Impax Asset Management

Revenue, profit, cash & dividends up materially

1 December 2022

Given the sharp pullback in financial markets during Impax's FY22 (Oct 21 – Sep 22), which saw growth stocks and 'sustainable' stocks in particular suffer heavy falls (the *FTSE Environmental Opportunities All-Share Index* fell 19.8%), and also given widespread fund outflows, Impax's financial results are highly impressive.

While end-of-FY22 AUM (£35.7bn) closed 4.1% down y-o-y (30 Sep 21: £37.2bn), average AUM, the primary driver of revenue, increased around 28% from £29.6bn to £37.9bn. In turn, revenue increased 23% from £143m to £175m, adjusted operating profit* 20% (£56m to £67m), and cash reserves 53% (£70m to £107m). In the post-results period to 31 Oct, AUM increased to £37.4bn.

Basic EPS increased 46% from 31.5p to 46.0p (boosted by a £6m forex gain), adjusted diluted EPS rose 22% from 34.4p to 42.1p, and the full year dividend 34% from 20.6p to 27.6p (a yield of 3.6%).

Tough markets, but sustainable investing and Impax impress

The first nine months of 2022 saw widespread and significant AUM falls across the funds landscape. **But demand for sustainable investments has been relatively strong**. While 'conventional funds' saw heavy outflows, sustainable funds in Europe and the US have mostly maintained positive net flows, albeit at a reduced level compared to 2021 (pages 2 & 3).

Impax itself has been a standout performer. Amongst a London-listed active manager peer group it's -4.1% AUM fall compared to a median fall of -22%, and it recorded the highest net inflow rate of +8% compared to a peer-group median of -5% (page 4).

Moreover, we think the outlook for sustainable investing and for Impax remains bullish. The tailwinds that have been in place over the last few years remain firmly intact, but in addition: asset owners (Impax clients) are guarding against 'greenwashing' and demanding more sophisticated sustainable investing strategies, which certainly works in Impax's favour; regulation is likely to steer even more capital towards sustainable funds; and Russia's invasion of Ukraine is likely to drive a more significant and faster shift towards renewable energy investments.

Fundamental value 29% above share price

Our fundamental value is 1,000p per share, which is up from 960p on strong financial results and a recent fall in the 10-year gilt yield (the risk-free rate used in our DCF valuation).

Summary financials & forecasts

Year end 30 Sep	FY20A	FY21A	FY22A	FY23E	FY24E
AUM, £bn	20.2	37.2	35.7	41.9	49.1
Revenue, £m	87.5	143.1	175.4	180.3	209.5
Adjusted Op. Profit*, £m	23.2	55.8	67.4	65.2	77.5
Net profit after tax	13.7	40.2	59.5	49.0	56.3
EPS basic, p	10.6	31.5	46.0	37.3	42.7
EPS adjusted & diluted, p	14.5	34.4	42.1	37.4	42.5
PER	73.4	24.6	16.9	20.8	18.2
Dividend, p	8.6	20.6	27.6	29.1	30.9
Yield	1.1%	2.7%	3.6%	3.7%	4.0%
Net assets, £m	71.4	110.5	138.2	154.1	177.8
Net cash, £m	38.8	74.2	110.9	129.2	157.4

*Source: Group reports & accounts and ED estimates. PER and Yield calculations based on share price of: **777p***
** Adj. results eliminate non-recurring acquisition costs, ongoing amortisation of intangibles acquired, one-off tax credits and mark-to-market of NI on equity award schemes.*

Company Data

EPIC	IPX
Price (last close)	777p
52 weeks Hi/Lo	1508p/487p
Market Cap	£1,030m
ED Fair Value/share	1,000p
Proforma net cash	£111m
Avg. daily volume	235k

Share Price, p

Source: ADFVN

Description

Impax is a specialist asset manager, focused on the growth opportunities arising from the transition to a sustainable economy. Founded in 1998, it offers a range of listed equities, fixed income, systematic, and private markets strategies.

