Brooks Macdonald Group plc

Revenue & profit beat forecast but outlook cautious

14th September 2023

FUM closed FY23 (30 Jun 23) on £16.8bn, 7.5% up y-o-y (30 Jun 22: £15.7bn). This was the second-highest growth rate among adviser-channel-focused wealth management peers. **Net flows totalled +£817m (FY22: +£785m), investment performance added +£363m, 2.3% of opening FUM, above the benchmark *MSCI PIMFA balanced index* which returned 1.6%. BM has flagged a healthy pipeline for FY24, although investor sentiment is still subdued.**

Revenue exceeded our forecast, growing 1.3% to £123.8m (FY22: £122.2m; FY23 f'cast: £122.8m), although this growth was lower than FUM primarily due to product-mix effects, mostly the continued strong growth of lower-yielding UK Managed Portfolio Services (MPS) with net flows of +£1,322m.

Underlying PBT* also beat our forecast falling 12.2% to £30.3m (FY22: £34.5m; FY23 f'cast £29.8m). Underlying margin was 24.5% (FY22: 28.2%). Statutory basic EPS fell 23% to 114.7p (FY22: 149.0p).

BM has maintained its strong balance sheet with net assets of £157.3m (FY22: £148.4m), **net cash of £53.4m (FY22: £61.3m), and no debt**. Proposed full-year dividends are up 6% to 75p (FY22: 71p), giving a yield of 3.9%, a sign of the Board's confidence in BM's prospects and financial position.

Prospects solid in short-term, strong over medium-long-term

We forecast FUM, revenue and underlying PBT growth of 10%, 2%, and 3% respectively for FY24 (down slightly from our previous forecasts) with BM expecting net flows to be muted but positive in FY24, while it continues to target organic net flows of 8-10% p.a. of FUM over the medium term (it has been **attracting assets faster than competitors for some time now**, evidence of a competitive, if not superior offering).

We remind readers that BM is in a huge market: c£1.2trn of UK household investable wealth is administered by advisory businesses. This market is subject to significant tailwinds (see page 14), and advisers are increasingly outsourcing investment management to companies such as BM. BM also has a huge opportunity to grow its international business in the Channel Islands and Isle of Man.

Our fundamental valuation reduces from 3,100p to 3,000p per share, still 55% above the current share price. We also see potential for a sector re-rating (median PE of 17 versus 30 in late-2021) and for BM to command a premium rating given its outperformance compared to peers.

Key Financials

Year-end 30 Jun	FY21A	FY 22A	FY 23A	FY24E	FY 25E
FUM, £bn	16.5	15.7	16.8	18.4	20.3
Rev, £m	118.2	122.2	123.8	126.3	134.2
Underlying expenses*	87.6	87.7	93.5	95.1	101.0
Underlying PBT*	30.6	34.5	30.3	31.2	33.3
Underlying PBT margin	25.9%	28.2%	24.5%	24.7%	24.8%
Statutory PBT, £m	25.1	29.5	22.2	26.7	29.3
EPS basic, p	125.3	149.0	114.7	123.5	134.1
Underlying diluted EPS**, p	150.6	168.8	151.0	141.5	149.5
PER	15.4	12.9	16.8	15.6	14.4
Div, p	63.0	71.0	75.0	75.0	75.0
Yield	3.3%	3.7%	3.9%	3.9%	3.9%
Net assets, £m	134.0	148.4	157.3	164.6	173.8
Net cash, £m	54.9	61.3	53.4	63.6	73.7

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***1,930p***

** 'Underlying' excludes one-off expenses, mostly acquisition-related, & goodwill amortisation, gains & losses. ** After tax*

Company Data

EPIC	BRK
Price (last close)	1930p
52 weeks Hi/Lo	2290p/1665p
Market cap	£317m
ED Fair Value/share	3000p
Net cash	£53m
Avg. daily volume	22k

Share Price, p

Source: ADVFN

Brooks Macdonald was founded in 1991 and listed on AIM in 2005.

It provides investment management services to financial advisers and private clients in the UK, and to international clients via its operations in Jersey, Guernsey, and Isle of Man. Its main product offerings include:

- Bespoke Portfolio Services (tailored for individual clients)
- Managed Portfolio Services (risk-profiled 'model' portfolios)
- Funds (mostly multi-asset funds for simpler or smaller portfolios)
- Financial Planning Services
- BM Investment Services (B2B white-labelled investment proposition for IFAs)

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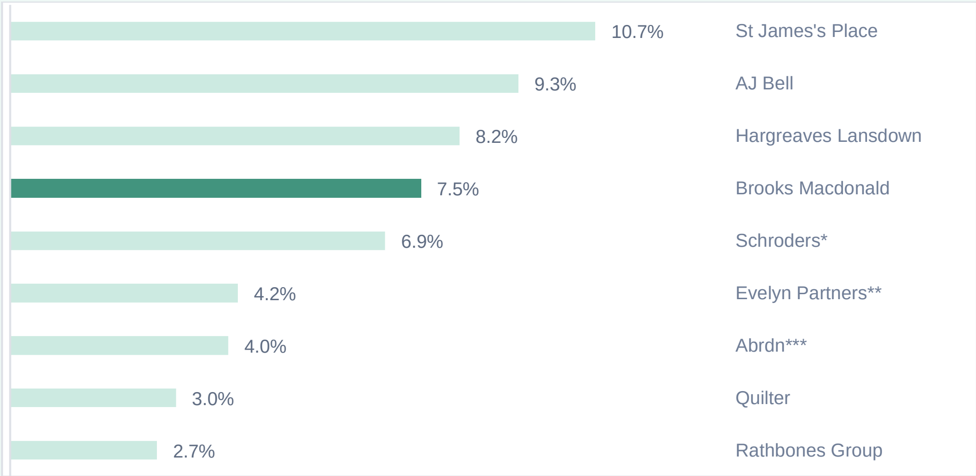
Solid FUM growth

Over FY23, **FUM grew 7.5%** from £15.7bn on 30 Jun 22 to £16.8bn on 30 Jun 23 with +£817m of net inflows (FY22: +£785m) and a +£363m contribution from market movements and investment performance (FY22: -£1,577).

This was a strong growth performance compared to a UK peer group of wealth managers and platforms and the **second-highest growth rate among adviser-channel-focused wealth management peers**.

