Brooks Macdonald Group plc

10 March 2022

Ambitious growth strategy builds on 30-year track record

Brooks Macdonald (BM) is an AIM-listed investment management group with a 30+ year track record. Its primary business is to construct and manage investment portfolios for high-net-worth and affluent customers, which it does mostly via financial advisers, but also directly.

It sources around 82% of its business (by revenue) from UK clients but has a fast-growing international client base (18% of revenue), sourced via Channel Islands and Isle of Man offices.

Funds under management (FUM) totalled £17.3bn on 31 Dec 21 (+12% y-o-y, 5.3% up over 6m). In its last full financial year (FY21 to 30 Jun 21) BM's revenue was £118m (up 8.8% on FY20: £109m) and underlying PBT was £30.6m (up 32.5% on FY20: £23.1), which is evidence of **operational leverage** kicking in. [Underlying PBT excludes one-off expenses – mostly acquisition related, and goodwill amortisation, gains and losses.] H1 22 (to 31 Dec 21) has built on this momentum, with revenue of £61.2m (up 10.7% y-o-y from £55.9m in H1 21) and underlying PBT of £17.6m (up 25.7% from £14.0m in H1 21). **An interim dividend of 26.0p has been declared, up 13% on H1 21**.

The balance sheet is strong, with net assets of £140m, cash and equivalents of £46m, and **no debt**.

Prospects for revenue and profitability growth look encouraging:

- Management has ambitious organic and acquisitive growth plans.
- BM is operating in a **huge market** with substantial medium-to-long-term tailwinds.
- It has a **track record of delivering superior investment returns**, which is one of the most important factors used by financial advisers when selecting an investment manager.
- FUM growth has been solid in recent years (12% CAGR over 4-5 years), fueled mainly by investment performance and attractive-looking acquisitions, with **quarterly flows accelerating** sharply over the last 18 months, and expected to contribute more to FUM growth in the future.
- It is in the final stages of completing a multi-year re-engineering of operational processes and technology. Benefits are already being realised but **a platform for scalability has been created**, with the potential to increase profit margins as the business grows.

Looking undervalued

Based on its growth ambitions (reaching £26-£27bn FUM in the next 5-6 years, excluding growth from acquisitions) and the potential for further operational leverage, **our fundamental DCF valuation is 3,250p per share,** 49% above the current price (although this gap has widened with recent equity market falls). **In addition, BM's PER of 17.4 is 30% below the sector median of 24.7**.

Key Financials

Year-end 30 Jun	FY19A	FY20A	*H1 21A*	FY21A	*H1 22 A*	FY 22E	FY 23E
AUM, £bn	13.2	13.7	*15.5*	16.5	*17.3*	17.2	18.8
Rev, £m	107.3	108.6	*55.9*	118.2	*61.9*	126.1	132.2
Underlying expenses*	86.6	85.6	*41.9*	87.6	*44.3*	92.5	96.6
Underlying PBT*	20.7	23.0	*14.0*	30.6	*17.6*	32.9	34.8
Underlying PBT margin	19.6%	21.2%	*25.0%*	25.9%	*28.4%*	26.1%	26.4%
Statutory PBT, £m	8.6	10.1	*14.1*	25.1	*13.2*	28.1	30.5
EPS basic, p	41.7	43.2	*77.3*	125.3	*65.5*	139.8	151.1
PER	52.3	50.4	*14.1*	17.4	*16.6*	15.6	14.4
Div, p	51.0	53.0	*23.0*	63.0	*26.0*	69.0	76.0
Yield	2.3%	2.4%	*1.1%*	2.9%	*1.2%*	3.2%	3.5%
Net assets, £m	87.6	123.5	*129.0*	134.0	*140.3*	145.9	158.6
Net cash, £m	34.6	50.2	*38.6*	54.9	*45.7*	64.3	82.2

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***2,180p***
** 'Underlying' excludes one-off expenses, mostly acquisition-related, and goodwill amortisation, gains and losses*

Company Data

EPIC	BRK
Price (last close)	2180p
52 weeks Hi/Lo	2800p/1845p
Market cap	£353m
ED Fair Value/share	3250p
Net cash	£46m
Avg. daily volume	13.1k

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

FUM at end Dec 2021: £17.3bn

Next Event: 14 Apr 22, Q3 FUM

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About Brooks Macdonald

Brooks Macdonald (BM) is an AIM-listed investment management group. **Its primary business is to construct and manage investment portfolios for clients via financial advisers** (its vision is to be the leading investment manager for intermediaries). It also offers these investment solutions, as well as financial planning services, to private clients directly.

The Group was founded in 1991 (then Brooks Macdonald Gayer & Co) and listed on AIM in 2005. It had £17.3bn of funds under management (FUM) on 31 Dec 21, employs around 450 people, is headquartered in London and has 14 offices: 11 across the UK which service its primary UK client base, and in Jersey, Guernsey and Isle of Man which service clients mostly domiciled in the islands, UAE, and South Africa.

Its core products are:

- **Bespoke Portfolio Services**, UK (BPS) – 59% of revenue: where an individual investment portfolio is constructed to meet a client's specific requirements, mostly suited to wealthier and older clients with more complex needs.
- **Managed Portfolio Services**, UK (MPS) – 8% of revenue: where clients select from a range of risk-profiled, multi-asset class, 'model' portfolios, a service used across the wealth spectrum but most commonly by clients who are still in the 'wealth accumulation' phase of their investment lifecycle.
- **Funds**, UK – 10% of revenue: a range of 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** – 17% of revenue: catering to the often-complex needs of offshore clients, including BPS, MPS, services for trustees, multi-currency products, specialist funds, and financial planning.
- **Financial Planning** – 4% of revenue: offered to wealthier clients in the UK and offshore (in future, this will no longer be reported separately – it now forms part of the Private Clients business unit).

BM's strategy is based on three pillars:

1. **Organic growth**, driven primarily by a providing a compelling investment proposition coupled with excellent adviser and client service
2. **Service and operational excellence**, with a major project nearing completion designed to deliver a significant increase in digital enablement, efficiency, scalability, and resilience – which is in turn a key enabler of BM's stated aim of delivering top-quartile profit margins over the medium term; and
3. **Selective acquisitions**, of high-quality businesses that are a good strategic and cultural fit and have compelling economics.

BM is led by **Andrew Shepherd** (49), who was appointed CEO in May 2021, and has intricate knowledge and experience of the business and its markets. He joined BM in 2002, has held a range of roles in the group, including Group Deputy CEO since 2015, and CEO of the International business since April 2019 (whilst remaining Group Deputy CEO).

It is worth placing Andrew's appointment in the context of BM's longer-term strategic journey. Since its founding in 1991, **BM was led for more than 25 years by CEO Chris Macdonald**, who retired in April 2017. Under his tenure, BM grew from scratch to around £10bn FUM.

Caroline Connellan then took over as CEO, and it would probably be fair to characterise her 4-year tenure as a period of **intensive re-engineering**, whilst still growing the business to £16bn FUM. In particular, operating processes and technology systems were overhauled to make BM more 'scalable' and competitive for the wealth-management landscape of the 2020's, which has seen huge recent changes to regulation and the use of technology. Caroline left to become CEO of Personal Wealth at Standard Life Aberdeen plc.

After having played a key role in BM's recent growth and operational successes, Andrew will now oversee the completion of BM's digital transformation, has set an **ambitious growth agenda** for BM, and will lead it on the next leg of its growth journey.

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).

Structural tailwinds

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 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.

Indeed, some of the consequences of trends two and three above is 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 27,500 in 2020[4]. [The number of financial advisory firms has declined slightly over the same period, from 5,218 to 5,137 as industry consolidation broadly cancels out the number of new firms entering the market.]

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).

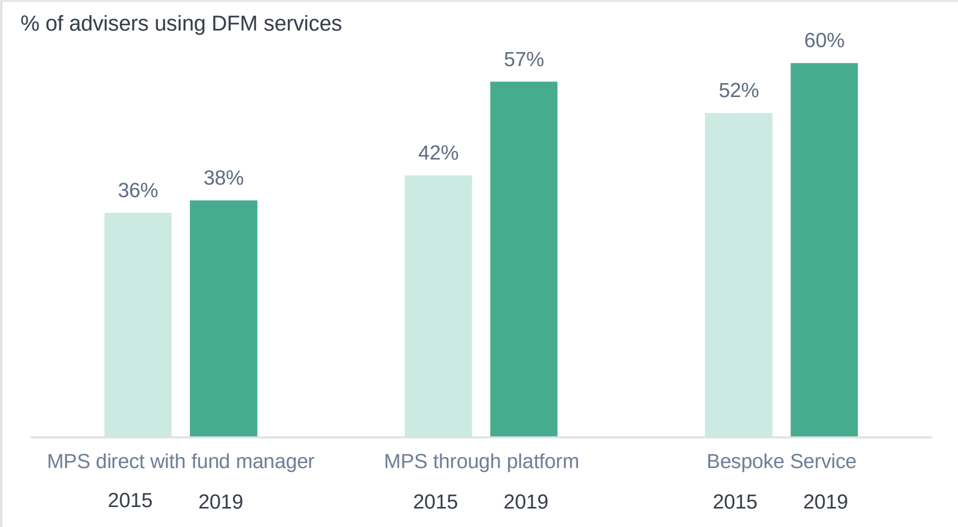
Alongside its adviser business, BM also serves private clients with both an integrated wealth management proposition and a specialist financial advice offering. The firm strictly manages any risk of channel conflict to ensure it does not attract clients from its network of advisers

[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/*
[4] *FCA, The retail intermediary market 2020*

Advisers turn to outsourced investment management

In addition to the above drivers of overall market growth, 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.

