Mattioli Woods plc

Solid FY23, with acquisition synergies realised

14 September 2023

Client assets closed FY23 (to 31 May 23) on £15.3bn, up £0.4bn (3%) y-o-y (31 May 22: £14.9bn). While £0.6bn was added through the acquisition of Doherty Pension and Investment Consultancy, a -£0.2bn (-1%) impact from investment performance and net client flows is unsurprising considering the PIMFA Private Investor Balanced Index fell 2.0% over the year.

Revenue also increased 3% to £111.2m (FY22: £108.2m), while adjusted EBITDA of £33.2m (+2% y-o-y) was slightly higher than our previous forecast of £32.9m. MW's cash position remains strong at £45m (31 May 22: £54m), despite a £9.5m net cash outlay for acquisitions.

While market and economic conditions remain challenging, there are some positives to the short-term outlook and many more over the medium-to-longer term, including:

- Strong momentum in new client lead generation (pipeline up 16% y-o-y);
- Strong growth within pension consultancy segment with revenue up 20% driven by increasing demand for advice as a consequence of changes to pension and tax rules;
- Demand for employee benefit services very strong with revenue up 18% and employers increasingly encouraging staff wellbeing and retirement savings in their benefits packages;
- Previously acquired businesses (including Maven, Ludlow, Pole Arnold, and Hurley) delivering organic growth as well as revenue and cost synergies estimated to be around £1.3m, with further opportunities from these and the more recent acquisitions of Doherty and White;
- While winning new clients is a priority, MW is pursuing a huge opportunity to capture a larger share of wallet from its existing client base: e.g., its advised and financial planning clients have £3.4bn of assets invested with other investment providers – which could be moved to MW;
- On top of these specific positive drivers to the outlook, we remind readers that MW is operating in a huge market with substantial tailwinds (see page 13) and is targeting a medium-term objective of building to £30bn in client assets, £300m in revenue, and £100m of EBITDA.

Still looking undervalued on fundamentals and compared to peers

We make minor changes to our forecasts based on the additional information contained in these full-year results, increasing our revenue and cost forecasts with our FY24 adj. EBITDA forecast slightly up and FY25 slightly down. **Our fundamental valuation is unchanged at 900p (45% above the share price**) and we highlight MW's PER of 13.0 is below a peer group median of 14.7.

Key Financials

Year-end 31 May	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Total client assets, £bn	9.3	12.1	14.9	15.3	16.4	17.5
Rev, £m	58.4	62.6	108.2	111.2	123.6	131.7
Adj EBITDA[1]	18.9	17.3	32.6	33.2	35.7	39.1
Adj EBITDA margin	32.4%	27.7%	30.1%	29.9%	28.9%	29.7%
Adj PAT[2]	12.9	11.5	23.9	24.5	23.3	26.6
Statutory PAT	9.5	1.4	4.1	7.7	12.0	15.4
EPS basic, p	34.9	5.1	8.3	14.9	23.3	29.7
EPS adjusted, p	47.6	41.1	48.3	47.8	45.3	51.3
PER (on adj. PAT)	13.0	15.1	12.8	13.0	13.7	12.1
Div, p	20.0	21.0	26.1	26.8	28.8	31.3
Yield	3.2%	3.4%	4.2%	4.3%	4.6%	5.0%
Net assets, £m	81.5	86.1	230.1	229.3	229.2	231.6
Net cash, £m	26.0	21.9	53.9	45.1	41.5	53.3

*Source: Company Historic Data, ED estimates. PER and Yield based on share price of **: 620p***
1 & 2, see definitions on pages 8 & 9

Company Data

EPIC	MTW
Price (last close)	620p
52 weeks Hi/Lo	675p/530p
Market cap	£320m
ED Fair Value/share	900p
Net cash	£45m
Avg. daily vol. (12m)	87k

Share Price, p

Source: ADVFN

Company Description

Mattioli Woods (MW) was founded in 1991 and listed on AIM in 2005.

It provides financial advice, administration, and investment management services to mass affluent and high-net-worth private clients, and employee benefits services to corporate clients.

It has five business segments:

- Investment and asset management
- Pensions consultancy and administration
- Private equity management
- Property management
- Employee benefits

Client assets 31 May 23: £15.3bn

Next Event: FY24 Interims, Feb '24

Paul Bryant (Analyst)
0207 065 2690
paul.bryant@equitydevelopment.co.uk

Andy Edmond
0207 065 2691
andy@equitydevelopment.co.uk

Growth in client assets continues

Being both a wealth and investment management group, MW breaks down its assets under management, administration or advice in two ways.

First, it reports *total client assets* which include:

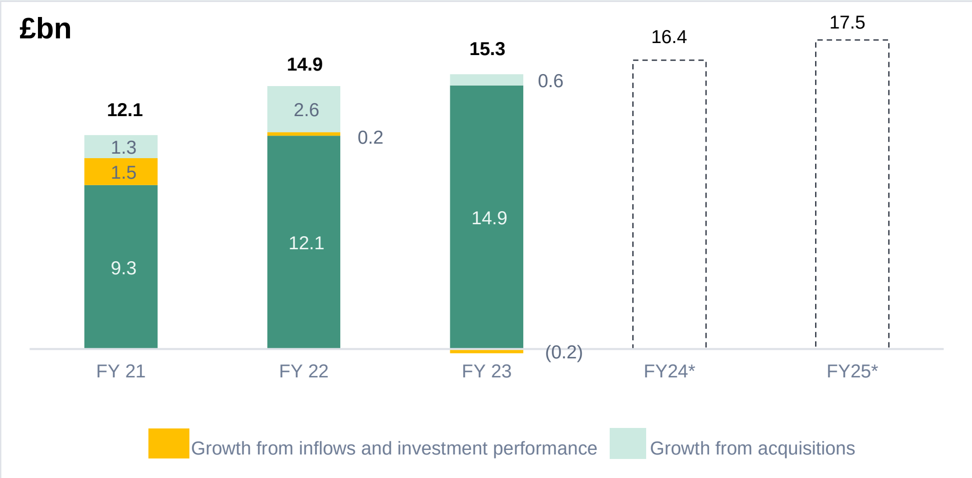
- assets it advises clients on (totalling £11.4bn, some of which are invested in MW-group-managed investment vehicles, some of which are invested with investment product providers outside the group);
- assets it manages but doesn't necessarily advise on (totalling £4.7bn, which are assets invested in MW-group-managed investment vehicles by both MW and non-MW advisers on behalf of clients – these vehicles include those of associate asset manager Amati Global Investors, private equity investor Maven Capital Partners, Custodian REIT, and MW's discretionary fund management service);
- assets it administers (totalling £7.1bn, mainly the administration of pension schemes).

[Note, as there are overlaps between the above bullets, the sum of the totals quoted above do not equal the value of client assets – see below.]

Second, it provides a breakdown of *gross discretionary assets under management* (second bullet above).

FY23 saw MW continue the growth trajectory of its client assets, despite weak markets. Client assets closed on £15.3bn[1], up £0.4bn (3%) y-o-y (31 May 22: £14.9bn). While £0.6bn was added through the acquisition of Doherty Pension and Investment Consultancy (Doherty), a -£0.2bn (-1%) impact from market movements, investment performance and net client flows is unsurprising considering the PIMFA Private Investor Balanced Index (net) fell 2.0% over the year.

