Mattioli Woods plc

H1-24 showcases benefit of diverse income streams

8 February 2024

H1-24 revenue (to 30 Nov 23) was up 8% y-o-y to £59.1m (H1-23: £54.9m), with 4% organic revenue growth. H2 revenue is typically higher than H1 due to end of tax-year advice and H2 bias of client year-ends, and we maintain our FY24 revenue forecast of £123.6m (+11% y-o-y). But underlying those headline numbers, is evidence that MW's model of vertical integration and multiple, diverse income streams is a huge plus.

In an uncertain economic environment, and changing regulatory and tax environment, clients increasingly sought advice from MW which, with increased banking margin on cash balances, resulted in the **core pensions business thriving with 21% revenue growth.** The employee benefits and investment & asset management businesses also showed solid growth of 11% and 9% respectively.

However, the flipside of areas of economic weakness saw property segment revenue fall from £3.4m to £2.8m, and MW's share of associate company Amati's profits fall from £564k to £333k, with both businesses hit by falling asset prices (UK commercial property and UK small-cap equities).

Group adj. EBITDA grew 10% from £15.0m to £16.5m, helped by organic growth (409 new clients, +13% over H1 23) and a revenue mix shift towards higher-yielding services. Statutory PBT jumped 58% from £4.8m in H1-23 to £7.6m, boosted by a lower contingent consideration recognised as an expense of £2.5m (H1 23: £3.9m). This was partly offset by the additional overheads of the Doherty and White businesses acquired in Apr 23, and increased staff and IT investment.

MW has a strong net cash position of £32.7m (31 May 23: £45.0m), after paying £9.3m of dividends and £6.2m of acquisition-related payments during H1. **The business has no debt**. **Management maintains a confident outlook, with the interim dividend up from 8.8p to 9.0p.**

Wealth management sector and Mattioli Woods looking undervalued

Our revenue forecasts are unchanged, adj. EBITDA forecasts down slightly due to lower Amati profits but statutory profits increase on higher net finance income. **Our fundamental valuation, using a DCF methodology, remains unchanged at 900p per share (53% above the current share price).**

Also, with powerful longer-term structural tailwinds supporting the wealth management sector (page 16), we think a sector-median PER of 15.7 is too low. Moreover, with MW being so well positioned (page 17), we find it strange it's PER of 12.3 is below this median. **We see potential for a re-rating.**

Key Financials

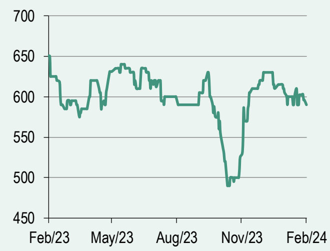
Year-end 31 May	FY21A	FY22A	*H1 23A*	FY23A	*H1 24A*	FY24E	FY25E
Total client assets, £bn	12.1	14.9	*14.6*	15.3	*15.2*	15.9	16.9
Rev, £m	62.6	108.2	*54.9*	111.2	*59.1*	123.6	131.7
Adj EBITDA[1]	17.3	32.6	*15.0*	33.2	*16.5*	35.5	38.9
Adj EBITDA margin	27.7%	30.1%	*27.3%*	29.9%	*27.9%*	28.7%	29.5%
Adj PAT[2]	11.5	23.9	*10.8*	24.5	*11.7*	25.2	28.0
Statutory PAT	1.4	4.1	*3.0*	7.7	*5.3*	13.2	16.7
EPS basic, p	5.1	8.3	*5.9*	14.9	*10.2*	25.6	32.2
EPS adjusted, p	41.1	48.3	*21.2*	47.8	*22.6*	48.9	53.9
PER (on adj. PAT)	14.4	12.2	*13.9*	12.3	*13.0*	12.1	10.9
Div, p	21.0	26.1	*8.8*	26.8	*9.0*	28.0	31.1
Yield	3.6%	4.4%	*1.5%*	4.5%	*1.5%*	4.7%	5.3%
Net assets, £m	86.1	230.1	*225.3*	229.3	*226.9*	231.1	234.9
Net cash, £m	21.9	53.9	*38.3*	45.1	*32.7*	40.0	53.3

*Source: Company Historic Data, ED estimates. PER and Yield based on share price of: **590p.** [1 & 2], see definitions on page 10*

Company Data

EPIC	MTW
Price (last close)	590p
52 weeks Hi/Lo	650p/490p
Market cap	£306m
ED Fair Value/share	900p
Net cash	£33m
Avg. daily vol. (12m)	72k

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 '23: £15.2bn

Next Event: Trading update, 3 Jul '24

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Client assets flat, impacted by falling markets

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 £11.6bn, 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 £4.6bn, which are assets invested in MW-group-managed investment vehicles by both MW and non-MW advisers on behalf of clients – these vehicles include: the in-house MW discretionary fund management service with a range of multi-asset funds, those of associate asset manager Amati Global Investors, regional private equity and VCT investor Maven Capital Partners - which in the post-H1 period added an EIS offering through the acquisition of Newable ventures, and property investments through Custodian REIT and syndicates;
- *assets it administers* (mainly the administration of pension schemes).

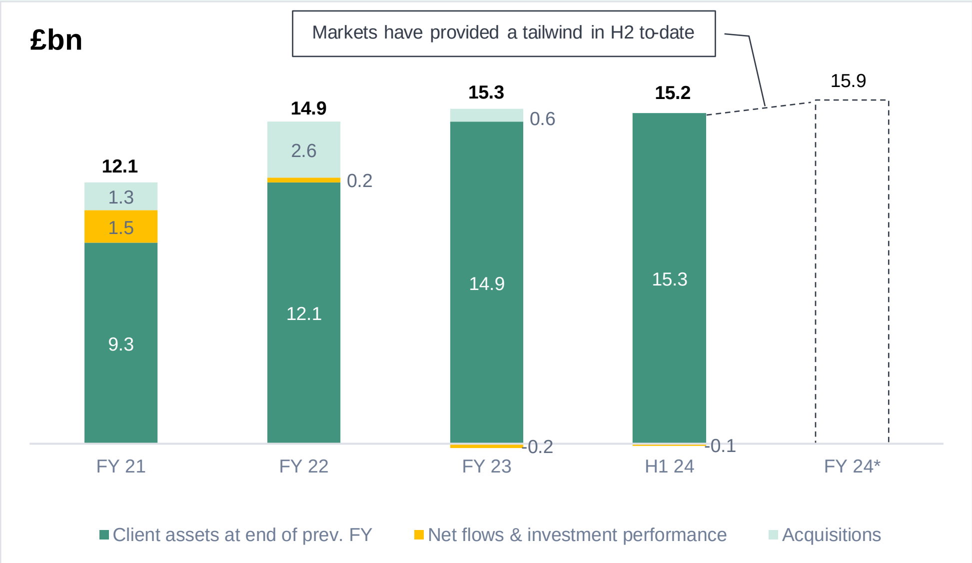
[Note, as there are overlaps between the above bullets, the sum of the totals quoted above do not equal the value of client assets – see below.]

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

Total client assets were slightly down over H1-24 from £15.3bn on 31 May 23 to £15.2bn, with a £155m negative impact from market movements, and UK small-cap-focussed Amati Global Investors experiencing a £157m fall, which was unsurprising considering the *FTSE AIM All Share Index* fell 9% over the period.