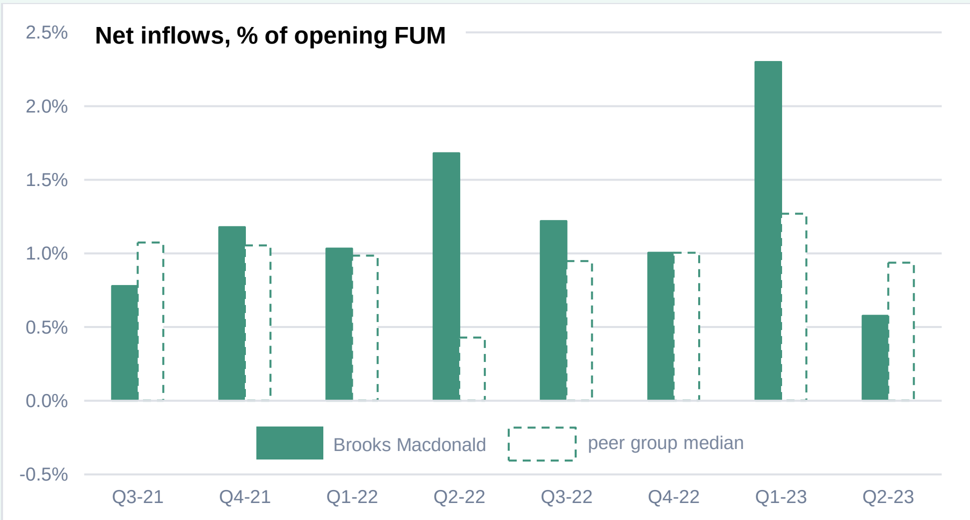
FUM/AUM/AUA growth 12m to 30 June 2023



Source: Company reports, ED analysis.
Wealth management business unit only i.e., excluding asset management business; ** Not publicly-listed but a large wealth manger in the UK which does report comparable figures for this analysis; *'Adviser' and 'Personal' business units only i.e., excluding asset management business.*

Net inflow momentum was maintained throughout the year with positive net flows in every quarter. The final quarter of FY23 was BMs 9th consecutive quarter of positive net flows which included a period of difficult market conditions and investor nervousness. **Compared to peers, BM has maintained a higher organic growth rate (net inflows/opening FUM) for 6 out of the last 8 quarters.**

BM's organic growth rate has been strong compared to peers

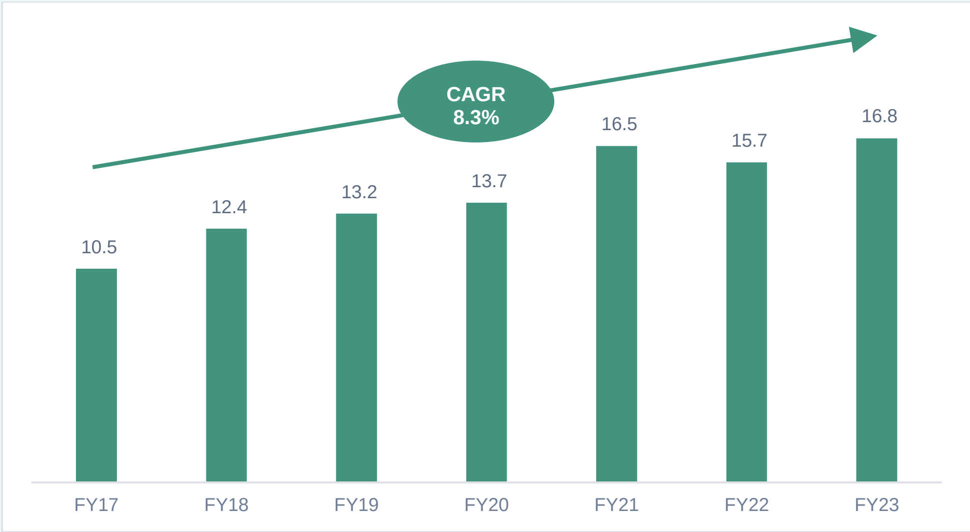


Source: Company reports, ED analysis.
Calendar quarters shown not FY quarters, period represents BM's FY22 and FY23..
Peer group consists of: Quilter, St James's Place, Hargreaves Lansdown, AJ Bell, Rathbones, Brooks Macdonald, Brewin Dolphin (up to Q2-22), Evelyn Partners (from Q1-22). Quarterly comparatives not available for Schroders and Abrdn.

Investment performance added +£363m to FUM over FY23, or 2.3% of opening FUM, above the benchmark *MSCI PIMFA balanced index* which returned 1.6%.

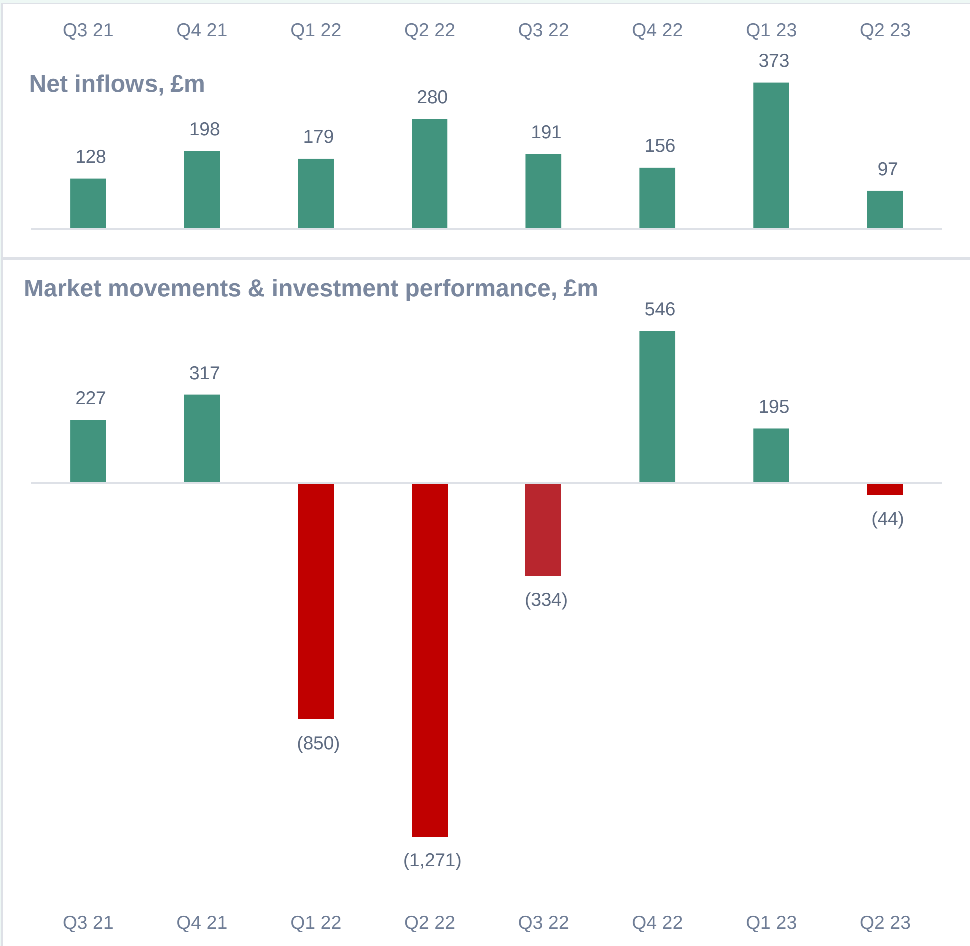
The FUM performance of FY23 put BM back on a growth trajectory following the negative impact of sharp market falls during calendar-2022.

