
- **Good news 1: Short timetable** — The FSA intends to publish its Policy Statement before end 2012 and implement by end 2013. This is quicker than we had anticipated. This reduces the period of uncertainty for HL and means it will be able to discuss unbundled charges with clients before Adviser RDR is implemented at end 2012 (and so demonstrate that it still offers a cheaper route to investment than an adviser).
- **Good news 2: Possible extension to Life Companies and SIPP operators** — Extending the rebate ban would mitigate the threat of customer migration to (apparently 'free') adjacent markets not subject to FSA requirements for unbundling of charges.
- **Competitive pressure remains an unknown** — CP12/12 notes that platform fees are likely to put "pressure on the price that the platform can charge". HL does not anticipate announcing any changes to its business or charges until after the final policy statement comes out, but notes that it does not expect any changes to affect its profitability.
- **Regulatory costs look manageable** — Deloitte estimates the average rebate ban cost at £8m one-off and £2m ongoing for non-advised platforms. We believe HL's cost should be lower, but note that even £8m would only be ~5% of Citi forecast CY12 PBT.
- **Re-rating must wait** — At 16.4x CY 2013E PE for forecast 16% EPS growth, HL is fairly valued, in our view. We update our RDR timeline and re-rating catalysts table from our recent note¹ on page 7. We continue to believe that longer-term demonstration of the resilience of the Vantage business model could drive re-rating of HL back to historical premium levels. But with uncertainty near-term, we re-iterate our Neutral rating.

Company Update

Neutral	2
Price (27 Jun 12)	£5.07
Target price	£5.10
Expected share price return	0.7%
Expected dividend yield	4.9%
Expected total return	5.6%
Market Cap	£2,402M
	US\$3,757M

Price Performance (RIC: HRGV.L, BB: HL/ LN)



Hargreaves Lansdown PLC (GBP)

Year to 30 Jun	2010A	2011A	2012E	2013E	2014E
Net Income (£M)	65.0	94.1	113.3	129.0	152.0
Diluted EPS (p)	13.9	20.1	24.1	27.5	32.4
Diluted EPS (Old) (p)	13.9	20.1	24.1	27.5	32.4
PE (x)	36.6	25.3	21.0	18.4	15.6
P/BV (x)	35.6	18.0	15.4	13.5	11.6
DPS (p)	11.9	18.9	21.6	24.8	28.9
Net Div Yield (%)	2.3	3.7	4.3	4.9	5.7
ROE (%)	81.3	93.3	80.0	79.1	80.9

