PensionBee Group plc

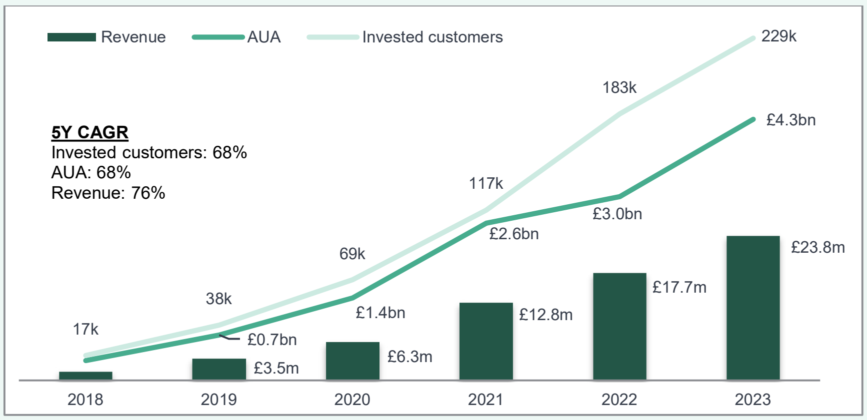
Growth still strong, adj. EBITDA turns positive in Q4

25 January 2024

In Mar 22, our initiation note was titled A pensions fintech starting to look like a Rocketship. Since then, market, investor and consumer confidence have been rocked by geopolitical events and deteriorating economic conditions. But despite that, PensionBee has delivered. It is still looking like a Rocketship, and what's more, in a landmark year it has moved into profitability on an adjusted EBITDA basis within the timeframe targeted at its Apr 21 IPO.

Over FY23 (to 31 Dec 23), 46k net new invested customers (ICs) were added (ICs + 25% to 229k), £1.3bn of AUA were added (AUA +44% to £4.4bn, net inflows +£857m, market movements +£464m), and revenue grew 35% to £23.8m. It was a continuation of an already-impressive growth story.

Impressive growth trajectory continues in FY23



Source: Company reports

As scale benefits continue, adj. EBITDA improved from -£19.5m in FY22 to -£8.4m in FY23 and was positive in Q4 (>£0.5m). We highlight that adj. EBITDA is a good proxy for 'cash profits', with share-based payments (£1.7m in FY22) the significant expense between adj. EBITDA and operating profit. PensionBee does not have amortisation of capitalised technology development in its accounts (as is common in technology companies). **The business maintains a healthy cash position of £12.2m (£14.2m at the end of H1-23) and does not envisage further equity raises.**

Fundamental value remains 50%+ above current share price

Forecasts updated with guidance that FY24 marketing spend (and growth) is likely to be slightly lower than previously estimated, emphasising profitability, and then marketing spend and growth will ramp up as more cash is generated and re-invested. Our **fundamental valuation remains 150p per share.**

Key Financials

Year-end 31 Dec	FY20A	FY21A	FY 22A	FY 23A*	FY24E	FY 25E
Invested customers, k	69	117	183	229	281	375
AUA, £bn	1.4	2.6	3.0	4.3	5.9	8.5
Rev, £m	6.3	12.8	17.6	23.8	33.3	46.4
Adjusted expenses, £m	(16.7)	(29.2)	(37.2)	(32.2)	(33.1)	(45.6)
Adj EBITDA, £m	(10.4)	(16.4)	(19.5)	(8.4)	0.2	0.7
Adj EBITDA margin	-166%	-129%	-110%	-35%	1%	2%
Statutory PAT, £m	(13.3)	(24.6)	(22.1)	(10.5)	(1.8)	(1.4)
EPS basic & adj, p		(11.9)	(10.0)	(4.7)	(0.8)	(0.6)
Net cash, £m	6.7	43.5	21.3	12.5	12.5	13.1

Source: Company Historic Data, ED estimates.
** Statutory PAT & EPS approximations based on 24 Jan 2024 trading update*