Longer-term FUM growth trajectory (£bn at FY-end)



Source: Company reports

2-year net inflows and market movements by quarter



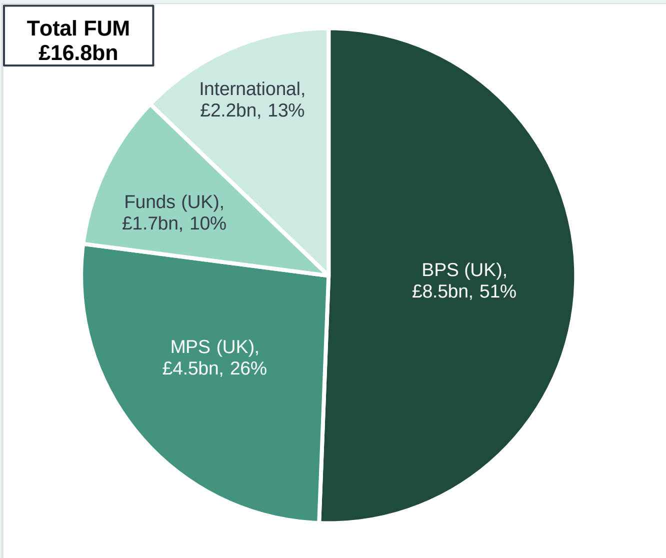
Source: Company reports, ED analysis.
Calendar quarters shown not FY quarters, period represents BM's FY22 and FY23

MPS drives inflows

We remind readers of BM's product/business unit segments and the split in FUM:

- **BPS**, UK: investment portfolios constructed to meet a client's specific requirements, mostly suited to wealthier and older clients with more complex needs.
- **MPS**, UK: a range of risk-profiled, multi-asset class, 'model' portfolios, used across the wealth spectrum but most commonly by clients who are still in the 'wealth accumulation' phase of their investment lifecycle.
- **Funds**, UK: multi-asset funds (essentially an investment portfolio represented by a fund), often used by advisers when the client's needs and risk profiling are not complex and/or the portfolio is small.
- **International**: catering to the often-complex needs of offshore clients, including BPS, MPS, services for trustees, multi-currency products, specialist funds, and financial planning.

FUM breakdown (30 Jun 23)



Source: Company reports, ED analysis

While BPS is BM's 'flagship' product and saw small outflows over FY23 of -£207m (FY22: +£88m), **flows into MPS accelerated once again with this product line being the primary driver of net inflows (FY23: +£1,322m; FY22: +£829m; FY21: +£282m)**.

This tilt towards MPS is in line with broader market trends and in line with BM's strategic plan:

- Research house Platforum reports that UK on-platform discretionary fund management (DFM) MPS is a rapidly growing area of the market with FUM reaching £104bn by mid-2023, up from £25bn in 2017, a CAGR of 29%, with MPS now making up 16% of total on-platform FUM, up from 5-6% in 2017.

- BM is pursuing a deliberate strategy to target a younger client base, often more suited to the MPS product offering. Indeed, BM's MPS FUM has grown by a CAGR of 35% over the last three years (from £1.8bn in Jun 20 to £4.4bn in Jun 23) whereas the MPS market has recorded a CAGR of around 24% over the same period, indicating that BM is gaining market share. BM sees these younger customers as a 'pipeline of future over-55s', whose investment pots will grow more rapidly as their careers progress, whose investment needs will become more complex, and who are likely to migrate to higher-yielding BPS services over time, fuelling future growth.

More specifically, **BM reported strong growth in BM Investment Solutions (BMIS) - a B2B offering to IFAs** generally delivered in Platform MPS format where BM works with an adviser firm to provide a tailored investment proposition.

BM reports that its **BPS product saw good growth in the specialist (sub) offerings**: the AIM Portfolio Service, the Responsible Investment Service, Decumulation Service, and Court of Protection service. It has introduced portfolios based on short-dated UK Government bonds for investors looking to take advantage of higher interest rates while retaining access to funds. But outside of the above, BPS saw net outflows driven by a broad market trend, exacerbated by the impact of higher interest rates and macroeconomic uncertainty.

BM's UK funds business saw net outflows of -£181m during FY23 (FY22: -£107m) however, management has seen an opportunity in the funds business through more competitive pricing. In its Cornelian Risk Managed Fund range it reduced its pricing in Jul 22 - targeting a significant increase in market share with advisers and networks that predominately use multi asset funds to deliver their investment offering.

BM is also focussing on developing its Private Clients business, acquiring two businesses during the year, Integrity Wealth Solutions in Nuneaton, with a strong West Midlands client base, and Adroit Financial Planning in Manchester, with a broader franchise across the country focused on Court of Protection and vulnerable clients. The strategy is to increasingly offer clients an integrated wealth management proposition with robust financial planning linked to a Brooks Macdonald investment management solution.

The international business saw small net outflows of -£117m (FY22: -£25m). But this is also an area in which management see significant opportunity in the Channel Islands and Isle of Man. Management have made a number of senior appointments with an emphasis on boosting growth in the international segment (see page 12).

Investment performance remains impressive

Also of significance is the **strong longer-term performance of BM's five primary risk-rated portfolios compared to their benchmarks** (see table below: outperformance shaded in green, underperformance in red), coupled with outperformance versus benchmark in 16 out of 25 portfolio/investment-period categories.

Consistently strong investment performance, %

	3 m to 30.06.23	1Y to 30.06.23	3Y to 30.06.23	5Y to 30.06.23	10Y to 30.06.23	10Y to 31.12.22
BM Low Risk	-0.85	-0.34	0.08	3.11	27.52	2.87
ARC Sterling Cautious PCI	-0.84	-0.37	1.02	5.12	24.33	4.49
Relative performance	-0.01	0.03	-0.94	-2.01	3.19	-1.61
BM Low-to-Medium Risk	-0.39	1.33	5.29	8.50	44.04	**58.72**
ARC Sterling Balanced Asset PCI	-0.53	1.25	5.83	9.27	40.51	52.83
Relative performance	0.14	0.08	-0.54	-0.77	3.53	**5.88**
BM Medium Risk	0.22	3.39	10.75	13.36	59.79	**75.42**
ARC Sterling Steady Growth PCI	0.09	3.11	10.46	13.79	58.19	73.07
Relative performance	0.14	0.29	0.29	-0.43	1.59	**2.35**
BM Medium-to-High Risk	0.79	5.12	13.58	16.90	77.53	**94.55**
ARC Sterling Equity Risk PCI	0.61	4.76	14.82	18.09	72.76	90.76
Relative performance	0.18	0.36	-1.24	-1.19	4.77	**3.78**
BM High Risk	0.92	5.76	14.37	18.09	89.28	**107.02**
ARC Sterling Equity Risk PCI	0.61	4.76	14.82	18.09	72.76	90.76
Relative performance	0.31	1.00	-0.45	0.00	16.52	**16.29**

Source: Brooks Macdonald, Asset Risk Consultants (ARC)
All figures rounded to 2 decimal places. Totals/differentials may differ from sums/differences of components due to rounding.
All performance figures net of underlying fund charges and Brooks Macdonald management fees but gross of professional adviser charges. Deduction of these fees will impact on the performance shown.

