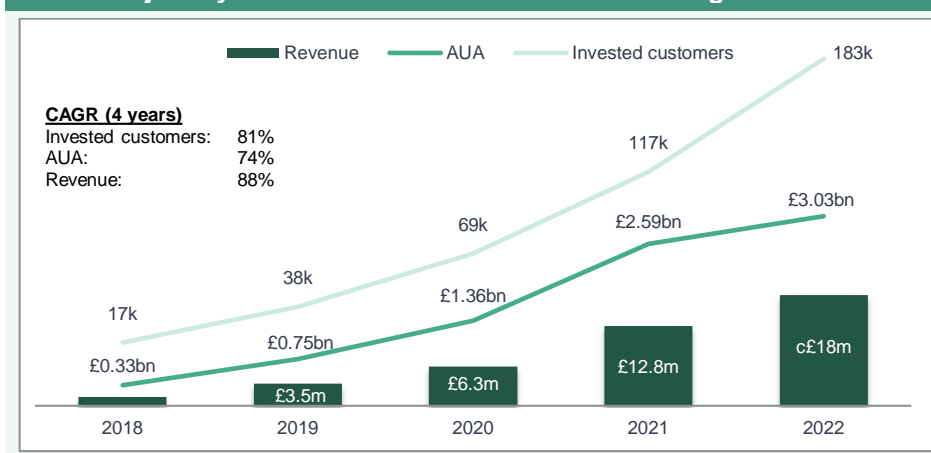


Customers +56%, AUA +17% in turbulent 2022

PensionBee's trading update covering FY22 (to 31 Dec 22) shows continuing strong growth, despite large market falls during the period, and continuing market share gains. Invested customers' grew 56% y-o-y to 183k (31 Dec 21: 117k), while AUA grew 17% to £3.03bn (31 Dec 21: £2.59bn) with net inflows of +£863m and market movements of -£424m.

Net inflows were particularly impressive, with PensionBee's net inflow rate far higher than incumbents, and the absolute size of its net inflows not far off the pension inflows of the largest incumbent platforms (see page 3). Revenue increased 38% y-o-y to c£18m (FY21: £12.8m).

Growth trajectory continues but market falls slow AUA growth



Source: Company reports

Adjusted EBITDA has started to 'turn the corner' towards profitability. In FY21 it was -£16.4m, in H1-22 -£14.9m and in H2-22 -£5m (FY22 -£19m). **Management have reiterated their confidence in achieving +ve adj. EBITDA on a full-year basis in FY24**, the target set at the time of PensionBee's IPO in Apr 21. **Further evidence of operating leverage has been reported** with the number of invested customers per staff member increasing 31% from 743 to 970.

Fundamental value remains 150%+ above current share price

Our top-line forecasts have been revised downwards in line with FY22 actuals and reduced marketing spend guidance, but this is offset to a degree by reduced cost guidance. Our fundamental valuation reduces slightly from 160p to 150p which is also impacted by re-introducing the rise in corporation tax rate to 25% into our model (a cut to 19% was still planned in Sep 22, the date of our previous note).

Key Financials

Year-end 31 Dec	FY18A	FY19A	FY20A	FY21A	FY 22E	FY 23E
Invested customers*, k	17	38	69	117	183	234
AUA, £bn	0.33	0.75	1.4	2.6	3.0	4.4
Rev, £m	1.4	3.5	6.3	12.8	17.6	23.0
Adjusted expenses**, £m	(4.8)	(9.4)	(16.7)	(29.2)	(36.8)	(31.7)
Adj EBITDA*, £m	(3.4)	(5.9)	(10.4)	(16.4)	(19.2)	(8.7)
Adj EBITDA* margin	-236%	-166%	-166%	-129%	-109%	-38%
Statutory PAT, £m	(3.4)	(7.0)	(13.3)	(24.6)	(23.7)	(13.0)
EPS basic & adj, p				(11.9)	(10.6)	(5.8)
Net cash, £m	10.2	10.3	6.5	43.8	21.4	9.1

Source: Company Historic Data, ED estimates.

