

## Another solid quarter, guidance confirmed

12th January 2023

**Brooks Macdonald (BM) continued to build momentum in Q2 of FY23 (to 31 Dec 22), with FUM increasing by 4.5% (+£0.7bn) over the quarter to £16.2bn (end of Q1: £15.5bn). BM chalked up its 7<sup>th</sup> consecutive quarter of positive net flows of £156m, an annualised rate of 4% of opening FUM. Investment performance contributed £546m to the FUM increase (3.5% of opening FUM, in line with the benchmark *MSCI PIMFA Private Investor Balanced Index - capital only*).**

H1-23 (1 Jul 22 - 31 Dec 22) can be summarised as a period of consistency in net inflows but of contrasting market movements between Q1 and Q2 (in Q1 the benchmark index fell 3.6%). Overall, FUM grew 3.6% over the half-year with £347m of net inflows and a +£212m investment performance.

While industry data is not yet available for the quarter ending 31 Dec 22, BM certainly appears to have **performed better than the overall market in 2022 when it comes to attracting and retaining assets**. A useful comparison is the platform market, where according to Fundscape<sup>1</sup>, total UK platform annualised net flows as a percentage of opening assets in calendar-Q1, Q2, and Q3 of 2022 were 5.1%, 3.5%, and 2.1% respectively, compared to BM's 4.1%, 6.7%, and 4.9%, suggesting that BM's recent performance in particular has been very strong.

MPS was again the star performer in the last quarter with £299m of net inflows (annualised inflow rate of 37% of opening FUM) with management stating the pipeline is also robust. UK-BPS (-£82m), UK-funds (-£41) and International (-£20) did however record net outflows.

### Looking undervalued on fundamental and peer-comparative basis

Management have confirmed that underlying profit and margin are running in line with expectations, and our forecasts remain unchanged, although our **fundamental valuation ticks up to 3000p per share, which is 44% above the current share price**, with the increase due to a reduction in the UK 10-year gilt yield (the risk-free rate used in our DCF valuation). We also flag **that BM's PER of 14.0 is significantly below a peer group median of 17.3** (page 2) which doesn't look justified.

We will revisit our forecasts and valuation when H1 results are released on 2 March 2023.

Key Financials					
Year-end 30 Jun	FY20A	FY21A	FY 22A	FY 23E	FY24E
AUM, £bn	13.7	16.5	15.7	17.0	18.9
Rev, £m	108.6	118.2	122.2	119.5	128.7
Underlying expenses*	85.6	87.6	87.7	92.3	97.0
Underlying PBT*	23.0	30.6	34.5	27.2	31.7
Underlying PBT margin	21.2%	25.9%	28.2%	22.7%	24.7%
Statutory PBT, £m	10.1	25.1	29.5	22.9	28.0
EPS basic, p	43.2	125.3	149.0	116.8	140.7
Underlying diluted EPS**, p	123.7	150.6	168.8	134.1	154.7
PER	48.4	16.7	14.0	17.9	14.9
Div, p	53.0	63.0	71.0	75.0	83.0
Yield	2.5%	3.0%	3.4%	3.6%	4.0%
Net assets, £m	123.5	134.0	148.4	154.9	164.8
Net cash, £m	50.2	54.9	61.3	68.0	80.6

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

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

\*\* After tax

2,090p

<sup>1</sup> fundscape.co.uk/press-centre/platform-flows-dry-up-in-q3-meltdown/

### Company Data

EPIC	BRK
Price (last close)	2090p
52 weeks Hi/Lo	2710p/1750p
Market cap	£338m
ED Fair Value/share	3000p
Net cash	£61m
Avg. daily volume	11k

### 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)

### Paul Bryant (Analyst)

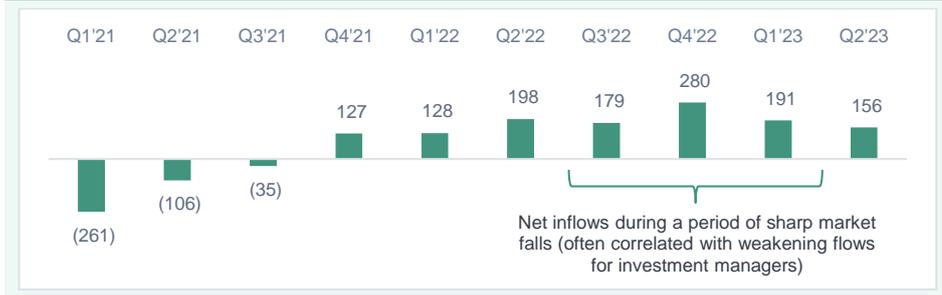
0207 065 2690

[paul.bryant@equitydevelopment.co.uk](mailto:paul.bryant@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

**Group quarterly net flows, £m**


Source: Company reports, ED analysis. FY quarters shown (Q1 = Jul-Sep, Q2 = Oct-Dec, Q3= Jan-Mar, Q4= Apr-Jun).

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


Source: ADVFN, as of 11 Jan 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.



## Contacts

### Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

[andy@equitydevelopment.co.uk](mailto:andy@equitydevelopment.co.uk)

### Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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

Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) | 020 7065 2690