Financial advisers have increasingly outsourced investment management …



Source: Defaqto: DFM satisfaction study 2020 (339 respondents)

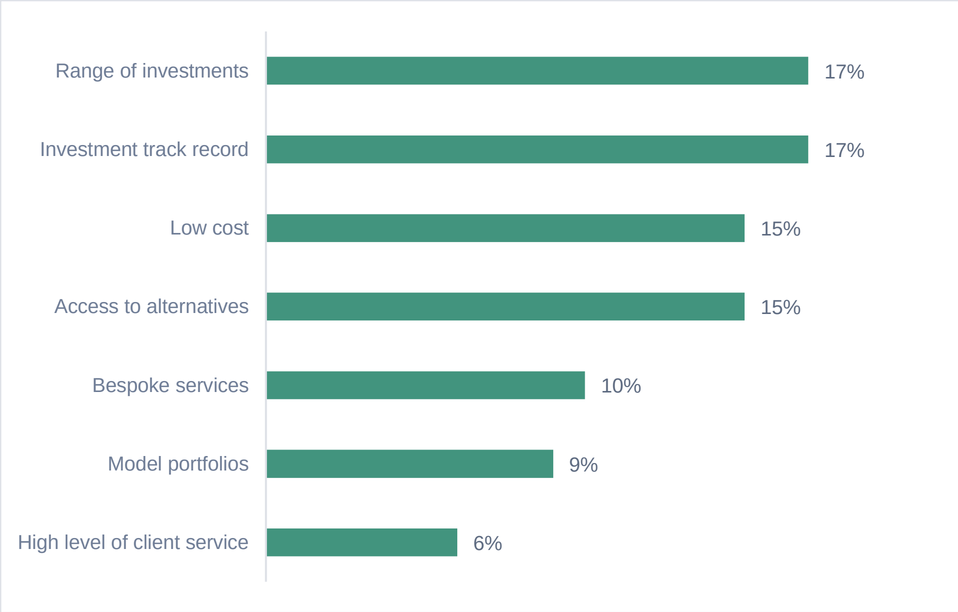
… with this outsourcing trend set to continue

Source: BM FY21 Analyst Report, original source GlobalData

When it comes to selecting an investment manager, some of the most important factors on which financial advisers base their DFM selection decisions **certainly favours the strengths of BM**, notably the two most important factors are:

- a **wide range of investments** (which BM has, as outlined in the following sections), and
- a **strong investment track record** (which BM has built over 30+ years since 1991, also described below).

Financial Advisers' top requirements for choosing a DFM, 2020 (%)



Source: BM FY21 Analyst Report, original source GlobalData

BM positioned to capitalise

Core products attract current and 'next gen' wealthier clients

BM's client base tends to skew towards wealthier market segments (the *High Net Worth* segment with >£750k FUM per client and the *Upper Affluent* segment with FUM per client between £350k and £750k), who have more complex investment needs.

UK clients in these segments typically favour **BM's flagship BPS product** (where an individual investment portfolio is constructed to meet a client's specific requirements), with some using its Financial Planning services too. A Defaqto survey of financial advisers[5] reports that the **average portfolio size of clients using bespoke services is around £500k**. These clients are commonly in the decumulation phase of their investment life cycle, with the complexity of their changing lifestyles as they get older well-suited to BPS.

Wealthier offshore clients use a range of BM's specialised products and services - BPS, MPS, services for trustees, multi-currency products, specialist funds, and financial planning.

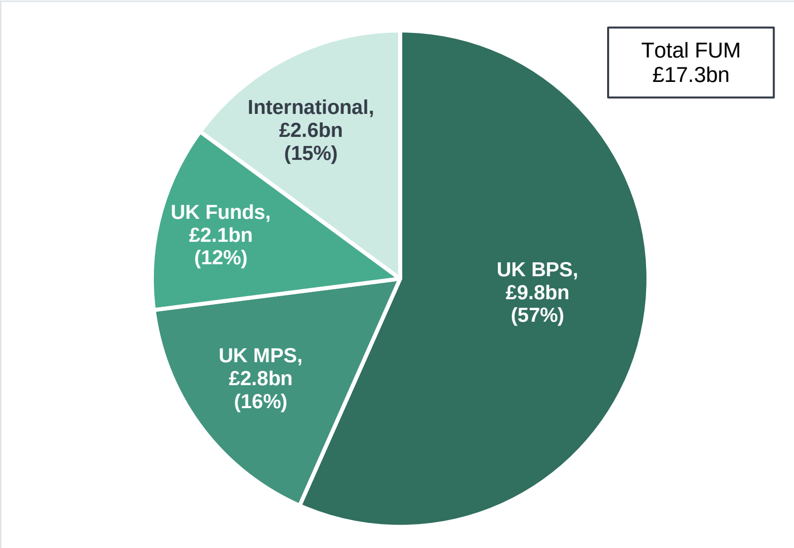
But BM also has a significant client base which use less 'tailored' services, favouring MPS products (risk-rated multi-asset model portfolios) or its Funds (risk-rated multi-asset funds which are suitable when needs and risk profiling are not complex and/or the portfolio is small).

While these services are to an extent used across the wealth spectrum, the typical client profile tends to be **younger and in the wealth accumulation phase** of their investment life cycle, and often in the *Upper Affluent* (FUM between £350k and £750k) and *Mass Affluent* (FUM between £30k and £350k) segments.

The Defaqto study cited above finds that the average portfolio size of advisers' clients using an MPS service is £175k (when accessed through a platform) and £205k (when accessed directly with a DFM).

BM's FUM split by the above 'core products' is shown below. Note that Financial Planning does not have an associated FUM hence is not shown (financial details of that segment are discussed later in this note).

FUM breakdown (31 Dec 21)



Source: Company reports, ED analysis

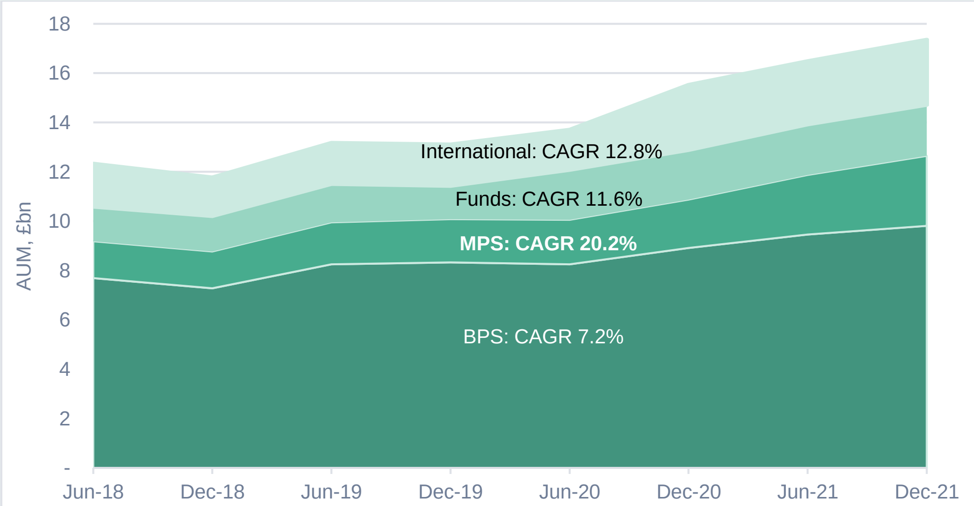
It is also worth emphasising that the strategic importance of BM's MPS business is more important than its current 16% share of FUM.

[5] *Defaqto: DFM satisfaction study 2020 (189 respondents)*

BM looks at its younger client base who use MPS products 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 BM's higher-yielding BPS services over time, thus fuelling future growth**.

Thus, the recent growth in MPS is especially important, and demonstrates the success of a deliberate strategy to target a younger client base.

BPS is the flagship product, but MPS is BM's fastest growing segment



	AUM, £bn Jun 18	% increase Jun 18 – Dec 21	AUM, £bn Dec 21
Int.	1.69	+53%	2.51
Funds	1.43	+47%	2.08
MPS	1.49	+90%	2.41
BPS	7.70	+27%	9.81
Total	**12.31**	**+41%**	**17.33**

Source: Company reports, ED analysis
Note: BM started reporting the above segment split from Jun 18.

The growing importance of MPS is also reflected in BM's advancement of its offerings within this service.

It's most basic MPS offering to advisers is to make its 'in-house' model portfolios available to them on third party 'platforms' (which typically provide advisers with access to a range of investment products and administrative functionality – some of the most prominent in the UK being Transact, Nucleus and Embark). BM would be one of many financial product providers in this instance. It currently distributes its MPS products via around 20 platforms.

But BM also has **a 'premium' MPS offering, Brooks Macdonald Investment Solutions (BMIS)**, launched in 2019, which provides advisers with a more tailored MPS service. BM consultants will work with the adviser to design a dedicated MPS product(s) for rollout to that adviser's clients and make that product available on the platform of the adviser's choice. Co-branded product material will be made available to the adviser as well as services such as marketing and sales support and staff training

The MPS product range is constantly evolving. As recently as Feb 22, BM launched two new MPS profiles (high risk and low risk) within its *Advance* Responsible Investing product range (see below), bringing the number of *Advance* responsible investing MPS profiles up to five (low-medium, medium and medium-high risk profiles already existed).