Company Data

EPIC	PBEE
Price (last close)	97.6p
52 weeks Hi/Lo	110p/50p
Market cap	£216m
ED Fair Value/share	150p
Net cash	£12m
Avg. daily volume	171k

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 23: £4.4bn

Next Event:

Mar 24: FY23 Results

Paul Bryant (Analyst)
0207 065 2690
paul.bryant@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

FY 23 update

Rapid customer growth continues

PensionBee's most fundamental growth driver at this stage of its lifecycle, *invested customers*, continued to show very strong growth in FY23, up 25% y-o-y from 183k on 31 Dec 22 to £229k on 31 Dec 23. **The customer retention rate remained at an impressive 96%.**

We remind readers that PensionBee is aiming for a 2% share of the UK transferable pensions market i.e., around 1m customers, in the next 5-10 years.

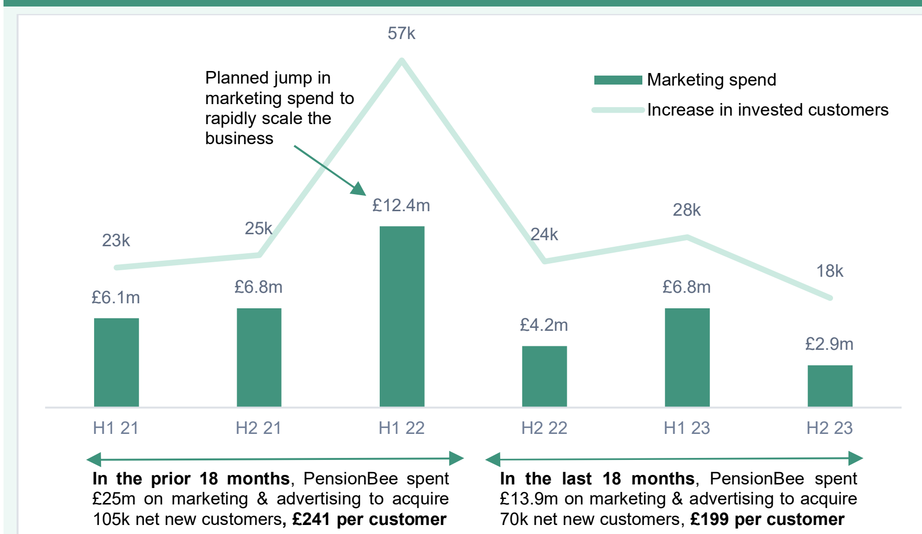
Marketing spend now more efficient

Increasing brand awareness and sophisticated data-driven marketing has resulted in 'cost per invested customer' (CPIC)[1] continuing to decline (H1-22: £260; FY-22: £248; H1-23: £247; FY-23: £241).

But as CPIC is a cumulative figure, defined as *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*, it changes fairly slowly, so the full extent of the significant jump in recent marketing efficiency might not be immediately obvious in the above numbers.

But when we compare the 'in period' marketing spend to the number of net new invested customers added on a half-yearly basis, it is very clear that **PensionBee is now acquiring customers at a much lower cost than it was one or two years prior**.

Marketing spend versus net new invested customers



Source: Company reports, ED analysis

The increase in brand awareness and PensionBee's achievements in increasing awareness of the benefits of pension consolidation, has allowed it to reduce its absolute spend in these marketing areas and deploy a higher proportion of funds towards 'performance marketing channels' such as search and social media.

[1] *Cost per Invested Customer (CPIC) 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. PensionBee's desired CPIC threshold is £200-£250.*

Assets under Administration

Stronger markets add to impressive net inflows in 2023

Assets Under Administration (AUA) grew 44% y-o-y from £3.0bn on 31 Dec 22 to £4.4bn on 31 Dec 23.