AUM on 31 Oct 2022: £37.4bn

Next Event, Q1 AUM update: Jan 23

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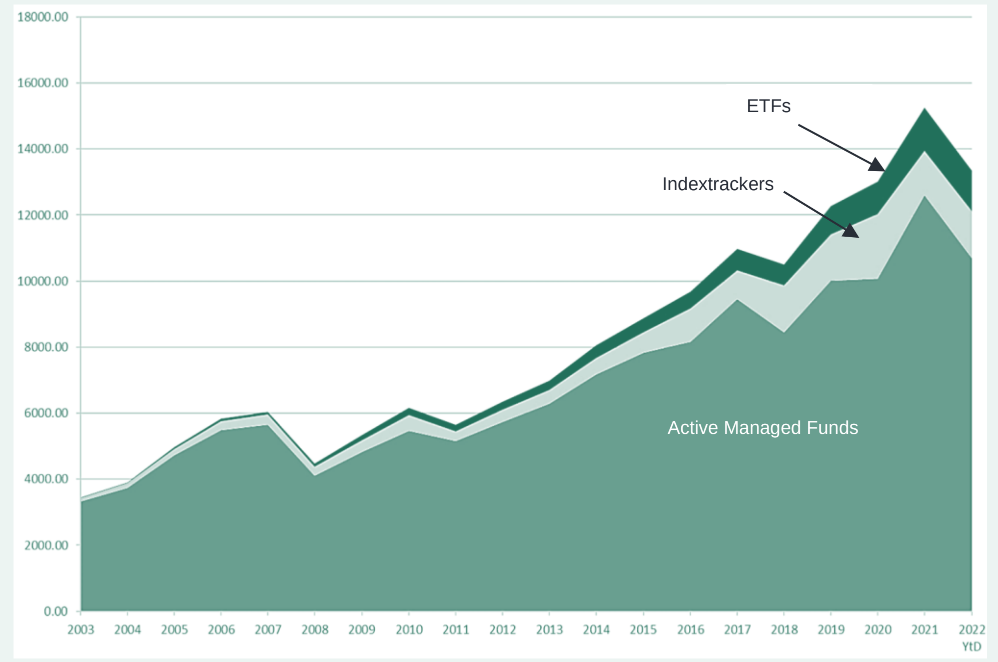
Brutal 2022 for funds, but sustainable demand solid

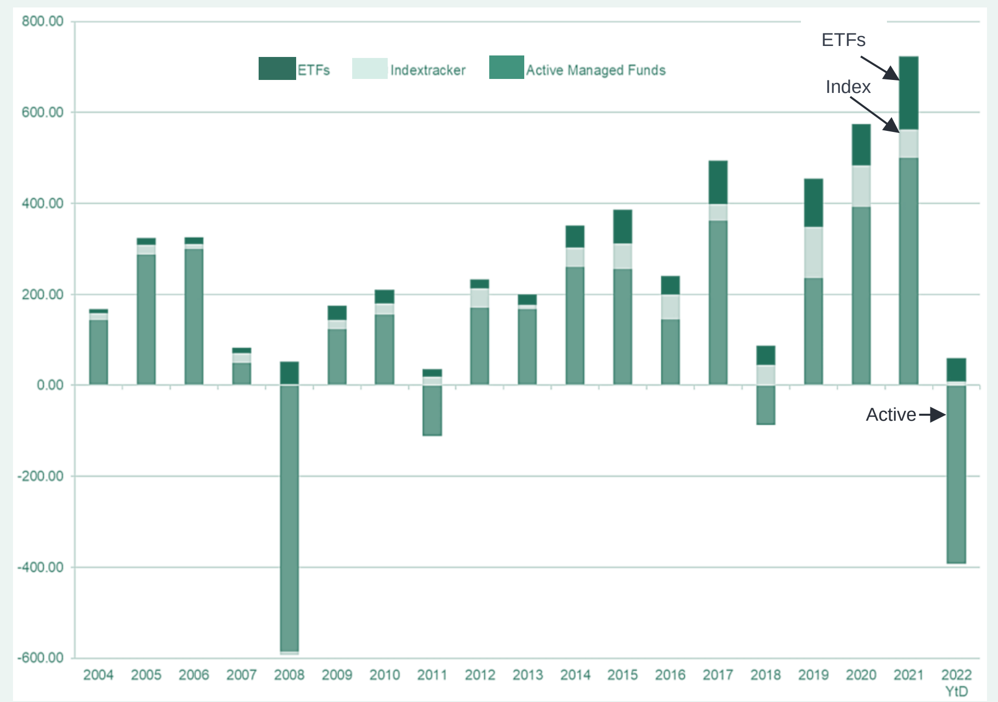
Valuation falls and outflows characterise overall fund market in 2022