However, in H2 to date, between 31 Nov 23 and 31 Jan 24, the *MSCI PIMFA Private Investors Balanced Index* (a reasonable benchmark of investment returns for MW's advised clients' portfolios) gained 3.7%, and the *FTSE AIM All Share Index* (a reasonable benchmark for a good proportion of Amati's AUM) gained 5.7%. So, there has been a market tailwind in recent months which suggests client assets should pick up in H2, although not to the extent previously forecast (£16.4bn), and we stress that market movements could impact this to the upside or downside. Note also that more than one third of revenue is not linked to AUA/AUM levels (this revenue is instead fee based linked to services provided)

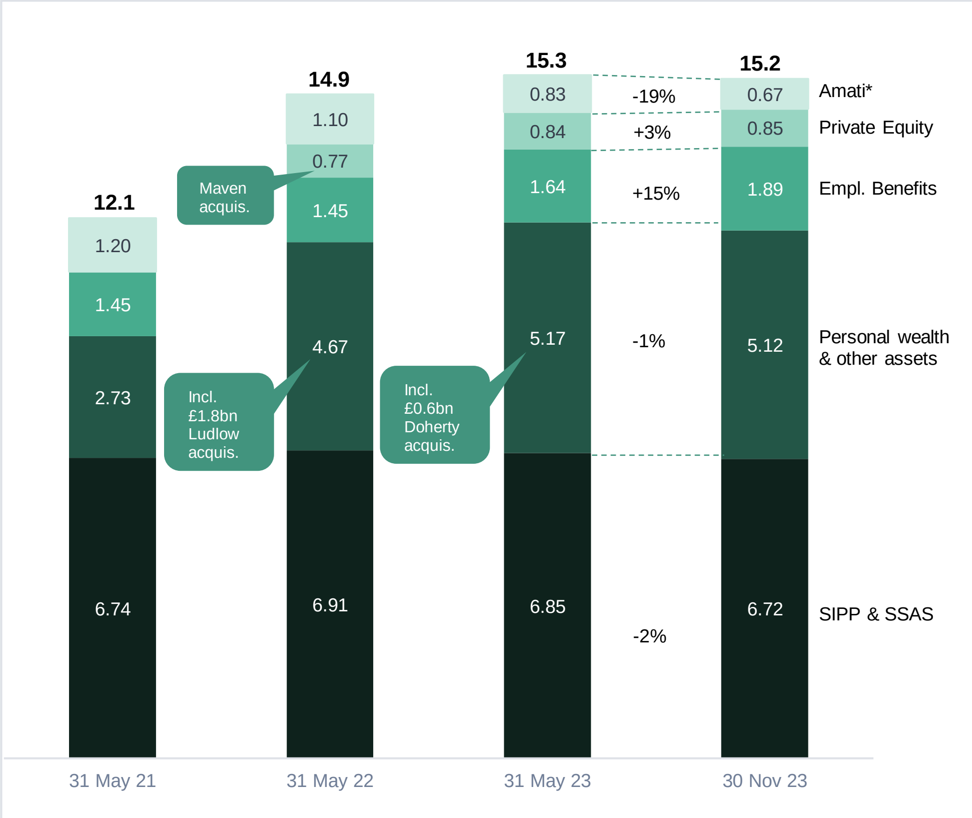
Total Client Assets - actuals and ED estimates for FY24 & FY25



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

Below, we illustrate how the split in client assets by business segment has changed over H1 and in the few years prior to that, as well as how this split has been impacted by significant acquisitions.

Breakdown of Total Client Assets, £bn



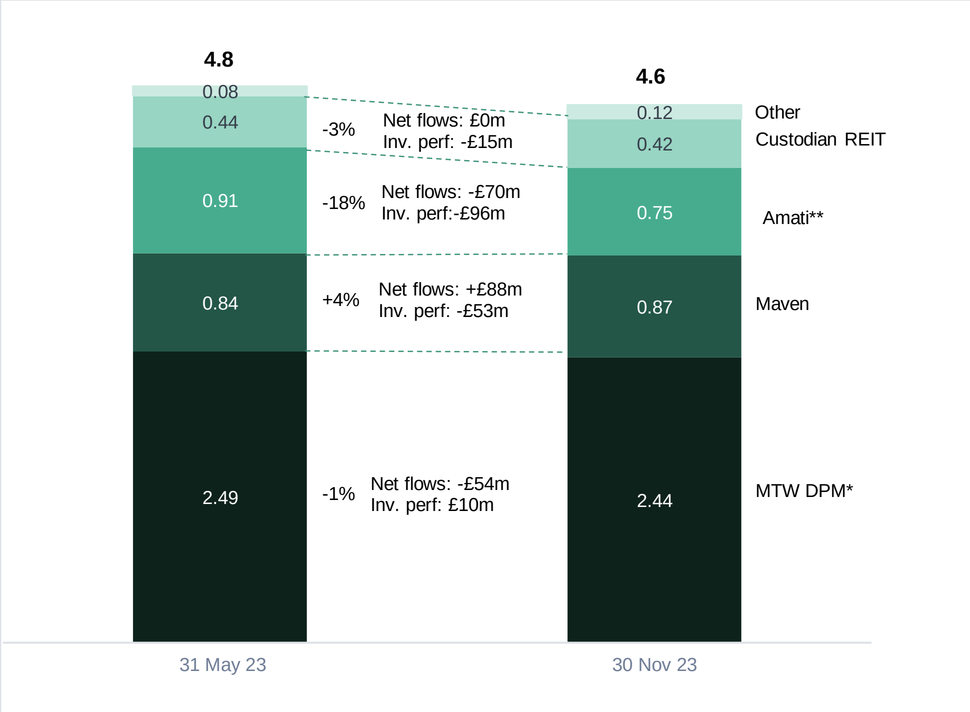
Source: Company reports
Totals may not add due to rounding. Not all acquisitions shown, only those with largest impact on segment breakdowns.
**Excluding £65.5m (31 May 2023: £73.0m) of Mattioli Woods' client investment and £10.7m (31 May 2023: £11.7m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.*

The most significant changes by business segment over H1 were:

- A £131m decrease in SIPP and SSAS funds under trusteeship, with a 2.2% fall in the number of schemes being administered - comprising a 1.5% decrease in the number of direct schemes to 7,067 and an expected 3.6% decrease in the number of schemes the Group operates on an administration-only basis to 3,647. In recent years, MW has been 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 alternative arrangements;
- A £53m decrease in personal wealth and other assets under management and advice. The 194 new personal clients won during the period partially offset some natural client attrition, resulting in a 2.8% decrease in the total number of personal clients at the period end to 11,594;
- The above decrease included a £26m fall in the AUM of Custodian Capital, following a fall in commercial property values;
- **A £248m 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 £28m increase in the AUM managed by Maven, to £846m**, with a healthy level of deal flow;
- A £166m reduction in the AUM of Amati which suffered from further falls in UK small-cap valuations and from investors withdrawing funds from this asset class. **While the last two years has undoubtedly been a tough time for Amati, over the longer term, MW's investment in this business has been an unequivocal success**, with Amati growing its gross AUM from £0.18bn at the end of FY17 to £0.75bn today, a CAGR of 25%, with MWs cumulative share of Amati profits to date totalling £5.5m after tax, on an original investment of £3.4m.

MW's **gross discretionary assets under management** reduced by 3% from £4.8bn to £4.6bn and are shown in more detail below.

Breakdown of gross discretionary assets under management, £bn



Source: Company reports
Totals may not add due to rounding
**Discretionary portfolio management. **Includes £11.6m (31 May 2023: £11.7m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.*
Other: MTW Property Securities Fund and MTW Responsible Equity Fund (£80.7m), MW UK Dynamic Fund (£35.9m).

H1-23 results

Revenue

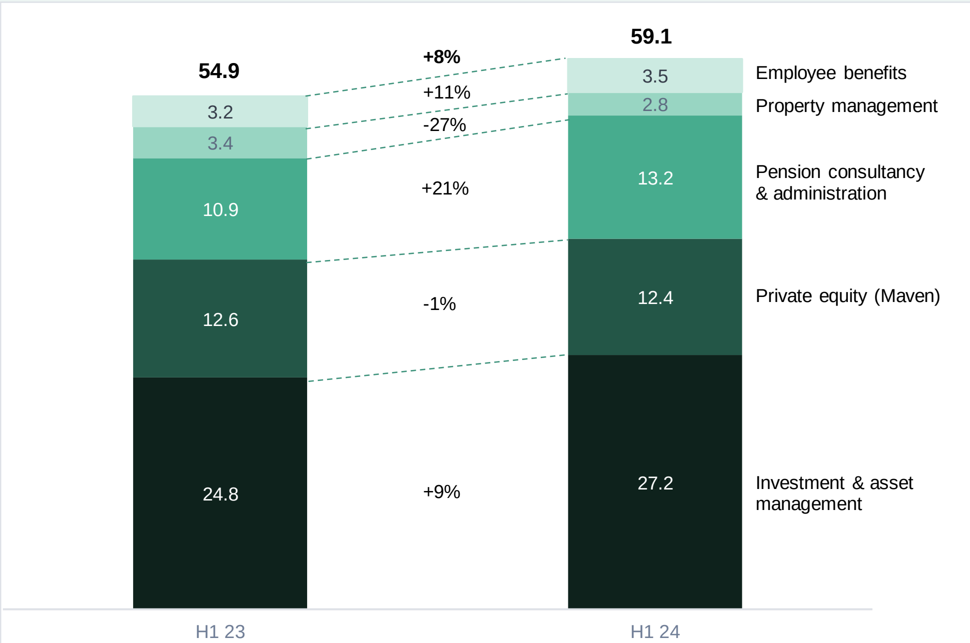
H1-24 revenue grew 8% y-o-y to £59.1m (H1-23: £54.9m). Organic revenue growth was 4.0% with overall revenue benefitting from a full six-month contribution of £2.0m from Doherty Pension & Investment Consultancy and White Mortgages Limited (both acquired in Apr 23).

