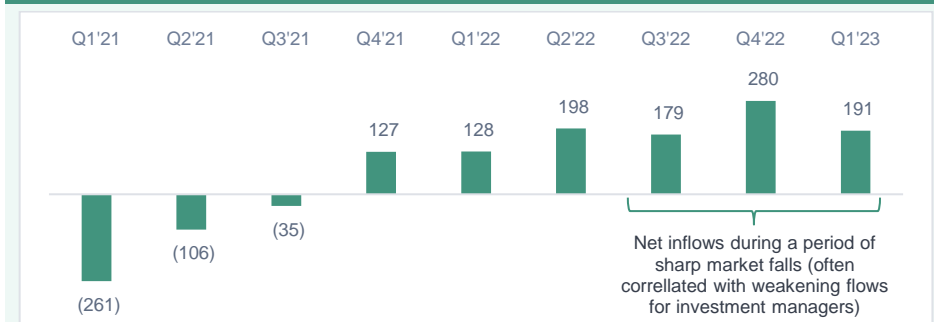


6th consecutive quarter of positive FUM flows

13th October 2022

FUM decreased 0.9% over Q1 of FY23 from £15.7bn on 30 Jun 22 to £15.5bn on 30 Sep 22. Impressively, a 6th consecutive quarter of net inflows was recorded (+£191m), achieved despite the last three quarters (Jan – Sep 22) being periods of significant volatility and market falls, which often correlate with weakening flows for investment managers.

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).

We remind readers that BM was one of the **strongest performers in attracting and retaining client funds** during calendar-H1 of 2022 (see page 2: data to 30 Sep not yet available for most peers). BM's fast-growing MPS business was the primary driver of net flows (+£240m, or 8.0% of opening FUM), with marginally negative flows recorded in BPS (-£6m), Funds (£-34m), and International (-£9m).

Market movements and investment performance were -£334m (-2.1% of opening FUM), but ahead of the benchmark *MSCI PIMFA Private Investor Balanced Index* (capital only) which fell 3.6%.

Fundamental value 2950p / share, 63% above last price

Our FUM forecast for the end-FY23 has reduced to £17.0bn from £17.9bn on a mark-to-market adjustment. This, coupled with a jump in the 10-year Gilt yield (the risk-free rate used in our DCF valuation) has reduced our fundamental valuation to 2,950p per share, still 63% above the current share price. **We also flag that BM's PER of 14.5 is well below a peer group median of 17.3.**

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	42.0	14.5	12.2	15.5	12.9
Div, p	53.0	63.0	71.0	75.0	83.0
Yield	2.9%	3.5%	3.9%	4.1%	4.6%
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: 1,815p

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

** After tax

Company Data

EPIC	BRK
Price (last close)	1815p
52 weeks Hi/Lo	2800p/1855p
Market cap	£294m
ED Fair Value/share	2950p
Net cash	£61m
Avg. daily volume	9.9k

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)

FUM at end Sep 2022: £15.5bn

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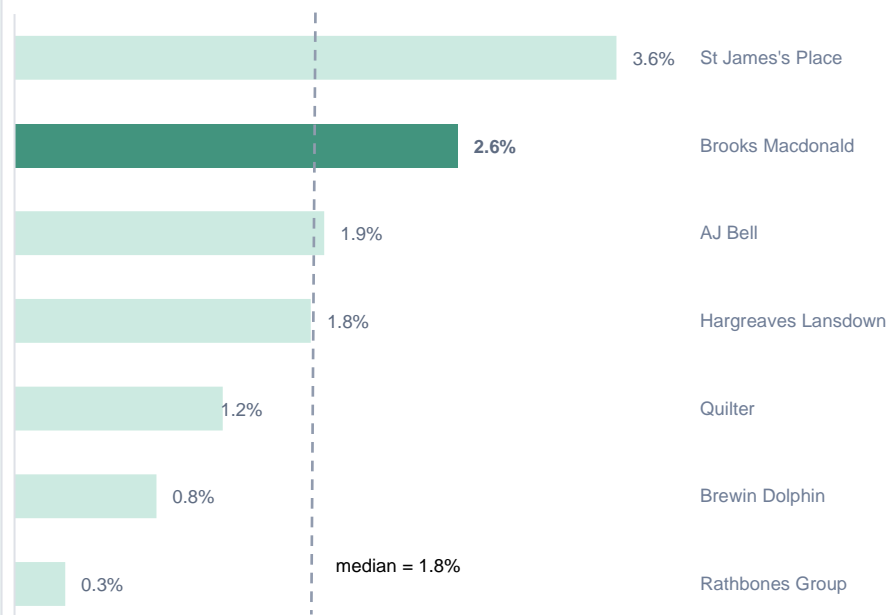
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Strong net inflows compared to peers in 2022

