Mattioli Woods plc

FY23 profits in line, pipeline strong

5 July 2023

MW has reported a y-o-y revenue increase of 3% for FY23 ending on 31 May 23 (FY22: £108.2m). While this is slightly under our previous estimated growth rate of 4%, the group has reported profits in line with market consensus (adjusted EBITDA[3] of £33.0m) with that consensus being slightly higher than our previous forecast of £32.5m. The cash position remains strong at £45m (31 May 22: £54m), despite £7.2m of cash outlay on acquisitions.

Client assets[1] closed 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 (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.

Other key highlights from FY23 and from the current outlook include:

- Strong momentum in new client lead generation (pipeline up 16% y-o-y);
- Strong inflows into gross discretionary assets under management[2] of £577m (11% of opening AUM), although this was offset by negative market movements;
- Strong growth within core pension consultancy and employee benefits segments, with changes to pension and tax rules announced in Spring Budget driving further client demand for advice;
- Successfully concluded attractive acquisitions of Doherty and White Mortgages (see appendix);
- Previously acquired businesses including Maven, Ludlow, Pole Arnold, and Hurley delivering organic growth, revenue synergies and integrating into the Group's core strategy;
- The appointment of Michael Wright as Deputy Chief Executive Officer.

Still looking undervalued on fundamentals and compared to peers

MW has met our profit forecasts for FY23, although asset and revenue growth are slightly lower than forecast, primarily due to weaker markets. Below we show our forecasts prior to the announcement of the Doherty and White acquisitions (prev.) and our new forecasts taking those acquisitions and today's trading update into account.

Our fundamental valuation reduces slightly from 925p to 900p as a result of lowered revenue forecasts, but still remains 45% above the current share price. We also highlight that MW's PER of 13.0 is 20% below a peer group median of 16.2 (see page 3).

Key Financials

Year-end 31 May	F21A	F22A	F23E prev.	F23E new	F24E prev.	F24E new	F25E new
Client assets[1], £bn	12.1	14.9	15.2	15.3	16.3	16.3	17.5
Rev, £m	62.6	108.2	112.6	111.4	121.7	120.7	130.0
Adj. EBITDA[3]	17.3	32.6	32.5	32.9	35.8	35.6	40.1
Adj. EBITDA margin	27.7%	30.1%	28.9%	29.5%	29.4%	29.5%	30.8%
Adj. PAT[4]	11.5	23.9	24.6	24.5	25.6	25.2	28.8
Statutory PAT	1.4	4.1	12.9	12.6	16.1	14.7	18.5
EPS basic, p	5.1	8.3	25.2	24.6	31.2	28.4	35.4
EPS adj., p	41.1	48.3	48.1	47.6	49.7	48.6	55.2
PER (on adj. PAT)	15.1	12.8	12.9	13.0	12.5	12.7	11.2
Div, p	21.0	26.1	26.2	26.4	28.8	28.5	31.9
Yield	3.4%	4.2%	4.2%	4.3%	4.7%	4.6%	5.1%
Net assets, £m	86.1	230.1	231.7	233.7	235.6	236.5	241.7
Net cash, £m	21.9	53.9	58.5	45.5	68.1	51.9	57.7

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***620p***

Company Data

EPIC	MTW
Price (last close)	620p
52 weeks Hi/Lo	708p/530p
Market cap	£320m
ED Fair Value/share	900p
Net cash	£45m
Avg. daily vol. (12m)	76k

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: FY23 results, 12 Sep 23

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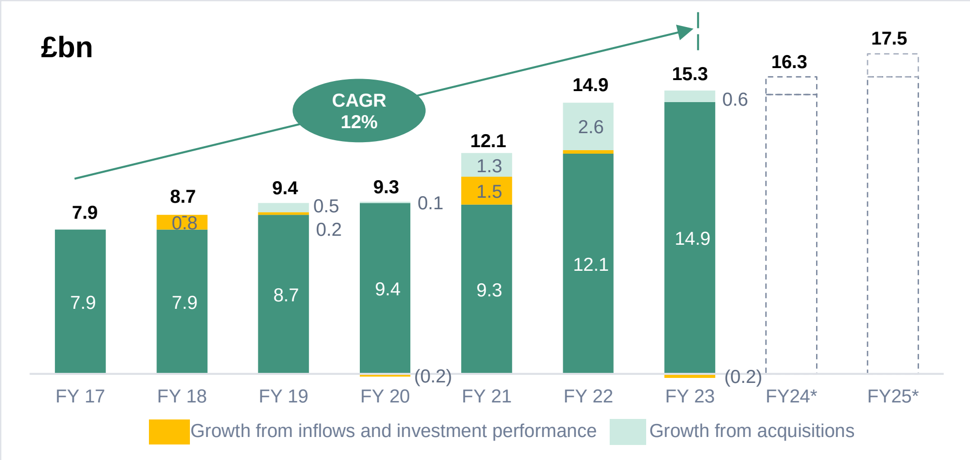
Strong record, more expected from recent acquisitions

