Mattioli Woods plc

On track to meet forecasts, positive outlook

5 January 2023

Mattioli Woods (MW) has reported H1-23 revenue (to 30 Nov 22) of £54.9m, 10% up y-o-y (H1-22: £49.9m), with organic revenue growth of over 2%, despite a challenging environment. It remains in a strong financial position, with net cash totalling £38.3m at the end of the period.

Total client assets[1] closed H1 on £14.6bn, a 3.2% y-o-y fall from £15.1bn on 30 Nov 21, but a creditable performance considering the PIMFA Private Investor Balanced Index (net) fell 3.8% over the same period. Gross discretionary AUM[2] totalled £4.9bn, 4% down y-o-y (30 Nov 21: £5.1bn) but pleasingly, positive net inflows of £38.1m was achieved (+0.8% of opening AUM).

Management confidence

MW has highlighted several factors that suggest confidence in the H2 outlook, which remains in line with previous expectations:

- as in previous years, H2 revenue expected to exceed H1 due to end of tax-year advice and second half weighting of client year-ends;
- value of new clients on-boarded in H1 over 10% up y-o-y;
- increased new business pipeline despite market conditions, solid acquisition pipeline;
- all recent acquisitions integrating well, trading in-line or ahead of budget, and have delivered earnings to support full payment of any contingent consideration;
- joint-fundraising between MW and Maven (acquired Jun 21) continued to gain traction with two recent Investor-Partner deals;
- discretionary managed funds performed in line with benchmarks;
- digital client experience enhanced with launch of MWise online investment platform;
- Amati AIM VCT won VCT AIM Quoted Category at Investment Week's Investment Company of the Year Awards 2022.

Looking undervalued on fundamentals and compared to peers

MW remains on track to meet our forecasts for FY23 and our **fundamental valuation of 925p which is 47% above the current share price,** remains unchanged.

We have updated our peer-comparison valuation (page 2&3) which also suggests potential for a re-rating. **MW's PER of 13.0 is 29% below a wealth management peer group median of 18.2.**

Key Financials

Year-end 31 May	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Total client assets, £bn	9.4	9.3	12.1	14.9	15.2	16.7
Rev, £m	57.5	58.4	62.6	108.2	116.2	125.4
Adj EBITDA[3]	14.1	18.9	17.3	32.6	32.8	35.8
Adj EBITDA margin	24.5%	32.4%	27.7%	30.1%	28.3%	28.6%
Adj PAT[4]	9.8	12.9	11.5	23.9	24.7	25.5
Statutory PAT	7.7	9.5	1.4	4.1	13.1	16.1
EPS basic, p	28.9	34.9	5.1	8.3	25.7	31.2
EPS adjusted, p	36.7	47.6	41.1	48.3	48.4	49.5
PER (on adj. PAT)	17.2	13.2	15.3	13.0	13.0	12.7
Div, p	20.0	20.0	21.0	26.1	26.5	28.8
Yield	3.2%	3.2%	3.3%	4.1%	4.2%	4.6%
Net assets, £m	76.4	81.5	86.1	230.1	231.4	235.4
Net cash, £m	23.2	26.0	21.9	53.9	55.2	61.6

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***630p***

Company Data

EPIC	MTW
Price (last close)	630p
52 weeks Hi/Lo	875p/530p
Market cap	£323m
ED Fair Value/share	925p
Net cash	£38m
Avg. daily volume	78k

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: Interim results, 7 Feb 23

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Looking undervalued compared to peers

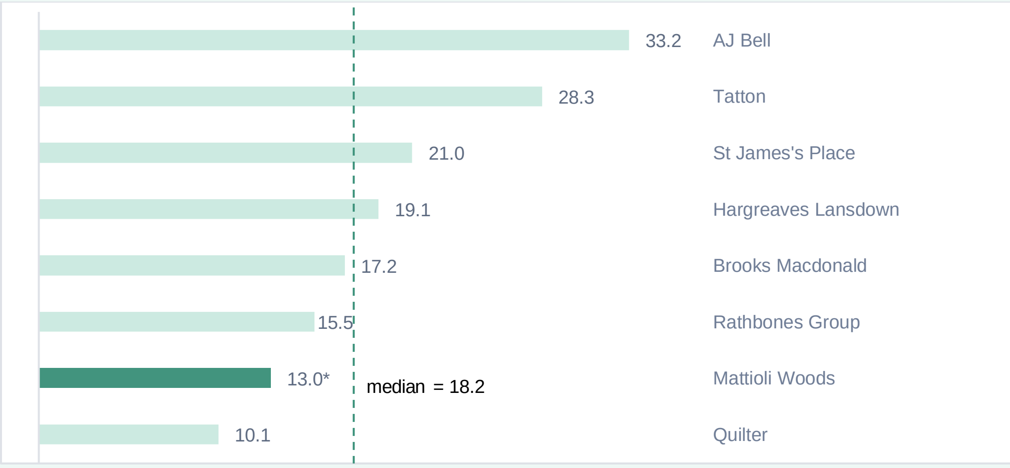
As MW operates in the wealth management space (its core advisory and discretionary fund management or DFM business), and in the asset management space (Maven, Amati, and in-house funds distributed via external advisers and platforms), it is useful to compare its valuation to both groups of peers.