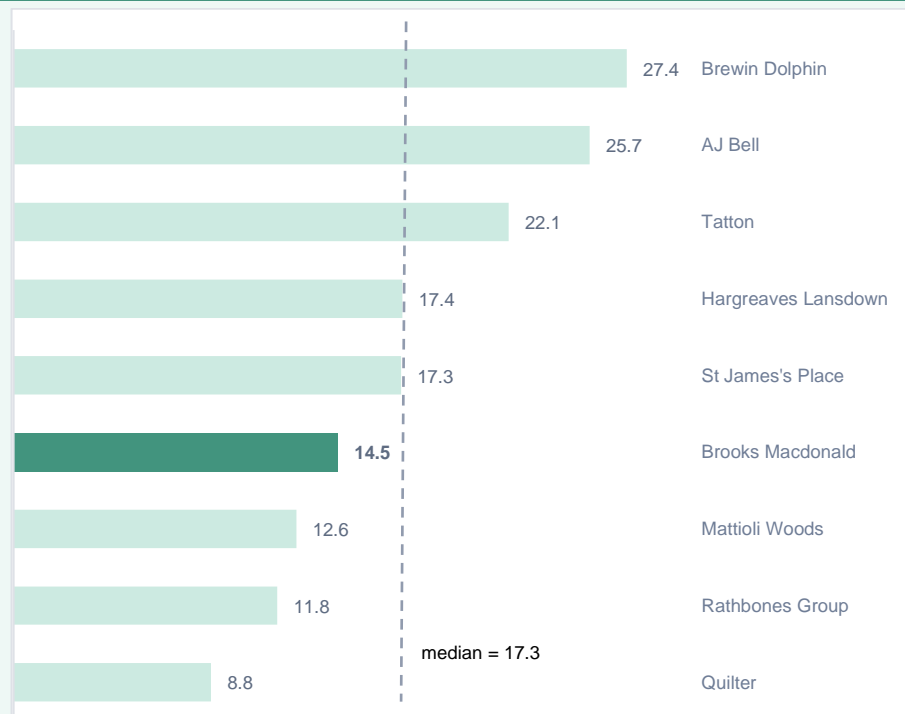
Net inflows, % of opening AUA/AUM/FUM, 6m to Jun 22 (BM H2-22)



Source: Company reports.

*Peer group includes London-listed wealth managers/investment managers and platforms (typically managing or administrating client investment portfolios) but excludes 'pure play' asset managers/fund managers whose funds would typically make up only a small part of individual client portfolios and hence have different inflow characteristics.

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



Source: ADVFN, as of 12 Oct 22, 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.

Investment case

- **BM is operating in a huge market with substantial tailwinds that should fuel growth over the medium to long term.** The wealth management opportunity is underpinned by demographics (an ageing population increases the demand for financial advice) and the pension policy framework (which puts more responsibility on the individual and again increases the demand for advice), with advisers in turn increasingly outsourcing more to discretionary fund managers such as BM.
- **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 and is **currently one of the best performers when it comes to attracting and retaining client funds.**
- It has an ambitious **organic and acquisitive growth agenda** and a highly ambitious management team.
- Its investment in technology should drive **operating leverage** as the business grows.
- **On both a fundamental and peer comparison basis, BM appears undervalued.**



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