Total Client Assets - actuals and ED estimates for FY24 & FY25



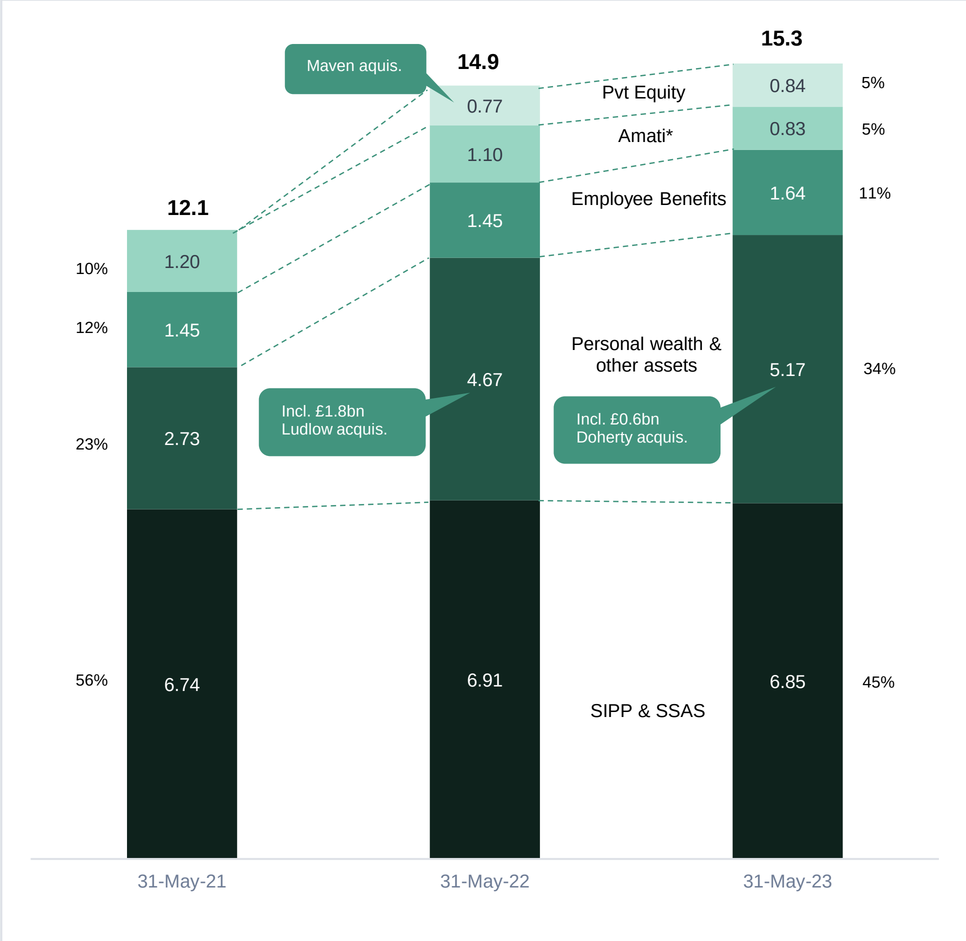
*Source: Company reports, ED analysis. *No new acquisitions assumed in ED estimates.*

It is also worth reflecting on the acquisitions that have brought about a significant change to the breakdown of client assets over the past two years (see chart below), including:

- The acquisition of Ludlow Wealth Management in FY22 which added £1.8bn to the *Personal Wealth and other assets segment*;
- The acquisition of Maven Capital Partners in FY22 which started a new *Private Equity* segment with around £0.8bn of AUM and which has continued to attract capital post-acquisition;
- The acquisition of Doherty towards the end of FY23 which added just over £0.6bn to the *Personal Wealth and other assets* segment;

[1] *Includes: £829.2m (31 May 2022: £1,100.5m) of funds under management by the Groups associate, Amati Global Investors Limited, excluding £73.0m (31 May 2022: £93.6m) of Mattioli Woods' client investment and £11.7m (31 May 2022: £14.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.*

Breakdown of Total Client Assets, £bn



Source: Company reports
Totals may not add due to rounding. Not all acquisitions shown, only those with largest impact on segment breakdowns.
**Excl. £84.7m of Amati cross-holdings in other MW segments (on 31 May 23), £108.4m on 31 May 2022.*

Other changes to the breakdown of client assets in FY23 include:

- A £59m decrease in SIPP and SSAS AUA driven by a 1.1% decrease in the number of schemes being administered at the year-end, comprising a 1.0% increase in the number of direct schemes (SIPP and SSAS schemes where MW acts as pension consultant and administrator) and an expected 5.0% decrease in the number of schemes the Group operates on an administration-only basis (the Group was previously appointed to operate or wind-up several SIPP portfolios following the failure of their previous operators, with the lower number of schemes due in part to the transfer of certain members of these distressed portfolios to more appropriate arrangements);
- A £187m increase in the value of assets held in corporate pension schemes advised by the employee benefits business following a number of new client wins and renewals in the year;
- A £271m decrease (net of cross-holdings) in Amati AUM (see below);
- A £64m increase in Maven AUM (see below).

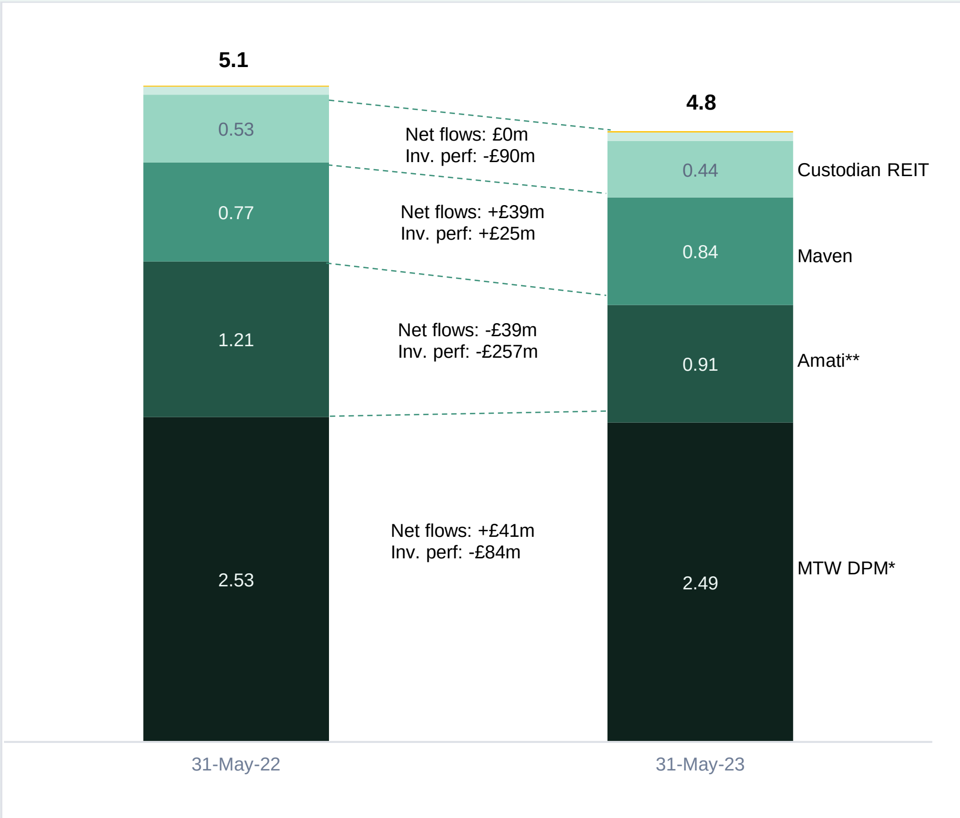
Meanwhile, *gross discretionary assets under management* reduced by 7% from £5.1bn to £4.8bn (see chart below for details).

Most significantly:

- FY23 was a particularly tough period for Amati, which saw a 25% reduction in gross AUM from £1.21bn to £0.91bn. Amati is a specialist in UK small-cap-equities, an asset class which has suffered significant recent valuation declines and fund outflows (FTSE AIM all share index -20.6% over FY23, FTSE small cap index -8.5%). The TB Amati UK Smaller Companies Fund AUM fell to £586m from £840m one year prior, however the TB Amati Strategic Metals Fund grew to £87m from £78m and the TB Amati Strategic Innovation Fund grew to £6m from £1m.

