Brooks Macdonald Group plc

FY22 profit and dividend up 13%, fundamental value rises

15th September 2022

In July we highlighted how net FUM inflows in FY22 (+£785m), were a sign of strategic strength, and emphasised the impressiveness of Q3 and Q4 flows (+£179m and +£280m) during a period of sharp market falls, which often correlates with weakening flows for investment managers. Today, with more peer data available, we re-emphasise this, and highlight that BM has been one of the strongest performers in attracting and retaining client funds (see page 3).

Also, with the release of FY22 results, BM has demonstrated that it can translate this strategic strength into financial success, with revenue, profit, profit margins, and dividends all up, despite top-line FUM being pegged back by market falls (FY21: £16.5bn; FY22: £15.7bn)

Revenue grew 3.4% y-o-y to £122.2m (FY21: £118.2m), underlying PBT* 12.7% to £34.5m (FY21: £30.6m), while underlying PBT margin increased to 28.2% (FY21: 25.9%). Statutory basic EPS grew 18.9% to 149.0p (FY21: 125.3p) and underlying diluted EPS 12.0% to 168.7p (FY21: 150.6p).

BM has maintained its strong balance sheet with net assets increasing 10.8% y-o-y to £148.4m (FY21: £134.0m), and net cash increasing 11.7% to £61.3m (FY21: 54.9m). It has no debt. Proposed full-year dividends are up 12.7% to 71.0p (FY21: 63.0p), giving a yield of 3.2%.

Fundamental value 3100p, 41% above share price

Underlying PBT for FY22 has exceeded our previous forecast (£34.5m v £33.1m), primarily on the back of lower underlying costs as technology investment benefits kick in, with underlying PBT margin at a record level. Net inflows in Q1 FY23 have remained solid to date, despite difficult economic conditions. BM also continues to pursue an ambitious organic growth agenda, targeting market-leading net inflows of 8-10% over the medium-term, and ramping up growth targets for parts of the business (such as the recently acquired Cornelian funds).

These factors, coupled with an upwards mark-to-market FUM adjustment (PIMFA Private Investor Balanced Index +2.4% quarter-to-date) lead us **to increase our medium-term growth forecasts and consequently our fundamental value to 3,100p (from 2,900p), 41% above the current share price. We also highlight that BM's PER of 14.8 is well below a peer group median of 18.6.**

Key Financials

Year-end 30 Jun	FY20A	FY21A	FY 22A	FY 23E	FY24E
AUM, £bn	13.7	16.5	15.7	17.9	19.8
Rev, £m	108.6	118.2	122.2	124.2	137.7
Underlying expenses*	85.6	87.6	87.7	92.9	101.1
Underlying PBT*	23.0	30.6	34.5	31.3	36.6
Underlying PBT margin	21.2%	25.9%	28.2%	25.2%	26.6%
Statutory PBT, £m	10.1	25.1	29.5	27.1	32.8
EPS basic, p	43.2	125.3	149.0	135.5	152.7
Underlying diluted EPS**, p	123.7	155.1	168.8	151.8	165.0
PER	50.9	17.6	14.8	16.2	14.4
Div, p	53.0	63.0	71.0	78.0	86.0
Yield	2.4%	2.9%	3.2%	3.5%	3.9%
Net assets, £m	123.5	134.0	148.4	157.7	169.2
Net cash, £m	50.2	54.9	61.3	71.6	86.4

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***2,200p***

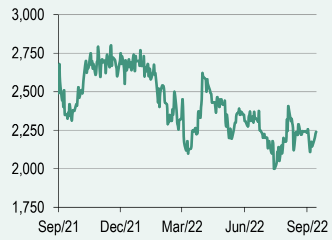
* 'Underlying' excludes one-off expenses, mostly acquisition-related, & goodwill amortisation, gains & losses.

** After tax

Company Data

EPIC	BRK
Price (last close)	2200p
52 weeks Hi/Lo	2800p/1950p
Market cap	£356m
ED Fair Value/share	3100p
Net cash	£61m
Avg. daily volume	10.3k

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 Jun 2022: £15.7bn

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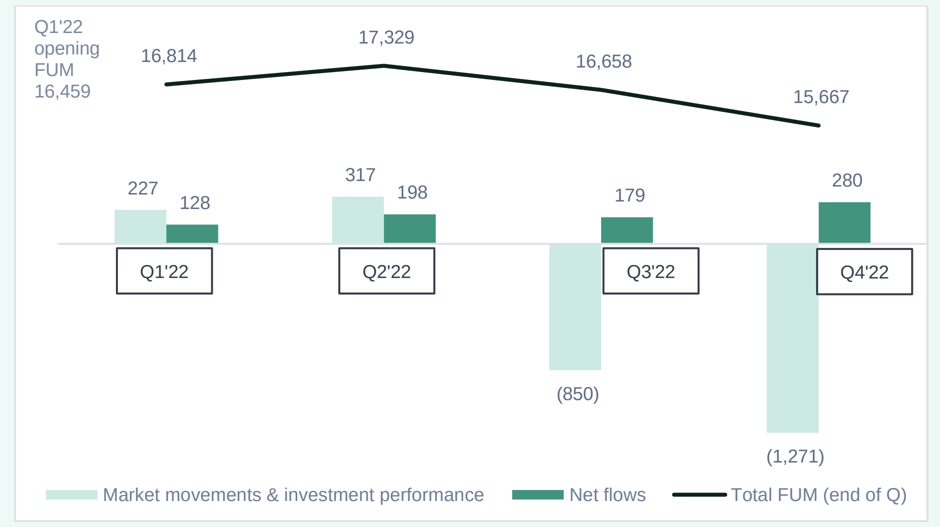
Inflows impress, but market fall drives FUM lower

FUM fell 4.8% over the year, from £16.5bn on 30 Jun 21 to £15.7bn on 30 Jun 22. Net flows contributed +£785m over the year (+4.8% of opening AUM) while investment performance resulted in a -£1,578m decline in FUM (-9.6% of opening FUM).