Net inflows remained robust at +£857m (FY22: +£863m) and was achieved with far lower marketing spend (£9.7m in FY23, £16.6m in FY22). And in contrast to FY22 where AUA was reduced by -£424m due to falling markets, market movements and investment performance contributed £464m to AUA growth.

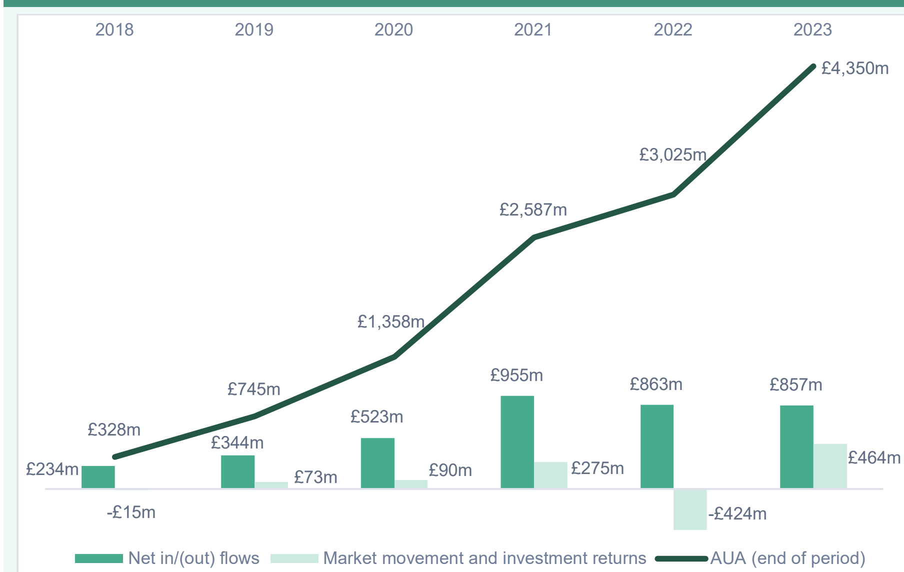
Net flows from new customers (typically transfers of a pension pot or pots to PensionBee) was the largest driver of this growth at +£729m. Net flows from existing customers was +£127m (contributions to existing pensions, transferring additional pension pots, less withdrawals as a result of customer churn and post-retirement drawdowns).

Once again, positive net inflows were seen across all cohorts in FY23, even the cohorts acquired in 2016-2018. This underlines the strength and predictability of customer lifetime value.

AUA growth trajectory still very strong

The strength of PensionBee's performance in 2023 ensures its longer-term trend of AUA growth and strong net inflows continues, despite the slowdown in 2022 as a result of negative market movements and weak investor sentiment.

AUA growth and net inflows strong



Source: Company reports

Revenue

FY23 revenue grew by 35% to c£23.8m (FY22: £17.7m) with Annual Run Rate (ARR) revenue (revenue of the last month of the financial year multiplied by 12) growing 44% to c£28m (FY22: £20.0m).

Realised Revenue Margin (annual management fee paid by customers) was slightly up from 0.63% to 0.64%.

Profitability

At the time of its IPO in Apr 21, one of PensionBee's targets was to achieve profitability on a monthly adjusted EBITDA basis by Dec 23, and on an annual basis by FY24.

It recently announced that it had achieved adjusted EBITDA monthly profitability in Oct 23, and expected positive adjusted EBITDA for the 4th quarter of FY23. This has now been confirmed in the FY23 trading update of 24 Jan 24 where **Q4 adjusted EBITDA was reported to be greater than £0.5m**.

