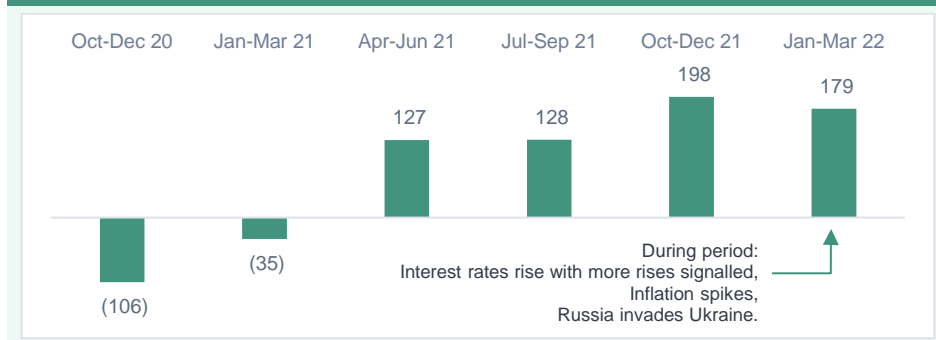


FUM inflow momentum continues in turbulent markets

Amidst significant market volatility - which often coincides with net outflows for asset and wealth managers - BM impressively recorded £0.2bn of net Funds Under Management (FUM) inflows during Q3 of FY22 (Jan - Mar 22). This was its fourth consecutive quarter of positive net flows, and indicative of continuing strong momentum in the business.

Strong momentum in recent quarterly net flows, £m



Source: Company reports, ED analysis

Unsurprisingly given the market conditions, investment performance was negative over the quarter at -£0.9bn. Combined, this resulted in total group FUM reducing 3.9% from £17.3bn on 31 Dec 21 to £16.7bn on 31 Mar 22. However, **over the first nine months of FY22, FUM has grown 1.2% from £16.5bn on 30 Jun 21, with net flows of +£0.5bn** and a negative investment performance of £0.3bn.

Particularly pleasing were the continuing net inflows in BM's flagship Bespoke Portfolio Services product (+£30m), its fast-growing Managed Portfolio Services product (+£181m), and its international business, which services a non-UK client base from Channel Islands and Isle of Man offices (+£3m). BM's fund products were the only segment to record net outflows (-£35m).

Still looking undervalued despite recent share price rise

We have made a small 'mark to market' adjustment to our forecasts (FY22 estimate reduces from £17.2bn to £17.1bn, FY23 from £18.8bn to £18.7bn), but remain confident that BM is well placed to achieve its longer-term ambitions (reaching £26-£27bn FUM in the next 5-6 years, excluding acquisitions) and highlight that **our fundamental value is 3,200p per share (29% above the current share price), while BM's PER of 19.8 is 23% below the sector median of 25.7 (see page 2).**

Share Price, p



Source: ADVFN

Brooks Macdonald (BM) 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 Mar 2022: £16.7bn

Next Event: 14 Jul 22, Q4 FUM

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Key Financials

Year-end 30 Jun	FY19A	FY20A	FY21A	FY 22E	FY 23E
AUM, £bn	13.2	13.7	16.5	17.1	18.7
Rev, £m	107.3	108.6	118.2	125.4	130.5
Underlying expenses*	86.6	85.6	87.6	91.8	95.4
Underlying PBT*	20.7	23.0	30.6	32.9	34.4
Underlying PBT margin	19.6%	21.2%	25.9%	26.2%	26.4%
Statutory PBT, £m	8.6	10.1	25.1	28.0	30.1
EPS basic, p	41.7	43.2	125.3	139.6	149.0
PER	59.6	57.5	19.8	17.8	16.7
Div, p	51.0	53.0	63.0	69.0	76.0
Yield	2.1%	2.1%	2.5%	2.8%	3.1%
Net assets, £m	87.6	123.5	134.0	145.9	158.2
Net cash, £m	34.6	50.2	54.9	64.3	81.8

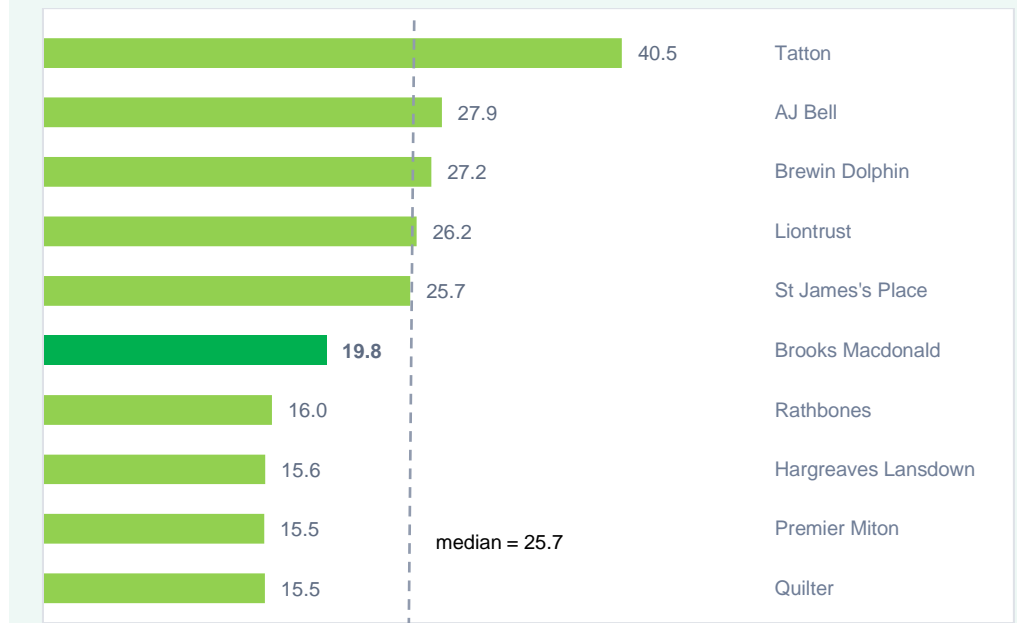
Source: Company Historic Data, ED estimates. PER and Yield based on share price of:

2,485p

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

BM looks undervalued from a sector perspective

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



Source: ADVFN, as of 13 Apr 2022

Note: Mattioli Woods would normally be included in this peer group but its PER of 151 is severely distorted by 'one-off' expenses depressing statutory earnings in its last financial year – hence it has been omitted.

We also note the significance of the recently announced proposed acquisition of Brewin Dolphin by RBC Wealth Management (Jersey), a wholly owned subsidiary of Royal Bank of Canada, which suggests **large foreign wealth managers are seeing substantial value in the UK wealth management sector**.

The above deal was priced at a 62% premium to the share price of Brewin Dolphin the day before the deal was announced, moving the PE ratio from 16.9 to 27.2.

We wouldn't be surprised to see further cross-border M&A activity. Recent research by McKinsey suggests that the economics of Western European wealth managers may make them attractive targets to North American counterparts¹, for example:

- Between 2007 and 2021, on average, North American wealth managers' revenue margin has reduced from 94bps to 56bps (-40%), while European wealth managers' revenue margin has only reduced from 96bps to 70bps (-27%);
- Over this same period, North American wealth managers' cost-to-income ratio has increased from 71bps to 79bps (+11%), while European wealth managers' cost-to-income ratio has remained static at 68bps.

¹ McKinsey & Company, *Successful M&A in Wealth Management*, 5 April 2022



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