It is worth highlighting that having more than one third of revenue not linked to AUA/AUM levels (this revenue is instead fee based linked to services provided) is a feature of MW's business model and offers a level of **downside protection from market falls** compared to other wealth managers. Recurring revenues represent 91% of total revenue. The recurring revenues are made up of annual pension advice and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual and fund management charges.

Split of revenue growth: H1 22 to H1 23

Source: Company

Revenue breakdown by segment, £m



Source: Company reports

Investment and asset management

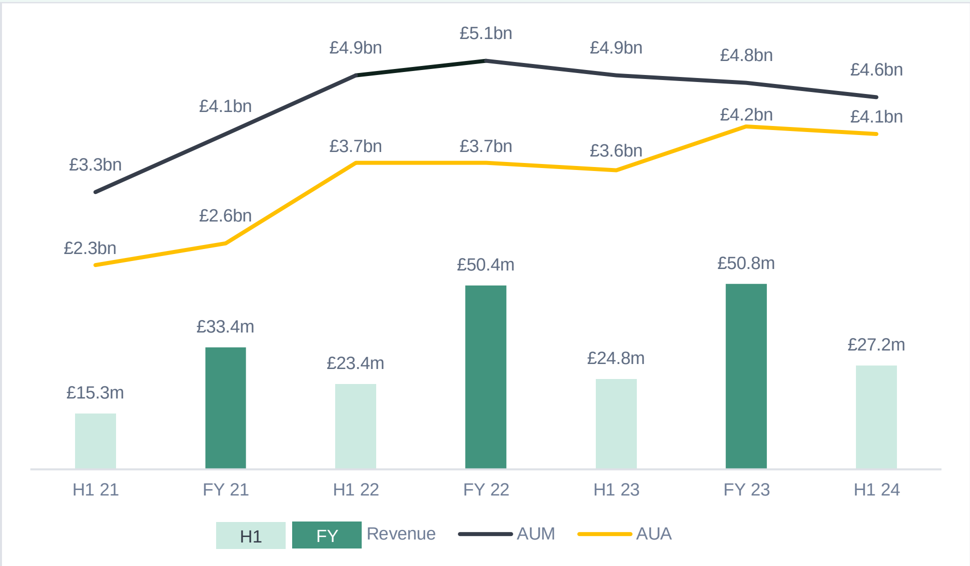
This segment makes up 46% of group revenue and includes:

- *Financial advice and planning*: the heart of MW's proposition (it describes itself as being 'advice-led'), where 148 advisers service primarily mass affluent and high-net-worth individuals; and
- *Investment management*: where MW runs a discretionary portfolio management (DPM) service and operates a range of investment products with the bulk of AUM coming from advised clients (forming an integrated investment management and financial planning service) while some AUM comes from clients who are not MW-advised (sourced from other advisers, platforms etc).

Segment revenue increased 9% to £27.2m (H1 23: £24.8m). Income from both initial and ongoing portfolio management charges, including associated ongoing adviser charges, was £17.0m (H1 23: £13.8m).

Adviser charges based on gross assets under advice of £4.1bn (H1 23: £3.6bn) increased to £12.2m (H1 23: £10.9m), with the higher revenue margin from acquisitions partially offset by the impact of lower asset values and market movements.

Investment and asset management: AUM, AUA, revenue



Source: Company reports
Note: Revenue excludes that generated by Custodian Capital for services provided to Custodian REIT (reported in 'Property management' segment), Maven revenue (included in 'Private equity management' segment), and Amati revenue (accounted for as an associate company hence revenue not shown in MW accounts, only MW share of Amati profits).

Pensions consultancy and administration

This segment makes up around 22% of group revenue, is the business upon which MW was founded and remains core to its client proposition. It involves advising on and providing administrative services for Self-Invested Personal Pensions (SIPP), Small Self-Administered Pension Schemes (SSAS), and bespoke pension arrangements.

Segment revenue increased 21% to £13.2m (H1 23: £10.9m) due to the strong demand for advice and increased banking margin on cash balances. The total number of SIPP and SSAS schemes administered by the Group decreased 2% to 10,714 (31 May 23: 10,957) due to the continued wind-down of a number of SIPP schemes operated on an administration-only basis. This revenue is mostly fee-based and not directly dependent on the value of client assets.

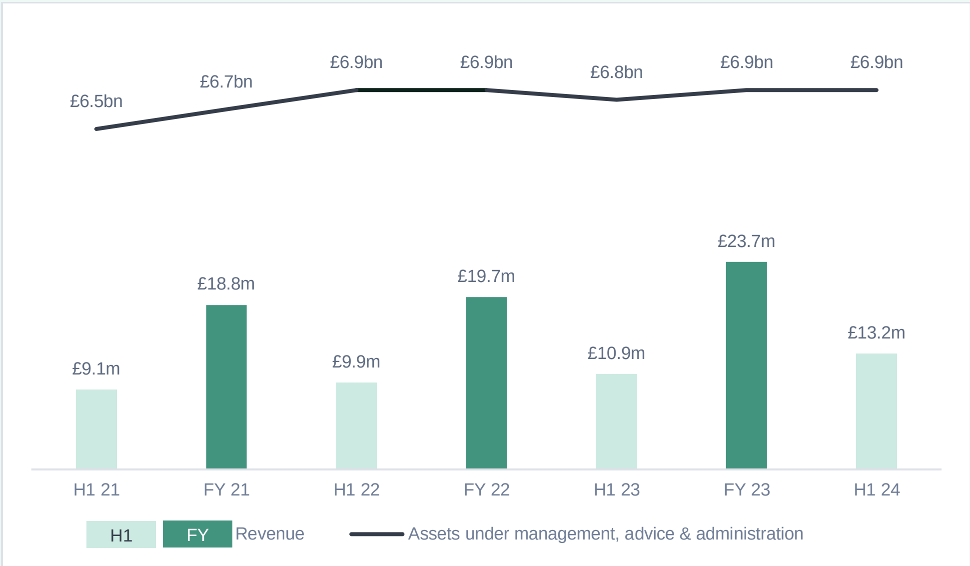
Direct advice and administration fees (SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator) increased 22% to £11.2m (H1 23: £9.2m). The number of

direct schemes decreased to 7,067 (31 May 23: 7,172), with 149 new schemes gained in the first half of the year.

Banking revenue was higher at £2.0m (H1 23: £0.1m) driven by increased interest rates. Base rate increases and a planned introduction of pooled banking for clients provides an opportunity to enhance clients' rates, improve efficiency of banking administration and when available, enable the Company to retain a proportion of any interest.

The above revenue gains drove a segment margin increase from 24% in H1 23 to 31%.