* See page 9 for definitions

**Excluding share-based payments, depreciation and one-off/extraordinary expenses (mostly IPO related)

Company Data

EPIC	PBEE
Price (last close)	53.70p
52 weeks Hi/Lo	146p/46p
Market cap	£120m
ED Fair Value/share	150p
Net cash	£21m
Avg. daily volume	94k

Share Price, p



Source: ADVFN

PensionBee was founded in 2014 and is listed on the Premium Segment of the Main Market of the LSE. Its IPO was in Apr 21.

It is a direct-to-consumer business, whose primary product gives customers the ability to easily switch their (often multiple) 'legacy' pensions, which are typically from previous jobs, and consolidate these into a single new pension. This can then be contributed to until retirement and drawn down from retirement age.

PensionBee also offers 'new' pensions to the self-employed.

AUA 31 Dec 22: £3.0bn

Next Event:

16 Mar 23: FY22 Results

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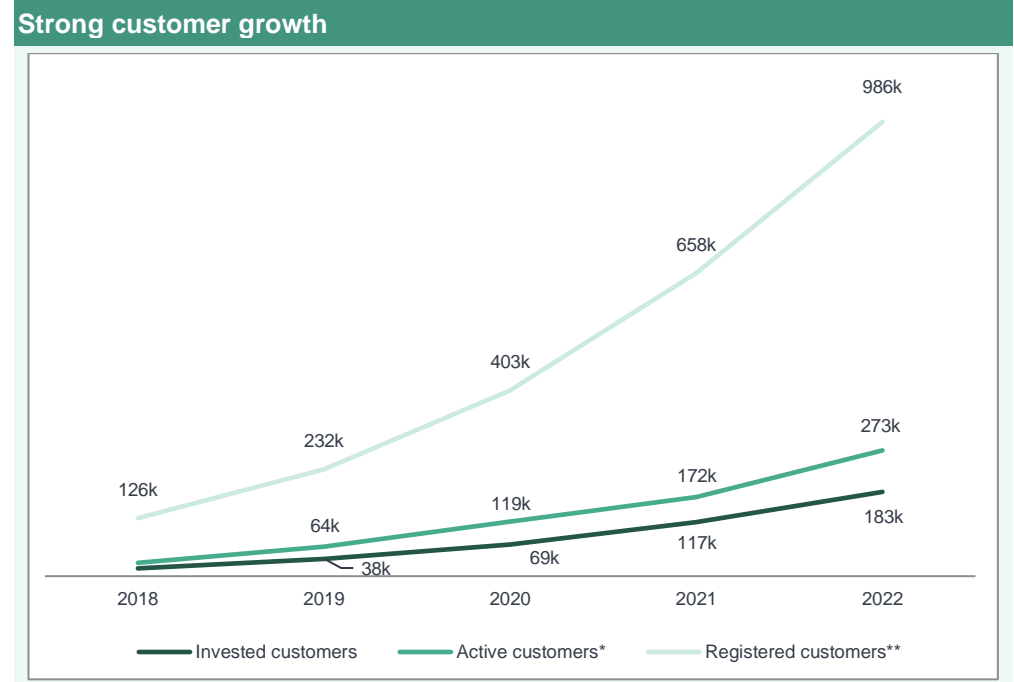
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FY 22 update

Customer numbers

PensionBee's most fundamental growth driver at this stage of its lifecycle, *invested customers*, continued to show very strong growth in FY22, up 56% y-o-y from 117k on 31 Dec 21 to £183k on 31 Dec 22.

Its pipeline of new customers - *registered customers* (a 'top of sales funnel' metric, see** in chart below) - grew 50% y-o-y from 658k on 31 Dec 21 to 986k. The rate of customer growth is evidence that the post-IPO ramp-up in marketing spend is having the planned 'scale-up' impact.



Source: Company reports

*Active = invested customers + customers with a transfer to PensionBee in progress i.e. funds not yet transferred

**Registered = invested + active customers + customers registered with PensionBee but not applied to transfer a pension

Contributing to this growth has been PensionBee's **highly successful marketing efforts over recent years**, which has resulted in it becoming a household name with a 'prompted brand awareness' of more than 50%¹, higher than some much larger incumbents such as Hargreaves Lansdown and AJ Bell. This is also expected to contribute to an accelerated reduction in customer acquisition costs going forward.