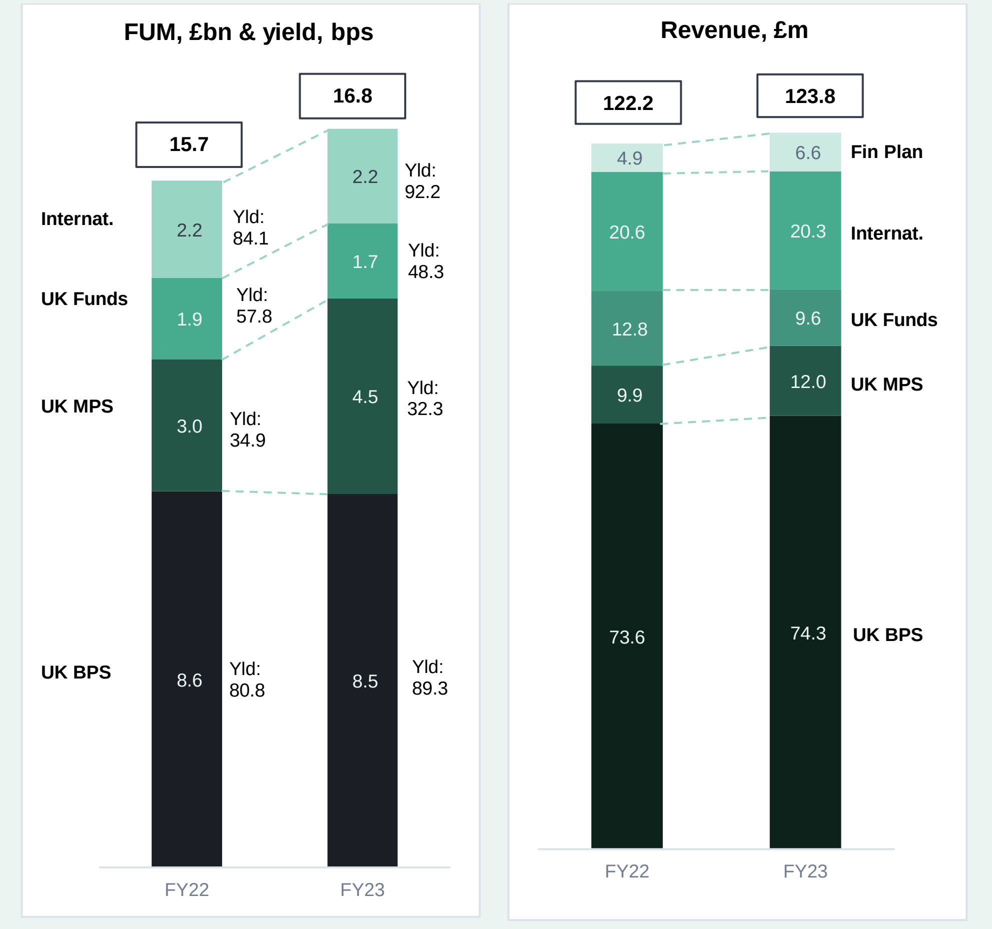
FY23 financial results

Revenue

Group revenue was up 1.3% y-o-y to £123.8m (FY22: £122.2m). Revenue was affected:

- Negatively by a 2.3% drop in average FUM from £16.6bn to £16.2bn (FY22 average FUM was boosted by high H1-22 FUM levels between Jul and Dec 2021 before the market falls of early-2022);
- Negatively by a product mix shift in favour of lower-yielding MPS;
- Positively by a jump in the yield of BPS (boosted by an increase in interest turn) which more than offset the previous negative factors: (total FUM-related revenue yield increased from 70.4bps to 71.6bps); and
- Positively by the two financial planning acquisitions (by around £2m).

FUM, yield, and revenue breakdown



Source: Company reports, ED analysis
Yield = revenue as a proportion of average FUM (basis points)
**Financial Planning includes UK + international financial planning revenue*

BPS, MPS and UK-funds combined make up the UK Investment management (UKIM) business unit which saw revenue fall by 0.4% to £95.9.m (FY22: £96.3m), with average yield rising from 68.0bps in FY22 to 68.4bps in FY23 (driven by the yield increase in BPS).

Within UKIM, BPS revenue increased marginally from £73.6m to £74.3m, largely driven by the 8.5bps increase in yield (driven by a higher interest turn) from 80.8bps to 89.3bps. The yield on interest turn grew from 1.1bps to 11.7 bps as interest rates increased.

BM has however flagged that BPS yield is expected to reduce slightly in the future due to competitive pressures, lower interest rates, and as more interest revenue is shared with clients.

MPS revenue increased 21% from £9.9m to £12.0m as a result of the previously described FUM growth. Yields on MPS custody dropped slightly by 0.2bps from 59.3bps to 59.1bps, while MPS platform yields fell by 0.4bps from 19.2bps to 18.8bps due to the impact of product mix as Platform MPS includes the BM Investment Solutions offering that attracts relatively larger mandates with discounted tiered rates. MPS also benefitted from interest income with the yield on this increasing from 3.3bps to 11.7bps.

Funds revenue fell 25% from £12.8m to £9.6m, largely as a result of the strategic reduction in pricing for the Cornelian Risk Managed Fund range. BM is targeting a significant increase in market share with advisers and networks that predominately use multi asset funds to deliver their investment offering.

The International segment revenue fell marginally from £20.6m to £20.3m. International fee income yield increased substantially from 84.1bps to 92.2bps as a result of the rise in interest rates earned on both GBP and foreign currency account balances, along with increased foreign exchange trading activity.

Fees from Financial Planning (UK) increased 61% from £4.1m to £6.6m, driven by acquisitions made during the year: Integrity Wealth Solutions and Adroit Financial Planning.

Costs and profitability

In addition to its full statutory reporting, BM reports ‘underlying’ costs and profits, which are useful metrics to understand the cost structure and operating leverage potential of the business. Underlying costs exclude certain one-off costs or credits such as acquisition-related costs to provide a more appropriate year-on-year comparison and are detailed in the table below.

Underlying PBT, £m

	FY 19	FY 20	FY 21	FY 22	FY 23	*H1 23*
Revenue	**107.3**	**108.6**	**118.2**	**122.2**	**123.8**	***58.9***
Total underlying costs	**(86.6)**	**(85.6)**	**(87.6)**	**(87.7)**	**(93.5)**	***(44.4)***
Staff cost	(41.6)	(39.9)	(40.0)	(40.5)	(45.2)	*(21.5)*
Non-staff cost	(34.2)	(35.0)	(34.4)	(32.4)	(37.4)	*(18.6)*
Variable pay	(11.0)	(10.8)	(13.2)	(14.8)	(10.9)	*(4.3)*
Underlying PBT	**20.7**	**23.0**	**30.6**	**34.5**	**30.3**	***14.5***
Margin	**19.6%**	**21.2%**	**25.9%**	**28.2%**	**24.5%**	***24.6%***

Source: Company reports, ED analysis
Totals may not tally exactly due to rounding

The business **demonstrated impressive cost control in the current inflationary environment with underlying costs increasing by 6.6% from £87.7m to £93.5m (4.3% excluding the impact of acquisitions)** with FY23 including £2.0m of costs from the H1-23 acquisitions of Integrity Wealth Solutions and Adroit Financial Planning.

The benefit of BM’s remuneration model was highlighted with staff costs (excluding acquisitions) decreasing £0.8m from £55.3m to £54.5m, driven by lower variable staff costs. In total, including acquisitions, staff costs increased by £0.8m to £56.1m.