However, FY22 really was a year of two halves, with the sharp market falls in H2 (Jan 22 – Jun 22) more than erasing the investment gains in H1 and the net inflow gains throughout the year.

FY22 quarterly investment performance and total FUM, £m

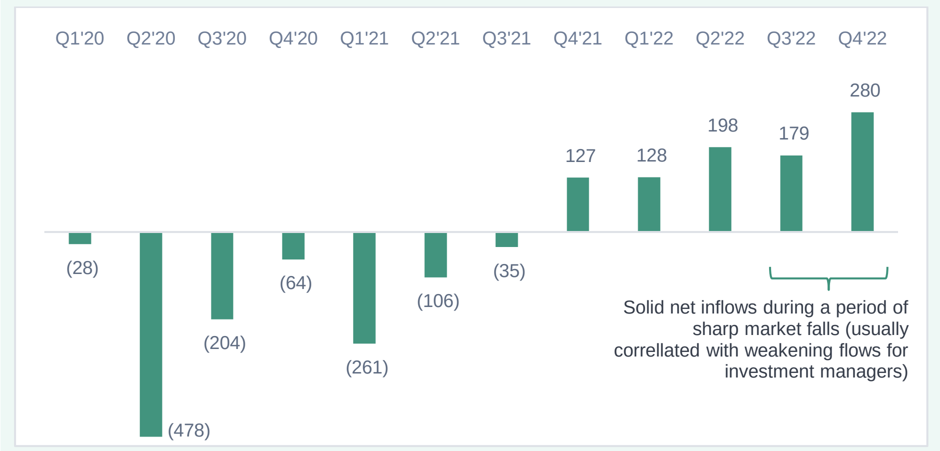


Source: Company reports, ED analysis. FY quarters shown (Q1 = Jul-Sep, Q2 = Oct-Dec, Q3= Jan-Mar, Q4= Apr-Jun).

Inflows solid in difficult environment, and strong relative to peer group

The continuation of the positive net inflow trend is particularly pleasing, following the 'restructuring' years of FY20 and FY21, which suffered net outflows.

FY22 marked a return to consistently positive net flows, £m

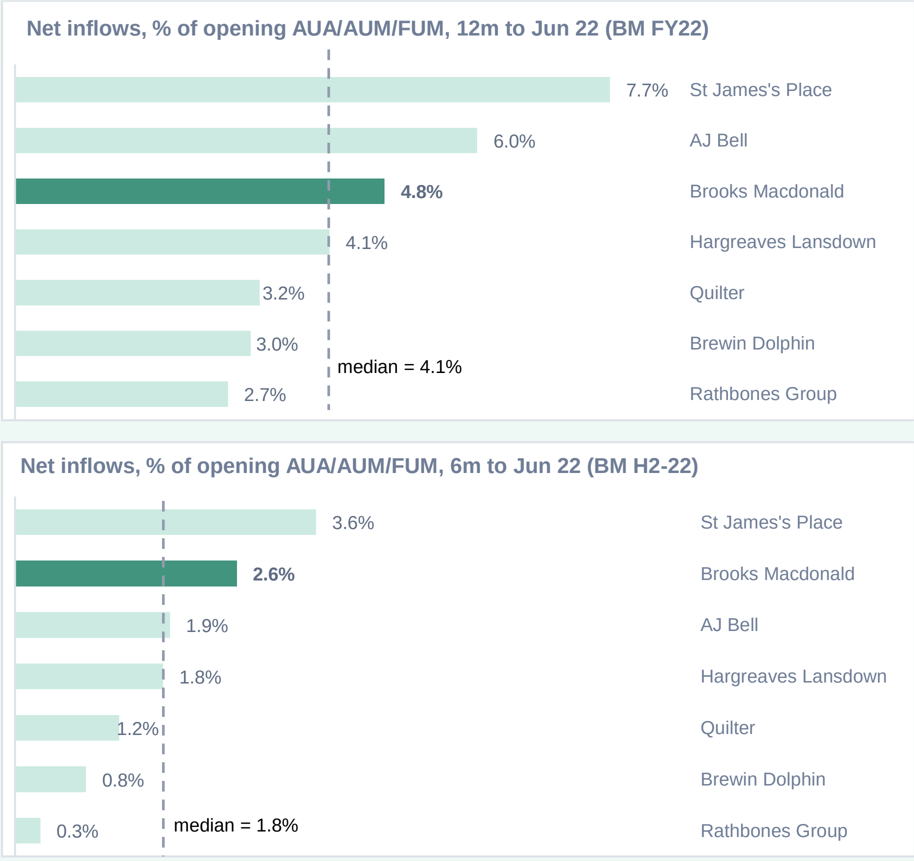


Source: Company reports, ED analysis. FY quarters shown (Q1 = Jul-Sep, Q2 = Oct-Dec, Q3= Jan-Mar, Q4= Apr-Jun).

This trend highlights the **strategic strengthening** that has characterised the first full FY of CEO Andrew Shepherd's tenure. The positive flows in Q3 and Q4 are particularly impressive, given that this was a period of sharp market falls, which are often correlated with a weakening inflow trend for investment managers.

Indeed, over the full FY22, and particularly over H2, BM was one of the strongest performers among a peer group when it comes to attracting and retaining client assets (see charts below).