Weak economic and market environments resulted in significant AUM reductions across the European (incl. UK) fund landscape in 2022, with AUM down 13% from €15.3trn on 31 Dec 21 to €13.3trn on 30 Sep 22. Actively managed funds – which characterises Impax funds - were particularly hard-hit by net outflows, which is typical during sharp market falls.

European Funds: Assets Under Management by product type, €bn



Estimated European Net Fund Flows, €bn



Source: Refinitiv Lipper: European Fund Market Trends: Year-to-date Q3 2022. Chart reproduced with permission

But it is important to maintain a longer-term perspective on these developments. Notably, **active funds are still by far the largest segment of the fund universe in Europe** (Impax's largest geographic market by some distance, and the predominant sustainable investing market with 82% of global sustainable fund assets[1]). **Active funds are also still in a long-term growth trend** (see 1st chart above), a fact that is sometime overlooked given the high-profile of passive fund growth in recent years.

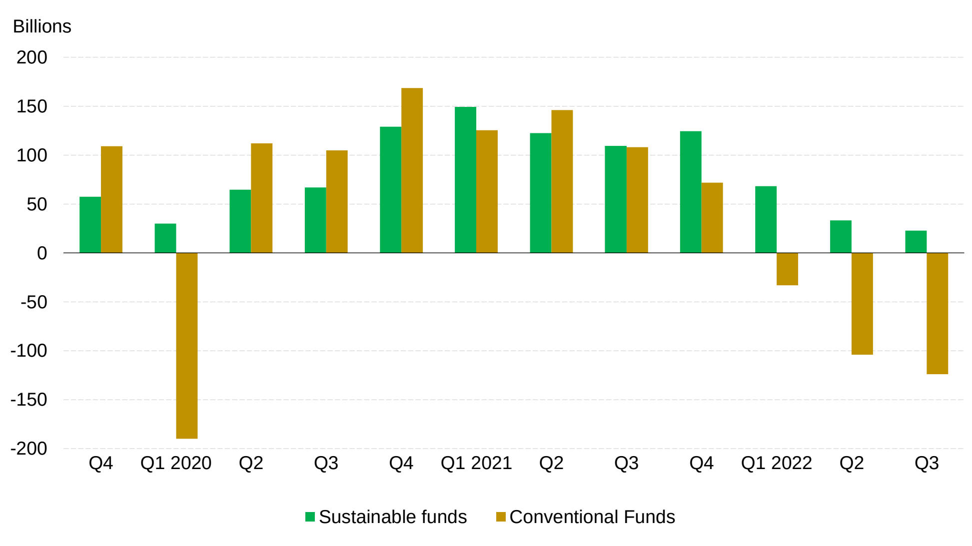
Additionally, history suggests that active funds tend to recover and return to inflows quite quickly and continue their growth trajectory. This can be seen in the 2nd chart above which shows sharp outflows in 2008 (Great Financial Crisis), 2011 (sovereign debt crisis), and 2018 (multiple factors) followed by strong recoveries.

Demand for sustainable funds far stronger than 'conventional' funds

Within the above overall fund landscape**, the relative strength of the sustainable investing fund market has been strong**. While 'conventional funds' have seen heavy outflows in 2022, sustainable funds have maintained positive net flows, albeit at a reduced level compared to 2021 (see below).

According to Morningstar[1]: "*As demonstrated in the last two quarters—as well as in 2020 at the start of the pandemic—sustainable fund flows demonstrated overall resilience against market volatility compared with traditional peers as sustainability-focused investors—who are typically values-driven and long-term-oriented—are slower to pull money from funds they are invested in*."