Pension consultancy and administration: AUA/AUM, revenue



Source: Company reports

Private Equity (Maven)

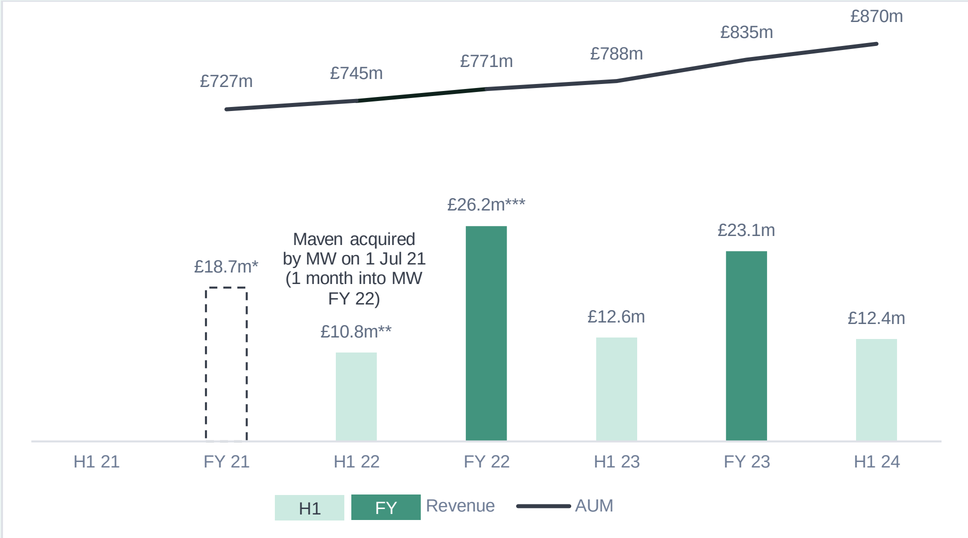
This business segment, arising from the acquisition of Maven Capital Partners on 1 July 2021, makes up around 21% of group revenue and delivers private equity investment opportunities via Venture Capital Trusts and directly on a deal-by-deal basis to institutional investors, family offices and high net worth individuals. In the post-H1 period (Dec 23), Maven acquired Newable Ventures which has added an EIS fund offering to the group.

By acquiring Maven, MW enhanced its investment proposition by providing clients with efficient access to private equity investments, which are of particular interest and suited to wealthier clients. Given the specialist nature of Maven's investments, and the higher risk profile, it is able to price at a premium and enhance the client TER (total expense ratio).

Maven enjoyed a healthy level of deal flow in the period although revenue was a touch down from £12.6m to £12.4m.

The Group realised a number of cross-sell revenue synergies, with the Maven Investor Partner business completing five transactions supported by Mattioli Woods' clients, generating £0.3m initial fees and embedding significant future performance fee potential with further opportunities expected across the UK during 2024.

Maven: AUM, revenue



Source: Company reports, Maven Members' Reports and Consolidated Financial Statements
**Maven AUM on 31 Mar 21 (pre-MW-acquisition), Maven revenue for the year 1 Apr 20 - 31 Mar 21 (pre-MW-acquisition)*
***5-months of revenue in H1*
****11-months of revenue*

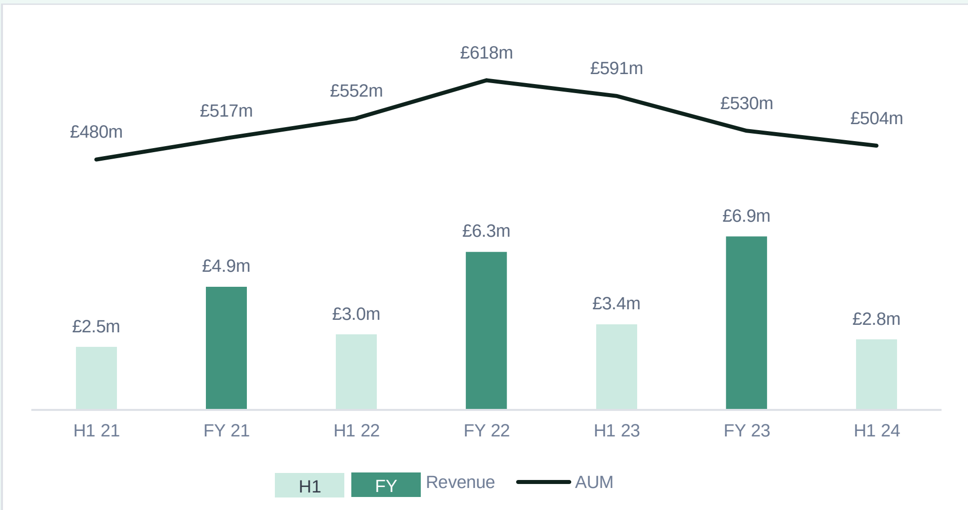
Property Management

MW's property management business segment makes up around 5% of group revenue and is operated mainly via subsidiary Custodian Capital Limited (CCL). CCL's core business is acting as the investment manager to Custodian REIT plc (REIT = real estate investment trust) which is listed on the premium main market of the London Stock Exchange.

In addition, CCL facilitates direct property ownership on behalf of pension schemes and private clients and manages the Mattioli Woods Private Investors Club, which offers alternative investment opportunities to suitable clients using private investor syndicates.

It was tough period for Custodian with further decreases in commercial property market values which hurt AUM and revenue. AUM fell 15% while revenue fell 18% y-o-y from £3.4m in H1 23 to £2.8m in H1 24.

Property management segment: AUA/AUM and revenue



Source: Company

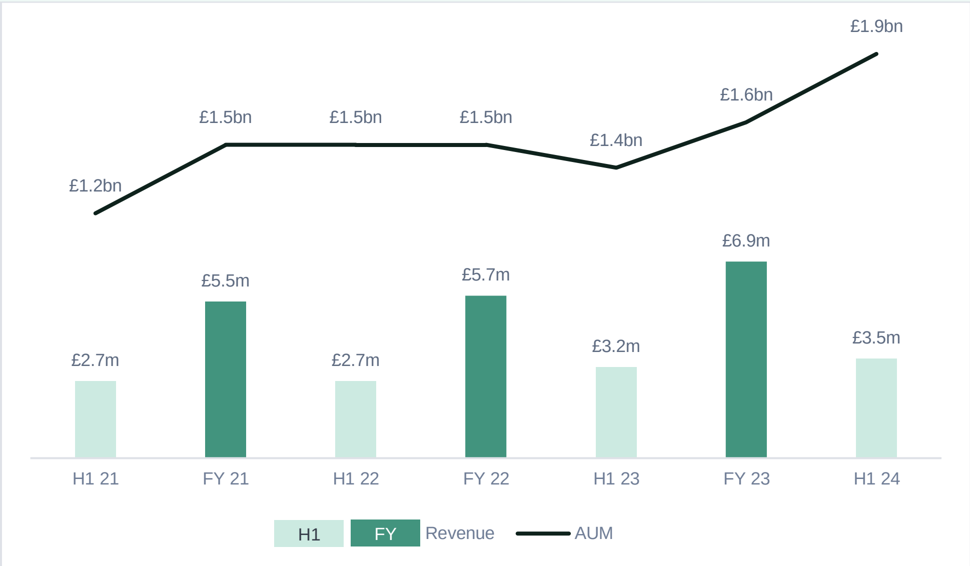
Employee benefits

Employee benefits (EB) makes up around 6% of group revenue and provides employee-related services to corporate clients, including consultancy, design, implementation and administration services on defined contribution and defined benefit pension schemes, workplace savings, healthcare, international benefit solutions, risk benefits, employee wellbeing and financial education.

This division's resurgence continued with revenue up 11% y-o-y from £3.2m in H1 23 to £3.5m in H1 24. MW has reported strong trading with employers increasingly encouraging staff wellbeing and retirement savings, which is expected to drive sustained growth in the UK employee benefits market. The continued Government emphasis on workplace advice also represents an opportunity for MW to realise synergies.

It is worth noting that EB revenue is mostly fee based and relates to services rendered and is not linked to the value of client assets in the way that some wealth management revenue is.

Employee benefits segment: AUA/AUM and revenue



Source: Company

Costs

Employee benefits expense is MW's largest operating cost by some distance which grew 10% from £29.8m in H1 23 to £32.8m in H1 24. Some of this increase was because of H1 24 incurring full-period costs from acquisitions made just before the start of the period (Doherty and White acquisitions in Apr 23).