We note that wealth managers, DFMs, and platforms typically house *investment portfolios* for individual investors which tend to be 'stickier' assets i.e., 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. Wealth managers would also tend to house significant portfolios of bonds and other assets as well as equities.

In contrast, pure-play asset managers 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 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. These business's assets also tend to be dominated by equities. 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 mangers (see below).

As the largest part of MW's business is in wealth management, this comparison is most appropriate. And when compared to this group of peers, MW appears significantly undervalued, with a PER of 13.0, the second lowest of the group and far below the median of 18.2 (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).

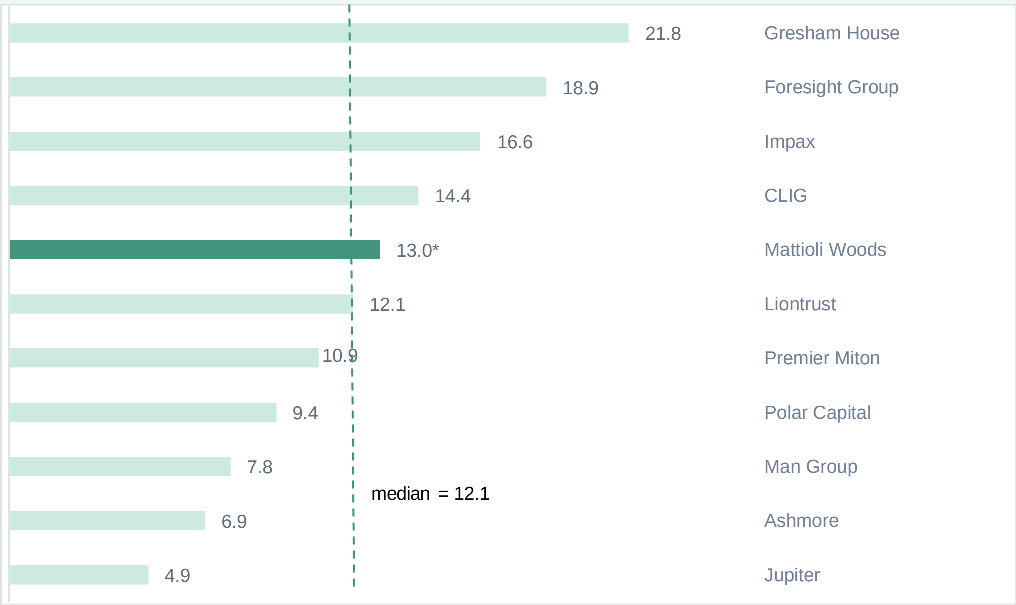
PE Ratios: UK-listed wealth managers, DFMs and platforms



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

But in addition, **even when compared to a peer group of pure-play asset managers, MW's valuation is not demanding, with its PER of 13.0 only slightly above the peer group median of 12.1.**

PE Ratios: UK-listed asset managers (+ MW)



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

We also highlight that pure-play asset managers' PERs have fallen most sharply since the end of the bull market in early-2022. In January 2022, we recorded an asset manager peer group median PER of around 31.3 (now 12.1), similar to the wealth manager peer group median at that time of 30.6 (now 18.2). [MW's PER at that time was 20.2.]

While we expect both groups' PERs to recover when markets recover, given the above we suspect that asset managers' PERs may recover faster than wealth managers. And given MW's now-substantial asset management interests compared to other wealth managers, this could prompt a faster recovery in MW's PER in relation to other wealth managers.

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

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[1] Includes £924m of funds under management by the Group's associate, Amati Global Investors Limited, excluding £75m of Mattioli Woods' client investment and £13m of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.
[2] Includes £1,012m 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] 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.
[4] Statutory PBT excluding: amortisation of acquired intangibles, acquisition related costs, gain on bargain purchase, contingent consideration recognised as remuneration, acquisition related notional interest, less tax at standard rate of 19% (25% Apr '23).

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