Strong net inflows compared to peers*, especially in H2

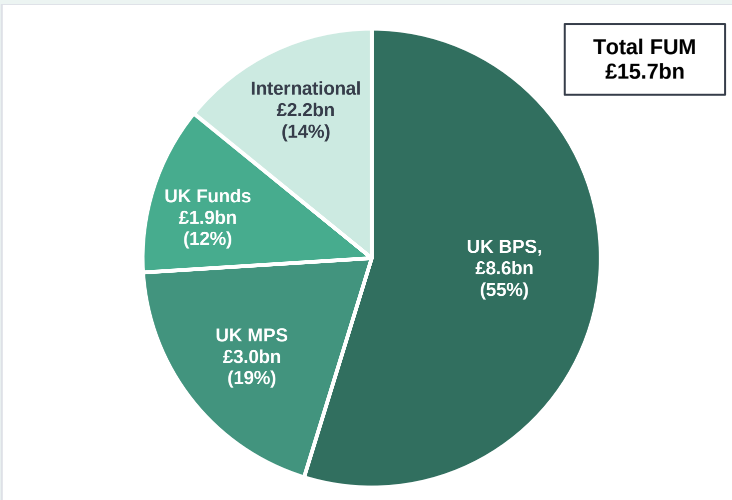


Source: Company reports.
**Peer group includes London-listed wealth managers/investment managers and platforms (typically managing or administrating client investment portfolios) but excludes 'pure play' asset managers/fund managers whose funds would typically make up only a small part of individual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

Flagship BPS inflows positive, but MPS is the inflow growth engine

BPS remains BM's flagship and largest product by some margin (55% of FUM) and saw annual net inflows of £88m in FY22 (0.9% of opening FUM). These BPS clients tend 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).

FUM breakdown (30 Jun 22)



Source: Company reports, ED analysis

Specialist BPS products - Responsible Investment Service, Decumulation, AIM Portfolio Service and Court of Protection - continued to deliver positive net flows

However, MPS continues to be the main fund flow growth engine, recording annual net inflows of £829m (34% of opening FUM). Indeed, the MPS share of overall FUM has grown from 13% to 19% in just two years.

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

It is however worth highlighting, as we have done in previous reports, the strategic relationship between BPS and MPS at BM. **BM is pursuing a deliberate strategy to target a younger client base and sees them 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**.

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 – was a standout performer in FY22 with FUM more than doubling during the financial year.

BM's funds business (12% of FUM) – mostly risk-rated multi-asset funds which are suitable when needs and risk profiling are not complex and/or the portfolio is small – saw net outflows during FY22 of £113m (5.1% of opening FUM).

And lastly, its international business (14% of FUM) – a mix of specialised products and services including BPS, MPS, services for trustees, multi-currency products and specialist funds – saw a small net outflow of £25m or 1.0% of opening FUM) which was an improved performance over FY21 which saw £132m of outflows. The new Isle of Man office is reported to be progressing well and is expected to be a source of growth, particularly through the Group's referral agreement with Lloyds Bank

BM is now looking to build on its recent successes and ramp up its new business (and hence FUM inflows) even further. One of the key actions taken in this regard is the recent appointment of Sarah Ackland to the role of Global Head of Distribution and to the Executive Committee. Sarah now leads the distribution and marketing teams across the UK and International markets. She joined BM from Liontrust where she was Head of Multi-Asset Business and was previously Head of UK Funds at the Architas UK Investment Business, prior to its purchase by Liontrust.

We would expect this appointment to have a positive impact on BM's new business wins across the board, but in particular on its multi-asset funds business.

Falling markets in H2 erase net inflow and H1 investment gains

In absolute terms, investment performance saw gains in Q1 and Q2 (+£227m & +£317m), and very sharp declines in Q3 and Q4 (-£850m & -£1,271m) as markets fell, translating to a -£1,578m full-year investment-performance-related decline in FUM (-9.8% of average FUM).

Investment-performance-related declines of this magnitude were a common feature among peers, given the widespread and significant market falls, with BM's investment-related FUM decline not as severe as most listed peers.

Investment performance, % of average AUA/AUM/FUM (Jul 21 – Jun 22)

Source: Company reports.

Also of significance is the **positive performance of BM's five primary risk-rated portfolios compared to their benchmarks over 3, 5, and 10 year periods**, although these portfolios have underperformed over a 1 year period (see table below: outperformance shaded in green, underperformance in red).

Consistently strong investment performance, %

	1 year to 30.06.22	3 years to 30.06.22	5 years to 30.06.22	10 years to 30.06.22
BM Low Risk	**-6.96**	**0.17**	**5.50**	**39.88**
ARC Sterling Cautious PCI	-5.46	3.07	7.01	32.62
Relative performance	**-1.50**	**-2.91**	**-1.51**	**7.27**
BM Low-to-Medium Risk	**-8.01**	**3.76**	**11.49**	**58.72**
ARC Sterling Balanced Asset PCI	-6.54	5.04	11.13	52.83
Relative performance	**-1.47**	**-1.27**	**0.36**	**5.88**
BM Medium Risk	**-9.87**	**6.68**	**16.43**	**75.42**
ARC Sterling Steady Growth PCI	-7.54	6.59	15.79	73.07
Relative performance	**-2.33**	**0.09**	**0.64**	**2.35**
BM Medium-to-High Risk	**-13.29**	**8.89**	**20.81**	**94.55**
ARC Sterling Equity Risk PCI	-9.09	8.37	19.89	90.76
Relative performance	**-4.20**	**0.52**	**0.92**	**3.78**
BM High Risk	**-15.60**	**9.45**	**22.88**	**107.02**
ARC Sterling Equity Risk PCI	-9.09	8.37	19.89	90.76
Relative performance	**-6.51**	**1.08**	**2.98**	**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.