But part of the increase is also due to **MW increasing its capacity to grow the business**. Recruitment of client-facing and support staff resulted in total headcount increasing to 939 (H1 23: 877). The number of fee-generating consultants increased to 148 (H1 23: 132).

The business is also increasing recruitment of trainee consultants, with 19 new recruits joining the adviser academy shortly after the period end in December 2023.

Other administrative expenses decreased 3% from £10.2m in H1 23 to £9.9m with acquisitions and consultancy spend on MW's Xplan project driving costs higher, but reduced professional, regulatory, and marketing costs offsetting those increases. Marketing spend is expected to increase in H2.

Share-based payment costs totalled £1.2m (H1 23: £0.9m) 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 30.8% (H1 23: 36.6%), above the standard rate of tax of 25.0%, 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 included a £2.5m (H1 23: £3.9m) non-cash charge related to the amortisation of acquired client portfolios. [Client portfolios acquired through business combinations are recognised as intangible assets.]

Profitability

Operating profit before financing was up 54% to £7.1m (H1 23: £4.6m), with the positive impact of increased revenue, lower acquisition-related costs of £0.3m (H1 23: £0.5m) and contingent consideration recognised as an expense falling to £2.5m (H1 23: £3.9m). This was partially offset by a full period of overheads associated with those businesses acquired just before the start of H1 24 (Doherty and White) and increased staff and IT investment.

Statutory profit before tax jumped 58% from £4.8m in H1 23 to £7.6m in H1 24, with profit after tax increasing 74% from £3.0m in H1 23 to £5.3m, although this jump was exacerbated by an abnormally high tax charge in H1 23 as already discussed. **Basic EPS increased 73% from 5.9p to 10.2p**.

However, 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.

This metric increased 10% from £15.0m in H1 23 to £16.5m in H1 24 with adjusted EBITDA margin increasing from 27.3% in H1 23 to 27.9%.

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 underlying earnings:

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 PBT was up 16% from £13.5m to £15.6m.**

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), thus eliminating the large tax-related swings in profitability seen in MW's statutory accounts. This increased 8% from £10.8m to £11.7m.

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. **Adjusted EPS increased 7% from 21.2p to 22.7p**, negatively impacted by the issue of 240,976 (H1 23: 190,743) shares under the Company's share plans.

Statutory to adjusted profit bridge

	Profit H1 24 £m	***EPS H1 24 pps***	*Profit H1 23 £m*	pps
Statutory profit before tax	**7.6**		4.8	
Income tax expense	**(2.4)**		(1.7)	
Statutory profit after tax/Basic EPS	**5.2**	**10.2**	3.0	5.9
Statutory profit before tax	**7.6**		4.8	
Amortisation of acquired intangibles	**4.2**		3.9	
Acquisition-related costs	**0.3**		0.5	
Acquisition-related notional finance costs	**0.3**		0.5	
Deferred consideration as remuneration	**2.5**		3.9	
Exceptional Project costs	**0.7**		-	
Adjusted PBT	**15.6**		13.5	
Income tax expense at blended standard rate	**(3.9)**		(2.7)	
Adjusted PAT/Adjusted EPS	**11.7**	**22.7**	10.8	21.2

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

Balance sheet and cash position

MW maintains a robust balance sheet, with net assets of £227m on 30 Nov 23 (end of H1 24), up from £225m on 30 Nov 22 (end of H1 23). Cash and equivalents were £32.7m on 30 Nov 23, down from £38.3m on 30 Nov 22 and £45.1m on 31 May 23. This was after the payment of £9.3m of dividends and £6.2m of acquisition-related payments (£0.7m of initial consideration paid and £5.5m of contingent deferred consideration paid on acquisitions completed in prior periods). **MW has no debt.**

Cash generated from operations was £7.1m (H1 23: -£1.5m) driven by a decrease in working capital with the most significant items being: 1) a £5.2m decrease in accruals and deferred income; and 2) a £2.2m decease in provisions (£5.0m of contingent consideration recognised as remuneration paid in the period and a £2.8m increase across other provisions, including provisions for dilapidations charges and employers' NIC on share options).

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

Change in cash position over H1 24

Source: Company

The group 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 **£14.9m of surplus cash**, 100% above its regulatory capital requirement of £14.9m.

Surplus capital as at 30 Nov 23

Regulatory capital (MTW Company)	Nov 2023 £000	May 2023 £000
Capital resources – MIFIDPRU	**29.8**	**26.0**
Regulatory capital requirement	14.9	14.9
Surplus on capital requirements	**14.9**	**11.1**
Surplus as % of requirement	***100%***	***75%***

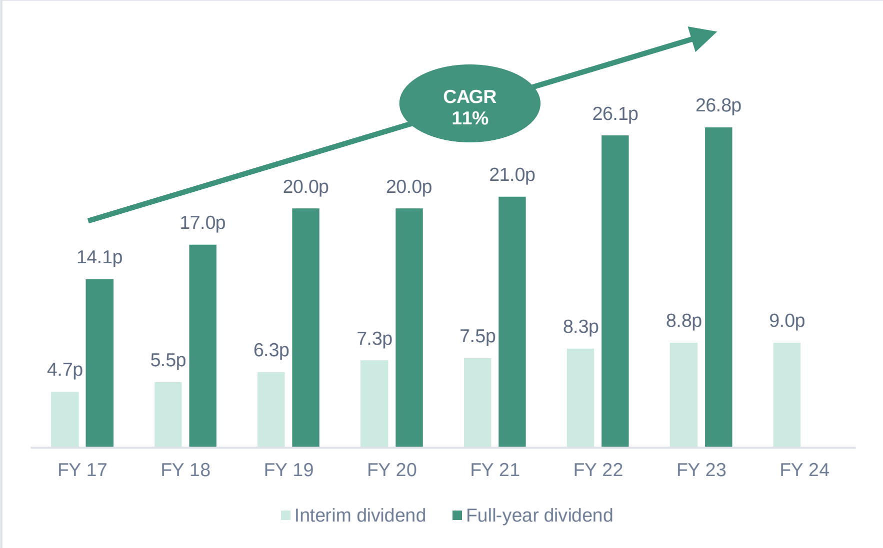
Source: Company

Dividends

MW has proposed an interim dividend of 9.0p (H1 23: 8.8p) which is a sign of management confidence in the group's prospects, despite the recent weakness in the economic and financial market environment.

This keeps MW in line with its stated progressive dividend policy. **Its full-year dividend has grown at a CAGR of 11% over the last six years.**

Historic dividend progression



Source: Company

Looking undervalued on multiple metrics

We look at MW's valuation on a fundamental and a peer comparison basis, both of which suggest the current share price of the business is not reflecting its true value,

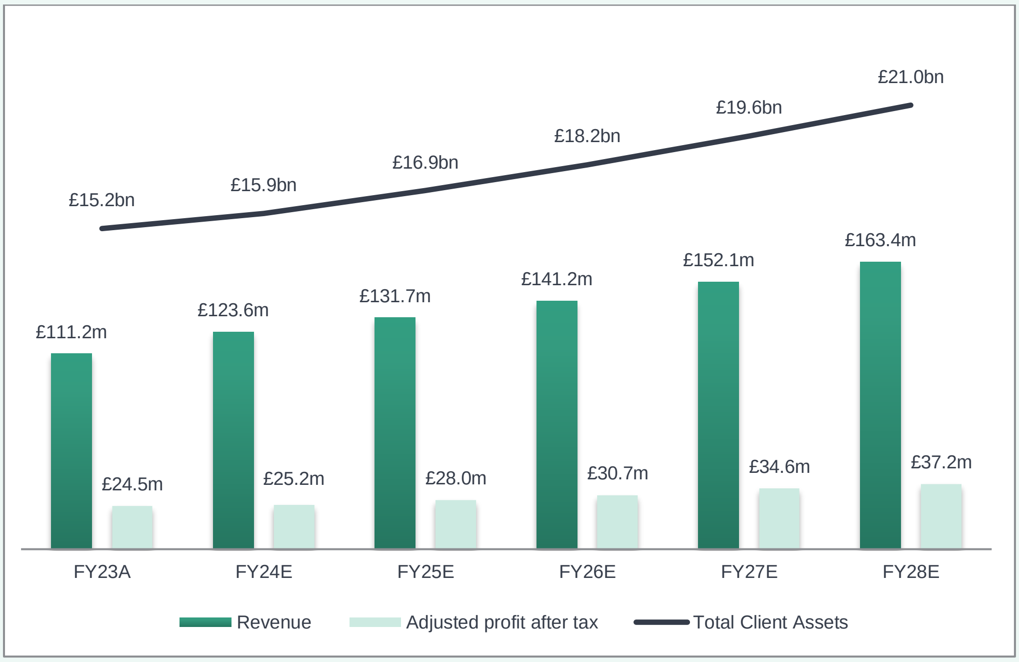
Fundamental valuation 900p, 53% above share price

Our fundamental valuation uses a discounted cash flow methodology, which produces a per share value of 900p, 53% above the current share price of 590p.