Non-staff costs totalled £37.4m, up 15.4% on FY22 (£31.4m), or 14.2% excluding the impact of acquisitions, with significant contributors to the difference being:

- During the year, investment management processes were migrated onto the SS&C technology suite, with the migration costing £2.1m (net).
- £1.0m was incurred on terminated M&A processes.

- £0.7m of legal fees were incurred in respect of legacy matters cases, now fully settled.
- In FY22, BM recognised a release of historic tax provisions of £1.4m, which was not repeated in FY23.
- The Financial Services Compensation Scheme ("FSCS") levy reduced from £1.1m to £0.5m as a result of lower compensation forecasts expected by the FSCS for FY23.

Underlying profit before tax fell 12.2% to £30.3m (FY22: £34.5m) although this was higher than our previous forecasts (£29.8m). Underlying profit margin decreased to 24.5% (FY22: 28.2%). **We believe as FUM returns to growth, underlying margin will increase again, and we remind readers that we think a medium-term underlying profit margin target of around 30% is realistic.**

Underlying basic earnings per share decreased 11.7% from 174.2p to 153.8p, with underlying diluted earnings per share falling 10.5% from 168.8p to 151.0p.

Statutory profit before tax fell 24.7% to £22.2m (FY22: £29.5m) and PAT 22.6% from £23.4m to £18.1m. Basic earnings per share declined by 23% from 149.0p to 114.7p, while statutory diluted earnings per share fell 22% from 144.4p to 112.6p.

A summary of the reconciliation between underlying and statutory profits is shown below.

Underlying PBT to Statutory PBT bridge, £m

	FY 20	FY 21	FY 22	FY 23
Underlying PBT	**23.0**	**30.6**	**34.5**	**30.3**
Acquisition-related costs				
Gains arising on acquisition	-	5.0[1]		
Deal structuring & legal costs	(2.8)[5]	-		
Integration & staff retention costs	(1.4)[5]	(2.7)[5]		(0.6)[9]
Amortisation of client relationships	(2.9)	(4.9)[2]	(5.5)[7]	(5.7)[10]
Client relationship contract impairment	-	(1.5)[3]		
Dual running operating platform costs	-	(1.0)[4]	(2.4)[4]	(1.6)[4]
Fair value changes to deferred consideration	(0.2)	(0.4)	(0.1)	(0.2)
Goodwill impairment	(4.5)[6]	-		
Head office relocation costs	(1.2)	-		
Restructuring charge				
Other non-operating income			3.0[8]	
Statutory PBT	**10.0**	**25.1**	**29.5**	**22.2**

Source: Company reports, ED analysis
Totals may not tally exactly due to rounding
1. Gain on purchase in relation to the Lloyds acquisition
2. Higher charge for the year reflecting the newly acquired investment management contracts
3. Reduction in the useful economic life of intangible assets associated with previously acquired business, DPZ Limited (2014)
4. Incremental costs of running two operating platforms concurrently as part of transition to SS&C.
5. Costs incurred in relation to the acquisition and integration of Cornelian and Lloyds including corporate finance services, legal fees and due diligence fees together with costs incurred in integrating the business and staff retention payments.
6. Levitas fund experiencing outflows which impacted future outlook negatively and made goodwill level too high
7.Increase due to Lloyds acquisition which completed on 30 Nov 21
8.VAT refund arising from a VAT exemption from historical services on which VAT had already been charged
9. Costs incurred in relation to the acquisitions of Integrity Wealth Solutions on 31 October 2022 and Adroit Financial Planning on 15 December 2022. The acquisition-related costs incurred include stamp duty and legal fees and the integration-related costs include the cost of retention-based share option awards.
10. Increase due to the additional assets recognised as part of the acquisitions of Integrity Wealth Solutions and Adroit Financial Planning.

Balance sheet and cash

BM maintained its healthy balance sheet, with net assets increasing 6.0% y-o-y to £157.3m (FY22: £148.4m), while cash and equivalents remained healthy at £53.4 m, despite declining 13% y-o-y (FY22: £61.3m). **The business has no debt.**

This reduction in cash was impacted by £15.1m being spent on the acquisitions of Integrity Wealth Solutions and Adroit Financial Planning. Excluding this outflow, cash increased by £7.2m from 30 June 22, with £11.4m spent on the FY22 final dividend and FY23 interim dividend (combined).

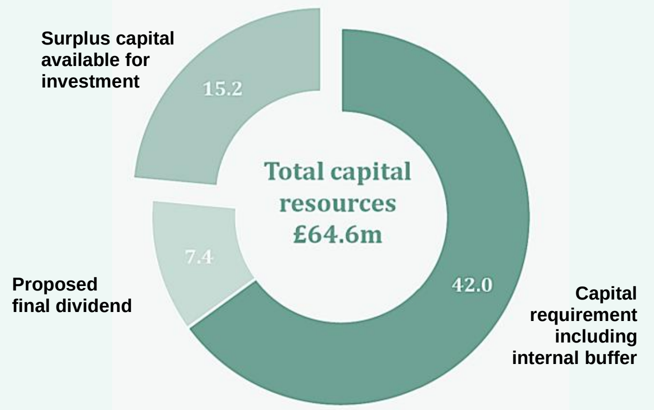
Changes in cash position

£m	FY22	FY23
Opening cash	54.9	**61.3**
Cash flows from operating activities	36.4	**33.2**
Working capital movement	(5.3)	**(3.3)**
Dividends paid	(10.3)	**(11.4)**
EBT purchase net of shares issued	(2.7)	**(1.2)**
Net tax paid	(2.3)	**(5.1)**
Capital expenditure	(3.2)	**(3.7)**
Deferred consideration paid	(6.0)	**(0.3)**
Net cash paid on purchase of subsidiaries	-	**(15.1)**
Purchase of financial assets	(0.2)	
Net interest received	0.1	**1.1**
Exceptional items	-	**(2.2)**
Closing cash	61.3	**53.4**
Change in cash	(9.2)	**(7.9)**

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 (including risk appetite buffers) and spending commitments. This is shown below and **shows £15.2m of surplus cash above regulatory requirements to pursue growth opportunities**.

Surplus capital as at 30 Jun 23



Source: Company

As at 30 June 2023, the Group had regulatory capital resources of £64.6 million (summary calculation below) and an own funds adequacy ratio of 328.1%. [The own funds adequacy ratio is defined as the Group's own funds as a proportion of the fixed overhead requirement. The total net assets and the own funds adequacy ratio calculation take into account the respective period's profits (net of the declared interim dividends) as are deemed to be verified at the date of publication of the annual results.