  Over the longer term, Amati has been an unequivocal success for MW, growing its gross AUM from £0.18bn at the end of FY17 to £0.91bn today, a CAGR of 32%, with MWs cumulative share of Amati profits to date totalling £5.2m after tax, on an original investment of £3.4m.
- Maven grew AUM from £771 to £835m, driven by £27m of new investment into the Maven VCTs, additional commitments from existing regional fund mandates and new tender wins, and from £25m of valuation increases.
- Custodian REIT's portfolio experienced a £90m valuation decline (12% like-for-like decline in valuations during compared to a 17% market decrease), however MW has reported that valuations appear to have largely stabilised and with some optimism returning to real estate markets.

Breakdown of gross discretionary assets under management, £bn



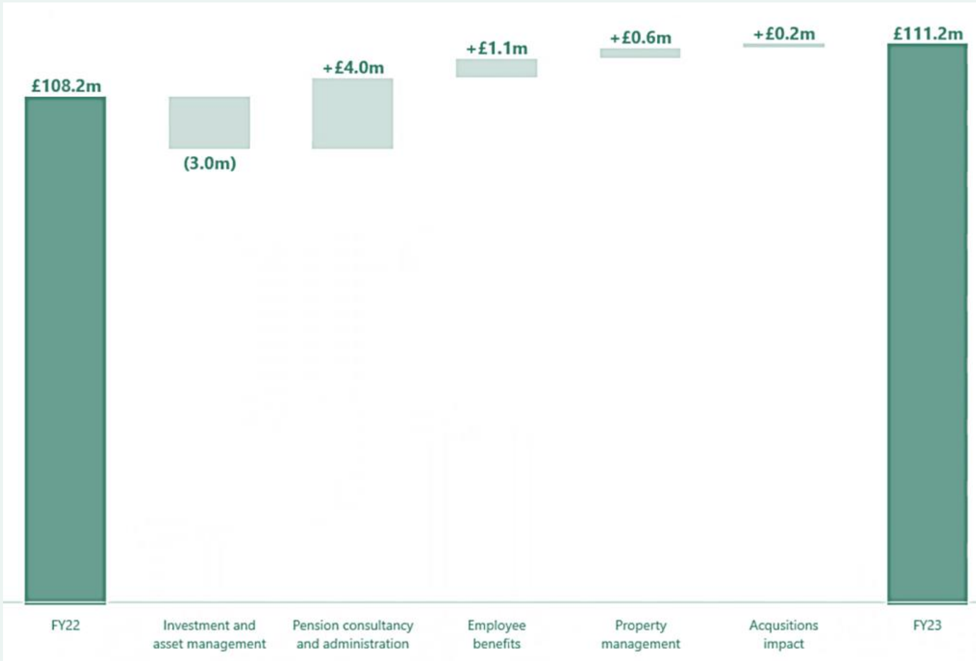
Source: Company reports
Totals may not add due to rounding
**Discretionary portfolio management. **Includes £73.0m (31 May 2022: £93.6m) of Mattioli Woods' client investment and £11.7m (31 May 2022: £14.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.*
Not detailed on chart: MTW Property Securities Fund (31 May 22: £62.2m, 31 May 23: £68.4m) &MTW Responsible Equity Fund (31 May 22: £7.2m, 31 May 23: £9.7m).

FY23 Results

Revenues

In FY23, overall **group revenue grew 3%** from £108.2m to £111.2m, with the y-o-y impact of each MW business segment and of acquisitions summarised in the chart below.

Split of revenue growth: FY22 to FY23



Source: Company
Investment and asset management includes Maven

Investment and asset management

Revenues generated from investment services, which include advising clients on both pension and personal investments, the DPM service, and management of multi-asset and other specialist funds, increased 0.6% from £50.4m to £50.8m.

Pensions consultancy and administration

Revenue grew 20% from £19.7m to £23.7m, with MW reporting strong demand for advice. This revenue is mostly fee-based and not directly dependent on the value of client assets. Direct pension consultancy and administration fees (SIPP and SSAS schemes where MW acts as pension consultant and administrator) increased 25% from £16.1m to £20.1m, driven by increased client activity during the year.

Banking revenue was sharply higher at £1.5m (FY: £0.05m) driven by increased interest rates. This is expected to increase again following further post-year-end base interest rate increases and MW's introduction of a new pension banking proposition offering clients better interest rates and MW an enhanced banking margin.

The pensions segment margin increased from 20% to 25% driven by client mix changes, increases in client activity, and an element of banking revenue.

Private Equity (Maven)

Revenue fell during the year from £26.2m to £23.1m, mostly as a result of lower y-o-y performance fees. Recurring revenues totalled £18.6m with £4.5m of revenue from fund, VCT and investor partner performance and exit fees.

During the year, the roll out of Maven's investment proposition to Group clients continued (where appropriate) with co-investment opportunities captured between Mattioli Woods, Ludlow and Maven clients. The Maven Milestone Fund was launched, which enables pension clients to invest in private equity opportunities, with the Group's advisory clients contributing £5.3m or 95.7% of the fund raise.

Maven completed a further co-investment deal with a value of £5.1m with the Group's advisory clients contributing £2.4m of the fund raise during the year. More co-investment opportunities are in the pipeline.

Property Management

Property management revenues grew from £6.3m to £6.8m with recurring annual management charges making up 89% of revenue. Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and manages the MW Private Investors Club - alternative investments provided to suitable clients by way of private investor syndicates.

Employee Benefits

Revenues grew 18% from £5.7m to £6.7m, with MW reporting positive market conditions driven in part by the continued post-pandemic recovery coupled with new client wins and increased uptake of strategic benefits consultancy projects from existing clients. The division's strong operating performance was supported by robust client retention and an accretion in premiums for risk and healthcare cover.

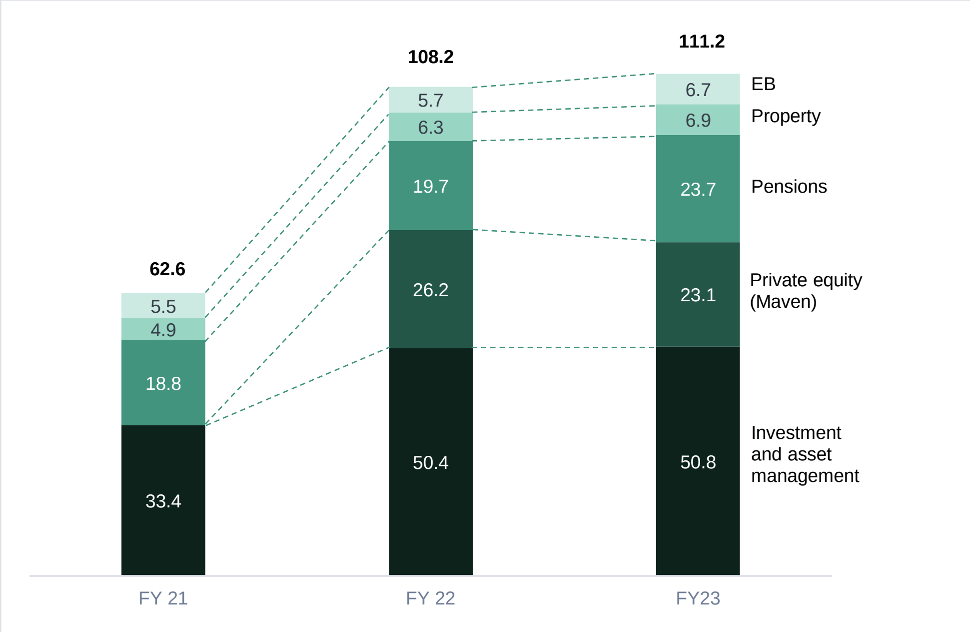
This division is expected to see further strong growth as employers increasingly encouraging staff wellbeing and retirement savings as part of their benefits packages.