Notably, the absolute number of new invested customers added in Q3 (15k), was almost as high as the largest D2C incumbent, Hargreaves Lansdown (17k) and far more than AJ Bell (4.6k – D2C platform only). And in Q4 PensionBee added 9k invested customers compared to the 5.4k new D2C customers of AJ Bell (HL data not yet available). This is even more impressive considering PensionBee only offers pension products. [As a point of reference, PensionBee's total invested customer base stood at 174k at the end of Q3, while AJ Bell had 280k D2C clients (pension and non-pension clients), and HL had 1.75m (pension and non-pension clients)].

¹ Source: PensionBee brand tracker, January 2023. Prompted brand awareness measured through a consumer survey asking: 'Which of the following have you heard of?' with respect to UK financial services brands: Aviva 83%, Scottish Widows 77%, Standard Life 66%, Royal London 55%, PensionBee 52%, Hargreaves Lansdown 36%, Vanguard 32%, Fidelity 30%, Nutmeg 30%, AJ Bell 21%, Interactive Investor 9%.

PensionBee has also demonstrated the resilience of its existing customer base, maintaining an unchanged retention rate of 97%.

The outlook for acquiring additional new invested customers remains bullish, because PensionBee:

- 1) already has a significant 'in process' pipeline of customers to tap (registered and active customers),
- 2) this pipeline should continue to grow, especially with growing brand recognition and ongoing investment in customer acquisition, where it has a proven track record of success (albeit that management have flagged that marketing spend is likely to be lower than the £16.6m of FY22).

Assets under Administration

Impressive 2022 in turbulent markets

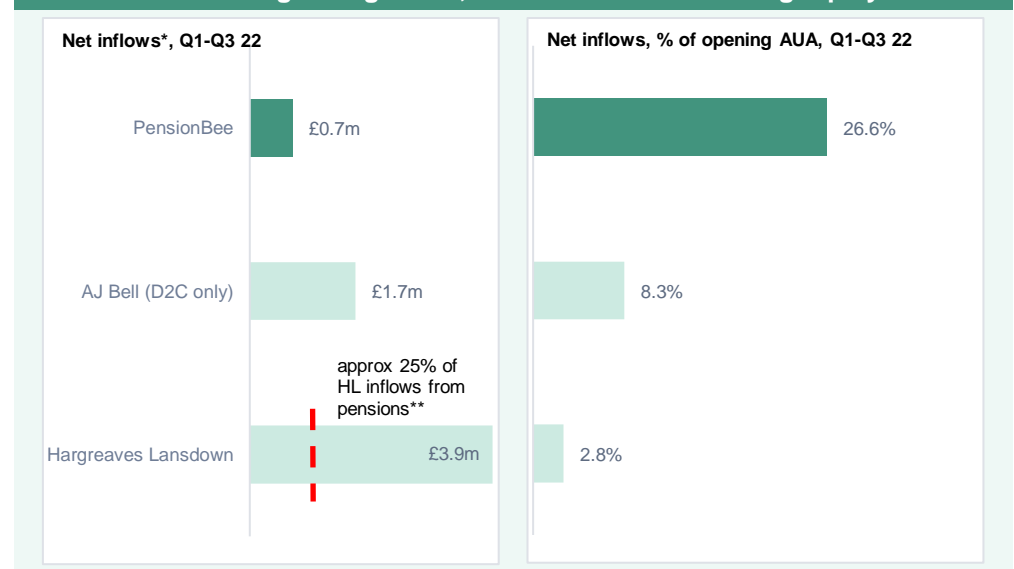
Assets Under Administration (AUA) grew 17% y-o-y from £2.59bn on 31 Dec 21 to £3.03bn on 31 Dec 22, a hugely impressive performance given the sharp declines in financial markets during 2022. It is worth noting that these declines affected AUA directly (depressing the value of financial assets and hence AUA) and indirectly (rocking consumer sentiment towards investing, which PensionBee has previously flagged was particularly true among older consumers who tend to 'sit on their hands' during market falls).

But despite challenging market conditions, **net inflows remained robust**, accounting for £863m of AUA growth, while market movements and investment performance accounted for a £424m decline in AUA.