This valuation is based on the following key assumptions:

- A five-year explicit growth forecast summarised in the chart below (this excludes any potential growth from acquisitions). We also 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).

Mattioli Woods plc (group) 5 years forecast: key metrics



Source: Company Historic Data, ED Estimates

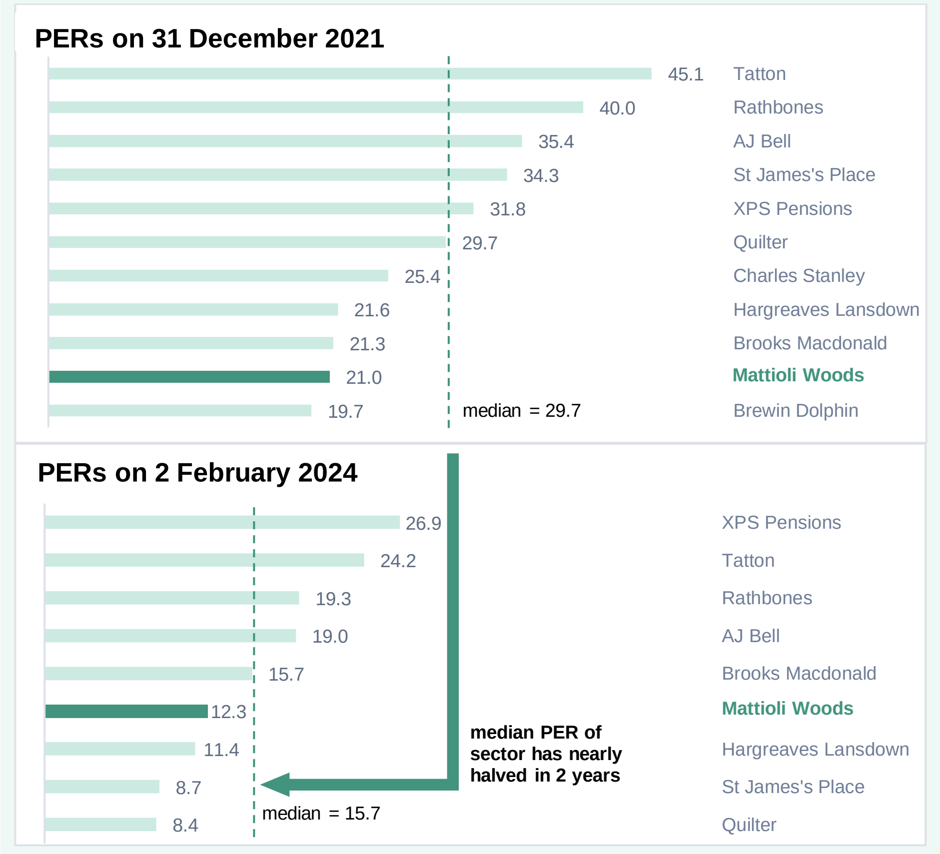
- A terminal value based on an assumption that the business is acquired at a PE multiple of 15 at the end of year five (see current sector PE's below).
- Discounting the cash flows from the above assumptions at a discount rate of 8.0%.

PERs of sector (and especially MW) look too low

We have also looked at MW's valuation on a PER basis by comparing it to UK-listed wealth management peers. And there are two key points worth highlighting:

- First, the wealth management sector has de-rated significantly over the last two years with PERs nearly halving.
- Second, MW trades at a discount to peers for which we see no justification.

PE Ratios: UK-listed investment/wealth managers and platforms



Source: ADVFN, as of 2 Feb 24, ED analysis.
** Mattioli Woods PER calculated using 'adjusted PAT' which eliminates some of the distortions in earnings created by the statutory accounting treatment of recent large acquisitions. All other PERs calculated using statutory EPS.*

Covering the first point above, it worth noting that since the end of the bull market (end of 2021), the median PERs of investment/wealth managers and platforms have declined 47% from 29.7 to 15.7.

While valuations may well have 'over-run' to a degree at the end of the bull market, **we certainly see the current median PER of 15.7 as being on the low side for a sector with such significant tailwinds and structural factors in its favour (see next page)** and see potential for a sector rerating.

Also, within the sector **we see no justifiable reason for MW to trade at a discount to most peers** (on a PER of 12.3) given its strong positioning within the sector and record of delivery (also detailed on next page). We therefore also see potential for the removal of this discount.

Another interesting, related data point is that when the acquisition of Brewin Dolphin by RBC Wealth Management (Jersey) was announced on 31 March 2022, its PER jumped from 16.9 to 27.2, a premium of 62% to its share price the day before the deal was announced.

This suggests that large foreign investment/wealth managers were seeing substantial value in the UK at that time. They are surely seeing even more value now.

Investment case

Large and growing market

MW is operating in a huge market with substantial tailwinds that should underpin substantial growth over the medium to long term.

The value of personal liquid investable financial assets held by UK households is estimated at c. £2 trillion[1] (implying a MW market share of around 0.75%). Furthermore, another c. **£1.9 trillion** resides in defined benefit pension liabilities i.e., much of these funds will be transferred to UK households over time.

Approximately £1.2 trillion of this investable wealth is held as 'client assets' by various forms of advisory businesses[2]: financial advisers, wealth managers, private banks, etc. This is mostly the wealth of 'mass affluent' (between £85k to £850k of investable assets) and 'high net worth' individuals (>£850k of investable assets)[3].

We expect MW's market to experience robust growth over the medium to long term and highlight **four fundamental growth drivers:**

1. 'Organic' client asset growth

This arises from:

- **inflows from savers and investors** who keep contributing to and topping up their investment and retirement pots, with these flows often accelerating over an individual's pre-retirement life as their earnings and wealth increases over time,
- **financial assets appreciating over the longer term** (although valuation pullbacks are inevitable from time to time), and
- **increased transactional activity** which increases the chargeable services provided by MW.

2. Ageing population with more demand for advice

The UK's population continues to age with the ONS estimating that the number of over-65's will grow by around 4m people in the next 20 years, from 12m to 17m[4].

Couple this with the fact that the demand for financial advice and wealth management services ratchets up as people approach or enter retirement (their retirement pots are larger and their financial needs are more complex e.g., managing the decumulation phase of their investment life cycle), and it should be clear that **the proportion of the UK's total personal financial assets managed through adviser and wealth manager channels is likely to increase**.

3. Regulatory shifts

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.

Another specific trend related to pension reforms, which works in MW's favour, is that of individuals transferring their defined benefit pensions into other pension wrappers such as SIPPs (an area of particular expertise for MW), which are often serviced by wealth mangers.

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[1] *LEK Consulting, 2022, UK Wealth management: Spotlight on Value Creation*
[2] *Ibid*
[3] *Most definitions tend to use investable assets in US$ (mass affluent: between $100k and $1m, HNW:>$1m)*
[4] *ONS, Dataset Principal projection - UK population in age groups, 30 January 2024*

Indeed, some of the consequences of trends two and three above are already in evidence, such as the **number of individual financial advisers (advising on retail investments) growing steadily** over the last few years from around 25,600 in 2016 to over 28,200 in 2022[5]. [The number of financial advisory firms has declined slightly over the same period, from 5,218 to 5,062 due to industry consolidation]

4. A need for more financial advisers in the UK

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."*

Mattioli well positioned within wealth management sector

MW runs a vertically integrated business model and competes across the industry value chain, operating as an adviser, administrator, and investment manager. One of the key reasons for this is that management sees competitive advantages to having control over all these links, where it can adapt MW offerings and operations to suit client demand, without being dependent or over-reliant on external distribution or providers. This facilitates greater fee income and retention of the value chain, while providing a more comprehensive service and potentially lower cost to clients.