FY23 has seen MW continue its growth trajectory, despite weak markets. We think this can continue, but **most importantly, further revenue and earnings benefits should still flow from recent acquisitions.**

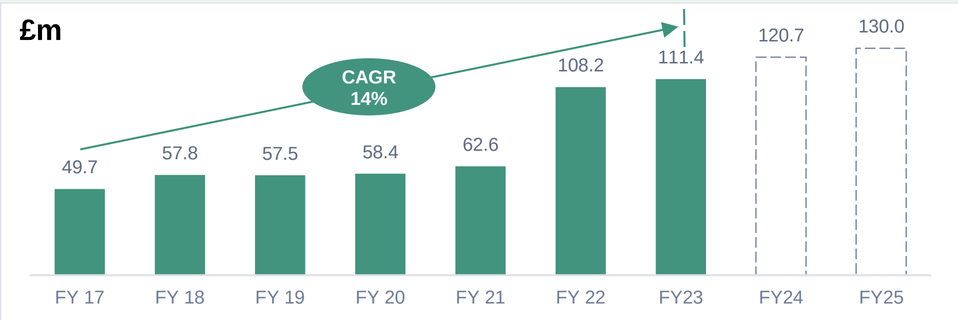
For example, from recent advisory business acquisitions (e.g., Ludlow, Ritchings, Doherty), further growth is expected as these businesses benefit from having access to MW's investment product range, administration, technology, and training programmes; and the group benefits from driving down unit costs as scale increases. And from the Maven acquisition in FY22, further revenue benefits are expected as cross-selling ratchets up (MW's investment proposition is enhanced by providing wealthier clients efficient access to private equity investments, and Maven benefits from having access to a larger client base).

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



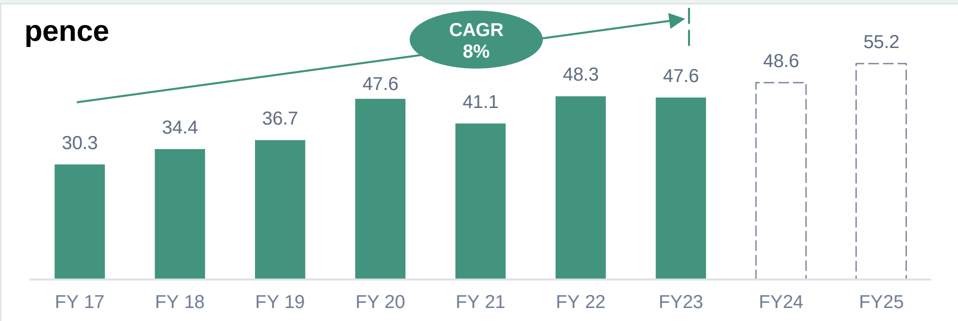
*Source: Company reports, ED analysis. *No acquisitions assumed in ED estimates.*

Revenue - actuals and ED estimates for FY24 & FY25



Source: Company reports, ED analysis and estimates

Adjusted EPS[4] - actuals and ED estimates for FY24 & FY25



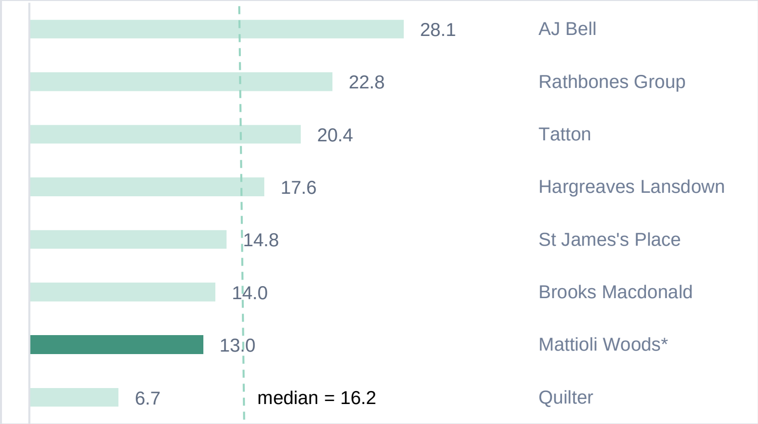
Source: Company reports, ED analysis and estimates