¹ See "[RDR, Earnings and Hargreaves Lansdown](#)", 20 April 2012

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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HRGV.L: Fiscal year end 30-Jun						Price: £5.07; TP: £5.10; Market Cap: £2,405m; Recomm: Neutral					
Profit & Loss (£m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	159	208	237	265	303	PE (x)	36.6	25.3	21.0	18.4	15.6
Cost of sales	-68	-80	-86	-95	-106	PB (x)	35.6	18.0	15.4	13.5	11.6
Gross profit	91	128	151	170	197	EV/EBITDA (x)	25.1	17.7	14.9	13.1	11.2
Gross Margin (%)	57.0	61.7	63.6	64.0	65.0	FCF yield (%)	2.7	3.5	4.4	5.1	6.1
EBITDA	93	130	153	172	200	Dividend yield (%)	2.3	3.7	4.3	4.9	5.7
EBITDA Margin (%)	58.2	62.5	64.4	64.8	65.9	Payout ratio (%)	86	94	89	90	89
Depreciation	-3	-3	-3	-3	-3	ROE (%)	81.3	93.3	80.0	79.1	80.9
Amortisation	0	0	0	0	0	Cashflow (£m)	2010	2011	2012E	2013E	2014E
EBIT	90	127	150	169	196	EBITDA	93	130	153	172	200
EBIT Margin (%)	56.5	61.3	63.2	63.7	64.7	Working capital	4	-13	-13	-13	-13
Net interest	1	2	2	3	3	Other	-25	-32	-32	-35	-39
Associates	0	0	0	0	0	Operating cashflow	72	84	108	124	148
Non-op/Except	-4	-3	0	0	0	Capex	-8	-2	-2	-2	-2
Pre-tax profit	86	126	152	171	199	Net acq/disposals	0	0	0	0	0
Tax	-25	-34	-39	-42	-47	Other	1	1	1	1	1
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	-7	0	-1	-1	-1
Reported net profit	61	92	113	129	152	Dividends paid	-77	-31	-91	-107	-123
Net Margin (%)	na	na	na	na	na	Financing cashflow	-81	-33	-93	-109	-125
Core NPAT	65	94	113	129	152	Net change in cash	-16	51	14	15	22
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	64	83	106	122	146
Reported EPS (p)	13.1	19.6	24.1	27.5	32.4	Assets Under Admin £m	2010	2011	2012E	2013E	2014E
Core EPS (p)	13.9	20.1	24.1	27.5	32.4	Vantage AUA	16,300	23,100	24,041	29,051	35,021
DPS (p)	11.9	18.9	21.6	24.8	28.9	Discretionary AUM	1,800	2,300	2,480	2,860	3,260
CFPS (p)	15.3	18.0	22.9	26.4	31.5	Less double count	-600.0	-800.0	-900.0	-1,000.0	-1,100.0
FCFPS (p)	13.7	17.7	22.5	26.0	31.1	Total AUA	17,500	24,600	25,621	30,911	37,181
BVPS (p)	14.2	28.2	32.9	37.5	43.5	Vantage AUA £m	2010	2011	2012E	2013E	2014E
Wtd avg ord shares (m)	468	469	469	469	469	Vantage AUA b/f	10,900	16,300	23,100	24,041	29,051
Wtd avg diluted shares (m)	468	469	469	469	469	Net new business inflows	3,200	3,400	2,874	3,310	3,970
Growth rates	2010	2011	2012E	2013E	2014E	Market movement & other	2,200	3,400	-1,933	1,700	2,000
Sales revenue (%)	19.7	30.8	13.9	11.9	14.4	Vantage AUA c/f	16,300	23,100	24,041	29,051	35,021
EBIT (%)	28.7	41.9	17.5	12.8	16.4	AUA by Product £m	2010	2011	2012E	2013E	2014E
Core NPAT (%)	26.7	44.8	20.4	13.9	17.8	ISA	6,900	9,500	9,800	11,800	14,200
Core EPS (%)	26.2	44.6	20.4	13.9	17.8	Funds & Shares	4,800	7,000	7,000	8,500	10,200
Balance Sheet (£m)	2010	2011	2012E	2013E	2014E	AUA by Investment £m	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	71	122	136	151	173	Cash	1,956	2,310	2,885	2,905	3,502
Accounts receivables	104	176	141	141	141	Funds	9,780	13,860	14,184	17,721	21,363
Inventory	na	na	na	na	na	Equities	4,564	6,930	6,972	8,425	10,156
Net fixed & other tangibles	10	15	14	13	12	Revenue Split £m	2010	2011	2012E	2013E	2014E
Goodwill & intangibles	2	2	2	2	2	Vantage	112.2	160.5	185.5	212.5	247.4
Financial & other assets	2	2	2	2	2	Discretionary	22.9	24.7	26.8	29.5	33.2
Total assets	190	317	295	308	329	Third Party & Other Services	23.9	22.7	24.5	23.2	22.9
Accounts payable	109	167	124	116	108	Vantage Rev Split £m	2010	2011	2012E	2013E	2014E
Short-term debt	0	0	0	0	0	Renewal Commission	62.6	91.6	101.8	120.4	145.6
Long-term debt	0	0	0	0	0	Management fees	6.0	8.7	6.8	7.2	7.5
Provisions & other liab	15	19	19	19	19	Interest receivable	19.8	32.3	52.1	58.0	64.2
Total liabilities	124	186	143	135	127	Initial commission	1.70	1.30	0.80	0.80	0.80
Shareholders' equity	66	131	152	174	202	Stockbroking commission	18.6	22.6	20.0	22.0	25.3
Minority interests	0	0	0	0	0	Non Investment Income	3.5	4.0	4.0	4.0	4.0
Total equity	66	131	152	174	202	Key Metrics	2010	2011	2012E	2013E	2014E
Net debt	-71	-122	-136	-151	-173	Vantage Revs / AUA (bp)	80.1	79.1	81.7	80.0	77.2
Net debt to equity (%)	-107.9	-93.2	-89.2	-86.6	-85.6	Group operating margin %	56.5	61.3	63.2	63.7	64.7