Acquisitions

The net impact of those acquisitions concluded in FY23 on revenue growth in FY23 was small (+£0.2m) as the Doherty and White acquisitions only concluded in Apr 23 just over one month prior to FY-end.

The split of revenue by segment is shown in the chart below, with the most significant change over the last two years being the acquisitions of Maven and Ludlow in FY22. Maven has added a very high-yielding segment to the group.

Revenue breakdown by segment, £m



Source: Company reports

Costs

Employee benefits expense is MW's largest operating cost by some distance and grew only 2% from £59.6m to £60.8m. The small increase is testament to tight cost controls and the variable pay element of remuneration remaining depressed as a result of weak market conditions.

This is particularly impressive considering total headcount increased from 847 to 896, due to increased consultant recruitment and of acquisitions (although the financial impact of acquisitions was small as they were conducted late in the financial year).

The number of core consultants increased to 138 from 133 with MW stating it plans to continue growing its consultant base by increasing the size of the Mattioli Woods training academy to recruit, train and develop new consultants as well as experienced consultants to expand its distribution network. The combined number of consultants & fee earners increased to 166 from 162, providing the group with a number of benefits, including:

- Providing capacity in the business to take on new clients without incurring further staff costs; and
- Providing additional ability to create new and deepen client relationships e.g. younger consultants are ideally suited to build relationships with younger clients (new clients or the next generation of existing clients).

Other administrative expenses decreased from £19.8m to £18.2m, with £1.5m of costs incurred on acquisitions during the year (FY22: £3.7m) and £0.9m invested in the development of a new client relationship management system.

Share-based payments totalled £2.0m (FY22: £1.7m) which represent the cost of options expected to vest under long-term incentive plans and the cost of matching shares awarded to employees under the Company's Share Incentive Plan.

The effective rate of taxation was 35.4% (FY22: 49.1%), above the standard rate of tax of 19% (25% from Apr 23), primarily due to significant non-deductible expenses from contingent and transaction specific consideration arrangements accounted for as remuneration and acquisition-related fees.

It is also worth highlighting that MW's statutory costs include a £7.9m (FY22: £7.2m) non-cash charge related to the amortisation of intangibles (primarily amortisation of the value of acquired client portfolios).

The Group maintained a positive net cash position throughout the year, with increased net finance costs of £0.6m (FY22: £0.9m) reflecting credit interest of £1.1m (FY22: £0.08m) offset by £1.0m (FY22: £0.9m) of non-cash notional finance charges on the unwinding of discounts on long-term provisions and £0.2m (FY22: £0.1m) of interest on the lease liabilities recognised under IFRS 16.

Profitability

Statutory profit before tax increased 48% from £8.0m in FY22 to £11.9m, with profit after tax increasing 88% from £4.1m to £7.7m, and basic EPS increasing 80% from 8.3p to 14.9p.

The jumps in these statutory profits are however boosted by a reduced charge in 'Deferred consideration as remuneration' from £9.6m to £6.9m (charges which are effectively non-upfront tranche payments of previous acquisitions) and a reduction in the effective tax rate from 49% to 35% (which resulted in a tax charge of £4.2m in FY23 compared to £3.9m in FY22 despite PBT being 48% higher).

These acquisition accounting rules result in MW's statutory accounts being less than ideal for like-for-like year-on-year profitability comparatives. As such, the business also provides a number of 'adjusted' metrics which are useful for such comparisons.

The first of these is a*djusted EBITDA* which provides a good comparator of underlying operating profitability. It excludes items that are non-cash or affect comparability between periods, calculated as statutory operating profit before financing income or costs, tax, depreciation, amortisation, impairment and acquisition related costs, share of profit from associates (net of tax), gain on bargain purchase and contingent consideration recognised as remuneration.

In FY23, adj. EBITDA increased 2% from £32.6m in FY22 to £33.2m, with margins down slightly from 30.1% to 29.8%. It is, however, clear to see how **the group is benefitting from its increased scale over recent years and from the growth of higher-yielding products**, with adj. EBITDA margin increasing from 21.2% in FY17 to 29.8% in FY23.

Underlying profit margin boosted as the business scales

Source: Company reports

MW also produces non-statutory, adjusted PBT, adjusted PAT and adjusted EPS measures which the MW board considers to be relevant for investors who want further insight into the underlying earnings of the Group. The definitions of these measures are:

- *Adjusted PBT*: A measure of profitability before taxation, excluding items that are non-cash or affect comparability between periods, calculated as statutory profit before tax excluding amortisation of acquired intangibles and acquisition-related costs, gain on bargain purchase, contingent consideration recognised as remuneration and acquisition-related notional interest charges.
- *Adjusted PAT*: A measure of profitability, net of taxation, based on Adjusted PBT and deducting tax at the standard rate of 19% (until Apr 23) and 25% (from Apr 23).
- *Adjusted EPS*: A measure of total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back amortisation of acquired intangibles and acquisition-related costs, gain on bargain purchase, contingent consideration recognised as remuneration and acquisition-related notional interest charges, divided by the weighted average number of ordinary shares in issue.

These three metrics increased by 4%, 3% and -1% respectively, as detailed in the table below.

Statutory to adjusted profit bridge

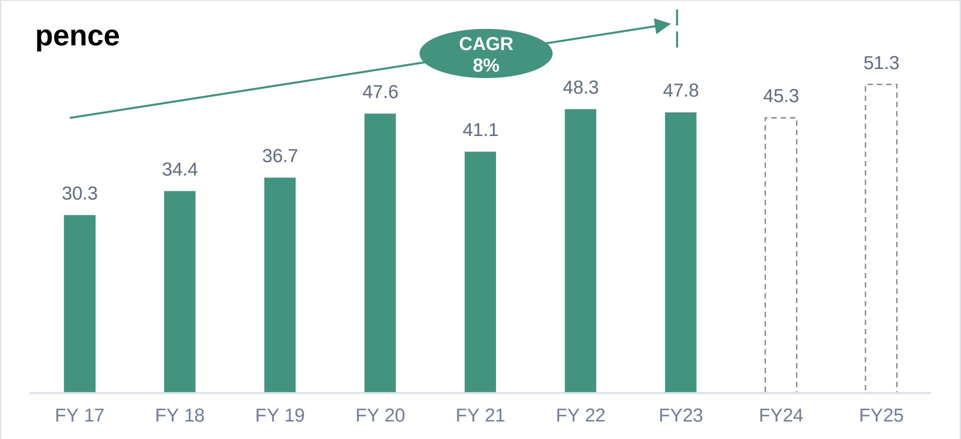
	Profit 2023 £m	EPS 2023 pps	Profit 2022 £m	EPS 2022 pps
Statutory profit before tax	**11.9**	**23.2**	8.0	16.2
Income tax expense	**(4.2)**	**(8.2)**	(3.9)	(7.8)
Other comprehensive income	**(0.0)**	**(0.0)**	0.0	0.0
Total comprehensive income/Basic EPS	**7.7**	**14.9**	4.1	8.3
Statutory profit before tax	**11.9**	**23.2**	8.0	16.2
Amortisation of acquired intangibles	**7.9**	**15.4**	7.2	14.6
Acquisition-related costs	**1.5**	**2.9**	3.7	7.5
Acquisition-related notional finance cost	**1.0**	**1.9**	0.9	1.8
Contingent consideration as remuneration	**6.9**	**13.4**	9.7	19.6
Platform project costs	**0.9**	**1.7**	0.0	0.0
Impairment of other investment	**0.7**	**1.3**	0.0	0.0
Adjusted PBT	**30.6**	**59.8**	29.5	59.6
Income tax expense at standard rate	**(6.1)**	**(12.0)**	(5.6)	(11.3)
Adjusted PAT/Adjusted EPS	**24.5**	**47.8**	23.9	48.3

Source: Company
Figures in table may not add due to rounding.