Net flows from new customers (typically transfers of a pension pot or pots to PensionBee) was the largest driver of this growth at +£685m. Net flows from existing customers was +£178m (contributions to existing pensions, transferring additional pension pots, less withdrawals as a result of customer churn and post-retirement drawdowns). **Importantly, positive net inflows were seen across all cohorts in FY22, even the cohorts acquired in 2016-2018. This underlines the strength and predictability of customer lifetime value.**

We also highlight the relative strength of PensionBee's net inflow growth. What may be surprising is that **the absolute size of its net inflows are now not all that far off the pension inflows of large incumbent D2C platforms. However, its growth rate is far higher, indicating it is rapidly gaining market share.**

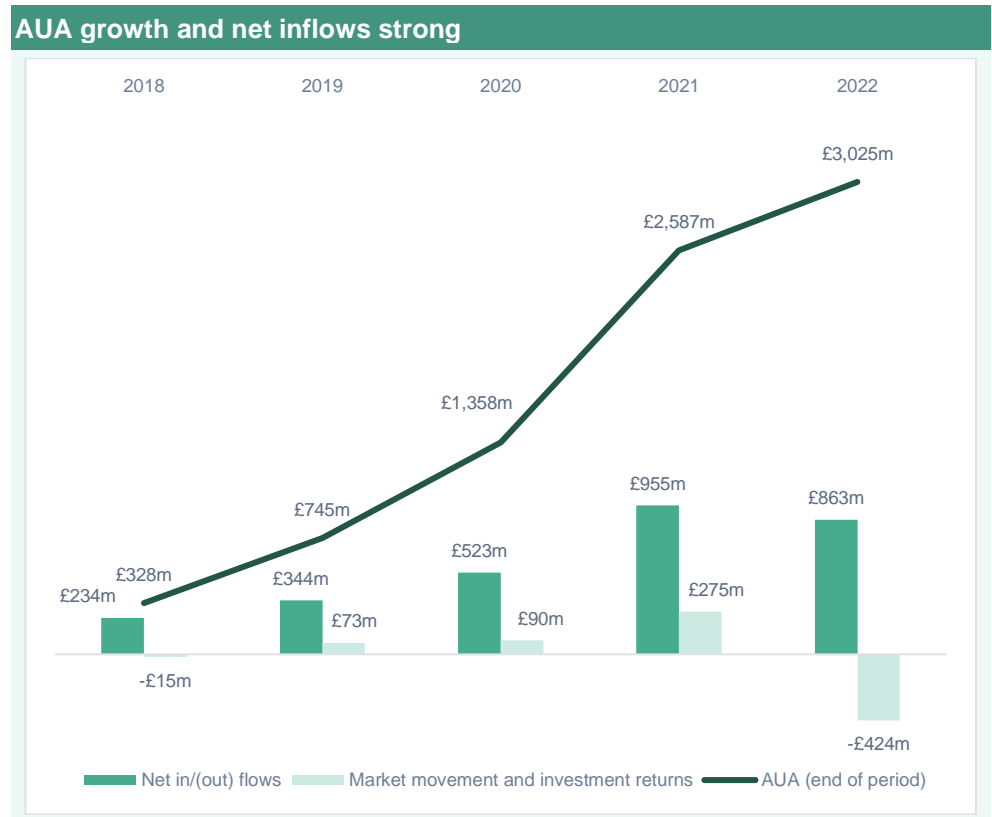
Pension net inflows growing faster, and of similar size to larger players



Source: Company reports, ED analysis
 *pension and non-pension products for AJB and HL
 **in the 12m to 30 June 22, pensions made up around 25% of HL's net inflows