Specialist offerings enhance core products

Within some of the above core products, BM enhances their attractiveness to clients with specialist offerings. Indeed, these have now reached **over £1bn of funds under management and grew by nearly 50% in FY21**. These specialist offerings include:

1. Responsible Investment Service

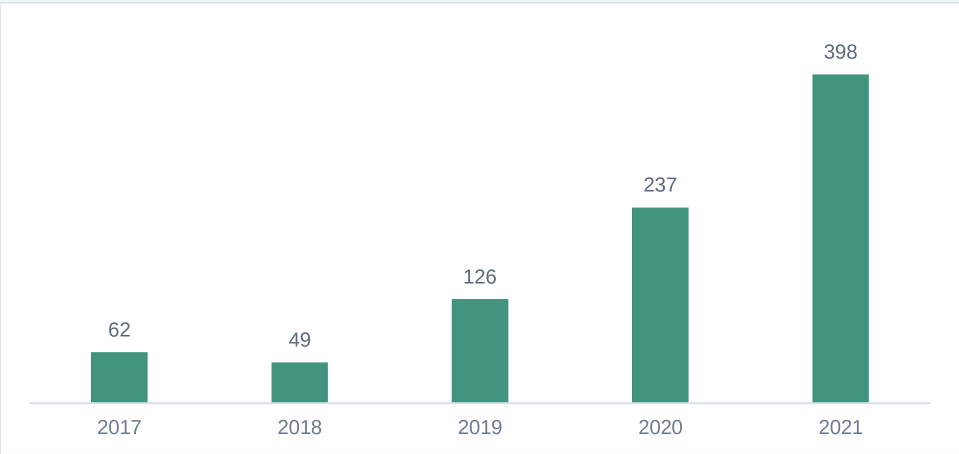
Offered within BPS, MPS, and International, this Environmental, Social & Governance (ESG) offering is designed for clients with the dual objective of responsible investment and return generation. BM offers two distinct strategies:

- *Avoid*: a strategy to prevent exposure to companies involved in the production of armaments, tobacco, alcohol, gambling, and pornography.
- *Advance*: a strategy to invest in, and advance, businesses that either specifically seek to provide solutions to sustainability issues, or businesses that have strong corporate policies and outputs relating to ESG criteria.

We believe this service has huge potential to grow as the structural shift towards responsible investing continues unabated (see chart below), **with European (incl. UK) sustainable funds attracting nearly half of all fund flows** in Q1-Q3 2021, **rising to 58% of all fund flows in Q4 2021**, according to Morningstar.

And there is still room for growth. As of Dec 21, sustainable fund assets accounted for roughly 18% of total European fund assets, with Morningstar commenting: "*We expect this percentage to keep rising over the next quarters as asset managers launch additional sustainable offerings and repurpose existing conventional ones to meet continuous investor demand for investments that align with their ESG and sustainability preferences*."

European Sustainable Fund* Flows, €bn



Source: Morningstar: Global Sustainable Fund Flows: Q4 2021 in Review (and prior reports)
** Open-end funds & ETFs domiciled in Europe that, by prospectus, fact sheet, or other available resources, claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal. Excludes money market funds, feeder funds, and funds of funds.*

2. AIM Portfolio Service

Offered within BPS, which provides clients with tax-enhanced investment opportunities by investing in a portfolio of AIM-listed companies (typically 30-40 smaller, high-growth companies), which qualify for Business Property Relief, allowing investors to benefit from Inheritance Tax exemptions.

3. Decumulation Service

Offered within BPS, which provides a portfolio designed to help meet clients' income requirements through their retirement by aiming to shield the portfolio from downturns in the early years of withdrawals. Its structure is specifically adapted to address short-term sequencing risk, while retaining the ability for longer-term assets to contend with inflation risk by splitting client assets between a short-term portfolio invested in cash and short-term structured return assets in the early years of retirement and a longer-term portfolio invested in growth assets.

4. Court of Protection Service

Offered within BPS, a proposition that supports clients with court-appointed deputies and their advisers, where the individual lacks the mental capacity to make their own financial decisions and includes targeted communication and support mechanisms.

5. Charity Bespoke Portfolio Service

A service designed for trustees to develop a tailored investment solution for their charity's specific individual requirements. The bespoke nature of this service comes into play to reflect any ethical considerations, income or capital requirements, attitude to risk, investment objectives and time horizon of each charity.

Investment performance key to competitive position

While the above range of products and services puts BM in a strong position to satisfy the top-ranked criteria advisers use to select an investment manager ('range of investments'), it is also a very strong competitor on the second-ranked criteria ('investment track record').

To this end, **when its five primary risk-rated portfolios are compared to their benchmarks over 1, 3, 5, and 10 year periods** – a total of 20 comparative points – **BM has only underperformed compared to benchmark three times** (see table below: outperformance shaded in green, underperformance in red).

Consistently strong investment performance, %

	1 year to 31.12.21	3 years to 31.12.21	5 years to 31.12.21	10 years to 31.12.21
BM Low Risk	**4.27**	**16.92**	**19.37**	**58.18**
ARC Sterling Cautious PCI	4.23	17.35	18.15	45.73
Relative performance	**0.04**	**-0.42**	**1.22**	**12.45**
BM Low-to-Medium Risk	**7.54**	**26.02**	**30.18**	**82.94**
ARC Sterling Balanced Asset PCI	7.64	25.45	27.02	72.90
Relative performance	**-0.10**	**0.56**	**3.16**	**10.04**
BM Medium Risk	**10.52**	**35.23**	**41.31**	**107.02**
ARC Sterling Steady Growth PCI	10.24	32.55	36.84	100.15
Relative performance	**0.29**	**2.67**	**4.47**	**6.87**
BM Medium-to-High Risk	**12.13**	**46.32**	**54.73**	**138.32**
ARC Sterling Equity Risk PCI	12.31	40.29	46.12	125.71
Relative performance	**-0.18**	**6.03**	**8.62**	**12.60**
BM High Risk	**12.68**	**52.18**	**62.94**	**161.68**
ARC Sterling Equity Risk PCI	12.31	40.29	46.12	125.71
Relative performance	**0.37**	**11.89**	**16.83**	**35.97**

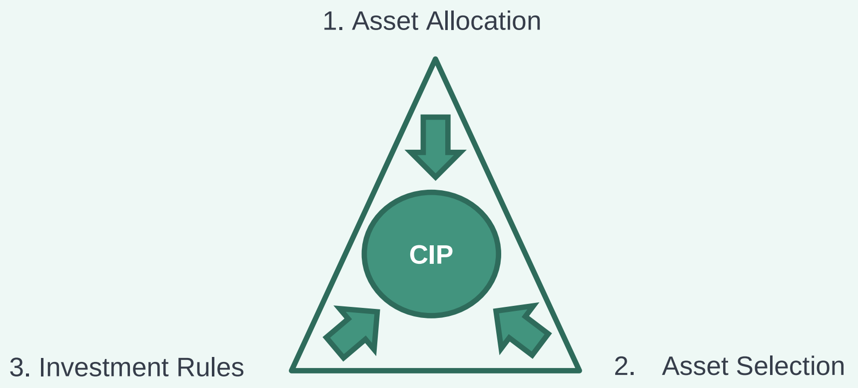
Source: Brooks Macdonald, Asset Risk Consultants (ARC)
All figures rounded to 2 decimal places. Totals/differentials may differ from sums/differences of components due to rounding.
All performance figures net of underlying fund charges and Brooks Macdonald management fees but gross of professional adviser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

Underpinning the level and consistency of the above performance is what BM calls its '**Centralised Investment Process**' or CIP.

This involves encouraging rigorously considered inputs into investment decisions from across the organisation (and where appropriate, from external providers). It is recognised that no individual investment manager, research analyst, or member of the Chief Investment Office team has a monopoly on good ideas, and that once a conclusion has been reached that an idea is a great one, that particular investment idea is used as widely as possible for all suitable strategies.

BM describes its CIP in more detail as a 'triangulation' of processes that drives final investment decision (see below):

BM's Centralised Investment Process (CIP)



Source: BM, ED

1. Asset allocation

BM has an Asset Allocation Committee that meets monthly to determine a **house view** on the most appropriate asset allocations (geographies, asset classes etc) for its various portfolios.

External service providers such as independent macro research providers, economists, data providers, and and the research teams of investment banks provide inputs to the committee, in addition to BM's in-house investment strategists.

2. Asset Selection

Following the formulation of the house view on asset allocations, BM's investment managers and research analysts (the core of sector research teams) tackle sector research.

With oversight and peer review from the Asset Selection Committee, the ideas generated by the sector teams formulate an **asse**t **buy list** – essentially a list of rigorously researched assets that can be selected for inclusion in investment portfolios.

3. Investment Rules

Finally, a set of **investment rules** are designed to operate successfully through a range of stressed market conditions. For BM's bespoke and managed portfolio services, these are the key inputs into the risk management system which assesses portfolios daily for deviations from expected volatility, asset allocation, buy list and concentration limits.

The Investment Committee is responsible for setting these rules and for driving the overall investment philosophy of the firm.

Digital transformation to drive service and operational excellence

Another key focus area pursued by BM is to deliver service and operational excellence – with the consequential benefits of enhancing its competitive position, improving operational efficiency, capturing operational leverage as the business grows, and consequently, growing profit margins over time (it has set **a target of delivering top quartile underlying profit margins over the medium-term** – this is discussed in more detail on pages 17 & 18).

At a practical level, the cornerstone of BM's drive to improve its service delivery and operations is a digital transformation programme which is underpinned by a technology and services partnership with NASDAQ-listed SS&C – one of the world's largest technology and outsourcing providers to the investment sector (ssctech.com) – announced in October 2020.

Key elements of the partnership (and current status level) include:

- Transferring a range of administrative processes, including funds administration and portfolio management to the SS&C platform, including transferring 50-60 BM staff to SS&C – *mostly completed during 2021, transfer of client- and intermediary-facing processes ongoing.*
- Introducing automated client onboarding including fully digital and paperless applications, digital signatures, digital and remote client checks and identity verification etc – *completed and live with internal IFAs, currently being rolled out to external IFAs*.
- Introducing full adviser and client facing portal functionality (a fully digital 'front office' experience), including bespoke reporting for advisers and clients – *currently underway with live roll-out to take place in early-2022.*

Selective M&A completes growth strategy

In addition to all of the above organic growth drivers, BM considers selective, high-quality acquisitions as an opportunity to accelerate its growth strategy and enhance returns to shareholders.

Its stated criteria for acquisition targets are: "*high-quality businesses that are a good strategic and cultural fit and have compelling economics*."

Its two most recent acquisitions provide a good example of this and could be characterised as being financially attractive with fairly low execution risk (no major system integrations required, just moving acquired business onto BM systems) and should, in the future, leverage the scalability of the digital solutions being put in place (above) i.e., having low marginal costs associated with the new FUM brought to the group.