It is particularly worth highlighting the longer-term trend in adjusted EPS, shown in the chart below, which shows that MW's growth strategy and the execution thereof, is not only producing top-line growth but filtering down to strong growth in per-share share earnings.

(Note: the slight dip in FY24 EPS is impacted by additional recruitment of new consultants to build capacity and by the increase in the UK corporation tax rate from 19% for most of FY23 to 25% in FY24).

Adjusted EPS - actuals and ED estimates for FY24 & FY25



Source: Company reports, ED analysis and estimates

Balance sheet and cash position

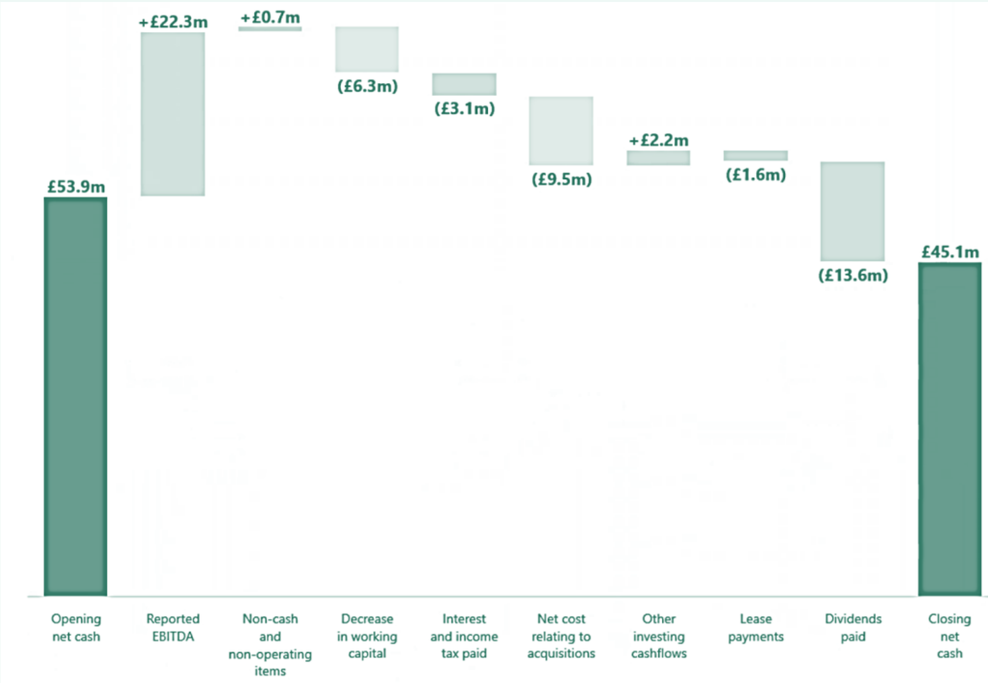
MW has a robust balance sheet, with net assets of £229.3m on 31 May 23, essentially unchanged from £230.1m on 31 May 22.

Cash and equivalents were £45.1m on 31 May 23, down from £53.9m at the end of FY21m, impacted by a net cash outflow of £9.5m relating to acquisitions. Cash generated from operations was £36.7m (FY22: £19.6m). £13.6m of dividends were paid during the year (FY22: £11.0m).

This leaves the business with ample cash headroom to pursue both organic and acquisitive growth opportunities. **MW has no debt.**

The change in annual cash position is illustrated in the cash waterfall chart produced by the company below.

Change in cash position over FY 23



Source: Company

MW also produces a 'surplus capital' calculation, which shows the cash it has available to pursue growth activities, after allocating funds to regulatory capital requirements.

This is shown below and shows **£11.1m of surplus cash**, down from the 31 May 22 surplus of £20.6m, but 75% above the minimum regulatory requirement.

Surplus capital as at 31 May 23

Regulatory capital	May 2022 £m	May 2021 £m
Net assets at period end	**230.1**	86.1
Capital deductions	**(188.8)**	(64.3)
Capital resources	**41.3**	21.8
Pillar 1 minimum capital requirement	**20.7**	11.9
Surplus before Pillar 2A	**20.6**	9.9
Incremental Pillar 2A requirement	**-**	-
Regulatory capital requirement	**20.7**	11.9
Surplus capital	**20.6**	9.9
Surplus as % of requirement	***100%***	*83%*

Source: Company

The Group's regulatory capital requirements have increased as a result of further growth and diversification of its activities. In addition, the Group's capital is reduced when it makes acquisitions due to the requirement for intangible assets arising on consolidation in the Group's accounts, or investments in subsidiaries in the Company's accounts, to be deducted from Common Equity Tier 1 ("CET1") Capital.

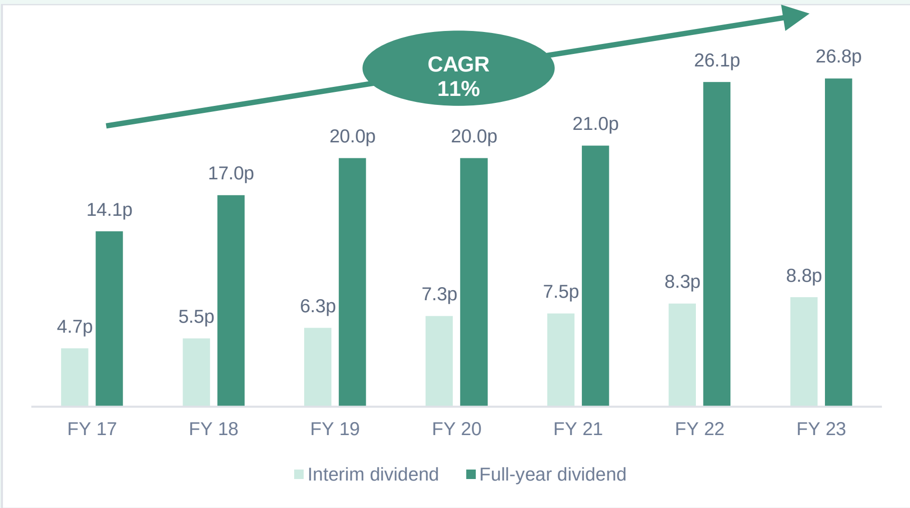
In January 2022, following the introduction of the Investment Firm Prudential Regime ("IFPR"), the value of the Group's CET1 Capital was reduced due to the removal of reliefs on deduction of deferred tax assets and significant investments in financial services entities that were available under the previous regime. The FCA has approved the Company applying the Group Capital Test, which allows investment firms relief from some of the prudential consolidation requirements. This is a more straightforward capital treatment where the Company is simply required to hold enough regulatory capital to support its own capital requirements and its capital investment in its subsidiaries.

Dividends

MW has proposed a final dividend of 18.0p (FY22: 17.8p) in addition to its interim dividend of 8.8p (H1 22: 8.3p), **bringing its total dividend for the year to 26.8p (FY22: 26.1p), a yield of 4.3% on the current share price of 620p.**

MW pursues a progressive dividend policy and has stated it is committed to increasing its dividend when appropriate to do so. **Its full-year dividend has grown at a CAGR of 11% in recent years.**

Historical dividends



Source: Company

Management and Board changes

During the year, Michael Wright was appointed as Deputy Chief Executive Officer to lead and support the delivery of certain strategic goals alongside the Executive team while retaining his current responsibilities. Michael was previously appointed Group Managing Director in 2019 and has been on the Board since 2021, having joined the Group 19 years ago and holding several senior advisory roles during this time.