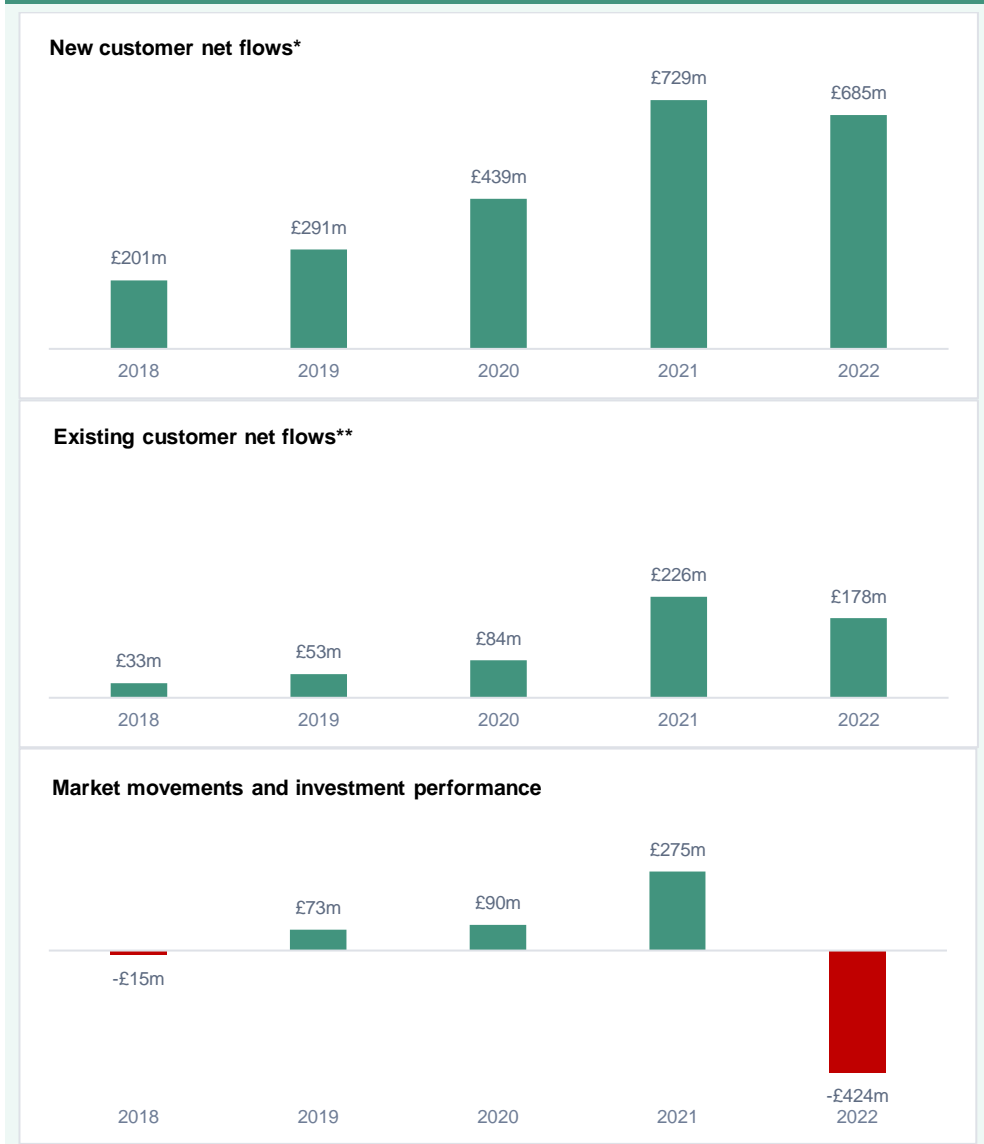
Multi-year track record building

The strength of PensionBee's performance in 2022 ensures its longer-term trend of AUA growth and strong net inflows is intact, despite the impact of negative market movements and sentiment in 2022.



Source: Company reports

A summary of the split in AUA growth over the last five years is shown overleaf.

Drivers of AUA growth – 5 year view


Source: Company reports

*includes new consolidations and contributions made during the year in which customer joined PensionBee

**includes additional consolidations, contributions, withdrawals (churn), and pension drawdowns (after retirement)

Revenue

FY22 revenue grew by 38% to c£18m (FY21: £12.8m) with Annual Run Rate (ARR) revenue (revenue of the last month of the financial year multiplied by 12) growing 20% to c£20m (FY21: £16.3m).

Contractual Revenue Margin (annual management fee paid by customers before applying discounts for incremental pension savings above £100,000) was unchanged y-o-y at 0.69%.