Lloyds Bank International

Most recently, in Dec 20, BM completed the acquisition of Lloyds Bank International's Channel Islands wealth management and funds business (Lloyds). This acquisition certainly met the above criteria but in addition, provided some significant strategic benefits for BM's international business. The main benefits of the acquisition included:

- £900 million additional FUM and around new 1,000 private clients.
- Adding multi-asset and fixed income fund capability, augmenting, and filling a gap in BM International's proposition.
- An extension of BM International's intermediary distribution reach.
- A mutual referral agreement, whereby BM will introduce clients where appropriate to Lloyds' international banking services and Lloyds will reciprocate, introducing international banking clients to BM's investment management and financial planning services.

Subsequently to the acquisition, BM opened a new office in Isle of Man, to capture referred business from Lloyds, which also opens up a new growth opportunity for BM International.

The consideration paid was £8.3m (including £3.0m of regulatory capital, so effectively a £5.3m consideration for the business itself), paid upfront (funded from current cash) with a contingent consideration of up to £0.33 million payable two years after completion, linked to performance targets.

In Sep 21, BM CFO Ben Thorpe announced that he expected the acquired business to have generated the full consideration price paid, in net cash terms, by the end of Dec 21 i.e. within one year of the acquisition.

Cornelian Asset Managers

Prior to this, in Feb 20, BM completed the acquisition of Edinburgh-based **Cornelian Asset Managers**. This acquisition:

- Added around £1.4bn of FUM, £10.3m of revenue and £3.4m of EBITDA (year to Sep 19).
- Strengthened BM's intermediary distribution reach (by around 500 intermediaries).
- Added a range of proven multi-asset funds.
- Added scale to BM's direct client offering (around 450 direct private clients).
- Was forecast to capture around £3.75m in cost synergies by the end of the first full financial year that included the Cornelian business.

BM agreed to pay up to £39m for this business, with an initial consideration of £31m and up to £8m depending on Cornelian meeting performance targets relating to the retention and growth of client assets and the realisation of cost synergies.

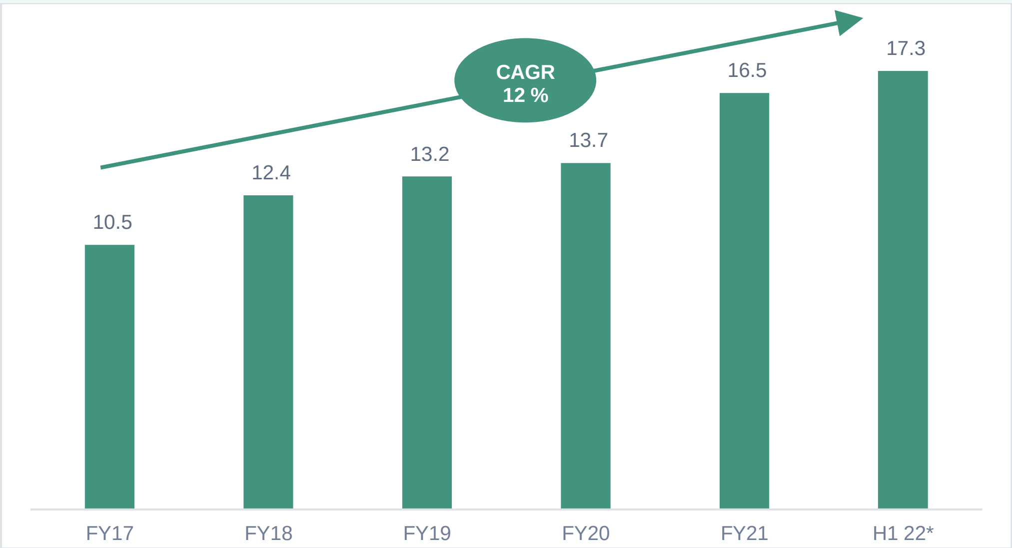
The consideration paid represented an estimated pre-synergy PE multiple of 14 times and a post cost synergy PE multiple of 7 times. In Sep 21, BM reported that the underlying financial performance was exceeding expectations and EPS accretion for its first full year under the BM umbrella exceeded the 9% target.

In its H1 22 results release, BM has reiterated that it continues to see strong delivery from both the Lloyds and Cornelian acquisitions, with higher than planned EPS accretion.

Growth momentum gathering steam

FUM growth over the last 4-5 years has been steady, with a compounded annual growth rate of 12%. However, since the end of FY20 i.e., **over the last 18 months, growth has undoubtedly ratcheted up a notch, with FUM growing by £3.6bn or 27% over this period**, from £13.7bn to £17.3bn.

Total FUM at FY-end, £bn



Source: Company reports, ED analysis
** at 31 Dec 21*

Investment performance and acquisitions have been the primary drivers of this growth in recent years.

Sources of FUM gains/(losses), £bn

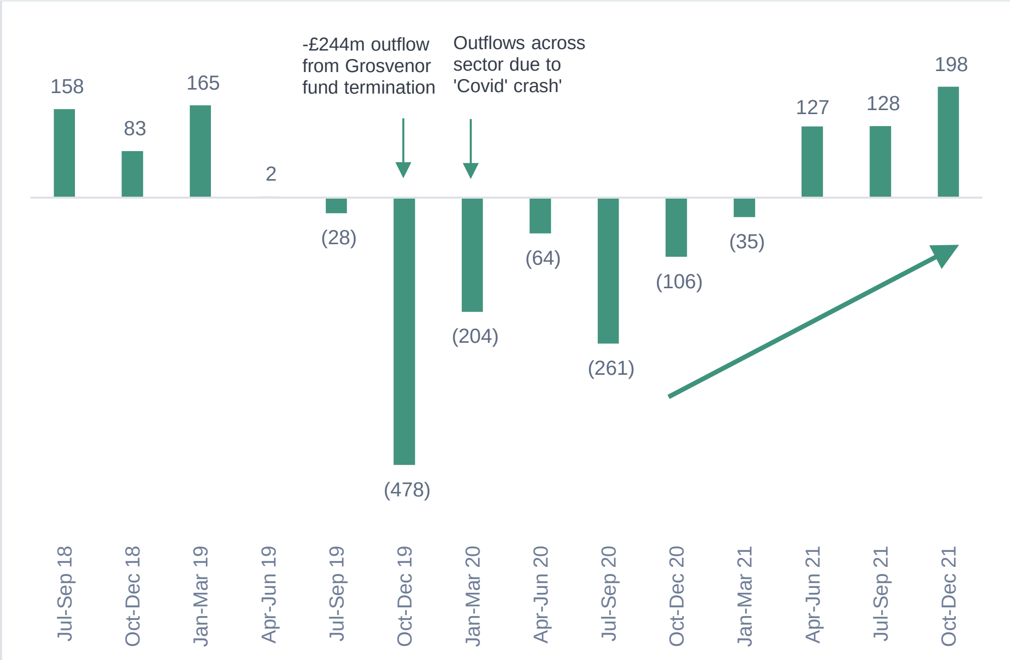
Source: Company reports, ED analysis
** at 31 Dec 21*

It is certainly fair to say that BM experienced a rocky patch when it comes to net flows during FY20 and FY21. This was for a number of reasons, including:

- The termination of a number of significant fund mandates, for commercial reasons i.e., the pricing demands of clients could not be met on a commercially viable basis for BM (such as the £244m Grosvenor funds in late-2019);
- Outflows associated with the 'Covid Crash' of Feb-Mar 2020, a phenomenon which was widespread across the sector; and
- Short-term consequential effects of its restructuring which included making around 20 investment managers and senior business heads redundant during 2019, and probably contributed to the voluntary departure of a number of investment managers, with some FUM 'following' ex-BM investment managers.

However, as BM's restructured operations have bedded down, and the benefit of its new technology starts to kick in, **it is abundantly clear that the momentum of FUM flows has turned around**. This can be seen from the below chart which plots quarterly net flows over the last few years.

Quarterly net flows, £m



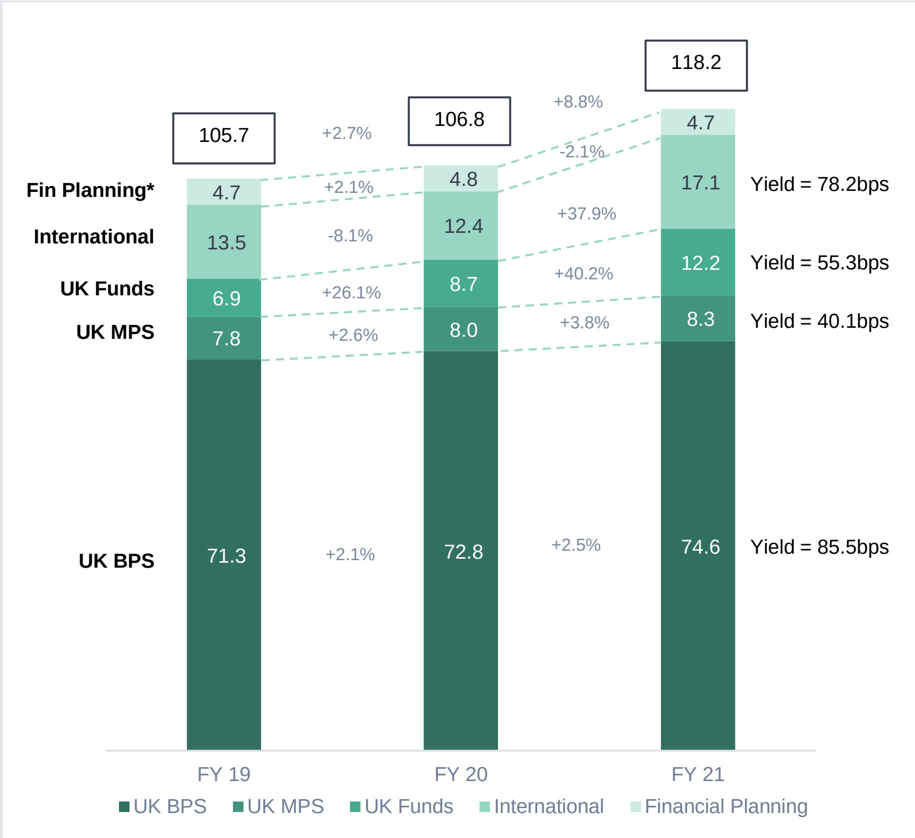
Source: Company reports, ED analysis

Financial track record and outlook

Revenue

Revenue generated per core product is not only dependent on FUM levels of each product, but on the yield of each product (revenue as a proportion of FUM), which differs quite significantly between products.