Capital resources calculation

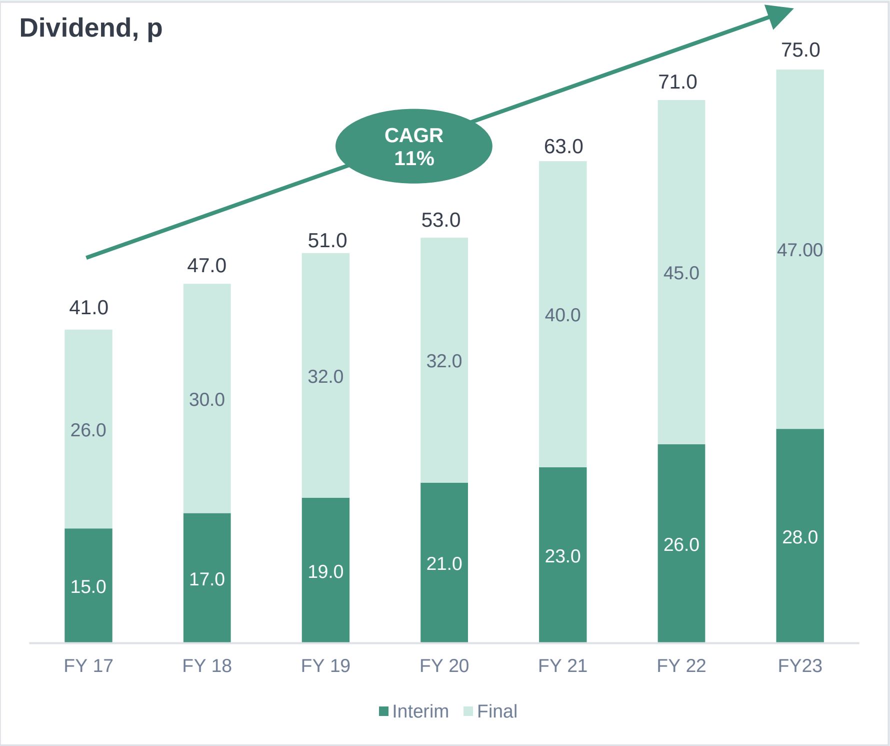
£m	FY22	FY23
Share capital	0.1	**0.2**
Share premium	79.1	**81.8**
Other reserves	10.0	**9.1**
Retained earnings	59.2	**66.2**
Total equity	**148.4**	**157.3**
Intangible assets (net of book value)	(85.9)	**(100.6)**
Deferred tax adjustment	7.5	**7.9**
Own funds	**70.0**	**64.6**

Source: Company

Dividends

BM's final dividend increased 4.4% to 47.0p (FY22: 45p) with **total dividends (interim + final) increasing 5.6% from 71p to 75p**, indicative of its very strong capital position and the Board's continuing confidence in BM's prospects. **The full year dividend provides a yield of 3.9%** on the 13 Sep 23 share price of 1,930p.

Historical dividend statistics



Source: Company

New senior appointments should provide fresh impetus

During FY23 BM made a series of highly credible senior executive appointments which position it well for the next leg of its growth journey.

Andrea Montague took on the role of Executive Director and Chief Financial Officer from 1 Aug 2023, taking over from Ben Thorpe.

Andrea has a breadth of experience in the UK long-term savings and asset management sector, with an extensive board and executive track record. She was most recently Group Chief Risk Officer at Aviva, where she had previously been Group Chief Financial Controller. Prior to that, she held senior Finance leadership positions at Royal London and Standard Life and earlier in her career worked at Scottish & Newcastle and PricewaterhouseCoopers.

Louis Petherick was appointed as Group Chief Risk Officer from 4 Sep 23, to lead the Group Risk, Investment Risk, Compliance and Financial Crime functions and will also join the firm's Executive Committee.

Louis has spent thirty years in financial services, with the last twenty specifically focused on risk management. He joins from FNZ UK, where he was Chief Risk Officer. Prior to this, he was Chief Risk Officer for AJ Bell, and held also held senior risk positions at M&S Bank, Co-operative Bank, Lloyds Banking Group, ING Direct, St James's Place and Resolution.

Other appointments have certainly shone a light on BM's intentions to grow its non-UK client base in addition to its home UK market (its non-UK client base is primarily from the Channel Islands, Isle of Man, UAE and South Africa). Indeed, CEO Andrew Shepherd has stressed the significance of 'Global' in the job titles of the two appointments below.

Towards the beginning of FY23, **Sarah Ackland was appointed as Global Head of Distribution & Marketing and to the Executive Committee**. She leads the distribution and marketing teams across the UK and International markets.

Sarah joined BM from Liontrust where she was Head of Multi-Asset Business. Prior roles included Head of UK Funds at the Architas UK Investment, and Sales Director, UK and International Investment Partners at F&C Asset Management.

Leanne Barnham was appointed to the newly created Global Head of Marketing role in March 23. She will be responsible for driving the marketing strategy and execution, supporting BM's medium-term ambition to become a top five wealth manager within the UK and Crown Dependencies. Leanne has more than 15 years in investment management and brings a deep knowledge of marketing in the sector. She joins from Ninety One where she was Head of UK Marketing. Prior to that she was previously Global Head of Marketing with Architas Multi-Manager and has held marketing roles at several investment management houses.

Additionally, **Matthew Wintour was promoted to Head of International Distribution**. In this newly created role, Matthew will spearhead efforts to drive revenue acceleration, achieve profitable growth and expand market share. His responsibilities will include establishing strategic growth initiatives, leading business development, and driving the Group's focus on enhancing key intermediary relationships in the Crown Dependencies and internationally with financial advisers, trustees, investment platforms, life companies and offshore pension firms.

Before joining Brooks Macdonald International eight years ago, Matthew held senior positions in both wealth management and private client stockbroking.

Other Board appointments

In addition to the appointment of new CFO Andrea Montague to the board, James Rawlingson was appointed Non-Executive Director with effect from 2 March 2023. He took over as Chair of the Audit Committee.

In February, BM announced that Chairman, Alan Carruthers, was leaving the Board due to ill health and that Andrew Shepherd would take over as Acting Chairman, pending a permanent replacement being appointed.

Growth forecasts

We remind readers of the fundamental growth drivers for BM going forward.

Large and growing market

BM operates in a **market with highly attractive fundamentals,** providing significant growth opportunities.

In the UK alone, personal financial investment assets managed via financial adviser or wealth manager channels (where BM operates), are **estimated to total between £1.0 trillion[1] and £1.4 trillion[2,3]** (implying that BM has around a 1.5% market share).

We expect this market to experience robust growth over the medium to long term and highlight three fundamental growth drivers.

The first is simply organic market growth as a result of **financial assets appreciating**, and from **inflows from savers and investors** who keep contributing to and topping up their investment and retirement pots.

The second is growth related to an **ageing population**. The ONS estimates that **in 20 years' time, nearly 5 million more people will be aged 65 or over in the UK**, as this age bracket's proportion of the population increases from 18.5% in 2019 to 23.9% by 2039.

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.

The third growth driver relates to recent regulatory shifts such as pension reforms, which 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.

And it is through this financial advisory channel that BM sources most of its business (and in particular, via the 'long tail' of around 4,600 smaller advisory firms which have between one and five advisers).

Alongside its adviser business, BM also serves private clients with both an integrated wealth management proposition and a specialist financial advice offering.

Advisers turn to outsourced investment management

In addition to the above drivers of overall market growth and positive factors in favour of financial advisers and wealth managers, there is a significant trend underway within the investment management sector that is possibly even more important to BM.

Financial advisory firms are increasingly turning towards outsourcing investment management to firms such as Brooks Macdonald (known as discretionary fund management or 'DFM') as they focus more on financial planning and advice, and steer clear of the resourcing, regulatory and risk burdens of investment management.