David Kiddie will be stepping down as Non-Executive Chair at the next Annual General Meeting to take on a consultancy role with the Group given his extensive career in investment management to support the development and structure of the Group's investment proposition required for the next phase of growth.

Anne Gunther, currently the senior independent, non-executive director will replace Kiddie as Group Non-Executive Chair, subject to regulatory approvals.

Growth forecasts and valuation

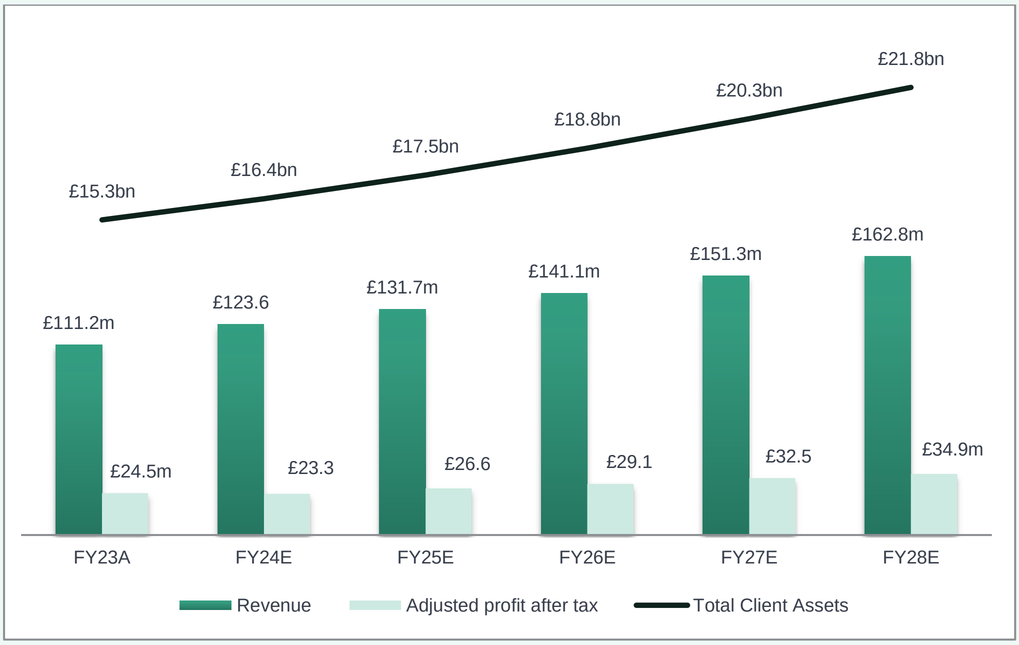
In addition to the current trading outlook provided by management, we highlight the following factors which we believe will result in a superior growth trajectory for Mattioli Woods:

- **MW is operating in a huge market** - the value of personal liquid investable financial assets held by UK households is estimated at c. £2 trillion[2] (implying a MW market share of around 0.75%);
- **This market is subject to substantial tailwinds** that should underpin growth over the medium to long term, including:
  - An ageing population is likely to result in increased demand for financial advice and wealth management services - as people approach or enter retirement, they have accumulated more wealth and their financial needs are more complex e.g., managing the decumulation phase of their investment life cycle);
  - Recent regulatory shifts such as pension reforms have given individuals new freedoms to access and manage their pension assets but have also placed increased responsibility on individuals to manage these assets (with less responsibility taken by the state and employers). This again leads to an increased demand for financial advice and wealth management;
  - A shortage of financial advisers in the UK tips the adviser supply-demand equation in MW's favour. In its 2022 report, UK Wealth management: Spotlight on Value Creation, LEK Consulting wrote: "Over 80% of UK consumers felt they needed financial advice, but only 20% sought it. While there is much noise surrounding 'robo-advisors', the concept has failed to achieve scale, as human-to-human interactions are still highly valued by young and old consumers alike. After a period of regulatory change, the industry's numbers have recovered to c.28,000 advisors, but advisors are still in short supply because our estimation indicates that they can only service two to three million clients on an ongoing basis." [More specifically, MW has a far younger average adviser age than the overall adviser market (just over 40 versus just under 60) which positions it well to capture a much larger share of 'next generation' wealth.]
  - The recent launch of the Mansion House reforms, an agreement supported by the Chancellor and the Lord Mayor with the UK's nine largest defined contribution pension providers to commit five percent of assets in their funds to unlisted equities by 2030, could unlock £75bn of investment for high growth businesses, creating new opportunities and deal flow for Maven and Amati.
- Mattioli Woods has a long-standing brand and franchise in the UK nurtured over 30+ years.
- It also has **a proven track record of setting and achieving ambitious growth and profitability goals** and is currently focussed on a medium-term objective of building the business to £30bn in client assets, £300m in revenue, and £100m of EBITDA.
- Its business model and positioning provide significant competitive advantages:
  - Its advisers are well trained, incentivised, have ample capacity to service more clients, and are a relatively young cohort, positioned to capture a disproportionate share of 'next generation' wealth – MW is also expanding its consultant base with new hires;
  - It has a unique portfolio of investment products to offer clients, which can be distributed though in-house advisers as well as through external channels such as platforms;
  - It has a highly efficient administration platform that should generate economies of scale with growth, it is also investing in the technology aspect of its administrative and CRM platforms;
  - Unlike many competitors, it earns fees across the entire wealth management value chain.
- It has a **long record of finding and executing value-adding acquisitions**.

These factors underpin our growth forecasts – which do not assume any new acquisitions – and which are summarised in the chart below.

[2] *LEK Consulting, 2022, UK Wealth management: Spotlight on Value Creation*

Mattioli Woods plc (group) financial forecasts: key metrics



Source: Company Historic Data, ED Estimates

Valuation

We look at MW's valuation in two ways: 1) On a fundamental basis using a discounted cashflow methodology; 2) On a profit-multiple peer-comparison basis.

Fundamental valuation

Our fundamental valuation uses a discounted cash flow methodology, **which produces a per share value of 900p, 45% above the current share price of 620p.**

This valuation is based on the following key assumptions:

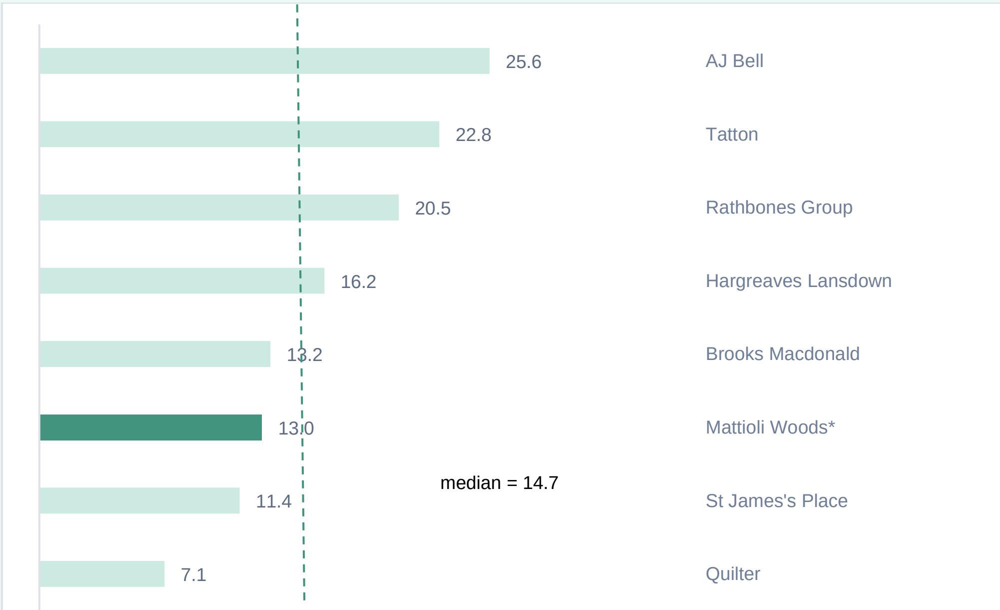
- A five-year explicit growth forecast summarised in the chart above (this excludes any potential growth from acquisitions). We again remind readers of MW's medium-term goals of growing the business to £30bn of total client assets, £300m of revenue, and £100m of EBITDA (these goals include acquisitions).
- A terminal value based on an assumption that the business is acquired at a PE multiple of 15 at the end of year five (see current sector PE's below – we believe 15 is a conservative value for this number given that wealth-manager valuations have fallen sharply over the last two years – in late 2021, prior to the market falls of 2022, we recorded a wealth manager and platform peer-group PE median of 30).
- Discounting the cash flows from the above assumptions at a discount rate of 9.0%.