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For definitions of the items in this table, please click [here](#).

FSA paper out at last

What is in the Consultation Paper

Content as expected, but timeline shorter

Consultation Paper CP 12/12 was published yesterday. The full document can be viewed at <http://www.fsa.gov.uk/library/policy/cp/2012/12-12.shtml>. There are also two supporting documents: a Deloitte report (<http://www.fsa.gov.uk/smallfirms/pdf/deloitte-platforms.pdf>) and an NMG one (<http://www.fsa.gov.uk/static/pubs/consumer-research/crpr87.pdf>).

Timing. The consultation period runs to 27 September 2012. The FSA plans to publish final rules on platforms before the end of 2012. This will allow platforms over a year to implement necessary changes before the rules come into effect on 31 December 2013.

Extension of scope. The FSA is also seeking views on whether the ban on payments from product providers should be expanded to cover life companies and SIPP operators.

Content. As expected, the consultation paper published yesterday proposes:

- Platforms should only be remunerated through a platform charge agreed and paid by the consumer
- Cash rebates to consumers for non-advised business should be banned (as they will be for advised business after end 2012)

Our View

Shorter timeline

Shorter timeline works in HL's favour

New policy announcement by 31 December 2012 and implementation by 31 December 2013 is quicker than we had anticipated, following the long gestation period for this consultation paper (first tabled in August 2011).

We see this as explicitly positive for Hargreaves Lansdown.

- **Re-rating should come quicker.** It reduces the period of uncertainty overhanging the shares, which we see as the main factor preventing a re-rating of the stock back to past heights;
- **Reduces risk of confusion.** Confirmed policy before end 2012 will enable HL to discuss unbundled charges with clients before Adviser RDR is implemented at end 2012. This should reduce the risk of consumer confusion, and enable HL to clearly demonstrate that it offers a cheaper route to investment than an adviser.
- **Less opportunity cost.** HL has indicated it has already developed alternative revenue and charging models that would be compliant with the FSA's proposals. The relatively short FSA timeline should put it in an advantageous position vs. peers (reducing the opportunity cost to HL of the changes, e.g. it should still be able to effect swift IT response to commercial developments, while peers are focused on regulatory compliance).
- **Shorter window for new competitors to start up.** Any potential new entrants into the direct-to-consumer, non-advised platform market who were waiting for the FSA's consultation paper before launching their plans now find the window until new rules are in place shorter than they may have expected.

Possible extension of rebate ban is positive for advisers and platforms

Reduced substitution risk

Adjacent Markets. In its report, Deloitte highlighted various “adjacent markets” through which retail investment products are sold but are not covered by the FSA requirements for unbundling of charges. It cited Life Company Wrappers, SIPP providers, ISA Managers (offering only a single manager’s funds), Execution only brokers, Discretionary Fund Managers and Funds of Funds businesses as examples of adjacent markets.

Substitution risk. Deloitte highlighted the risk of significant customer migration from non-advised platforms to adjacent markets, either through informed choice (opting for lower cost, lower service) or uninformed choice (attracted by the ‘simpler’ bundled price and ‘apparently free’ service).

Possible extension of rebate ban to Life Companies and SIPP operators. The FSA’s response to this risk has been to include consultation in CP12/12 on the extension of the rebate ban to non-platform markets, naming SIPP operators and life companies in particular. We would view this as mitigating the threat of customer migration to (apparently ‘free’) adjacent markets not subject to FSA requirements for unbundling of charges.