FY22 results

Revenue

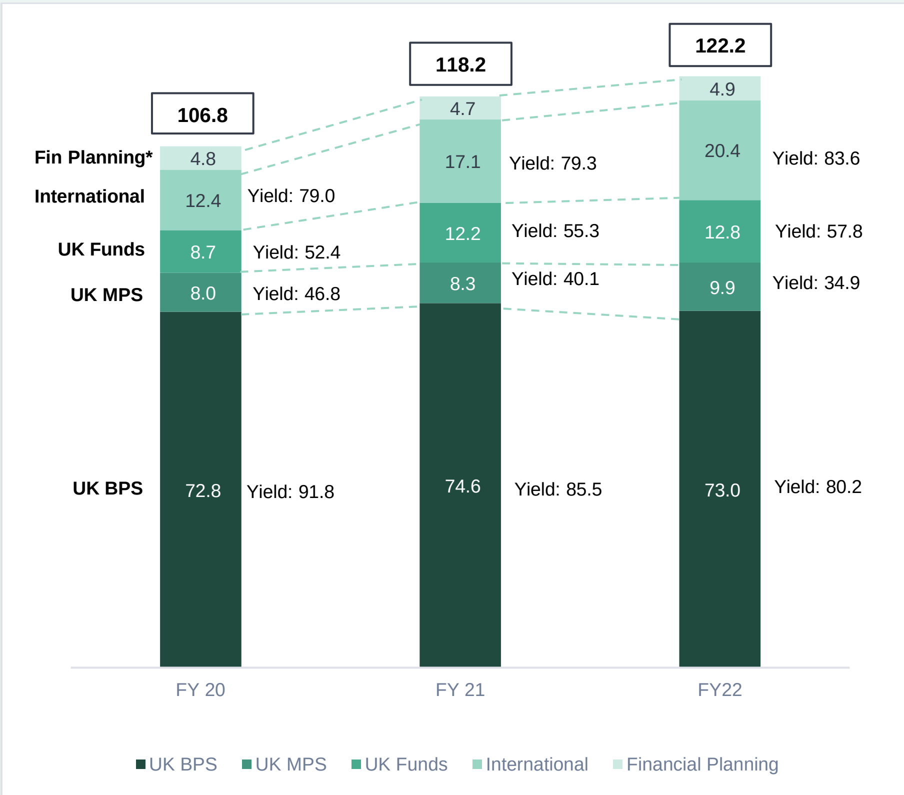
Group revenue grew 3.4% y-o-y to £122.2m (FY21: £118.2m), with growth pegged back by the drop in FUM in H2 as a result of market falls.

The UK Investment management (UKIM) segment grew revenue 0.6% to £95.7m (FY21: £95.1m), behind average FUM growth of 9.0% due mainly to a reduction in average yield from 73.2bps over FY21 to 67.6bps over FY22. This was in turn mainly due to: 1) a changing product mix (lower yielding MPS FUM grew 25.0% while higher-yielding BPS FUM declined by 9.3%, and 2) lower transaction-related income as a result of BM's relatively stable asset allocation during the year.

Within UKIM, BPS revenue fell 2.1% from £74.6m to £73.0m; **MPS revenue grew 19.3% from £8.3m to £9.9m**; and Funds revenue grew 4.9% from £12.2m to £12.8m.

The International segment grew revenue 19.3% from £17.1m to £20.4m, and Financial Planning (UK and international) grew 4% from £4.7m to £4.9m. UKIM financial planning fees increased alongside growth in the Private Clients business, while International saw a slight reduction as more private clients moved to an all-in investment management fee.

Revenue (£m) and yield (bps) split by product



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*

The yield decline on BPS was driven mostly by the movement from net outflows to net inflows year on year (new business typically carries lower yields as market pressures have intensified over the years) and also by a number of IFA partners moving to lower pricing tiers as they placed more business with BM.

The MPS yield decline was mostly driven by a change in mix with Platform MPS growing faster than custody MPS. [Platform MPS includes the Brooks Macdonald Investment Solutions (BMIS), an offering that typically attracts larger mandates, which benefit from discounted tiered rates].

The rise in Funds fee yields was also as a result of a change in mix and the impact of timing inflows and outflows.

International fee-income yields were up as a result of higher performance and custody fees, whilst non-fee income yield declined as a result of a decrease in interest and FX income during the year.

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. These underlying costs were essentially flat over the year (FY22: £87.7m; FY21: £87.6m) with an increase in staff costs (mostly variable pay) being offset by a decrease in non-staff costs. This provides further evidence that **BM continues to benefit from operating leverage** (following its investment in technology and the restructuring of processes over the last few years) and maintains cost discipline.

Underlying profit before tax increased 12.7% to £34.5m (FY 21: £30.6m). **Underlying profit margins continued on its upward trajectory, increasing from 25.9% in FY21 to 28.2%**.

Underlying PBT, £m

	FY 19	FY 20	FY 21	FY 22
Revenue	**107.3**	**108.6**	**118.2**	**122.2**
Total underlying costs	**(86.6)**	**(85.6)**	**(87.6)**	**(87.7)**
Staff cost	(41.6)	(39.9)	(40.0)	(40.5)
Non-staff cost	(34.2)	(35.0)	(34.4)	(32.4)
Variable pay	(11.0)	(10.8)	(13.2)	(14.8)
Underlying PBT	**20.7**	**23.0**	**30.6**	**34.5**
Underlying PBT margin	**19.6%**	**21.2%**	**25.9%**	**28.2%**

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

Underlying basic earnings per share increased 11.9% to 174.51p (FY21: 155.6p), while underlying diluted earnings per share increased 12.0% to 168.7p (FY21: 150.6p).

Statutory profit before tax increased 17.5% to £29.5m (FY21: £25.1m) with PBT margin increasing from 21.2% to 24.1%.

However, 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, with statutory PBT fairly volatile as a result. These are summarised below.