Peer comparison valuation

When considering MW's relative valuation compared to peers, as the largest part of its business by some margin is in wealth management, we believe this comparison is most appropriate.

And when **compared to this group of peers, MW appears undervalued, with a PER of 13.0, 12% below the median of 14.7** (with MW's PER calculated using adjusted PAT per share which eliminates some of the non-cash effects of acquisition accounting – which were significant in the previous FY).

PE Ratios: UK-listed wealth managers, DFMs and platforms



Source: ADVFN, ED analysis, as of 8 Sep 2023
**Calculated using adjusted PAT per share which eliminates some of the non-cash effects of acquisition accounting*

In summary, on a fundamental basis, and on a peer-comparison basis, we think that MW is looking undervalued and has the potential for a re-rating.

Appendix – FY23 acquisitions

We remind readers that acquisitive growth is a core part of MW's strategy. It has a long track record of success with 35 acquisitions since its admission to AIM in 2005. Indeed, in our Sep 22 initiation note, we wrote: "*We expect a steady flow of these types of deals to continue*". The recently executed Doherty and White acquisitions summarised below certainly align with MW's existing acquisition strategy.

Doherty Pension and Investment Consultancy Limited (Doherty)

MW acquired Doherty, one of the largest financial planning and wealth management businesses in Northern Ireland, in April 2023. **The business will add £635m of AUA and around 1,320 private clients to the MW group. MW expects the acquisition to be earnings enhancing in the first full year of ownership.**

Deal terms look sensible. In the year-ending 31 Dec 21, Doherty generated revenues of £2.92m and PBT of £1.45m. MW will be paying a maximum consideration (subject to performance targets being met – see below) of £15.05m on a cash-free debt-free basis, which translates to a maximum PER of 10.4X (pre-tax).

With a host of revenue synergies that could be captured (a proven model from prior acquisitions), as well as some operational synergies, **we think the price paid in relation to current earnings and future earnings potential is likely to be value accretive to the MW group**.

Revenue synergies mostly involve offering Doherty clients access to MW's bespoke investment products, specialist SIPP administration, employee benefits platform and alternative investment strategies such as property and private equity investments. Operational efficiencies could also be captured, such as migrating Doherty's SSAS portfolio onto MW's pension administration platform.

There is also some downside protection, with the deal structure following similar principles to previous acquisitions:

- MW will pay £6.78m in cash upfront; plus
- £2.0m in new ordinary MW shares upfront (325,998 new consideration shares have been issued: 0.64% of MW pre-deal issued share capital); plus
- £1.50m of (unconditional) deferred consideration (50% payable after 12 months, 50% after 24 months); plus
- Up to £4.77m of contingent consideration (subject to EBITDA targets being met), with 50% payable after 12 months and 50% after 24 months; plus
- Up to £0.23m of contingent employee remuneration (subject to performance considerations).

White Mortgages Limited (White)

MW acquired 50.1% of White in April 2023 and has an option to purchase the remaining 49.9% within 24 months. White is based in Lincoln and specialises in providing independent mortgage advice as well as protection insurance advice. In the year to 31 Mar 23 it generated revenues of £0.68m and PBT of £0.35m.

White looks like a good fit. MW's existing advice proposition is extended by adding a new in-house mortgages capability. And the White business is well-positioned to benefit from being fed more business from MW's large adviser-base.

It looks like a low-risk deal for MW which has paid £0.425m on a cash-free debt-free basis for its first-tranche 50.1% stake of White (a pre-tax PER of just 2.4X). The second tranche of the deal for the remaining 49.9%, if exercised, will be for a consideration of up to £2.625m, dependent on the attainment of specified targets being met.

We would expect the deal to be earnings enhancing and therefore, if the second tranche is exercised with a performance-linked payment in place, we would foresee the full deal PER as being **less than 8.7x**, an attractive proposition for MW shareholders.

Appendix 1: Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end May, £m	**FY21A**	**FY22A**	**FY23A**	**FY24E**	**FY24E**
Revenue	**62.6**	**108.2**	**111.2**	**123.6**	**131.7**
Employee benefits expense	(34.1)	(59.6)	(60.9)	(66.2)	(69.8)
Other administrative expenses	(13.3)	(19.8)	(18.2)	(21.5)	(21.3)
Share based payments	(1.5)	(1.7)	(2.0)	(2.1)	(2.4)
Impairment loss on financial assets	(0.0)	(0.3)	(0.2)	-	-
Profit on disposal of fixed asset investments	-	0.4	-	-	-
Profit/(loss) on disposal of property, plant & equipment	(0.0)	0.0	0.1	-	-
Loss on disposal of investment in own shares	-	-	(0.1)	-	-
Gain on bargain purchase	0.3	-	-	-	-
Deferred consideration as remuneration	(3.8)	(9.7)	(6.9)	(5.0)	(4.9)
Gain on revaluation of derivative financial instrument	-	-	-	-	-
EBITDA	**10.1**	**17.6**	**23.0**	**28.8**	**33.2**
Adjusted EBITDA					
add back …					
Acquisition related costs	*2.6*	*3.7*	*1.5*	*-*	*-*
Share of profit from associates	*1.1*	*1.6*	*1.0*	*0.9*	*1.0*
Gain on bargain purchase	*(0.3)*	*-*	*-*	*-*	*-*
Deferred consideration as remuneration	*3.8*	*9.7*	*6.9*	*5.0*	*4.9*
Technology-related costs	*-*	*-*	*0.9*	*1.0*	*-*
Adjusted EBITDA	***17.3***	***32.6***	***33.2***	***35.7***	***39.1***
Amortisation and impairment	(3.1)	(7.5)	(9.0)	(8.5)	(8.5)
Depreciation	(2.8)	(2.8)	(2.5)	(2.7)	(2.7)
Operating profit before financing	**4.2**	**7.3**	**11.5**	**17.7**	**22.1**
Net financing (costs)/revenue	(0.2)	(0.9)	(0.6)	(1.4)	(1.4)
Share of profit from associate, net of tax	1.1	1.6	1.0	0.9	1.0
Profit before tax	**5.1**	**8.0**	**11.9**	**17.2**	**21.7**
Adjusted PBT & PAT					
add back …					
Acquisition related costs	*2.6*	*3.7*	*1.5*	*-*	*-*
Amortisation of intangibles acquired	*2.8*	*7.2*	*7.9*	*7.9*	*7.9*
Gain on bargain purchase	*(0.3)*	*-*	*-*	*-*	*-*
Deferred consideration as remuneration	*3.8*	*9.7*	*6.9*	*5.0*	*4.9*
Acquisition related notional finance cost	*0.1*	*0.9*	*1.0*	*1.0*	*1.0*
Platform project costs	*-*	*-*	*0.9*	*0.9*	*-*
Impairment of other investment	*-*	*-*	*0.7*	*-*	*-*
Adjusted PBT	***14.2***	***29.5***	***30.6***	***31.1***	***35.5***
Adjusted tax expense	*(2.7)*	*(5.6)*	*(6.1)*	*(7.8)*	*(8.9)*
Adjusted PAT	***11.5***	***23.9***	***24.5***	***23.3***	***26.6***
Income tax expense	(3.8)	(3.9)	(4.2)	(5.2)	(6.3)
Profit for the year	**1.4**	**4.1**	**7.7**	**12.0**	**15.4**
Basic EPS, p	5.1	8.3	14.9	23.3	29.7
Adjusted Basic EPS, p	41.1	48.3	47.8	45.3	51.3