European sustainable and conventional fund flows, US$bn



Source: Morningstar[1], chart reproduced with permission.

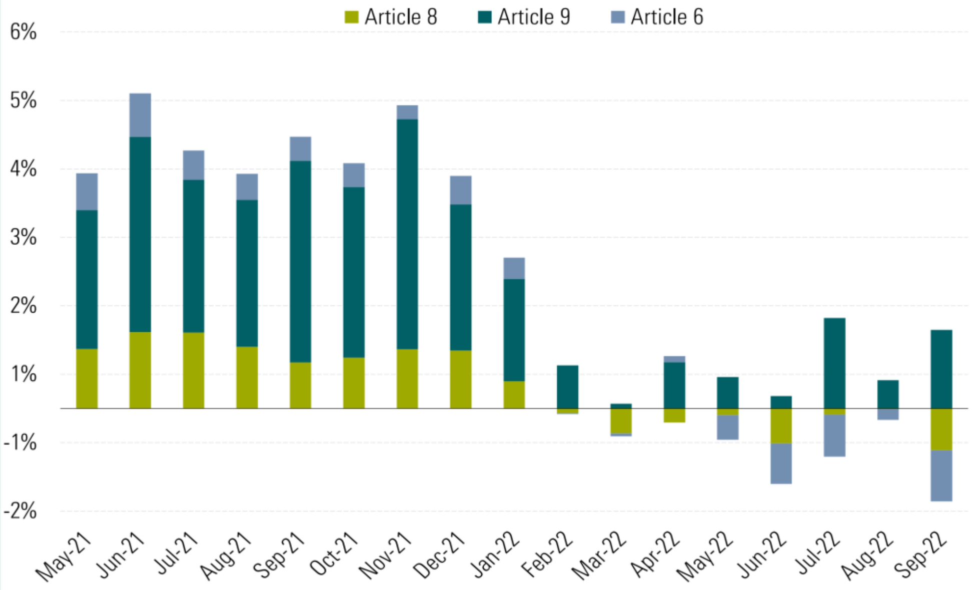
What has also characterised the European fund landscape in 2022 is that **demand has been strongest (by far) for only the highest quality sustainable funds (in terms of sustainability credentials)**.

This is illustrated below where in a very difficult 2022 more generally, the organic growth rates (flows as a % of assets) of *Article 9* funds have remained positive throughout 2022 (these are 'dark green' funds which have a specific sustainable-investment objective, classified in accordance with the EU Sustainable Finance Disclosure Regulation 'SFDR').

This contrasts with *Article 8* funds ('light green' funds which only *promote* environmental and/or social characteristics) and *Article 6* funds (conventional funds) which have seen mostly negative organic growth rates during 2022.

[1] *Morningstar: Global Sustainable Fund Flows: Q3 2022 in Review (encompassing open-end funds and exchange-traded funds that, by prospectus or other regulatory filings, claim to use environmental, social, or governance factors as a central focus of their investment process)*

European funds organic growth rates*



Source: Morningstar: SFDR Article 8 and Article 9 Funds: Q3 2022 in Review, chart reproduced with permission. (SFDR = European Union Sustainable Finance Disclosure Regulation)
**Inflows as a % of assets*

And even though the US is a much smaller sustainable investing market than Europe (12% of global sustainable assets versus 82%), a similar picture of resilience is emerging. Despite some political headwinds against sustainable investing, demand for sustainable funds has been far higher in the US than the overall market.

In calender-H1 of 2022, US sustainable funds attracted net inflows $9bn. As a percentage of total assets this was +2.5%, compared to around -0.5% for the overall market[2]. And in Q3, flows into sustainable funds were +$0.5bn (certainly a depressed inflow rate compared to 2021), but this is in a quarter which saw the total universe of U.S. open-end funds and ETFs see -$86bn of outflows[3].