Another way to think about this is that each financial adviser within MW has the potential to earn far more income than an adviser in a non-vertically-integrated firm because of the additional products and services on offer.

It's adviser-base is well positioned and has capacity for growth. MW's advisers are well trained, incentivised, have ample capacity to service more clients, and are a relatively young cohort with the average adviser age being significantly lower than the market average, positioned to capture a disproportionate share of 'next generation' wealth. MW is also investing to increase its adviser base, and especially the number of younger advisers.

It has a unique portfolio of investment products to offer clients, including the in-house MW discretionary fund management service with a range of multi-asset funds; specialist funds offered by associate asset manager Amati Global Investors; private equity, VCT and EIS offerings through Maven Capital Partners; and property investments through Custodian REIT and syndicates. These investments 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 has a track record of making value-adding acquisitions.

It has a record of setting and achieving ambitious goals. In 2014, when client assets totalled around £4.5bn, revenue £29m, and the EBITDA margin was 22.6%, MW set medium-term growth goals of reaching £15bn of client assets, £100m in revenue, while maintaining an adjusted EBITDA margin of +20%. It reached these client asset and revenue growth goals in FY 22, with EBITDA margin growing to 30.1%. During FY21, when the above strategic goals were in sight of being delivered, MW updated its medium goals, and is now targeting £30bn of AUM, £300m in revenue, and £100m in profit.

Mattioli Woods summarises the five main levers it has to achieve these strategic goals in the chart below.

[5] *FCA, The retail intermediary market 2022 (and prior reports)*

Strategic growth levers

Source: Company

Appendix 1: Historic and forecast financials

Consolidated Income Statement + Forecasts							
12 months to end May, £m	FY21A	FY22A	*H1 23A*	FY23A	*H1 24A*	FY24E	FY25E
Revenue	**62.6**	**108.2**	***54.9***	**111.2**	***59.1***	**123.6**	**131.7**
Employee benefits expense	(34.1)	(59.6)	*(29.8)*	(60.9)	*(32.8)*	(66.2)	(69.8)
Other administrative expenses	(13.3)	(19.8)	*(10.2)*	(18.2)	*(9.8)*	(21.5)	(21.3)
Share based payments	(1.5)	(1.7)	*(0.9)*	(2.0)	*(1.2)*	(2.1)	(2.4)
Impairment loss on financial assets	(0.0)	(0.3)	*(0.1)*	(0.2)	*0.0*	-	-
Profit on disposal of fixed asset investments	-	0.4	-	-	-	-	-
Profit/(loss) on disposal of property, plant & equipment	(0.0)	0.0	*(0.0)*	0.1	*0.0*	-	-
Loss on disposal of investment in own shares	-	-	-	(0.1)	-	-	-
Gain on bargain purchase	0.3	-	-	-	-	-	-
Deferred consideration as remuneration	(3.8)	(9.7)	*(3.9)*	(6.9)	*(2.5)*	(5.0)	(4.9)
Gain on revaluation of derivative financial instrument	-	-	-	-	-	-	-
EBITDA	**10.1**	**17.6**	***10.1***	**23.0**	***12.8***	**28.8**	**33.2**
Adjusted EBITDA							
add back …							
Acquisition related costs	*2.6*	*3.7*	*0.5*	*1.5*	*0.3*	*-*	*-*
Share of profit from associates	*1.1*	*1.6*	*0.6*	*1.0*	*0.3*	*0.7*	*0.7*
Gain on bargain purchase	*(0.3)*	*-*	*-*	*-*	*-*	*-*	*-*
Deferred consideration as remuneration	*3.8*	*9.7*	*3.9*	*6.9*	*2.5*	*5.0*	*4.9*
Technology-related costs	*-*	*-*	*-*	*0.9*	*0.7*	*1.0*	*-*
Adjusted EBITDA	***17.3***	***32.6***	***15.0***	***33.2***	***16.5***	***35.5***	***38.9***
Amortisation and impairment	(3.1)	(7.5)	*(4.3)*	(9.0)	*(4.4)*	(8.5)	(8.5)
Depreciation	(2.8)	(2.8)	*(1.2)*	(2.5)	*(1.2)*	(2.7)	(2.7)
Operating profit before financing	**4.2**	**7.3**	***4.6***	**11.5**	***7.1***	**17.7**	**22.1**
Net financing (costs)/revenue	(0.2)	(0.9)	*(0.4)*	(0.6)	*0.2*	0.5	0.7
Share of profit from associate, net of tax	1.1	1.6	*0.6*	1.0	*0.3*	0.7	0.7
Profit before tax	**5.1**	**8.0**	***4.8***	**11.9**	***7.6***	**18.8**	**23.5**
Adjusted PBT & PAT							
add back …							
Acquisition related costs	*2.6*	*3.7*	*0.5*	*1.5*	*0.3*	*-*	*-*
Amortisation of intangibles acquired	*2.8*	*7.2*	*3.9*	*7.9*	*4.2*	*7.9*	*7.9*
Gain on bargain purchase	*(0.3)*	*-*	*-*	*-*	*-*	*-*	*-*
Deferred consideration as remuneration	*3.8*	*9.7*	*3.9*	*6.9*	*2.5*	*5.0*	*4.9*
Acquisition related notional finance cost	*0.1*	*0.9*	*0.5*	*1.0*	*0.3*	*1.0*	*1.0*
Platform project costs	*-*	*-*	*-*	*0.9*	*0.7*	*0.9*	*-*
Impairment of other investment	*-*	*-*	*-*	*0.7*	*-*	*-*	*-*
Adjusted PBT	***14.2***	***29.5***	***13.5***	***30.6***	***15.6***	***33.6***	***37.3***
Adjusted tax expense	*(2.7)*	*(5.6)*	*(2.7)*	*(6.1)*	*(3.9)*	*(8.4)*	*(9.3)*
Adjusted PAT	***11.5***	***23.9***	***10.8***	***24.5***	***11.7***	***25.2***	***28.0***
Income tax expense	(3.8)	(3.9)	*(1.7)*	(4.2)	*(2.4)*	(5.6)	(6.8)
Profit for the year	**1.4**	**4.1**	***3.0***	**7.7**	***5.3***	**13.2**	**16.7**
Basic EPS, p	5.1	8.3	*5.9*	14.9	*10.2*	25.6	32.2
Adjusted Basic EPS, p	41.1	48.3	*21.2*	47.8	*22.6*	48.9	53.9