Nor a risk to HL’s own SIPP product. HL has previously indicated that it would seek to make any change to its Vantage business model a universal change, i.e. to its SIPP business as well as its ISA / Funds and Shares business.

Cost of Rebate Ban Implementation

We do not expect material cost impact of implementing the rebate ban for HL

Confusing numbers. There are a wide range of large, and frankly confusing, numbers in CP12/12 and the accompanying Deloitte report on the likely cost of implementation of the rebate ban. For non-advised platforms (of which Hargreaves Lansdown is one), the report cites a range of numbers, including:

- **£4m to £20m** one-off costs and zero ongoing costs of implementing rebate bans for non-advised platforms, based on responses from a sample of platforms. (Page 111 of the Deloitte report).
- **£8m** one-off and **£2m** ongoing rebate ban costs for the typical non-advised platform, based on interview feedback and other platform costs in the sample. (Page 109 of the Deloitte report).
- **£500k to £1m** one-off implementation costs and **£100-£200k** per year ongoing costs for a typical platform. (Page 139 of the Deloitte report).

The wide range, and apparently contradictory nature, of these numbers is confusing.

We use £8m / £2m. We have chosen to focus on the middle figures of £8m one-off and £2m ongoing costs for the typical non-advised platform as conservative guide numbers for Hargreaves Lansdown.

Should be lower. However, we believe the actual costs for HL could be significantly lower, as we think it likely that HL will have been amongst the platforms to have provided data contributing to Deloitte’s conclusion of £500k to £1m one-off implementation costs and £100-£200k per year ongoing costs.

Unlikely to be higher. We place the least reliance on the big £4m to £20m numbers, as Deloitte itself admits it has “reviewed but not validated” these figures. We also believe the top end of this range (£20m) is likely to reflect the cost of a

complete change to back office systems, which is not a route we expect HL to follow.

What are these costs for? The key costs for platforms highlighted in the Deloitte report are:

- Administering multiple share classes for each fund to cater for different charging structures
- Designing or adapting IT systems to implement unit rebates instead of cash rebates to customers
- Developing enhanced customer interfaces to ensure effective revenue collection

Little impact on Hargreaves Lansdown. We forecast £152.0m underlying PBT for FY June 2012 and £171.4m for FY June 2013. As such, even using the conservative £8m one-off cost guidance, this would be equivalent to only 5% of Citi forecast CY 12 PBT. The ongoing cost of £2m p.a. would be just over 1%.

Profitability and Competitive pressure

Fee pressure. The FSA notes in its consultation paper that if consumers pay a platform fee, it expects there to be “greater pressure on the price that the platform can charge”.

New entrants. Deloitte estimates new entry costs of £5m to £30m into the platform market, but believes these are “unlikely to be considered a substantial barrier given the potential scale of the market”. Deloitte predicts that the overall rates of growth in non-advised platforms’ AUA are likely to be faster than for advised AUA, at a compound annual growth rate of 71% from 2011 to 2014.

Platform power. In its report (p. 143), Deloitte notes that while RDR will “prohibit payments from funds, platforms are expected to continue to exercise pressure on funds because of their relationship with customers” and “While platforms’ buyer power will no longer be manifested through fund rebates, it is expected to materialise through negotiations on charge levels and unit rebates”.

Win-Win for HL? In a post-RDR scenario where consumers are exerting competitive pressure on platform charges, it seems reasonable that a platform will be able to justify a higher charge if it can demonstrate superior service.

One way in which HL may be able to justify a relatively high charge (e.g. of 60bp – 65bp, equivalent to its existing net commission fee income rate) would be to negotiate consumers discounted annual management fee rates for funds (e.g. 70bp vs. 75bp available through adviser channels).

This is arguably no different to what HL does at present, in a bundled form, and would mean little or no revenue margin pressure for HL’s business model.

