

## New acquisition adds scale, looks value accretive

20 April 2023

**Mattioli Woods (MW) has acquired Doherty Pension and Investment Consultancy Limited, one of the largest financial planning and wealth management businesses in Northern Ireland. 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.**

**We remind readers that acquisitive growth is a core part of MW's strategy. It has a long track record of success with 33 acquisitions (excluding Doherty) 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 Doherty acquisition certainly aligns with MW's existing acquisition strategy.

**The terms of the deal 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).

### Growth forecasts upgraded, with most impact from FY24 onwards

With the deal concluding so late in FY23, the primary financial impact on FY23 is balance sheet and cash flow statement related, with little impact on MW's income statement.

However, our FY24 forecasts have now been upgraded to take into account the revenue and profitability benefits of the deal.

We have not adjusted our **fundamental valuation of 950p/share** at this stage, but we shall revisit this with the end-FY23 trading update scheduled for 5 July 2023.

Our key financial summary is shown overleaf.

#### Company Data

EPIC	MTW
Price (last close)	605p
52 weeks Hi/Lo	765p/530p
Market cap	£308m
ED Fair Value/share	950p
Net cash (end-H1-23)	£38m
Avg. daily vol. (12m)	76k

#### Share Price, p



Source: ADVFN

#### Company Description

Mattioli Woods 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 30 Nov 22: £14.6bn

Next Event: Trading update, 5 Jul 23

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Key Financials						
Year-end 31 May	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Total client assets, £bn	9.4	9.3	12.1	14.9	15.9	17.0
Rev, £m	57.5	58.4	62.6	108.2	112.8	124.8
Adj EBITDA*	14.1	18.9	17.3	32.6	32.6	37.3
Adj EBITDA margin	24.5%	32.4%	27.7%	30.1%	28.9%	29.9%
Adj PAT**	9.8	12.9	11.5	23.9	24.7	26.8
Statutory PAT	7.7	9.5	1.4	4.1	12.8	16.3
EPS basic, p	28.9	34.9	5.1	8.3	24.9	31.4
EPS adjusted, p	36.7	47.6	41.1	48.3	47.9	51.6
PER (on adj. PAT)	16.5	12.7	14.7	12.5	12.6	11.7
Div, p	20.0	20.0	21.0	26.1	26.2	29.9
Yield	3.3%	3.3%	3.5%	4.3%	4.3%	4.9%
Net assets, £m	76.4	81.5	86.1	230.1	233.6	237.4
Net cash, £m	23.2	26.0	21.9	53.9	52.8	61.2

Source: Company Historic Data, ED estimates. PER and Yield based on share price of:

**605p**

\* excluding 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.

\*\* statutory PBT excl: amortisation of acquired intangibles & acquisition related costs, gain on bargain purchase, contingent consideration recognised as remuneration & acquisition related notional interest charges, less tax at the standard rate of 19% (25% from Apr '23)



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