Looking undervalued compared to peers

MW operates primarily in the wealth management space (its core advisory and discretionary fund management or DFM business). An important characteristic of wealth managers, DFMs, and also platforms is that they **typically house *investment portfolios* for individual investors** which tend to be **'stickier' assets** than those of pure-play asset managers. [If an investor wishes to exit an investment or asset class, they will probably execute this switch without moving assets from their wealth manager. It is simply a case of switching from one financial product to another.]

As a starting point for a peer-comparison valuation assessment, we have therefore compared the PERs of a London-listed peer group of these types of businesses, and find that MW's PER of 13.0 is towards the bottom of this peer group and 20% below the peer group median (with MW's PER calculated using adjusted PAT per share which eliminates some of the non-cash effects of acquisition accounting – which are very significant for MW).

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



Source: ADVFN, ED analysis, as of 04 July 2023
**Calculated using adjusted PAT per share which eliminates some of the non-cash effects of acquisition accounting*

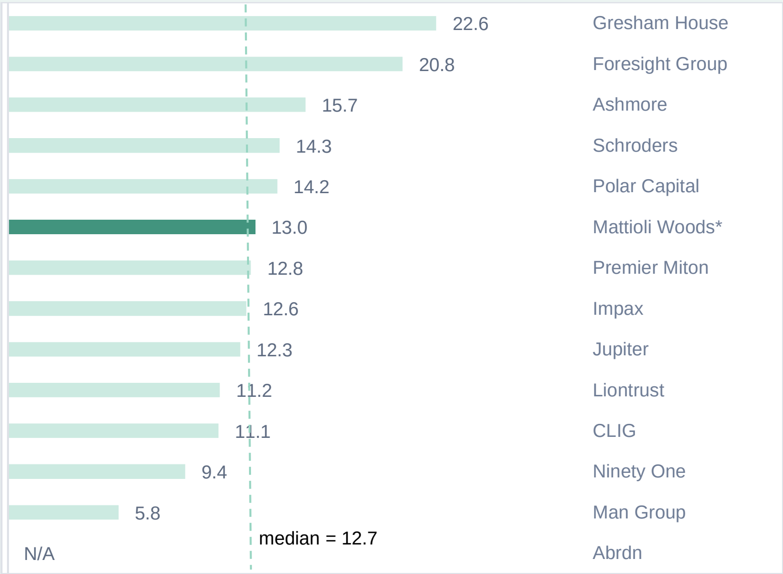
Now it may be that MW's share price is being discounted to a degree because of its asset management businesses (Maven, Amati, and in-house funds distributed via external advisers and platforms, which make up around 12% of client assets).

These businesses typically run investment funds which would make up only a *part of an investor's portfolio* with these assets tending to be less sticky. [If an investor or their adviser wishes to exit an investment placed with an asset manager, they would be more likely to move those assets to another asset manager or into cash.]

Hence, in bear markets, with investors tending to move out of equites and with equity values declining, asset managers' valuation ratings tend to decline more than wealth managers. Indeed, we have found that asset managers' PERs have fallen sharply since the end of the bull market in January 2022, when we recorded an asset manager peer group median PER of 31.3 compared to just 12.7 today (see chart overleaf).

But this does not explain the discount in MW's valuation which is around the peer group median of asset managers. We find this strange and see potential for a re-rating of MW's shares.

PE Ratios, UK-listed asset managers



Source: ADVFN, Company reports, ED Analysis
Data as at 04 July 2023

[1] *Client assets 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.*

[2] *Gross discretionary assets under management includes: £913.9m (31 May 2022: £1,208.9m) of funds under management by Amati Global Investors Limited, including Mattioli Woods' client investment and cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.*

[3] *Adjusted EBITDA: 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.*

[4] *Adjusted PAT: statutory PBT excluding: 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)*

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.

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