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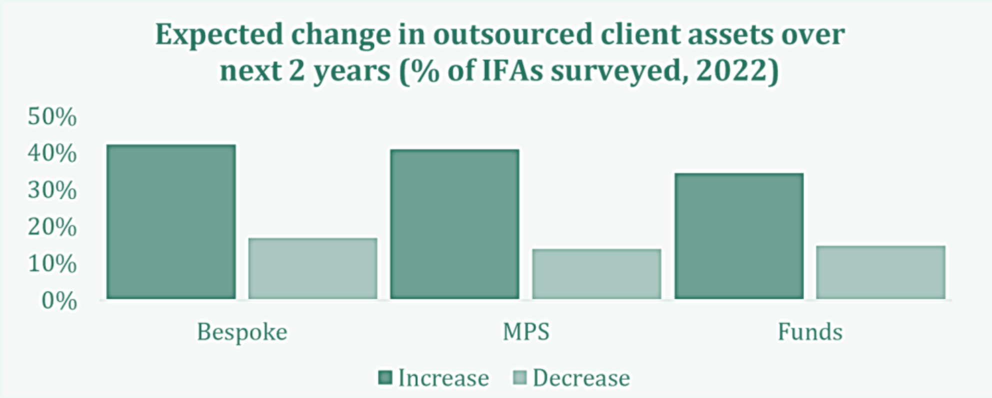
[1] *LEK Consulting; U.K. Wealth Management: Spotlight on Value Creation, 2019*
[2] *BM, analyst presentation, FY to 30 June 2021*
[3] *PIMFA reports an estimate of around £1.3 trillion: pimfa.co.uk/about-us/industry-statistics/*

IFAs are outsourcing more

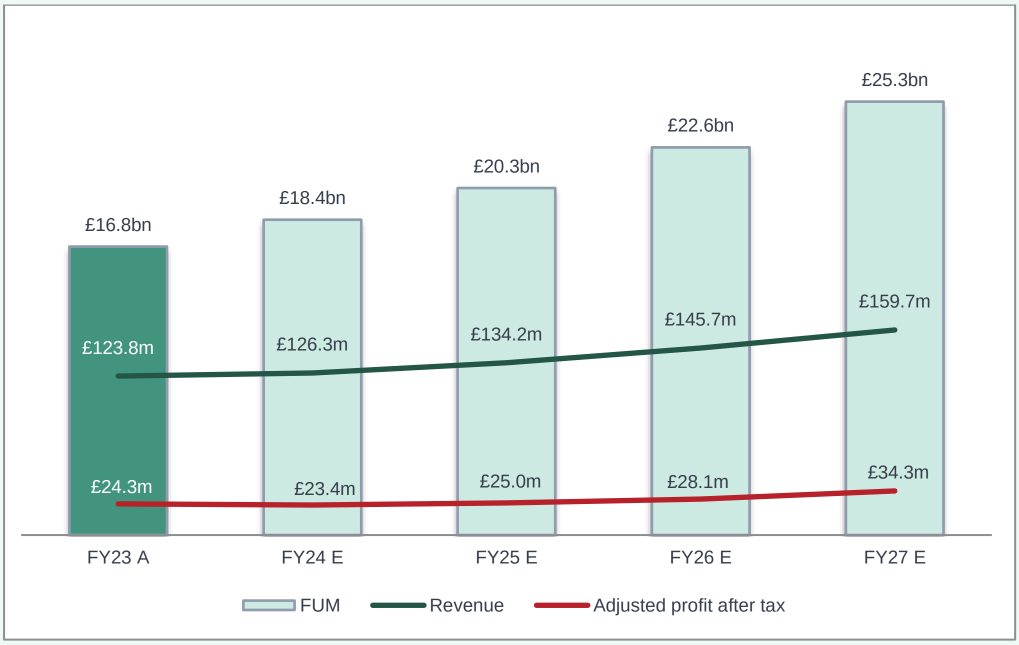


Source: Company

5-year forecast

Based on the above outlook and the company-specific positioning previously discussed, we have projected the following growth forecasts for BM (excluding acquisitions) used in our fundamental valuation.

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates
Note: dip in FY24 profit also impacted by increase in UK corporation tax rate to 25% from Apr 23

Valuation

We look at BM's valuation in two ways: 1) On a fundamental basis using a discounted cashflow methodology; 2) On a profit-multiple peer-comparison basis.

Fundamental valuation

Our fundamental valuation uses a discounted cash flow methodology, **which produces a per share value of 3,000p, around 55% above the current share price of 1,930p.**

This valuation is based on the following key assumptions:

- An explicit growth forecast summarised in the chart above (this excludes any potential growth from acquisitions).
- 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 – we believe 15 is a conservative value for this number given that wealth-manager valuations have fallen sharply over the last two years).
- Discounting the cash flows from the above assumptions at a discount rate of 10%.

Peer comparison valuation

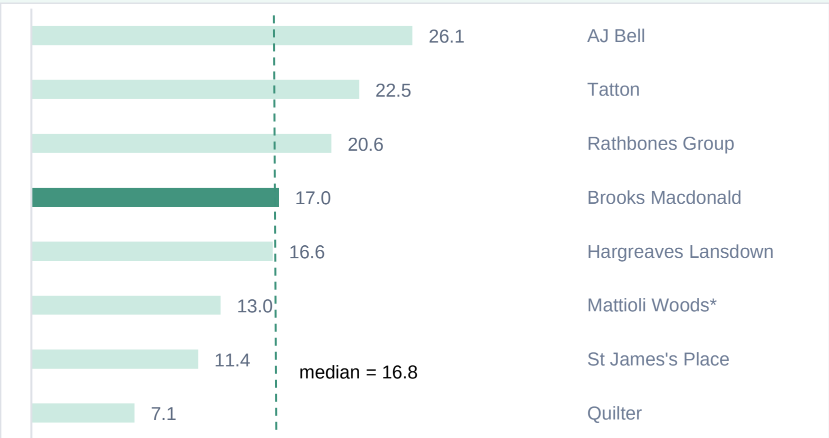
We have also compared the relative valuation of BM to a group of peers, on a price-earnings ratio basis, with **BM's PE ratio of 17.0 being close to the peer group median.**

However, we flag how far investment/wealth managers and platforms have 'de-rated' over the last two years. In late 2021, prior to the market falls of 2022, we recorded a wealth manager and platform peer-group PE median of 30. While that may very well have 'over-run' to a degree, we certainly see the current median level of 17 as being on the low side.

Additionally, it is particularly interesting to compare BM's current PER rating to that of competitor Brewin Dolphin in the context of recent M&A activity. When the proposed acquisition of Brewin Dolphin by RBC Wealth Management (Jersey), a wholly owned subsidiary of Royal Bank of Canada, was announced in 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 large foreign wealth managers are seeing substantial value in the UK wealth management sector**.

We see potential for a sector re-rating and within that, for BM to command a premium rating given its outperformance compared to peers.