Proof in the pudding. While we view such an outcome as plausible, there are clearly execution risks involved, not least due to growing new competition and the possibility that HL’s negotiation strength may be undermined by other platforms’ ability to take market share by offering lower platform charges.

FSA expects pressure on platform charges

But we do see scope for HL to justify premium charges

HL will confirm its new business model after the Policy Statement comes out

Hargreaves Lansdown's response

Hargreaves Lansdown released a statement yesterday responding to the FSA CP12/12. This covered a wide range of points and reiterated many positions it has laid out before. We highlight the following key points:

- HL remains relaxed about the overall outcomes of the RDR. It does not currently believe any potential changes to its business model to respond to the FSA's RDR proposals will materially affect customer service levels or profitability.
- HL has already developed alternative revenue and charging models that would be compliant with the FSA's proposals.
- HL does not anticipate disclosing its new business model or charges until after the final policy statement has been released.

We are glad CP12/12 contained no surprises, reiterate Neutral for now, and look to Q4 2012 for more clarity

Investment Conclusion

We do not materially change our investment view (Neutral) following yesterday's paper publication. Near-term, we focus on EPS momentum, not re-rating, as the key driver of the HL share price.

At 16.4x CY 2013E PE for forecast 16% EPS growth, HL is fairly valued, in our view.

For a re-rating from here, we believe HL will have to demonstrate the resilience of the Vantage business model throughout 2012-2013 and beyond implementation of RDR for platforms. In particular, if it can demonstrate an ability to continue to charge ~65bp on AUA and negotiate discounted AMC for its customers, premium growth and a premium rating should follow suit.

Nonetheless, we remain Neutral until we have greater clarity on HL's new business model and the likelihood of revenue margin pressure. We look to Q4 2012 for the release of the FSA's Policy Statement and HL's own disclosure of its intended new business model and charging rates.

We update our "RDR timeline and triggers for re-rating" table from our 20 April note on the following page.