Core product revenue split, £m



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

BPS, being bespoke and service-intensive, is the **highest yielding product** (85.5bps in FY21). As such, its share of revenue is higher than its share of FUM (64% vs 57%). Its growth outlook is moderate.

MPS, being a far more standardised product, is BM's lowest yielding product (40.1bps) but **general market demand for MPS is very strong, BM has a competitive offering, and hence the growth outlook for MPS is also strong.** Importantly, while BM does not report a cost or profit split between BPS or MPS, MPS is not necessarily a lower margin product than BPS, as costs are far lower.

The UK funds segment commands a yield that is a little higher than MPS but still significantly below BPS (55.3), and its growth outlook is moderate.

International meanwhile commands a high yield (average 78.2bps for FY 21, with 'legacy' BM business yielding 72.1bps and the recently acquired Lloyds' business yielding 98.1bs). With the Lloyds business only being on the books for around half of FY21, the average yield of this segment is expected to increase. When this is coupled with the growth opportunities associated with this acquisition, **the revenue growth outlook for the international business is very strong indeed**.

Financial planning is a fee driven business with a moderate growth outlook.

Costs and profitability

BM reports 'underlying' costs and profits, in addition to its full statutory reporting, and it is these underlying measures which are the best starting point 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

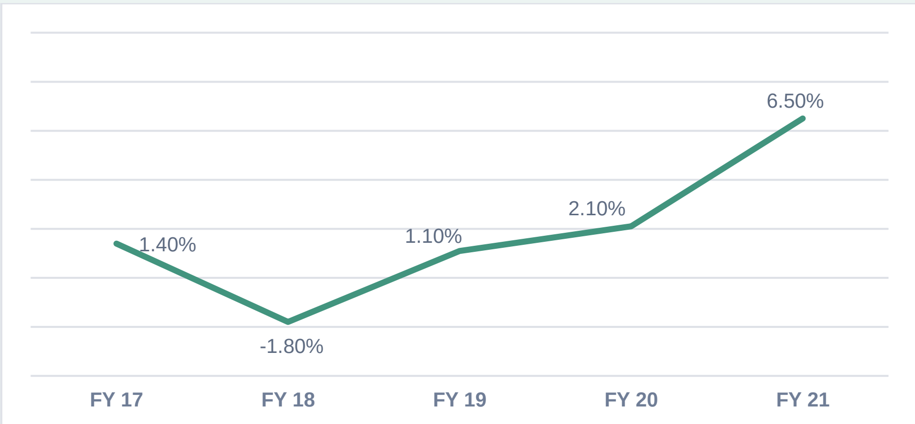
	FY 19	FY 20	FY 21	H1 22
Revenue	**107.3**	**108.6**	**118.2**	**61.9**
Total underlying costs	**(86.6)**	**(85.6)**	**(87.6)**	**(44.3)**
Staff cost	(41.6)	(39.9)	(40.0)	(20.0)
Non-staff cost	(34.2)	(35.0)	(34.5)	(16.0)
Variable pay	(11.0)	(10.8)	(13.1)	(8.3)
Underlying PBT	**20.7**	**23.0**	**30.6**	**17.6**
Underlying PBT margin	**19.6%**	**21.2%**	**25.9%**	**28.4%**

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

It can be seen from the above table that **while growing revenue, BM has reduced its staff costs in absolute terms over the two-year period FY19 – FY 21 and its non-staff costs in absolute terms over the last year (FY21). The result is a significant jump in underlying profit margin from 19.6% in FY19 to 25.9% in FY21, which increased further to 28.4% in H1 22. This is clear evidence of the success of its recent projects to streamline its operating processes and modernise its systems.**

Further evidence of BM's progress in capturing operating leverage can be seen over a slightly longer time horizon through is 'Jaws ratio', which is the difference between revenue growth and underlying cost growth, measured as a percentage. This ratio is on a strong positive trajectory, which bodes well for future margin expansion.

Jaws ratio (revenue growth minus cost growth)



Source: Company

Looking forward, BM has committed to achieving a top-quartile underlying profit margin over the medium-term. Quantifying this ambition is not an exact science, as business models differ quite significantly even within the investment management/wealth management sector, as do reporting metrics. But we have identified a peer group with business models that are closest to BM, and that report a profitability measure that is equivalent or similar to BM's underlying profit margin.

When we consider BM's current underlying PBT margin of 25.9% and compare it to the closest equivalent metrics of this peer group, and consider the potential to capture further operating leverage, **we think a medium-term underlying profit margin target of around 30% is realistic**.

Peer comparison: Underlying profit margins

	Closest equivalent measure*	FY 19	FY 20	FY 21	3Y ave	
Tatton	Adjusted operating margin	41.7%	42.5%	48.8%	44.3%	
Rathbones	Underlying operating margin	25.5%	25.3%	27.7%	26.2%	
Mattioli Woods	Adjusted PBT margin	20.3%	27.4%	22.7%	23.5%	
Quilter	Operating margin	26.0%	19.0%	22.0%	22.3%	
Brooks Macdonald	**Underlying PBT margin**	**19.6%**	**21.2%**	**25.9%**	**22.2%**	(H1- 22: 28.4%)
Brewin Dolphin	Adjusted PBT margin	22.1%	21.6%	22.4%	22.0%	
Charles Stanley	Underlying PBT margin	9.3%	11.7%	10.0%	10.3%	

Source: Company reports
**to BM's 'Underlying PBT margin'*

Turning to statutory costs and profits, it is notable that in recent years, the accounting treatment of acquisitions (mainly) has created some fairly large adjustments, both positive and negative, between underlying profit and statutory profit. These are summarised below.

Underlying PBT to Statutory PBT bridge, £m

	FY 19	FY 20	FY 21	H1 22
Underlying PBT	**20.7**	**23.0**	**30.6**	**17.6**
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]	
Amortisation of client relationships	(2.2)	(2.9)	(4.9)[2]	(2.7)[7]
Client relationship contract impairment	(2.3)	-	(1.5)[3]	
Dual running operating platform costs		-	(1.0)[4]	(1.6)[4]
Fair value changes to deferred consideration	0.2	(0.2)	(0.4)	(0.1)
Goodwill impairment	(4.8)	(4.5)[6]	-	
Head office relocation costs		(1.2)	-	
Restructuring charge	(3.3)			
Statutory PBT	**8.3**	**10.0**	**25.1**	**13.2**

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 over H1 21 due to Lloyds acquisition which completed on 30 Nov 21

Balance sheet and cash position

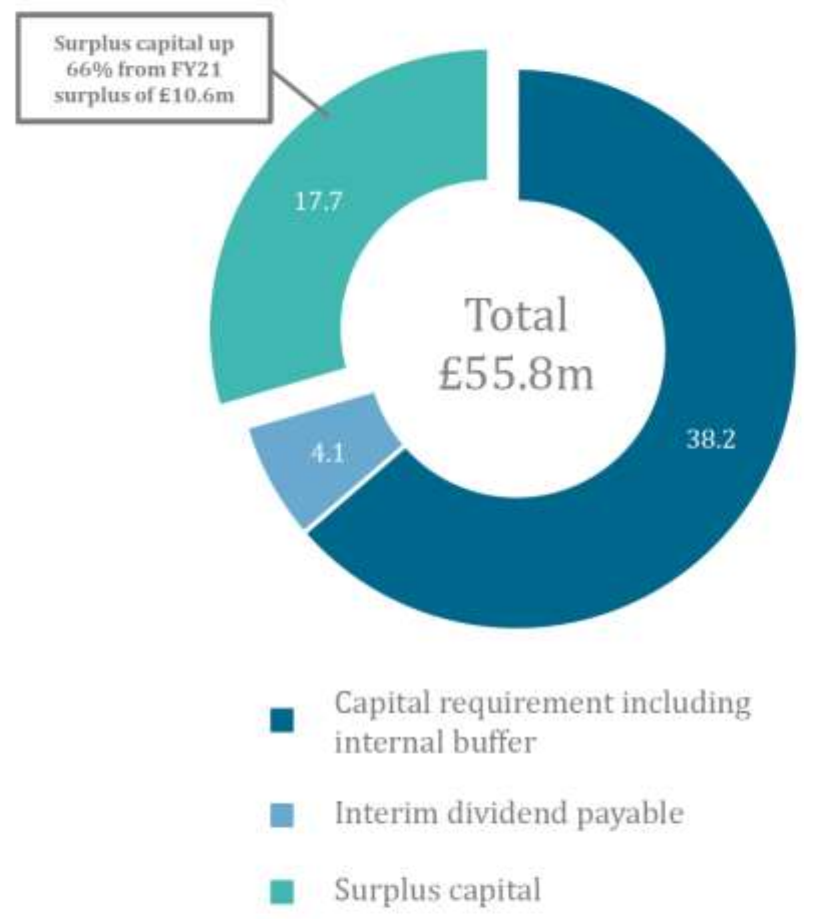
BM has a robust balance sheet, with net assets of £140m on 31 Dec 21 (H1 22), up from £134m at the end of FY21 (30 June 21), and £124m in FY20.

Its cash and equivalents were £45.7m on 31 Dec 21, down from £54.9m at the end of FY21 (due primarily to the payment of the FY21 final dividend of £6.3m and a deferred consideration payment of £6m which was the final payment for the acquisition of Cornelian Asset Managers) and £50.2m in FY 20. **It has no debt.**

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 **£17.7m of surplus cash**, up 66% from the 30 Jun 21 surplus of £10.6m.