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts							
As at end May, £m	**FY21A**	**FY22A**	***H1 23A***	**FY23A**	***H1 24A***	**FY24E**	**FY25E**
ASSETS							
Non-current assets							
Property, plant and equipment	14.3	14.1	*13.9*	14.0	*13.9*	13.8	13.7
Right of Use Assets	2.2	3.3	*2.9*	3.0	*3.4*	2.0	6.1
Intangible assets	60.5	199.3	*195.3*	208.4	*205.7*	216.8	210.2
Deferred tax assets	1.0	0.8	*0.7*	0.7	*0.7*	0.7	0.7
Investment in associate	4.3	4.2	*4.7*	4.1	*4.5*	4.2	4.4
Other investments	0.5	5.5	*5.4*	4.7	*4.5*	6.5	8.5
Total non-current assets	**82.7**	**227.2**	***222.8***	**234.9**	***232.5***	**244.1**	**243.4**
Current assets							
Trade and other receivables	19.2	28.4	*26.6*	30.4	*31.0*	31.9	33.5
Current tax receivables	0.0	-	-	-	-	-	-
Finance lease receivable	0.3	0.4	*0.3*	0.3	*0.3*	0.3	0.3
Investments	0.0	0.3	*0.3*	0.2	*0.1*	0.2	0.2
Cash and cash equivalents	21.9	53.9	*38.3*	45.1	*32.7*	40.0	53.3
Total current assets	**41.4**	**83.0**	***65.5***	**76.0**	***64.0***	**72.4**	**87.3**
TOTAL ASSETS	**124.2**	**310.2**	***288.3***	**311.0**	***296.5***	**316.6**	**330.8**
LIABILITIES							
Non-current Liabilities							
Trade and other payables	-	-	-	-	-	-	-
Lease liabilities	1.7	2.8	*2.7*	2.6	*3.0*	1.0	4.5
Deferred tax liability	9.4	27.5	*26.9*	28.9	*27.9*	28.9	28.9
Provisions	1.5	8.6	*1.2*	3.9	*4.0*	3.9	3.9
Total non-current liabilities	**12.7**	**38.9**	***30.7***	**35.4**	***34.9***	**33.8**	**37.2**
Current Liabilities							
Trade and other payables	15.5	25.1	*15.5*	23.4	*16.9*	31.1	38.0
Current tax liability	-	2.0	*1.6*	4.6	*1.9*	4.6	4.6
Lease liabilities	0.9	1.0	*0.6*	0.8	*0.8*	0.8	0.8
Provisions	9.0	13.2	*14.6*	17.5	*15.2*	15.3	15.3
Total current liabilities	**25.4**	**41.2**	***32.3***	**46.3**	***34.8***	**51.7**	**58.6**
TOTAL LIABILITIES							
NET ASSETS	**86.1**	**230.1**	***225.3***	**229.3**	***226.9***	**231.1**	**234.9**
EQUITY							
Issued capital	0.3	0.5	*0.5*	0.5	*0.5*	0.5	0.5
Share premium	33.8	143.4	*144.0*	144.6	*145.2*	145.2	145.2
Merger reserve	17.5	57.2	*57.2*	57.2	*57.2*	57.2	57.2
Equity-share-based-payments	3.6	2.8	*3.0*	3.7	*4.0*	5.8	8.2
Capital redemption reserve	2.0	2.0	*2.0*	2.0	*2.0*	2.0	2.0
Own shares	(0.6)	(0.6)	*(0.6)*	-	-	-	-
Revaluation reserve	-	-	-	-	-	-	-
Non-controlling interest	-	-	-	0.5	*0.5*	0.5	0.5
Retained earnings	29.6	24.8	*19.1*	20.8	*17.5*	19.9	21.3
TOTAL EQUITY	**86.1**	**230.1**	***225.3***	**229.3**	***226.9***	**231.1**	**234.9**

Consolidated Cash Flow Statement + Forecasts							
12 months to end May, £m	**FY21A**	**FY22A**	***H1 23A***	**FY23A**	***H1 24A***	**FY24E**	**FY25E**
Operating activities							
Profit for the year	**1.4**	**4.1**	***3.0***	**7.7**	***5.3***	**13.2**	**16.7**
Adjustment for:							
Amortisation	3.1	7.5	*4.3*	9.0	*4.4*	8.5	8.5
Depreciation	2.8	2.8	*1.2*	2.5	*1.2*	2.7	2.7
Gain on bargain purchase	(0.3)	-	-	-	-	-	-
Deferred consideration as remuneration	3.8	9.7	*3.9*	6.9	*2.5*	5.0	4.9
Investment income	(0.0)	(0.1)	*(0.2)*	(0.5)	*(1.0)*	(1.8)	(2.0)
Interest expense	0.3	1.0	*0.6*	1.1	*0.7*	1.4	1.4
Share of profit from associate	(1.1)	(1.6)	*(0.6)*	(1.0)	*(0.3)*	(0.7)	(0.7)
(Profit)/loss on disposal of plant, property & equipment	0.0	(0.0)	*0.0*	(0.0)	*(0.0)*	-	-
Profit on disposal of fixed asset investments	-	(0.4)	-	-	-	-	-
Gain on revaluation of other investments	-	(0.0)	*0.3*	0.1	*(0.0)*	-	-
Equity settled share-based payments	1.5	1.7	*0.9*	2.0	*1.2*	2.1	2.4
Income tax expense	3.8	3.9	*1.7*	4.2	*2.4*	5.6	6.8
Cash flows from operations before changes in working capital & provisions	**15.1**	**28.6**	***15.1***	**31.9**	***16.4***	**36.0**	**40.6**
Decrease/(increase) in receivables	1.0	(5.3)	*2.1*	(1.2)	*(0.6)*	(3.4)	(3.6)
(Decr)/incr in trade and other payables	5.0	1.8	*(9.8)*	0.8	*(6.6)*	2.6	2.0
(Decrease)/increase in provisions	(0.7)	(5.4)	*(8.9)*	(5.9)	*(2.2)*	(2.2)	-
Cash generated from operations	**20.4**	**19.6**	***(1.5)***	**25.6**	***7.1***	**33.0**	**39.0**
Interest paid	(0.0)	(0.0)	*(0.0)*	-	-	-	-
Income taxes paid	(2.5)	(3.3)	*(2.4)*	(3.1)	*(3.9)*	(5.6)	(6.8)
Net cash flows from operating activities	**17.8**	**16.4**	***(3.9)***	**22.5**	***3.2***	**27.4**	**32.2**
Investing activities							
Proceeds from sale of property plant and equipment	0.2	0.1	*0.1*	0.2	*0.1*	-	-
Purchase of property and equipment	(0.4)	(1.0)	*(0.6)*	(1.4)	*(0.7)*	(1.5)	(1.5)
Purchase of software	(0.4)	(0.4)	*(0.3)*	(0.6)	*(0.3)*	(0.3)	(0.3)
Purchase of client portfolio	-	(0.7)	*0.0*	-	-	-	-
Contingent consideration paid on acquisition of subsidiaries	(1.1)	(1.6)	*(1.6)*	(2.2)	*(0.5)*	(10.8)	(1.5)
Acquisition of subsidiaries	(17.7)	(72.9)	-	(14.4)	*(0.7)*	(0.7)	-
Cash received on acquisition of subsidiaries	4.8	8.9	-	9.4	*0.0*	0.0	-
Contingent remuneration paid on acquisition of subsidiaries	-	-	-	(10.0)	*(5.0)*	(5.0)	-
Investment in other equity holdings	(0.5)	(1.6)	*(0.2)*	(0.2)	*(0.1)*	(0.1)	-
Dividends received from associate undertakings	0.6	1.7	-	1.0	-	0.6	0.6
Proceeds on disposal of other investments	0.0	0.7	*0.1*	0.6	*0.0*	0.0	-
Loans advanced to property syndicates	(1.1)	(0.0)	*(0.6)*	(0.2)	-	-	-
Loan repayments from property syndicates	0.0	1.3	*0.4*	-	-	-	-
Interest received	0.0	0.0	*0.2*	0.3	*0.9*	1.9	2.1
Net cash used in investing activities	**(15.7)**	**(65.3)**	***(2.4)***	**(17.5)**	***(6.2)***	**(15.9)**	**(0.7)**
Financing activities							
Proceeds from the issue of share capital	0.6	109.3	*0.4*	0.9	*0.4*	0.4	0.4
Cost of own shares acquired	-	-	-	0.5	-	-	-
Dividends paid	(5.7)	(11.0)	*(9.1)*	(13.6)	*(9.3)*	(13.9)	(15.3)
Repayment of borrowings	-	(15.9)	-	-	-	(1.4)	(1.4)
Pmt of lease liabilities	(1.1)	(1.3)	*(0.6)*	(1.6)	*(0.5)*	(1.6)	(1.6)
Net cash from /(used in) financing activities	**(6.2)**	**81.0**	***(9.3)***	**(13.8)**	***(9.4)***	**(16.5)**	**(17.8)**
Net (decr)/incr in cash & equivalents	(4.1)	32.0	*(15.6)*	(8.8)	*(12.4)*	(5.1)	13.7
Cash & equivalents at beginning of year	26.0	21.9	*53.9*	53.9	*45.1*	45.1	40.0
Cash & equivalents at end of year	**21.9**	**53.9**	***38.3***	**45.1**	***32.7***	**40.0**	**53.7**

Source: Company Historic Data, ED estimates.

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