Figure 1. RDR timeline, and how it may affect Hargreaves Lansdown or Vantage

When	What	Benefit or Risk for HL or Vantage	Solution or Catalyst for Rerating
Q4 2012	Publication of the FSA Policy Statement on Charging for Platforms. Followed by: HL's own announcement of its new, revised business model and charging structure.	Confirmation of final policy should remove some of the uncertainty due to RDR overhanging the stock. Confirmation from HL of its expected charging structure will show whether it has 'built in' any revenue margin compression from current ~64bp net commission (net of loyalty bonuses) as % funds AUA.	Catalyst for re-rating: Confirmation that HL is not pricing in revenue margin pressure, followed in 2013 and 2014 with continued growth in AUA and strong fund flow momentum.
31 Dec 2012	RDR is implemented. The most important part, in our view, is the shift from the costs of advice being paid for by commission payments from fund firms to advisers, to it being paid for through explicit charging of retail investors by the advisers. i.e. unbundling of the costs of investment and advice. This unbundling will apply to new investment only - commissions paid on existing investments will be 'grandfathered' and still paid.	Investors making a new investment via Vantage will still pay ca. 1.35% p.a. (1.50% annual management charge (AMC) less ca. 0.15% loyalty bonus). Those making a new investment through an adviser will pay an AMC of 75bp (say) plus the advisers fee (perhaps 1% p.a.). Investors feel "ripped off" because they can't access the 75bp unit class through Vantage.	HL should actively educate its Vantage customer base, making it clear how its bundled fees can be viewed as distinct platform charges and fund management charges. (Perhaps in a similar way to how Fidelity Funds Network does at present ²). In this way, HL can demonstrate that investing through Vantage is still cheaper than investing through an adviser. Catalyst for re-rating? If HL shows in its Q1 2013 results that it has seen no volume impact of direct competition with unbundled cost advisers.
31 Dec 2013	"Part 2" of RDR is implemented. Platforms will no longer be able to receive commissions from fund firms. Instead, they will have to explicitly charge retail investors for access. Cash rebates no longer permitted.	Investors will have to explicitly pay a platform charge. Investors making a new investment via Vantage will pay an AMC of 75bp (say) plus the platform charge (65bp say). i.e. an unbundled charging model.	Catalyst for re-rating? If HL can execute its business model change without disruption to its operations.
Throughout 2013 and 2014	We expect investor clarity on costs of advice and investment to lead to the following outcomes: <ul style="list-style-type: none"> Shift to low cost investment options – e.g. passive funds, ETFs preferred over active funds Shift to non-advised investment, due to investors being unwilling or unable to pay explicitly for advice More non-advised routes to investment spring up. E.g. new platforms being launched, existing IFA platforms being revamped to cater for direct retail investors. More investment flow going through other non-advised routes too – e.g. tied agents, including high street banks. More investment via RDR-exempt products – e.g. life insurance, self invested personal pensions (SIPP). If markets remain volatile, some investors may shy away from investment altogether and opt for 'safe' cash savings instead – regardless of low rates of return. 	We estimate that around 75% of gross mutual fund flows currently are advised, vs. only 25% execution only via platforms or direct to fund firms. If even 5% of the 75% flows switch to execution only, this would represent significant 20% growth in the whole execution only / platform market. At the same time, we expect competition in the platform market to increase as new entrants seek a foothold in this growing market. This could lead to loss of market share for Vantage, or pressure on its revenue margins. We estimate Vantage currently earns a net commission (net of loyalty bonuses) of 64bp on funds AUA. If competition were to drive this down to 50bp this would be a fall of 22%. Simplistically, if margins fell this much it would require a 28% increase in investment volumes to offset at the absolute revenue level.	Vantage must continue to offer best price, best execution, best customer service. Even if it does lose some market share in the platforms space, if growth in the overall market is high enough, this is not necessarily a problem for HL. Similarly, some degree of margin pressure can be accommodated if volumes increase at the same time. Margin pressure may also be combated if Vantage can continue to secure the most preferential fund management charges for its clients, using its distribution strength as a bargaining tool with fund management firms. Catalyst for re-rating? If HL demonstrates throughout 2013 and 2014 stable revenue margins and continued good growth in customer numbers and AUA
1 Jan 2014 onwards	Level playing field with all investment costs for new investments unbundled.		
31 Dec 2017 (Citi estimate)	FSA ends the grandfathering arrangement for commissions on existing investments pre-31 Dec 2012		

Source: Citi Investment Research and Analysis

² Fidelity discloses its fund supermarket and service fees in a document on its website. https://www.fidelity.co.uk/static/pdf/investor/research_funds/Fund-supermarket-table.pdf

Hargreaves Lansdown PLC

Company description

Hargreaves Lansdown is one of the leading providers/distributors of investment products direct to private investors in the UK. Its key offering is the Vantage wrap platform which provides a full range of tax efficient products (ISAs, SIPPs) as well as funds and direct equity holdings. The group also offers advice on portfolio management services, corporate pensions and third party products. The traditional customer base is mid-market (mass affluent), focused on financially literate people wishing to take control of their own affairs.

Investment strategy

We rate Hargreaves Lansdown Neutral.

We view the group's wrap platform, Vantage, as the key strategic proposition within the group. It is one of the leading wrap providers and we think its model, direct to the private investor, is in an underexploited, lower-cost niche.

But the Retail Distribution Review will lead to significant structural change in the UK retail fund industry from 1 January 2013. How the industry will implement RDR is uncertain, especially in relation to Platforms.

Although we believe Hargreaves Lansdown's strong starting position pre-RDR (15% UK retail fund flow market share in 2010) means it is well placed to thrive post-RDR, this period of industry change will be difficult, with the potential for market share loss.

Valuation

We believe DCF analysis captures the cash-generative nature of HL's business, the stickiness of AUA, and its absence of leverage.

We use 11.9% cost of equity (risk-free rate of 3.25%, a beta of 1.15 (source: Bloomberg) and an equity risk premium of 7.5%, (higher than 5.5%-6.0% we use for asset managers, to reflect the stock-specific RDR-implementation risk). For long-term growth, we assume 2%.