Surplus capital as at 31 Dec 21



Source: Company

Dividends

BM pursues a progressive dividend policy, with the dividend increasing every year since its shares started trading on AIM in 2005.

It has, over the last few years, paid out around 40% of underlying diluted earnings per share. This has translated to a healthy growth in dividends, with **BM's current dividend yield being 3.0%**

Historical dividend statistics

	FY17	FY18	FY 19	FY 20	FY 21
Dividend growth	17.1%	14.6%	8.5%	3.9%	18.9%
Underlying diluted EPS (p)	104.7	121.1	123.5	123.7[1]	155.1
Pay out rate[2]	39%	39%	41%	43%	41%

Source: Company
1 FY20 Underlying EPS impacted by share placing for Cornelian acquisition against only four months of earnings, inflating DPS.
2 Pay-out rate calculated as DPS divided by underlying diluted EPS.

Management have however indicated that they are **aiming to increase BM's dividend pay-out rate by 1-2% per year** and ultimately increase it to around 50% over the medium term.

Given BM's growth prospects and the potential for operating leverage to boost profits, we are bullish on the prospects for BM to be able to grow its dividend at a rate in excess of that of the last few years,

H1 22 financial results

The half-year to 31 Dec 21 has seen BM continue the strong momentum of FY21.

FUM

All of BM's reporting segments showed FUM gains for the half year, buoyed by strong market movement and investment performance gains, and very pleasing inflows in the two main UK product lines (BPS and MPS).

FUM movement during H1 22, £m

	Opening FUM (30 Jun 21)	Net flows	Market movements & Investment performance	Closing FUM (31 Dec 21)	Growth	Clo (31
BPS (UK)	9,460	57	297	9,814	+3.7%	
MPS (UK)	2,411	318	105	2,834	+17.5%	
Funds (UK)	2,076	(47)	70	2,099	+1.1%	
International	2,512	(2)	72	2,582	+2.79%	
Group Total	**16,459**	**326**	**544**	**17,329**	**+5.3%**	1

Source: Company reports

In particular, BM has reported strong growth from Brooks Macdonald Investment Solutions (BMIS), the B2B 'premium' MPS offering (see page 8), with FUM up 60% over the half year, and more generally in Platform Managed Portfolio Service (MPS) which grew around 20%.

It also reported continuing positive net flows in BPS, with the strongest momentum in the Private Clients business and in the specialist products of Responsible Investment, Decumulation, Court of Protection and AIM.

Small net outflows were reported by UK Funds and International, however International did return to positive net inflows in Q2 (+£12m vs -£14m in Q1), which BM attributes to both improved client retention and increasing inflows.

Revenue

Group revenue grew 10.7% y-o-y to £61.9m (H1 21: £55.9m).

The UK Investment management (UKIM) segment grew revenue 4.3% to £50.9m (H1 21: £48.8m), slightly behind FUM growth of 5.7% due mainly to a reduction in average yield from 73.2bps over FY21 to 65.9bps in H1 22. This was in turn mainly due to: 1) a changing product mix (lower yielding MPS growing faster than higher-yielding BPS [+17.5% vs +3.7%, see table above], and more specifically, especially strong growth in Platform MPS which has a lower yield than the average MPS yield); and 2) lower transaction-related income.

Within UKIM, BPS revenue grew 1.4% to £36.8m; **MPS grew 22.5% to £4.9m**; Funds grew 4.9% to £6.4m; and UK Financial Planning grew 15.8% to £2.2m.

The International segment grew revenue 54.9% to £11.0m, with the y-o-y growth comparison boosted by H1 22 recording a full half-year of revenue from the Lloyds acquisition (which H1 21 did not – the transaction only completed towards the end of H1 21).

An additional underlying positive sign for the international business is that fee income yields increased by 1.6 bps from 54.4bps to 56.0 bps on FY21 due to higher performance and custody fees in the period.

Costs and profitability

Underlying costs increased by 5.7% from £41.9m £44.3m, however the full-period costs of the Lloyds acquisition (£2.4m) were solely responsible for the increase. **Like-for-like underlying costs were flat.**

It is clear to us that **BM continues to demonstrate that it is benefitting from operating leverage** (following its investment in technology and the restructuring of processes over the last few years) and maintains cost discipline, with underlying profit before tax rising 25.7% to £17.6m (H1 21: £14.0m) – far higher than revenue growth of 10.7%. **Underlying profit margin increased 3.3 percentage points to a new high of 28.4%** (H1 21: 25.1%).

Underlying basic earnings per share increased 20.7% to 88.6p (H1 21: 73.4p).

Statutory profit before tax fell 6.4% to £13.2m (FY21: £14.1m), however FY 21 was boosted by a £5.0m exceptional gain related to the Lloyds acquisition (considered a bargain purchase for accounting purposes). If this exceptional gain is excluded, statutory PBT rose 45.0%.

Statutory basic earnings per share fell 15% from 77.3p to 65.5p, primarily for the same reason as above.

Balance sheet and cash

BM maintained its **healthy balance sheet**, with net assets increasing 8.8% y-o-y to £140.4m (H1 21 £129.0m), while cash and equivalents increased 18.4% y-o-y to £45.7m (H1 21: £38.6m).

Dividends

BM's interim dividend increased 13% to 26.0p (H1 21: 23.0p) in line with its progressive dividend policy, supported by the very strong capital position and the Board's continuing confidence in BM's prospects (as stated in the interim results announcement).

Current trading

This note is being published following sharp financial market falls in January and February 2022, and in the midst of a period of extremely high market volatility, primarily as a consequence of Russia's invasion of Ukraine.

While BM has reported that is has no direct exposure to Russia in its discretionary client portfolios or its funds, and that it has a fairly negligible exposure of ~0.1% of FUM through holdings in third party funds in client portfolios, current market conditions will inevitably introduce volatility into BM's overall FUM levels over the short-term, which could in turn have an impact on revenue and profitability.

However, being just over two months into FY22, it is far too early to estimate the impact of recent and ongoing market volatility and uncertain macro-economic conditions. We will have an early indicator of the short-term impact on FUM when BM provides its Q3 FUM update in early April 2022.

Despite the above uncertainty, BM has stated that it remains confident in its medium and longer-term prospects, and for the reasons we have detailed in this note, so do we.

Executive Management

Andrew Shepherd, Chief Executive Officer. Andrew joined Brooks Macdonald in 2002 and was appointed CEO in 2021. He has held numerous roles across the Group, including Group Deputy CEO since 2015, and most recently CEO of the International business since 2019.

Andrew has worked in investment management and financial services since 1994. Prior to joining Brooks Macdonald, Andrew worked at Shepherd Associates Financial Management, holding the position of investment director.

Ben Thorpe, Chief Financial Officer. Ben joined Brooks Macdonald in August 2018 as Chief Financial Officer and an Executive Director on the Group Board. He has 18 years of financial services experience, most recently as Head of Finance at Brewin Dolphin where he was responsible for Group Financial Planning and Analysis, Financial Control, Tax and Treasury.

Prior to Brewin, Ben spent 14 years working in the financial planning and analysis teams at Morgan Stanley, RBS and Barclays Capital with his last role being Managing Director, Strategy and Change at Standard Bank South Africa in Johannesburg.

Lynsey Cross, **Chief Operating Officer.** Lynsey joined Brooks Macdonald in May 2020 as Chief Operating Officer (COO). Lynsey is responsible for advancing how the Group serves their advisors and clients and leads the Group's investment in technology, systems and processes.

With over 25 years of financial services experience, Lynsey has worked in a number of senior roles across both asset management and insurance. More recently she was CEO of ANV Group until she led the company through its acquisition to AmTrust. She was then appointed COO of AmTrust International to oversee their complex integration program.

Additionally, Lynsey is Chair of Diversity & Inclusion at Insurance Institute London and is a Non-Executive Director of MSE NHS Foundation Trust.

Robin Eggar, Managing Director, Head of UK Investment Management. Robin joined Brooks Macdonald in 2001. He is responsible for the day-to-day management of the investment management and private clients arm of the business.

Robin holds the Certificate in Private Client Investment Advice & Management (PCIAM), the Investment Management Certificate (IMC) and the Advanced Financial Planning Certificate (AFPC). He is also a Chartered Member of the Chartered Institute of Securities & Investment (Chartered MCSI).

Tom Emery, Chief People Officer. Tom joined Brooks Macdonald in 2017 as HR Director and is responsible for delivery of the Group's people strategy and remuneration policy. He is a member of the Executive Committee and also chairs the People Committee.

Prior to joining Brooks Macdonald, Tom worked for a number of years at HSBC, where he spent time leading HR for First Direct and running the HR Operations team. He has worked in HR since graduating from the University of Manchester in 2002.

Richard Hughes, CEO International. Richard joined Brooks Macdonald in 2013 and was appointed International CEO in July 2021.

Prior to joining Brooks Macdonald, Richard worked at Vistra Ltd as a Business Development Director and at BNP Paribas. He has over 17 years' experience in financial services. Richard is a Chartered Member of the Chartered Institute for Securities & Investment (CISI) and the Institute of Directors (IoD). In 2017 Richard was appointed Chairman of Cancer Research UK Jersey, a voluntary position.

Alick Mackay, Strategy & Corporate Development Director. Alick joined Brooks Macdonald in 2017, and owns all areas of the strategy and corporate development agenda, including the Group's approach to potential acquisitions and disposals.

He has over 30 years working in financial services, principally in wealth management and banking, in roles covering strategy, consulting, COO and technology. Immediately prior to joining Brooks Macdonald, Alick worked at Royal Bank of Scotland for ten years, leading the strategy team in the investment bank and playing a COO role in the capital markets business. He has also worked for ABN AMRO and McKinsey.

Alick has a degree in Mathematics & Natural Philosophy from the University of Aberdeen, an MSc in Mathematics from the Open University and an MBA from Columbia Business School, New York.