Underlying PBT to Statutory PBT bridge, £m

	FY 19	FY 20	FY 21	FY 22
Underlying PBT	**20.7**	**23.0**	**30.6**	**34.5**
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]	(5.5)[7]
Client relationship contract impairment	(2.3)	-	(1.5)[3]	
Dual running operating platform costs		-	(1.0)[4]	(2.4)[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)			
Other non-operating income				3.0[8]
Statutory PBT	**8.3**	**10.0**	**25.1**	**29.5**

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

Statutory PAT increased 19.4% to £23.4m (FY21: £19.6m) and statutory basic earnings per share grew 18.9% to 149.0p (FY21: 125.3p).

Balance sheet and cash

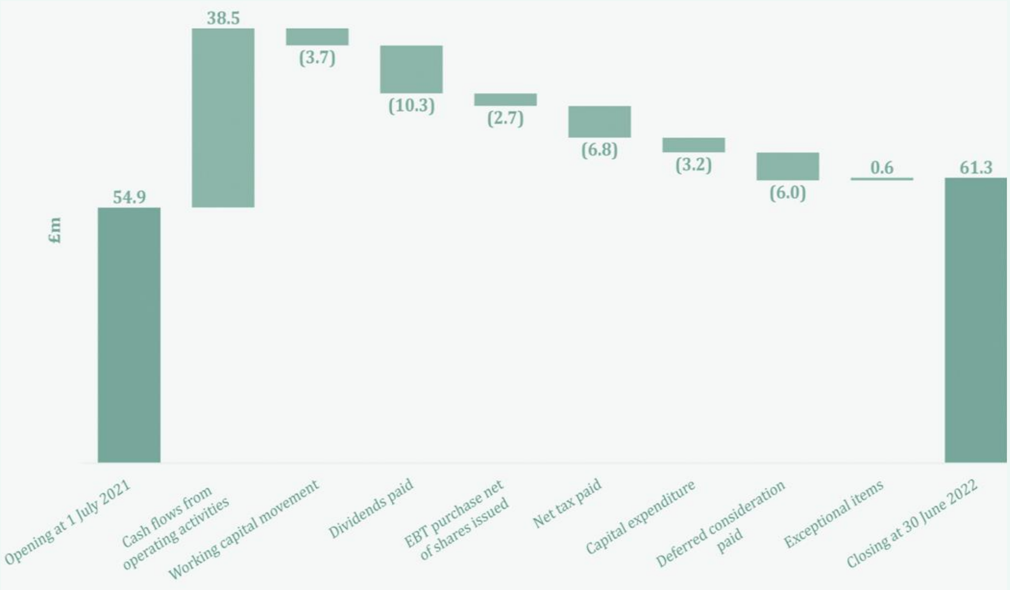
BM maintained its **healthy balance sheet**, with net assets increasing 10.7% y-o-y to £148.4m (FY21 £134.0m), while cash and equivalents increased 11.7% y-o-y to £61.3m (FY21: £54.9m). **It has no debt.**

Cash flows from operating activities boosted cash by £38.5m, with the largest cash outgoings being dividends (£10.3m), tax (£6.8m), and the final payment in relation to the acquisition of Cornelian Asset Managers Group Limited (£6.0m).

The Group incurred capital expenditure of £3.2 million (FY21: £3.7 million). This comprised technology-related development of £2.9 million, property-related costs of £0.2 million and IT and office equipment of £0.1 million. The capital expenditure comprised the programme implementation and software costs incurred in respect of the migration of the Group's client- and intermediary-facing processes onto the SS&C platform.

A cash bridge is shown in the chart below:

Cash bridge between FY21 and FY22

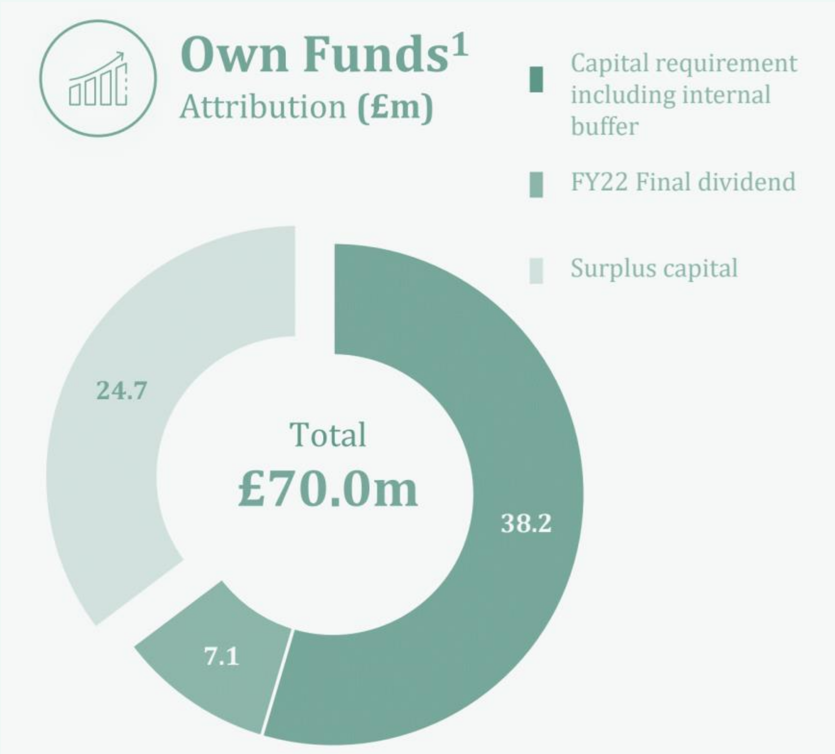


Source: Company

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 **£24.7m of surplus cash**, up 133% from the 30 Jun 21 surplus of £10.6m.