We adjust for non-cash items and add back the group's net cash position at 10% of par value. We assume it can generate a long-term return of 3% vs. 11.9% discount rate and 2% long-term growth rate, giving it a theoretical Price to Book value of $(3\%-2\%)/(11.9\%-2\%) = 10\%$.

This produces an equity value of £2,364m, or 510p per share, which supports our target price.

Our DCF includes assumptions that: i) FY12 net new business will fall 15% yoy due to market conditions, but recover at 15% to 20% p.a. thereafter. ii) Vantage revenue margins stay broadly constant over coming years, as RDR for platforms is unlikely to be implemented until 2015

Risks

We note the following company specific/industry risks which could affect the achievement of our target price:

1) UK equity market levels affect the existing stock of assets under administration. Negative market movements cause downwards adjustments, which reduce revenue-generating capability. Conversely, positive market movements inflate revenues.

2) To date Hargreaves Lansdown has continued to attract strong net inflows due its compelling offering and a growing SIPP market. Any slowdown or reversal in flow momentum, due to increased competition or RDR for example, could affect the stock's rating.

3) Revenue margin pressure. Regulatory change and media attention have focused attention on the level of commission payments Hargreaves Lansdown receives from fund firms.

4) Co-founders Peter Hargreaves (60) and Stephen Lansdown (54) together own 52% of the company. Significant sales by either founder could hit the share price, although we note that this has not been the case with share sales so far.

4) Retail Distribution Review risk: As a UK retail fund platform, Hargreaves Lansdown faces uncertainty over its future operating environment.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Hargreaves Lansdown PLC (HRGV.L)

Ratings and Target Price History Fundamental Research

Analyst: Haley A Tam, CFA
Covered since May 20 2010



	Date	Rating	Target Price	Closing Price
1	2-Sep-09	2M	*2.55	2.46
2	20-Oct-09	2M	*3.05	2.93
3	12-Feb-10	2M	*3.20	3.20
4	16-Sep-10	*1M	*4.85	4.57
5	10-Jan-11	*2H	*6.00	5.68

	Date	Rating	Target Price	Closing Price
6	15-Feb-11	*1H	*6.85	5.85
7	21-Jun-11	1H	*7.00	6.04
8	2-Sep-11	1H	*5.90	5.00
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	5.90	4.50

	Date	Rating	Target Price	Closing Price
11	18-Oct-11	1	*5.70	4.88
12	15-Dec-11	*2	*4.50	4.35
13	14-Feb-12	2	*4.70	4.61
14	20-Apr-12	2	*5.10	5.22

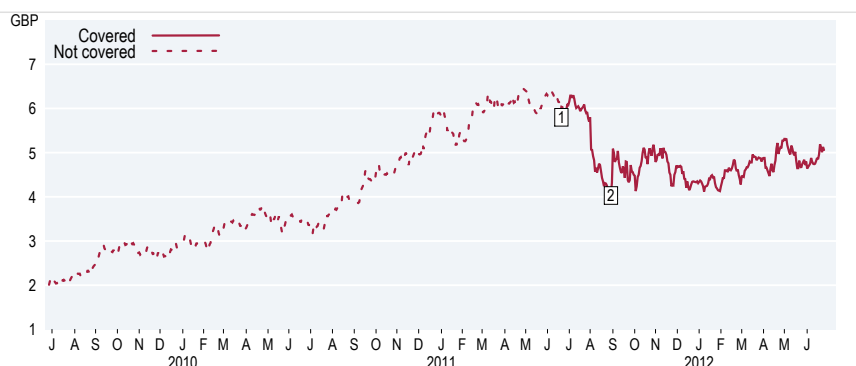
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hargreaves Lansdown PLC (HRGV.L)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Haley A Tam, CFA
Covered since May 20 2010



Date	Rating	Target Price	Closing Price
[1] 21-Jun-11	*ADD MP	-	6.04

* Indicates change

Date	Rating	Target Price	Closing Price
[2] 30-Aug-11	*REM MP	-	4.07

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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