Edward Park, Chief Investment Officer. Edward joined Brooks Macdonald in 2009 and is the Chief Investment Officer sitting on the Executive Committee and Executive Risk Management Committee. He is responsible for the construction and implementation of the investment process through oversight of the investment buy list, the investment rules and the firm's asset allocation positioning. Edward sits on the Investment, Asset Selection and Asset Allocation Committees and is a leading spokesperson for Brooks Macdonald.

In addition to his role within the centralised investment proposition, Edward retains private client relationships to ensure he is involved throughout the investment process. Edward is a Chartered Financial Analyst (CFA) Charterholder.

Priti Verma, Chief Risk Officer. Priti has 18 years of experience in financial services, predominately overseeing risk, compliance and internal audit activities in asset and wealth management firms, including Schroders, Aviva Investors, Pictet and Smith & Williamson.

Priti joined Brooks Macdonald in June 2018 and officially took up the role of Chief Risk Officer in August 2018.

Shareholdings

The shareholding of Brooks Macdonald is well diversified, with a highly credible list of larger shareholders and a free float which should provide ample liquidity for smaller investors.

Substantial shareholdings*

Shareholders with > 3% voting rights	% of voting rights
Liontrust Asset Management	19.8
Octopus Investments	15.6
Brooks Macdonald Asset Management	6.9
Chelverton Asset Management	6.2
abrdn	5.4
Invesco	5.0
Artemis Investment Management	4.9
Fidelity International	3.5
Cannccord Genuity Wealth Management	3.4
Gresham House Asset Management	3.3
Brooks Macdonald Employee Benefit Trust	3.2
Top 11	**77.2%**
Largest management shareholders	
Andrew Shepherd (CEO)	0.21%
Ben Thorpe (CFO)	0.06%
Total shareholding percentage across senior management team and material risk-takers, including vested and unvested options	4.4%

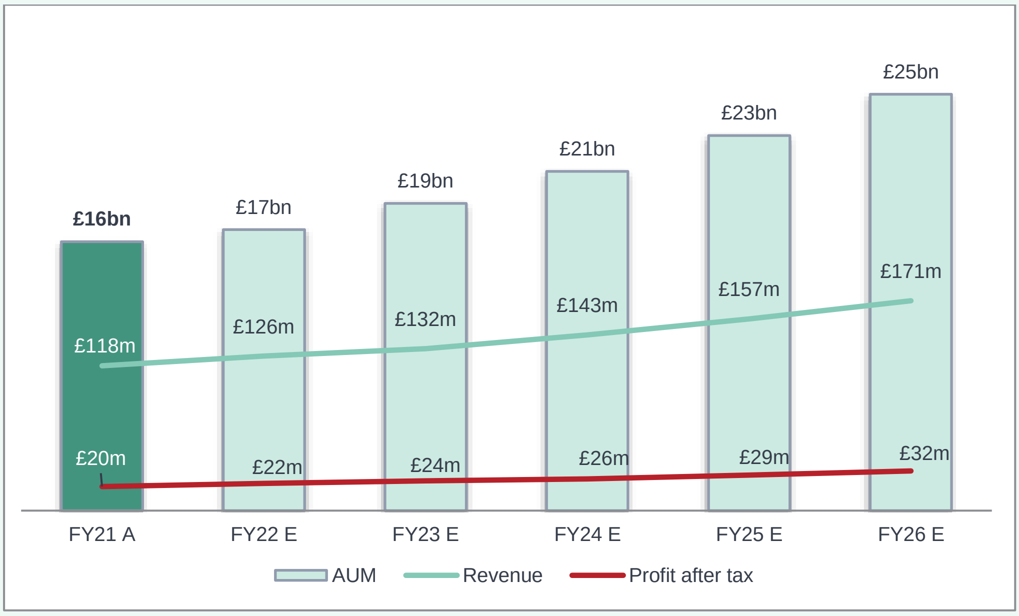
Source: Company
*As of 1 Jan 2022

Growth forecasts and valuation

Growth forecasts

Based on the business outlooks previously described, we forecast the following 5-year projections for BM (a summary in the chart, with more detailed metrics in the table below it).

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates

Key Financials

Year-end 30 Jun	FY19A	FY20A	FY21A	FY 22E	FY 23E	FY24A	FY 25E	FY 26E
AUM, £bn	13.2	13.7	16.5	17.2	18.8	20.8	23.0	25.5
Rev, £m	107.3	108.6	118.2	126.1	132.2	143.5	156.6	171.3
Underlying expenses*	86.6	85.6	87.6	92.5	96.6	104.6	113.8	124.2
Underlying PBT*	20.7	23.0	30.6	32.9	34.8	38.2	42.0	46.2
Underlying PBT margin	19.6%	21.2%	25.9%	26.1%	26.4%	26.6%	26.8%	27.0%
Statutory PBT, £m	8.6	10.1	25.1	28.1	30.5	34.3	38.5	43.2
EPS basic, p	41.7	43.2	125.3	139.8	151.1	158.2	175.5	194.2
PER	52.3	50.4	17.4	15.6	14.4	13.8	12.4	11.2
Div, p	51.0	53.0	63.0	69.0	76.0	84.0	92.0	101.0
Yield	2.3%	2.4%	2.9%	3.2%	3.5%	3.9%	4.2%	4.6%
Net assets, £m	87.6	123.5	134.0	145.9	158.6	171.7	186.9	204.4
Net cash, £m	34.6	50.2	54.9	64.3	82.2	99.9	120.4	143.6

Source: Company Historic Data, ED estimates. PER and Yield based on share ***2,180p***
** 'Underlying' excludes one-off expenses, mostly acquisition-related, and goodwill amortisation, gains and losses*

We have considered BM's valuation from both a fundamental and peer comparison perspective, with both methodologies suggesting **substantial re-rating potential** if BM delivers on its strategic plans.

Fundamental valuation:

Our fundamental valuation is based on a discounted cash flow methodology, using the above growth forecast as the primary inputs. Key assumptions include:

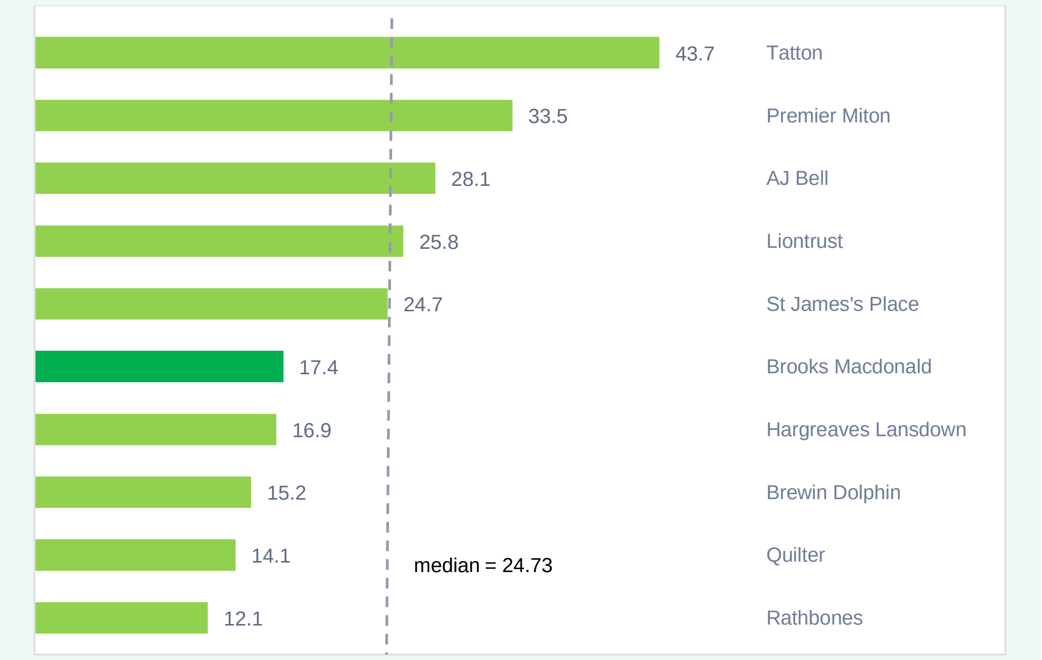
- BM continues to build on its current positive net inflow trajectory, growing this over time to sector median levels of 7.5% of opening assets per annum, which would translate to net inflows of around £1bn p.a. in 3-4 years, and £1.5bn p.a. in 5-6 years.
- FUM growth from investment returns are 5% per annum (bearing in mind that BM's primary business is managing investment portfolios ranging from defensive to aggressive so average investment returns should be considered through the lens of a balanced portfolio, rather than through the expected returns of equity markets. We also remind readers that investment returns will inevitably be subject to a degree of volatility as a result of market movements.
- A terminal value based on an assumption that the business is acquired at a PE multiple of 15 at the end of year five – which we believe is conservative and well below the sector's median PE (see below - although we highlight that the current sector median PE is above historical levels, for example, in December 2019, the sector median PE was around 17)
- Discounting the cash flows from the above assumptions at a discount rate of 7.5%, based on a risk-free rate of 1.40%, an equity market risk premium of 6.0%, and a beta of 1.00.

This produces a per share fundamental value of 3,250p, 49% above the current share price of 2,180p.

Peer Comparison

We have also compared the relative valuation of BM to a group of peers, on a price-earnings ratio basis, and highlight that **BM's PE ratio of 17.4 is 30% below the sector median of 24.7**.

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



Source: ADVFN, as of 9 Mar 2022
Note: Mattioli Woods would normally be included in this peer group but its PER of 143 is severely distorted by 'one-off' expenses depressing statutory earnings in its last financial year – hence it has been omitted.

In selecting the above peer group, we have included UK-listed entities that have significant parts of their businesses delivering investment management and wealth management services, and that distribute these services via financial advisers, platforms, or directly to private investors.

Hence these peers have some similarities with BM in the way the funds they manage are invested (a significant proportion being in multi-asset class portfolios), their distribution channels, and their operations.

