

Tech investments pave way for staff cuts & margin upside

31st October 2023

Brooks Macdonald has announced it intends to reduce staff complement by 55, around 10% of its workforce of just over 500. It expects to save £4m of costs per year from the changes, but it will incur restructuring costs of up to £3.0m, to be recognised in the current FY24.

The group has been investing in **advanced technologies and in digitalisation** over the last few years now, primarily through its partnership with global technology and outsourcing provider SS&C. This programme has also involved migrating financial planning activities to *Intelliflo* and implementing *Salesforce* for client relationship management. These investments should now allow the group to manage the same or even higher business volumes with a reduced workforce.

Most of the staff reductions will be in back and mid-office roles, with a small reduction in the number of front office roles. The group does not envisage any impact to service levels.

The process will be subject to consultation and Brooks Macdonald has stated it will be providing comprehensive outplacement support for affected staff.

Longer-term profit forecasts and valuation ticks up

We update our forecasts and valuation as a result of these changes, primarily:

- Adding 'one-off' restructuring charges of £3m to FY24 which reduces statutory profits but not 'underlying' profit.
- Reducing staff costs from FY25 onwards, by around £4m per year.

We have also made some downward adjustments to our revenue forecasts from FY25 onwards as a result of ongoing weak market conditions and adjusting our interest income forecasts.

While these adjustments offset each other to a degree, the increase in outer-year profits is the dominant driver of valuation and **we increase our fundamental valuation from 3,000p per share to 3,050p per share (71% above the current share price)**. We also maintain our view that the 'de-rating' of investment/wealth managers, especially Brooks Macdonald, has been overdone, and we refer readers to our 12 Oct note [Well-flagged sluggish quarter, but price fall looks overdone](#) for details.

Key Financials							
Year-end 30 Jun	FY21A	FY 22A	FY 23A	FY24E (prev.)	FY24E (new)	FY 25E (prev.)	FY 25E (new)
FUM, £bn	16.5	15.7	16.8	18.4	18.4	20.3	20.3
Rev, £m	118.2	122.2	123.8	126.3	126.3	134.2	130.4
Underlying expenses*	87.6	87.7	93.5	95.1	95.1	101.0	97.0
Underlying PBT*	30.6	34.5	30.3	31.2	31.2	33.3	33.5
Underlying PBT margin	25.9%	28.2%	24.5%	24.7%	24.7%	24.8%	25.7%
Statutory PBT, £m	25.1	29.5	22.2	26.7	23.7	29.3	29.5
EPS basic, p	125.3	149.0	114.7	123.5	109.6	134.1	134.9
Underlying dil. EPS**, p	150.6	168.8	151.0	141.5	141.5	149.5	150.2
PER	14.2	11.9	15.5	14.4	16.2	13.3	13.2
Div, p	63.0	71.0	75.0	75.0	75.0	75.0	75.0
Yield	3.5%	4.0%	4.2%	4.2%	4.2%	4.2%	4.2%
Net assets, £m	134.0	148.4	157.3	164.6	162.5	173.8	171.7
Net cash, £m	54.9	61.3	53.4	63.6	61.5	73.7	71.5

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: 1,780p

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

Company Data

EPIC	BRK
Price (last close)	1780p
52 weeks Hi/Lo	2250p/1590p
Market cap	£293m
ED Fair Value/share	3050p
Net cash	£53m
Avg. daily volume	21k

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)

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