Profitability

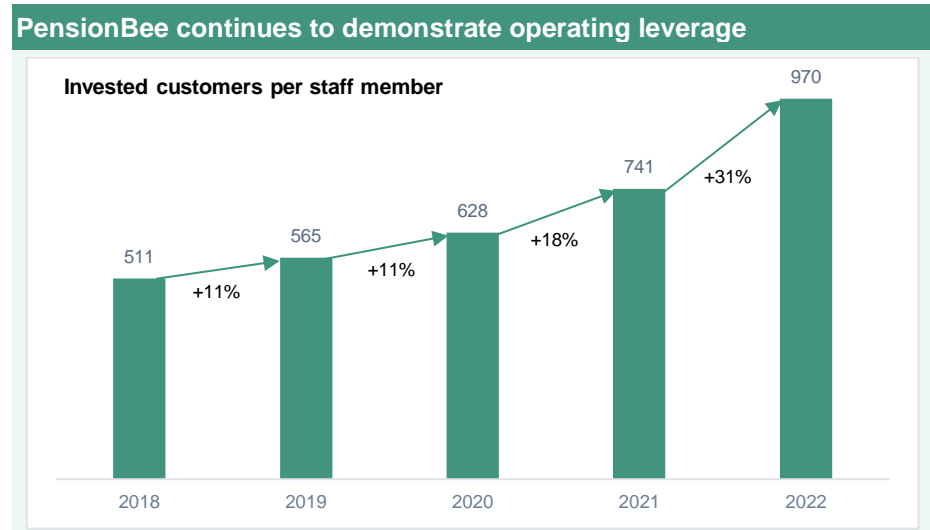
PensionBee is not yet profitable, but is rapidly heading towards profitability, as a result of:

- 1) its investment in technology and people (largely fixed costs) being spread across a larger customer base as it grows, and
- 2) existing customer revenues compounding without new marketing spend (customers typically transfer additional pension pots to PensionBee over time and make contributions to their pensions).

One of the key profitability metrics used by PensionBee to track underlying performance is adjusted EBITDA (operating profit or loss before taxation, finance costs, depreciation, share based compensation and listing costs). And this metric has started to 'turn the corner' towards profitability.

In FY21, adjusted EBITDA was -£16.4m; in H1-22 -£14.9m; and in H2-22 -£5m (-£19m for the full-year FY22). **Management have reiterated their confidence in achieving positive adjusted EBITDA on a monthly basis by the end of FY23 and on a full-year basis in FY24**, the targets set at the time of PensionBee's IPO in Apr 21.

Further evidence of operating leverage has been reported with the number of invested customers per staff member increasing 31% from 743 to 970 and revenue per staff member increasing 15% from £81k to £93k.



Source: Company reports

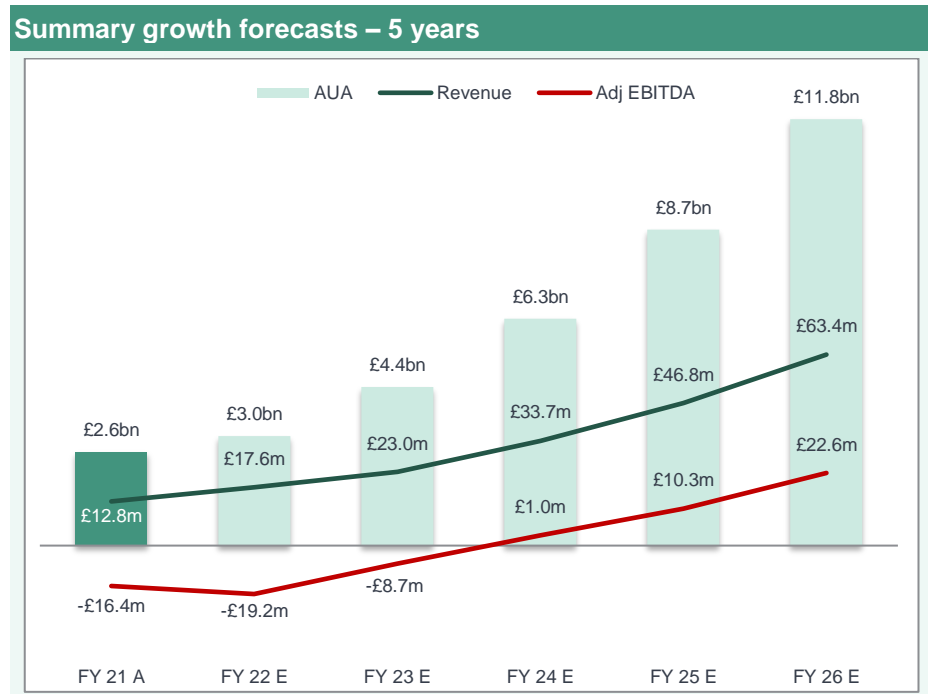
* end of period number of Invested Customers divided by the average FTEs for the period

Growth forecasts & valuation

Our top-line forecasts have been revised downwards in line with FY22 actuals, but this is offset to a degree by reduced cost guidance: mostly reduced marketing spend (which is enabled by more efficient spend as a result of increased brand recognition and other efficiencies) and reduced overhead cost forecasts due to platform scalability.