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts					
As at end May, £m	**FY21A**	**FY22A**	**FY23A**	**FY24E**	**FY25E**
ASSETS					
Non-current assets					
Property, plant and equipment	14.3	14.1	14.0	13.8	13.7
Right of Use Assets	2.2	3.3	3.0	2.0	6.1
Intangible assets	60.5	199.3	208.4	215.6	209.0
Deferred tax assets	1.0	0.8	0.7	0.7	0.7
Investment in associate	4.3	4.2	4.1	4.0	3.9
Other investments	0.5	5.5	4.7	4.7	4.7
Total non-current assets	**82.7**	**227.2**	**234.9**	**240.9**	**238.1**
Current assets					
Trade and other receivables	19.2	28.4	30.4	33.5	36.8
Current tax receivables	0.0	-	-	-	-
Finance lease receivable	0.3	0.4	0.3	0.3	0.3
Investments	0.0	0.3	0.2	0.7	1.3
Cash and cash equivalents	21.9	53.9	45.1	41.5	53.3
Total current assets	**41.4**	**83.0**	**76.0**	**76.0**	**91.6**
TOTAL ASSETS	**124.2**	**310.2**	**311.0**	**316.9**	**329.7**
LIABILITIES					
Non-current Liabilities					
Trade and other payables	-	-	-	-	-
Lease liabilities	1.7	2.8	2.6	1.0	4.5
Deferred tax liability	9.4	27.5	28.9	28.9	28.9
Provisions	1.5	8.6	3.9	3.9	3.9
Total non-current liabilities	**12.7**	**38.9**	**35.4**	**33.8**	**37.2**
Current Liabilities					
Trade and other payables	15.5	25.1	23.4	31.1	38.0
Current tax liability	-	2.0	4.6	4.6	4.6
Lease liabilities	0.9	1.0	0.8	0.8	0.8
Provisions	9.0	13.2	17.5	17.5	17.5
Total current liabilities	**25.4**	**41.2**	**46.3**	**53.9**	**60.8**
TOTAL LIABILITIES					
NET ASSETS	**86.1**	**230.1**	**229.3**	**229.2**	**231.6**
EQUITY					
Issued capital	0.3	0.5	0.5	0.5	0.5
Share premium	33.8	143.4	144.6	144.6	144.6
Merger reserve	17.5	57.2	57.2	57.2	57.2
Equity-share-based-payments	3.6	2.8	3.7	5.8	8.2
Capital redemption reserve	2.0	2.0	2.0	2.0	2.0
Own shares	(0.6)	(0.6)	-	-	-
Revaluation reserve	-	-	-	-	-
Non-controlling interest	-	-	0.5	0.5	0.5
Retained earnings	29.6	24.8	20.8	18.6	18.6
TOTAL EQUITY	**86.1**	**230.1**	**229.3**	**229.2**	**231.6**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts					
12 months to end May, £m	**FY21A**	**FY22A**	**FY23A**	**FY24E**	**FY25E**
Operating activities					
Profit for the year	**1.4**	**4.1**	**7.7**	**12.0**	**15.4**
Adjustment for:					
Amortisation	3.1	7.5	9.0	8.5	8.5
Depreciation	2.8	2.8	2.5	2.7	2.7
Gain on bargain purchase	(0.3)	-	-	-	-
Deferred consideration as remuneration	3.8	9.7	6.9	5.0	4.9
Investment income	(0.0)	(0.1)	(0.5)	(0.6)	(0.7)
Interest expense	0.3	1.0	1.1	1.1	1.1
Share of profit from associate	(1.1)	(1.6)	(1.0)	(0.9)	(1.0)
(Profit)/loss on disposal of plant, property & equipment	0.0	(0.0)	(0.0)	-	-
Profit on disposal of fixed asset investments	-	(0.4)	-	-	-
Gain on revaluation of other investments	-	(0.0)	0.1	0.1	0.1
Equity settled share-based payments	1.5	1.7	2.0	2.1	2.4
Income tax expense	3.8	3.9	4.2	5.2	6.3
Cash flows from operations before changes in working capital & provisions	**15.1**	**28.6**	**31.9**	**35.1**	**39.6**
Decrease/(increase) in receivables	1.0	(5.3)	(1.2)	(3.4)	(3.6)
(Decr)/incr in trade and other payables	5.0	1.8	0.8	2.6	2.0
(Decrease)/increase in provisions	(0.7)	(5.4)	(5.9)	-	-
Cash generated from operations	**20.4**	**19.6**	**25.6**	**34.3**	**38.1**
Interest paid	(0.0)	(0.0)	-	-	-
Income taxes paid	(2.5)	(3.3)	(3.1)	(5.2)	(6.3)
Net cash flows from operating activities	**17.8**	**16.4**	**22.5**	**29.2**	**31.8**
Investing activities					
Proceeds from sale of property plant and equipment	0.2	0.1	0.2	-	-
Purchase of property and equipment	(0.4)	(1.0)	(1.4)	(1.5)	(1.5)
Purchase of software	(0.4)	(0.4)	(0.6)	(0.3)	(0.3)
Purchase of client portfolio	-	(0.7)	-	-	-
Contingent consideration paid on acquisition of subsidiaries	(1.1)	(1.6)	(2.2)	(10.8)	(1.5)
Acquisition of subsidiaries	(17.7)	(72.9)	(14.4)	-	-
Cash received on acquisition of subsidiaries	4.8	8.9	9.4	-	-
Contingent remuneration paid on acquisition of subsidiaries	-	-	(10.0)	(4.6)	-
Investment in other equity holdings	(0.5)	(1.6)	(0.2)	-	-
Dividends received from associate undertakings	0.6	1.7	1.0	1.0	1.1
Proceeds on disposal of other investments	0.0	0.7	0.6	-	-
Loans advanced to property syndicates	(1.1)	(0.0)	(0.2)	-	-
Loan repayments from property syndicates	0.0	1.3	-	-	-
Interest received	0.0	0.0	0.3	0.3	0.3
Net cash used in investing activities	**(15.7)**	**(65.3)**	**(17.5)**	**(15.9)**	**(1.9)**
Financing activities					
Proceeds from the issue of share capital	0.6	109.3	0.9	-	-
Cost of own shares acquired	-	-	0.5	-	-
Dividends paid	(5.7)	(11.0)	(13.6)	(14.2)	(15.4)
Repayment of borrowings	-	(15.9)	-	(1.1)	(1.1)
Pmt of lease liabilities	(1.1)	(1.3)	(1.6)	(1.6)	(1.6)
Net cash from /(used in) financing activities	**(6.2)**	**81.0**	**(13.8)**	**(16.9)**	**(18.1)**
Net (decr)/incr in cash & equivalents	(4.1)	32.0	(8.8)	(3.6)	11.8
Cash & equivalents at beginning of year	26.0	21.9	53.9	45.1	41.5
Cash & equivalents at end of year	**21.9**	**53.9**	**45.1**	**41.5**	**53.3**

Source: Company Historic Data, ED estimates.

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690