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



Source: ADVFN, as of 13 Sep 23, 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.*

Appendix: Historical and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Jun, £'m	**FY21A**	**FY 22A**	**FY 23A**	**FY 24E**	**FY 25E**
Revenue	**118.2**	**122.2**	**123.8**	**126.3**	**134.2**
Administrative costs	(96.0)	(95.3)	(102.2)	(100.2)	(105.5)
Gross Profit	**22.2**	**26.9**	**21.6**	**26.1**	**28.8**
Other gains/(losses)	(1.4)	(0.1)	(0.2)	-	-
Operating Profit	**20.8**	**26.9**	**21.4**	**26.1**	**28.8**
Gain on bargain purchase	5.0	-	-	-	-
Finance Income	0.0	0.1	1.1	0.9	0.7
Finance Expense	(0.7)	(0.4)	(0.3)	(0.2)	(0.2)
Profit Before Tax	**25.1**	**29.5**	**22.2**	**26.7**	**29.3**
Tax	(5.4)	(6.1)	(4.1)	(6.9)	(7.6)
Profit After Tax	**19.6**	**23.4**	**18.1**	**19.8**	**21.7**
Profit/(Loss) from discontinued Operations	-	-	-	-	-
Profit attributable to shareholders	19.6	23.4	18.1	19.8	21.7
Basic EPS, p	125.3	149.0	114.7	123.5	134.1
Diluted EPS, p	124.9	144.4	112.6	121.2	131.6

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts					
As at end Jun, £'m	**FY21A**	**FY 22A**	**FY 23A**	**FY 24E**	**FY 24E**
ASSETS					
Non-current assets					
Intangible assets	89.9	85.9	100.6	97.0	94.9
Property, plant and equipment	2.8	2.2	2.1	2.4	2.6
Right of Use Assets	6.0	5.0	4.3	3.5	2.8
Financial assets at FV through P&L	0.5	0.5	0.5	0.5	0.5
Deferred tax assets	2.7	3.0	-	-	-
Total non-current assets	**101.9**	**96.6**	**107.5**	**103.4**	**100.8**
Current assets					
Financial assets at FV through P&L	0.6	0.8	0.8	0.8	0.8
Trade and other receivables	28.4	30.5	33.5	32.9	32.2
Current tax receivables	0.0	-	-	-	-
Cash and cash equivalents	54.9	61.3	53.4	63.6	73.7
Total current assets	**84.0**	**92.6**	**87.7**	**97.3**	**106.7**
Total assets	**185.9**	**189.1**	**195.3**	**200.7**	**207.5**
LIABILITIES					
Non-current Liabilities					
Deferred consideration	(0.3)	-	-	-	-
Lease liabilities	(5.4)	(4.1)	(3.2)	(1.3)	-
Provisions	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Deferred tax liability	(8.9)	(8.0)	(6.0)	(6.0)	(6.0)
Other non-current liabilities	(0.5)	(0.6)	(0.8)	(0.8)	(0.8)
Total non-current liabilities	**(15.5)**	**(12.9)**	**(10.3)**	**(8.5)**	**(7.1)**
Current Liabilities					
Trade and other payables	(27.1)	(23.9)	(22.5)	(23.0)	(23.4)
Current tax liability	-	(0.8)	(0.6)	(0.6)	(0.6)
Deferred consideration	(5.9)	(0.3)	(1.5)	(1.5)	(1.5)
Lease liabilities	(1.4)	(2.0)	(2.0)	(1.5)	-
Provisions	(2.0)	(0.8)	(1.0)	(1.0)	(1.0)
Total current liabilities	**(36.4)**	**(27.8)**	**(27.6)**	**(27.6)**	**(26.6)**
Net assets	**134.0**	**148.4**	**157.3**	**164.6**	**173.8**
EQUITY					
Share capital	0.2	0.2	0.2	0.2	0.2
Share premium	78.7	79.1	81.8	81.8	81.8
Other reserves	8.5	10.0	9.1	9.1	9.1
Retained earnings	46.7	59.2	66.2	73.5	82.7
Total equity	**134.0**	**148.4**	**157.3**	**164.6**	**173.8**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts

12 months to end Jun, £'m	FY21A	FY 22A	FY 23A	FY 24E	FY 25E
OPERATING ACTIVITIES					
Operating Profit	**20.8**	**26.9**	**21.4**	**26.1**	**28.8**
Discontinued operations	-	-	-	-	-
Adjustment for:					
Amortisation of intangible assets	7.7	6.9	6.8	6.6	6.3
Depreciation on non-current prop & equip	1.0	0.8	0.8	0.5	0.5
Depreciation of right-of use assets	1.6	1.7	1.8	0.9	0.7
Other losses/(gains) - net	1.4	0.1	0.2	-	-
Decrease/(increase) in receivables	(2.3)	(2.0)	(2.2)	0.7	0.7
(Decr)/incr in trade and other payables	3.8	(3.2)	(1.5)	0.5	0.5
(Decrease)/increase in provisions	(0.3)	(1.1)	(0.1)	-	-
Incr/(decr) in other non-current liabilities	0.2	0.0	0.2	-	-
Share-based payment charges	3.0	2.8	2.7	2.6	2.8
Net cash flow from operating activities	**36.9**	**32.8**	**30.1**	**37.7**	**40.2**
Corporation tax paid	(5.8)	(5.3)	(5.1)	(6.9)	(7.6)
Tax refund	-	3.0	-	-	-
Net cash from operating activities	**31.1**	**30.5**	**25.0**	**30.8**	**32.6**
INVESTING ACTIVITIES					
Purchase of software	(3.1)	(2.9)	(3.0)	(3.0)	(3.0)
Purchase of property and equipment	(0.6)	(0.3)	(0.7)	(0.7)	(0.7)
Consideration paid	(5.3)	-	(15.1)	-	-
Deferred consideration paid	(2.4)	(6.0)	(0.3)	-	(1.2)
Acquisition of subsidiary, net of cash	-	-	-	-	-
Purchase of financial assets at FV through P&L	-	(0.2)	(0.0)	-	-
Proceeds from sale of discontinued ops	-	-	-	-	-
Interest received	0.0	0.1	1.1	0.9	0.7
Proceeds from sale of financial assets at FV	-	-	-	-	-
Cash flows from inv net of discontinued ops	-	-	-	-	-
Finance costs paid	-	-	-	(0.2)	(0.2)
Net cash used in investing activities	**(11.3)**	**(9.3)**	**(18.0)**	**(3.1)**	**(4.5)**
FINANCING ACTIVITIES					
Proceeds of issue of shares	0.7	0.4	1.7	-	-
Shares issued as consideration	-	-	-	-	-
Pmt of lease liabilities and initial direct costs	(2.0)	(1.8)	(2.3)	(2.3)	(2.8)
Proceeds of lease reverse premium	-	-	-	-	-
Purchase of own shares by EBT	(5.2)	(3.1)	(2.9)	(2.9)	(2.9)
Dividends paid	(8.6)	(10.3)	(11.4)	(12.3)	(12.4)
Net cash from /(used in) fin activities	**(15.0)**	**(14.8)**	**(14.9)**	**(17.4)**	**(18.1)**
Net (decr)/incr in cash & equivalents	**4.7**	**6.4**	**(8.0)**	**10.3**	**10.0**
Cash & equivalents at beginning of year	50.2	54.9	61.3	53.4	63.6
Cash & equivalents at end of year	**54.9**	**61.3**	**53.4**	**63.6**	**73.7**

Source: Company Historic Data, ED estimates.

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