Surplus capital as at 30 Jun 22

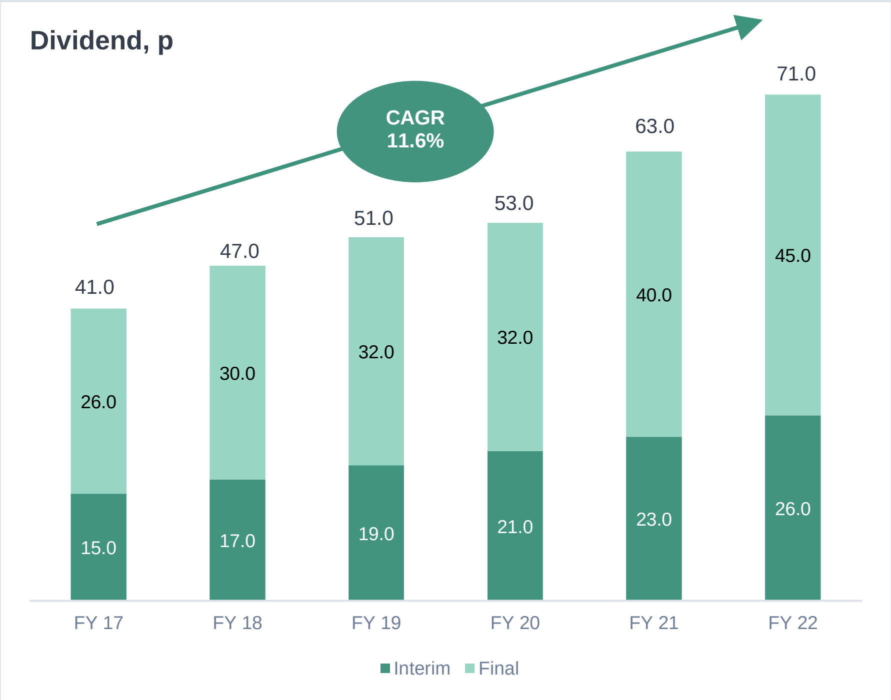


Source: Company
1. Own Funds includes profit for the year ended 30 June 2022

Dividends

BM's board has proposed a final dividend of 45.0p (FY 21: 40.0p) which brings **the total full-year dividend per share to 71.0p, 12.7% up on the 63.0p of FY21**, producing a dividend yield of 3.2%. This is in line with the progressive dividend policy and is supported by the very strong capital position and the Board's continuing confidence in BM's prospects.

Historical dividend statistics



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.

Current trading

Despite, the general economic uncertainty making for a weak macro environment, and financial markets being extremely volatile (sharp market movements have the potential to affect FUM and hence revenue), BM is reporting strong trading conditions.

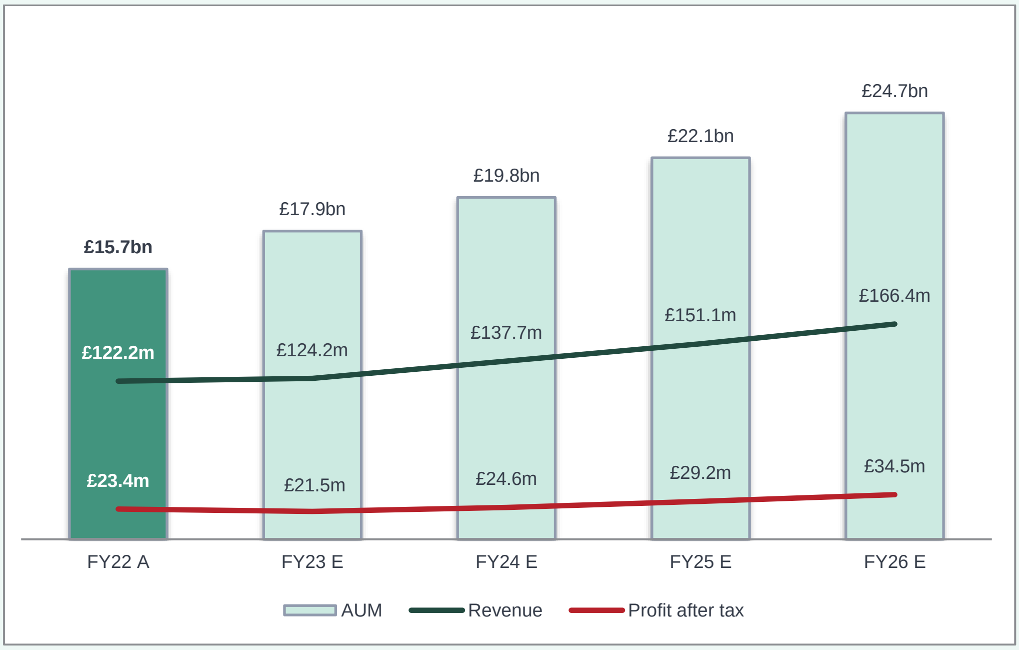
It has indicated the solid inflow momentum seen in FY22 is continuing into FY23 and has confirmed that FY23 trading is in line with market expectations.

Growth forecasts and valuation

Growth forecasts

We use the following projections for BM to arrive at our fundamental valuation (a summary in the chart, with more detailed metrics in the table below it), noting that these do not include any acquisitions, which is an explicit part of BM's strategy.