We think momentum in sustainable investing will remain strong. The tailwinds that have been in place over the last few years remain firmly intact, but in addition, more recent tailwinds have emerged too:

- Asset owners (clients of investment managers such as Impax) are guarding against 'greenwashing' (over-egged or false green credentials) and demanding more sophisticated sustainable investing strategies. Impax, with impeccable and longstanding sustainable investing credentials should be well placed to capitalise.
- Regulation will likely steer even more investment towards sustainable funds, for example, recent MiFID II amendments require financial advisers to consider their clients' sustainability preferences, which has the potential to accelerate adoption of sustainable investments among retail investors.
- And, while the underlying cause is a tragedy, a consequence of Russia's invasion of Ukraine is likely to be a more significant and faster shift towards renewable energy investments, which will benefit the sustainable investment market (and green energy in particular) over the medium-to-long-term. A number of governments have already signalled significant policy shifts in this regard to diversify their energy supply (not only away from Russian-sourced fossil fuels specifically, but away from fossil-fuel-based energy more generally, in favour of renewable energy).

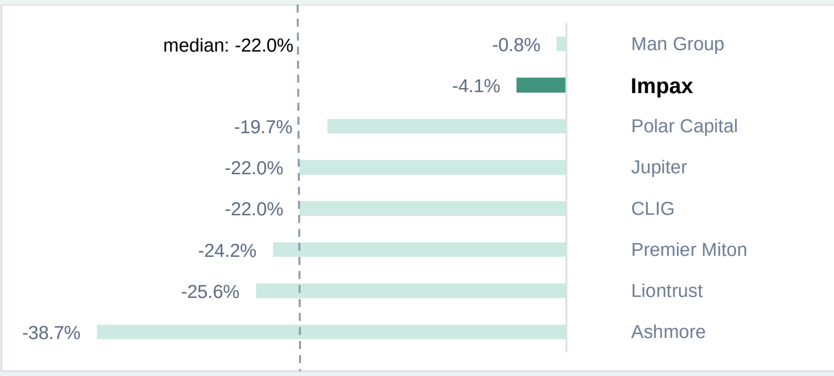
[2] Morningstar, *US Sustainable Funds See Outflows for the First Time in Five Years (in Q2 22)*, 27 July 2022
[3] *Morningstar: Global Sustainable Fund Flows: Q3 2022 in Review*

A standout leader in attracting and retaining AUM

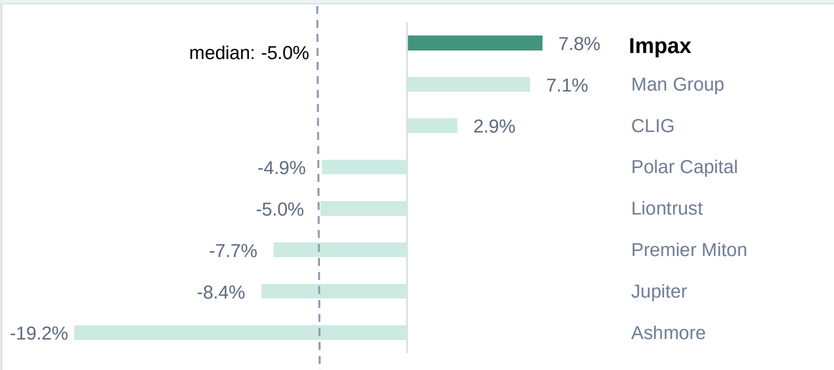
The difficult market conditions certainly extended to a London-listed active manager peer group with every member of this group recording reductions in AUM during the Oct-21 – Sep-22 period (Impax's FY22). **However, Impax recorded an AUM fall of only -4%, compared to a peer group median of -22%.**

Moreover, when measured on inflows as a percentage of opening AUM, Impax ranked 1st in this peer group (FY 22 inflows were +£2.9bn), while on market movements, investment performance and forex impact it ranked second with a -£4.4bn AUM impact. The fall in Impax's AUM due to market movements is unsurprising considering the *FTSE Environmental Opportunities All-Share Index* fell 19.8% over the period (-28.1% over the first nine months of 2022).