[Note: Adjusted EBITDA is measured as operating profit or loss before taxation, finance costs, depreciation, and share based compensation. It is important to highlight that adjusted EBITDA for PensionBee is a good proxy for 'cash profits', with share-based payments (£1.7m in FY22) and depreciation (£0.3m in FY22) the significant expenses between adjusted EBITDA and statutory operating profit. ***PensionBee does not have amortisation of capitalised technology development in its accounts, as is common in many technology companies*** *and which can result in large differences between adjusted EBITDA and statutory operating profit.]*

On a full-year basis adj. EBITDA improved from -£19.5m in FY22 to -£8.4m in FY23 and was split -£7.9m in H1-23 versus -£0.5m in H2-23. This provides further evidence of operating leverage being captured as the business continues to scale. This operating leverage is 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).

Further evidence of operating leverage has been reported with the number of invested customers per staff member increasing 15% from 970 to 1,112.

PensionBee continues to demonstrate operating leverage

Source: Company reports
** end of period number of Invested Customers divided by the average FTEs for the period*

Growth forecasts & valuation

We remind readers of the longer-term ambitions of PensionBee management: "*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.*"

Given PensionBee's growth trajectory, its strong strategic positioning, and its impeccable execution to date, we think this is a reasonable ambition and we have based our valuation on a growth trajectory that sees PensionBee hitting its top-line target within that 10-year time horizon.

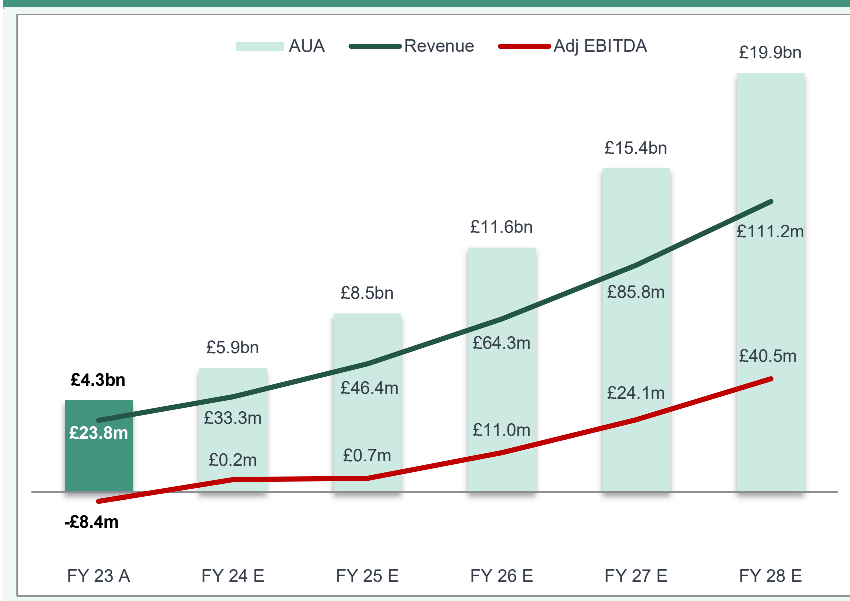
Based on that growth trajectory, we value the business using a discounted cash flow methodology, which is described in more detail below.

Because PensionBee is such a fast-growing business, we have split our forecast into three distinct periods:

- An initial 5-year high growth period, summarised in the chart below, with a revenue CAGR of c35%;
- A 'medium growth' period in years 5-10, where revenue CAGR is c15% and adj. EBITDA margin improves to the target 50% in year 10 as a result of additional scale benefits;
- An ongoing period of steady growth thereafter assumed to be 2.5% per annum.

We have then discounted the forecasted free cash flows using a discount rate of 12%. **This produces a per share fundamental value of 150p per share, 54% above the last close share price of 97.6p.**

Summary growth forecasts – 5 years



Source: Company reports

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 (c0.6%) of a huge addressable market of more than £700 billion of wealth (the transferable 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 turned the corner into adjusted EBITDA profitability (in Q4 23), with **profitability likely to ratchet up over time as its cost base is spread across a far larger customer base,** and existing customer AUA (and hence revenue) continues to grow with more efficient marketing spend as a result of the ramp-up in its band awareness.
- PensionBee has £12m 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**.

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.

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

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Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690