Our summary growth forecasts are shown in the chart below which we will refine and update when full FY22 financial results are published in March 2023.

In addition, management have updated the longer-term ambitions for the business as follows: “The Company is pursuing a market share of approximately 2% over the next 5-10 years (equivalent to about 1m Invested Customers, assuming an average pension pot size of £20,000- £25,000). With an expectation of maintaining relative revenue margin stability, this translates into a long term annual Revenue opportunity of approximately £150m. The Company expects to achieve long-term EBITDA margins of more than 50%, leveraging the scalability of the technology platform.”



Source: Company reports

* end of period number of Invested Customers divided by the average FTEs for the period

These forecasts, and successful progress towards management’s ambitions outlined above, lead us to a **fundamental valuation of 150p per share.**

Investment case

- Despite its already impressive growth achievements, PensionBee **has hardly scratched the surface of its growth potential** – it still has a tiny market share (<0.3%) of a huge addressable market of more than £1.0 trillion of wealth² (the DC pensions market which is also growing) and has clearly developed a market leading customer-proposition that appeals across the age spectrum.
- **Current growth momentum is strong and is likely to ‘snowball’** as:
 - new customers are added (from an existing pipeline and through an already refined customer acquisition strategy);
 - existing customers continue to increase their AUA as they make contributions to their existing pension pots and consolidate additional pots with PensionBee;
 - investment returns add to AUA over the longer-term (although some degree of volatility in this area is inevitable as was experienced in FY22).
- **Its AUA and revenue is likely to be less volatile** than most other asset or wealth managers, given that all assets are housed in pensions, which means:
 - customers are mostly unable to withdraw assets prior to their retirement age;
 - customers mostly make regular, ‘automated’ contributions by means of monthly direct debits or the like to their pension accounts;
 - pension customers are ‘sticky’ and do not tend to switch their pensions very often.
- PensionBee has made substantial progress towards profitability and is forecasting monthly adjusted EBITDA profitability by Dec 23 and annual adjusted EBITDA profitability in FY24. After this, **profitability is likely to ratchet up very quickly as its cost base is spread across a far larger customer base**, and existing customer AUA (and hence revenue) continues to grow without additional marketing spend.
- PensionBee has £21m of net cash (no debt) and should be able to meet its growth potential without raising additional equity.
- The management team, which is still founder led, still have substantial shareholdings and **their interests are well aligned with other shareholders**.
- Based on its growth potential, its valuation is not demanding.

If progress tracks forecasts, we see potential for the share price to close the gap on fundamental value. If our forecasts are exceeded, there could be further potential upside for valuation.

² ONS, *Pension wealth: wealth in Great Britain, Jan 22* (Preserved pensions = DC preserved pensions + preserved pensions expected from former spouse/partner. Personal pensions = active members of personal pension schemes.)

Definitions:

Annual Run Rate Revenue: is calculated using the Recurring Revenue for the relevant month multiplied by 12.

Cost per Invested Customer: means the cumulative advertising and marketing costs incurred since PensionBee commenced operations up until the relevant point in time divided by the cumulative number of Invested Customers at that point in time. This measure monitors cost discipline of customer acquisition.

Adjusted EBITDA: is the profit or loss for the period before taxation, finance costs, depreciation, share based compensation and transaction costs.

Registered Customers: measures customers who have started the sign-up process and have submitted at least a name and an email address and includes those customers who are classified as Active Customers.

Active Customers: means all customers who have requested to become an Invested Customer by accepting PensionBee's terms of business but for whom the transfer or contribution process is not yet completed and all customers who are classified as Invested Customers.

Invested Customers: means those customers who have transferred pension assets or made contributions into one of PensionBee's investment plans.



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