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates
Note: The dip in PAT in FY23 is influenced by the rise in UK corporation tax rate from 19% to 25%

5-year forecasts

Year-end 30 Jun	FY 22A	FY 23E	FY24E	FY 25E	FY 26E
AUM, £bn	15.7	17.9	19.8	22.1	24.7
Rev, £m	122.2	124.2	137.7	151.1	166.4
Underlying expenses*	87.7	92.9	101.1	108.8	117.4
Underlying PBT*	34.5	31.3	36.6	42.3	49.0
Underlying PBT margin	28.2%	25.2%	26.6%	28.0%	29.4%
Statutory PBT, £m	29.5	27.1	32.8	39.0	46.0
EPS basic, p	149.0	135.5	152.7	179.2	208.8
Underlying diluted EPS**, p	168.8	151.8	165.0	188.6	215.5
PER	14.8	16.2	14.4	12.3	10.5
Div, p	71.0	78.0	86.0	95.0	105.0
Yield	3.2%	3.5%	3.9%	4.3%	4.8%
Net assets, £m	148.4	157.7	169.2	183.9	202.4
Net cash, £m	61.3	71.6	86.4	103.0	125.4

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***2,200p***
* 'Underlying' excludes one-off expenses, mostly acquisition-related, & goodwill amortisation, gains & losses.
** After tax

We have considered BM's valuation from both a fundamental and peer comparison perspective, with both methodologies suggesting **substantial upside potential for its rating** 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:

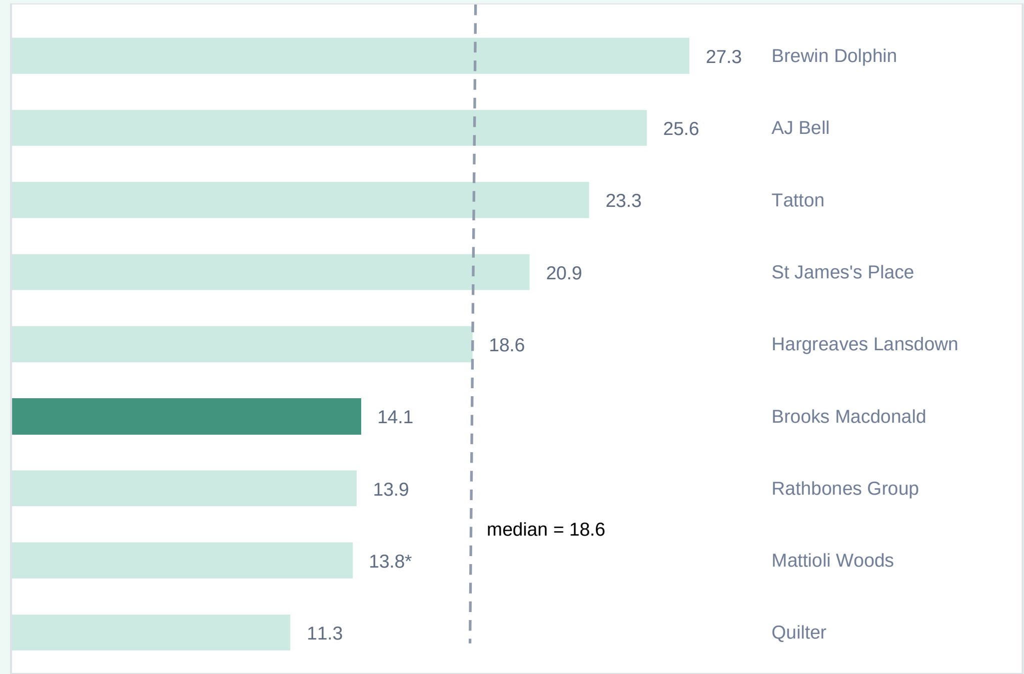
- BM continues to build on its current positive net inflow trajectory, growing this over time to 7% - 8% of opening FUM per annum (noting that BM is targeting 8-10% over the medium term).
- FUM growth from investment returns are 5% per annum.
- A terminal value based on an assumption that the business 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 (in particular, we refer readers to the comments below under 'scarcity value')
- Discounting the cash flows from the above assumptions at a discount rate of 8.5%, based on a risk-free rate of 3.1%, an equity market risk premium of 5.75%, and a beta of 0.9%.

This produces a per share fundamental value of 3,100p, 41% above the current share price of 2,200p.

Peer Comparison

We have also compared the relative valuation of BM to a group of London-listed sector peers, on a price-earnings ratio basis, and highlight that **BM's PER of 14.1 is well below the peer group median of 18.6. We don't believe this is reflective of its strategic positioning and growth prospects.**

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



Source: ADVFN, as of 14 Sep 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.*

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 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**.

Scarcity appeal

A last point to highlight with respect to valuation is that 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.

This view is supported by recent research by McKinsey which highlights a key reason why the economics of Western European wealth managers may make them attractive targets to North American counterparts[1]:

- 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 cost-to-income ratios have increased from 71bps to 79bps (+11%), while European cost-to-income ratios have remained static at 68bps.

We wouldn't be surprised to see further cross-border M&A activity in this sector.

On all of the above valuation considerations, we see potential for a re-rating of Brooks Macdonald.

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

Appendix: Historical and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Jun, £'000	**FY20A**	**FY21A**	**FY 22A**	**FY 23E**	**FY 24E**
Revenue	**108,558**	**118,206**	**122,210**	**124,243**	**137,654**
Administrative costs	(93,794)	(96,012)	(95,288)	(96,836)	(104,532)
Gross Profit	**14,764**	**22,194**	**26,922**	**27,407**	**33,122**
Other gains/(losses)	(4,519)	(1,438)	(55)	-	-
Operating Profit	**10,245**	**20,756**	**26,867**	**27,407**	**33,122**
Gain on bargain purchase	-	4,966	-	-	-
Finance Income	261	47	68	69	77
Finance Expense	(454)	(678)	(372)	(378)	(419)
Profit Before Tax	**10,052**	**25,091**	**29,546**	**27,098**	**32,779**
Tax	(3,626)	(5,449)	(6,135)	(5,555)	(8,195)
Profit After Tax	**6,426**	**19,642**	**23,411**	**21,543**	**24,585**
Proftit/(Loss) from discontinued Operations	-	-	-	-	-
Profit attributable to shareholders	6,426	19,642	23,411	21,543	24,585
Basic EPS, p	43	125	149	135	153
Diluted EPS, p	43	125	144	131	148