We have omitted 'pure play' asset managers whose distribution is predominantly to institutional investors and whose FUM is dominated by a specific asset class such as equities or bonds (e.g. Impax Asset Management, Polar Capital, Man Group, River and Mercantile, Ashmore etc).

Investment case

- **BM is operating in a huge market with substantial tailwinds** that should fuel growth substantial growth over the medium to long term.
- **It has a long-standing brand and franchise in the UK and Channel Islands,** nurtured over 30+ years, which underpins its growth potential.
- It has a **track record of delivering superior investment returns** compared to benchmarks, which is one of the most important factors used by financial advisers (BM's primary distribution channel) when selecting an investment manager.
- It has produced solid FUM growth in recent years, driven mainly by its strong investment performance and attractive-looking acquisitions. Over the last year or so, it has also **returned to a trend of growing net inflows**, which, if maintained, should result in accelerated FUM growth.
- The **multi-year project of re-engineering operations and the use of technology is now nearing completion**. Back-office changes are substantially completed, and in addition, a range of enhanced client-facing functionality is now being rolled out. The benefits of the investment in this project over recent years should now start to be seen via revenue growth (as a result of new client features etc) and via enhanced profitability as **operating leverage** kicks in as the business grows without substantial marginal cost additions (taking advantage of the new technology platform).
- **On both a fundamental and peer comparison basis, BM appears undervalued**.

We see potential for a re-rating.

Appendix 1: Historical and forecast Financials

Consolidated Income Statement + Forecasts						
12 months to end Jun, £'000	**FY20A**	***H1 21A***	**FY21A**	***H1 22 A***	**FY 22E**	**FY 23E**
Revenue	**108,558**	***55,855***	**118,206**	***61,941***	**127,167**	**133,282**
Administrative costs	(93,794)	*(46,371)*	(96,012)	*(48,517)*	(97,337)	(100,902)
Gross Profit	**14,764**	***9,484***	**22,194**	***13,424***	**29,830**	**32,380**
Other gains/(losses)	(4,519)	*(18)*	(1,438)	*28*	-	-
Operating Profit	**10,245**	***9,466***	**20,756**	***13,452***	**29,830**	**32,380**
Gain on bargain purchase	-	*4,966*	4,966	-	-	-
Finance Income	261	*31*	47	*16*	51	53
Finance Expense	(454)	*(317)*	(678)	*(229)*	(729)	(764)
Profit Before Tax	**10,052**	***14,146***	**25,091**	***13,239***	**29,151**	**31,669**
Tax	(3,626)	*(2,003)*	(5,449)	*(2,955)*	(6,122)	(6,492)
Profit After Tax	**6,426**	***12,143***	**19,642**	***10,284***	**23,029**	**25,177**
Proftit/(Loss) from discontinued Operations	-	-	-	-	-	-
Profit attributable to shareholders	6,426	*12,143*	19,642	*10,284*	23,029	25,177
Basic EPS, p	43	*77*	125	*66*	145	157
Diluted EPS, p	43	*77*	125	*63*	141	153

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts						
As at end Jun, £'000	**FY20A**	***H1 21A***	**FY21A**	***H1 22 A***	**FY 22E**	**FY 23E**
ASSETS						
Non-current assets						
Intangible assets	83,804	*94,371*	89,897	*88,241*	86,748	82,443
Property, plant and equipment	3,181	*3,295*	2,756	*2,527*	3,112	2,764
Available for sale financial assets	-	-	-	-	-	-
Right of Use Assets	6,991	*6,646*	5,979	*5,229*	4,783	3,827
Financial assets at FV through P&L	500	*500*	500	*500*	500	500
Other receivable	-	-	-	-	-	-
Deferred tax assets	1,524	*1,784*	2,736	*3,240*	2,736	2,736
Total non-current assets	**96,000**	***106,596***	**101,868**	***99,737***	**97,879**	**92,269**
Current assets						
Financial assets at FV through P&L	549	*608*	624	*867*	624	624
Trade and other receivables	26,081	*27,525*	28,449	*29,769*	30,959	33,589
Current tax receivables	-	-	32	-	32	32
Cash and cash equivalents	50,168	*38,600*	54,899	*45,715*	65,184	83,996
Total current assets	**76,798**	***66,733***	**84,004**	***76,351***	**96,799**	**118,242**
Total assets	**172,798**	***173,329***	**185,872**	***176,088***	**194,678**	**210,511**
LIABILITIES						
Non-current Liabilities						
Deferred consideration	(6,300)	*(298)*	(303)	-	-	-
Lease liabilities	(6,659)	*(6,162)*	(5,422)	*(4,545)*	(3,822)	(2,222)
Provisions	(219)	*(237)*	(279)	*(265)*	(279)	(279)
Deferred tax liability	(7,230)	*(7,987)*	(8,902)	*(8,398)*	(8,902)	(8,902)
Other non-current liabilities	(330)	*(560)*	(548)	*(785)*	(548)	(548)
Total non-current liabilities	**(20,738)**	***(15,244)***	**(15,454)**	***(13,993)***	**(13,551)**	**(11,951)**
Current Liabilities						
Trade and other payables	(22,765)	*(19,041)*	(27,055)	*(18,031)*	(31,105)	(35,351)
Current tax liability	(480)	*(118)*	-	*(118)*	-	-
Deferred consideration	(1,691)	*(1,355)*	(5,934)	*(321)*	(237)	(237)
Lease liabilities	(1,275)	*(7,799)*	(1,447)	*(1,437)*	(1,047)	(647)
Provisions	(2,308)	*(739)*	(1,979)	*(1,933)*	(1,979)	(1,979)
Total current liabilities	**(28,519)**	***(29,052)***	**(36,415)**	***(21,840)***	**(34,368)**	**(38,214)**
Net assets	**123,541**	***129,033***	**134,003**	***140,255***	**146,759**	**160,346**
EQUITY						
Share capital	161	*161*	161	*162*	162	162
Share premium	77,982	*78,071*	78,703	*78,931*	78,931	78,931
Other reserves	6,398	*7,042*	8,467	*9,801*	8,467	8,467
Retained earnings	39,000	*43,759*	46,672	*51,361*	59,199	72,786
Total equity	**123,541**	***129,033***	**134,003**	***140,255***	**146,759**	**160,346**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts

12 months to end Jun, £'000	FY20A	*H1 21A*	FY21A	*H1 22 A*	FY 22E	FY 23E
OPERATING ACTIVITIES						
Operating Profit	**10,245**	***9,466***	**20,756**	***13,452***	**29,830**	**32,380**
Discontinued operations	-	-	-	-	-	-
Adjustment for:						
Amortisation of intangible assets	5,327	*3,659*	7,682	*3,896*	6,149	6,039
Depreciation on non-current prop & equip	2,028	*463*	1,045	*429*	644	692
Depreciation of right-of use assets	1,256	*759*	1,614	*797*	1,196	957
Other losses/(gains) - net	4,519	*18*	1,438	*(28)*	-	-
Decrease/(increase) in receivables	2,642	*(1,408)*	(2,333)	*(1,320)*	(2,510)	(2,631)
(Decr)/incr in trade and other payables	(202)	*(4,203)*	3,765	*(9,079)*	4,050	4,245
(Decrease)/increase in provisions	431	*(1,550)*	(269)	*(60)*	-	-
Incr/(decr) in other non-current liabilities	(384)	*230*	218	*237*	-	-
Discontinued operations	-	-	-	-	-	-
Share-based payment charges	3,571	*1,560*	2,991	*2,161*	3,032	3,364
Net cash flow form operating activities	**29,433**	***8,994***	**36,907**	***10,485***	**42,392**	**45,047**
Corporation tax paid	(5,865)	*(2,963)*	(5,804)	*(2,843)*	(6,122)	(6,492)
Net cash from operating activities	**23,568**	***6,031***	**31,103**	***7,642***	**36,270**	**38,555**
INVESTING ACTIVITIES						
Purchase of software	(1,614)	*(1,999)*	(3,061)	*(2,240)*	(3,000)	(1,734)
Purchase of property and equipment	(1,958)	*(577)*	(620)	*(200)*	(1,000)	(344)
Consideration paid	(21,102)	-	(5,287)	-	-	-
Deferred consideration paid	(919)	*(421)*	(2,421)	*(6,000)*	(6,000)	-
Acquisition of subsidiary, net of cash	-	*(5,287)*	-	-	-	-
Proceeds from sale of discontinued ops	568	-	-	-	-	-
Interest received	252	*31*	47	*16*	51	53
Proceeds from sale of financial assets at FV	-	-	-	-	-	-
Cash flows from inv net of discontinued ops	-	-	-	-	-	-
Finance costs paid	(5)	-	-	-	(729)	(764)
Net cash used in investing activities	**(24,778)**	***(8,253)***	**(11,342)**	***(8,424)***	**(10,679)**	**(2,789)**
FINANCING ACTIVITIES						
Proceeds of issue of shares	38,936	*89*	721	*229*	229	-
Shares issued as consideration	(9,000)	-	-	-	-	-
Pmt of lease liabilities and initial direct costs	(2,111)	*(986)*	(1,969)	*(1,079)*	(2,000)	(2,000)
Proceeds of lease reverse premium	1,250	-	-	-	-	-
Purchase of own shares by EBT	(4,607)	*(3,450)*	(5,210)	*(1,300)*	(3,000)	(3,000)
Dividends paid	(7,680)	*(4,999)*	(8,572)	*(6,252)*	(10,535)	(11,954)
Net cash from /(used in) fin activities	**16,788**	***(9,346)***	**(15,030)**	***(8,402)***	**(15,306)**	**(16,954)**
Net (decr)/incr in cash & equivalents	**15,578**	***(11,568)***	**4,731**	***(9,184)***	**10,285**	**18,812**
Cash & equivalents at beginning of year	34,590	*50,168*	50,168	*54,899*	54,899	65,184
Cash & equivalents at end of year	**50,168**	***38,600***	**54,899**	***45,715***	**65,184**	**83,996**

Source: Company Historic Data, ED estimates.

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