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts					
As at end Jun, £'000	**FY20A**	**FY21A**	**FY 22A**	**FY 23E**	**FY 23E**
ASSETS					
Non-current assets					
Intangible assets	83,804	89,897	85,887	82,479	78,706
Property, plant and equipment	3,181	2,756	2,202	2,191	1,926
Right of Use Assets	6,991	5,979	4,971	3,977	3,181
Financial assets at FV through P&L	500	500	500	500	500
Deferred tax assets	1,524	2,736	3,002	3,002	3,002
Total non-current assets	**96,000**	**101,868**	**96,562**	**92,148**	**87,315**
Current assets					
Financial assets at FV through P&L	549	624	784	784	784
Trade and other receivables	26,081	28,449	30,473	32,531	34,810
Current tax receivables	-	32	-	-	-
Cash and cash equivalents	50,168	54,899	61,328	71,619	86,449
Total current assets	**76,798**	**84,004**	**92,585**	**104,933**	**122,044**
Total assets	**172,798**	**185,872**	**189,147**	**197,082**	**209,359**
LIABILITIES					
Non-current Liabilities					
Deferred consideration	(6,300)	(303)	-	-	-
Lease liabilities	(6,659)	(5,422)	(4,075)	(2,647)	(1,219)
Provisions	(219)	(279)	(326)	(326)	(326)
Deferred tax liability	(7,230)	(8,902)	(7,959)	(7,959)	(7,959)
Other non-current liabilities	(330)	(548)	(570)	(570)	(570)
Total non-current liabilities	**(20,738)**	**(15,454)**	**(12,930)**	**(11,502)**	**(10,074)**
Current Liabilities					
Trade and other payables	(22,765)	(27,055)	(23,861)	(24,258)	(26,876)
Current tax liability	(480)	-	(833)	(833)	(833)
Deferred consideration	(1,691)	(5,934)	(327)	(327)	(327)
Lease liabilities	(1,275)	(1,447)	(1,952)	(1,595)	(1,238)
Provisions	(2,308)	(1,979)	(819)	(819)	(819)
Total current liabilities	**(28,519)**	**(36,415)**	**(27,792)**	**(27,832)**	**(30,093)**
Net assets	**123,541**	**134,003**	**148,425**	**157,748**	**169,191**
EQUITY					
Share capital	161	161	162	162	162
Share premium	77,982	78,703	79,141	79,141	79,141
Other reserves	6,398	8,467	9,962	9,962	9,962
Retained earnings	39,000	46,672	59,160	68,483	79,926
Total equity	**123,541**	**134,003**	**148,425**	**157,748**	**169,191**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts					
12 months to end Jun, £'000	**FY20A**	**FY21A**	**FY 22A**	**FY 23E**	**FY 23E**
OPERATING ACTIVITIES					
Operating Profit	**10,245**	**20,756**	**26,867**	**27,407**	**33,122**
Discontinued operations	-	-	-	-	-
Adjustment for:					
Amortisation of intangible assets	5,327	7,682	6,922	5,908	5,650
Depreciation on non-current prop & equip	2,028	1,045	843	511	491
Depreciation of right-of use assets	1,256	1,614	1,669	994	795
Other losses/(gains) - net	4,519	1,438	55	-	-
Decrease/(increase) in receivables	2,642	(2,333)	(2,024)	(2,058)	(2,280)
(Decr)/incr in trade and other payables	(202)	3,765	(3,194)	397	2,619
(Decrease)/increase in provisions	431	(269)	(1,113)	-	-
Incr/(decr) in other non-current liabilities	(384)	218	22	-	-
Share-based payment charges	3,571	2,991	2,779	3,364	3,631
Net cash flow form operating activities	**29,433**	**36,907**	**32,826**	**36,524**	**44,028**
Corporation tax paid	(5,865)	(5,804)	(5,268)	(5,555)	(8,195)
Tax refund	-	-	2,983	-	-
Net cash from operating activities	**23,568**	**31,103**	**30,541**	**30,969**	**35,833**
INVESTING ACTIVITIES					
Purchase of software	(1,614)	(3,061)	(2,912)	(2,500)	(1,877)
Purchase of property and equipment	(1,958)	(620)	(289)	(500)	(226)
Consideration paid	(21,102)	(5,287)	-	-	-
Deferred consideration paid	(919)	(2,421)	(6,000)	-	-
Acquisition of subsidiary, net of cash	-	-	-	-	-
Purchase of financial assets at FV through P&L	-	-	(215)	-	-
Proceeds from sale of discontinued ops	568	-	-	-	-
Interest received	252	47	68	69	77
Proceeds from sale of financial assets at FV	-	-	-	-	-
Cash flows from inv net of discontinued ops	-	-	-	-	-
Finance costs paid	(5)	-	-	(378)	(419)
Net cash used in investing activities	**(24,778)**	**(11,342)**	**(9,348)**	**(3,309)**	**(2,446)**
FINANCING ACTIVITIES					
Proceeds of issue of shares	38,936	721	438	-	-
Shares issued as consideration	(9,000)	-	-	-	-
Pmt of lease liabilities and initial direct costs	(2,111)	(1,969)	(1,785)	(1,785)	(1,785)
Proceeds of lease reverse premium	1,250	-	-	-	-
Purchase of own shares by EBT	(4,607)	(5,210)	(3,100)	(3,500)	(3,500)
Dividends paid	(7,680)	(8,572)	(10,317)	(12,084)	(13,272)
Net cash from /(used in) fin activities	**16,788**	**(15,030)**	**(14,764)**	**(17,369)**	**(18,557)**
Net (decr)/incr in cash & equivalents	**15,578**	**4,731**	**6,429**	**10,291**	**14,830**
Cash & equivalents at beginning of year	34,590	50,168	54,899	61,328	71,619
Cash & equivalents at end of year	**50,168**	**54,899**	**61,328**	**71,619**	**86,449**

Source: Company Historic Data, ED estimates.

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