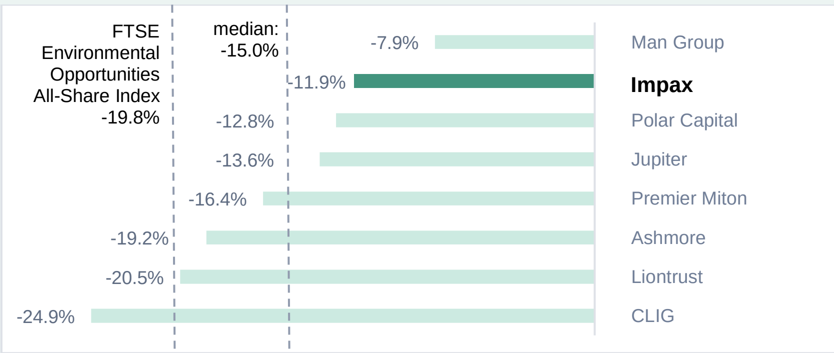
AUM movement, 12m: 1 Oct 21 to 30 Sep 22



Net inflows as % of opening AUM, 12m: 1 Oct 21 to 30 Sep 22



Investment performance*, 12m: 1 Oct 21 to 30 Sep 22



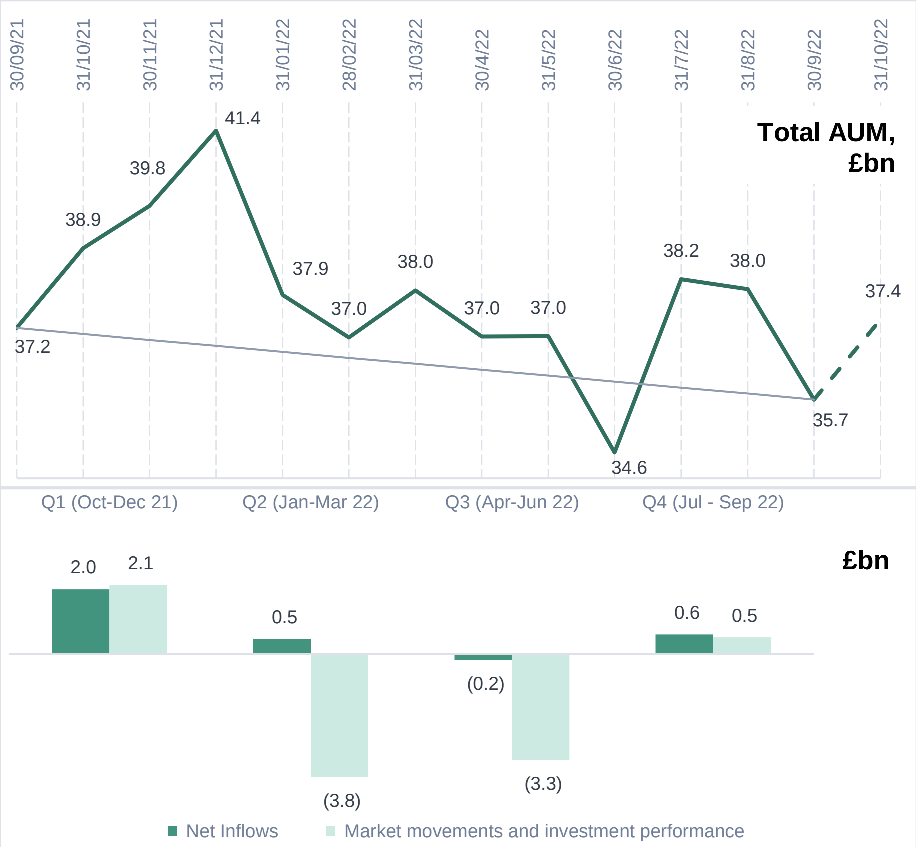
Source: Company reports and updates, ED analysis
Data excludes AUM from acquisitions
**Impact of market movements, investment performance and forex movements as % of opening AUM*

Net inflows reflect client demand, but markets cause intra-year AUM volatility

At a more granular level, FY22 saw a strong Q1 during the continuing bull market of Oct-Dec 21, followed by heavy market losses during Q2-Q4 (Jan-Sep 22), as the war in Ukraine, inflation, rising interest rates, and continuing Covid-19 fears (particularly in China) rocked markets.

Impressively though, Impax suffered only one quarter of (relatively small) net outflows during this time.

FY22 AUM development and 1/4ly net flows & investment performance*



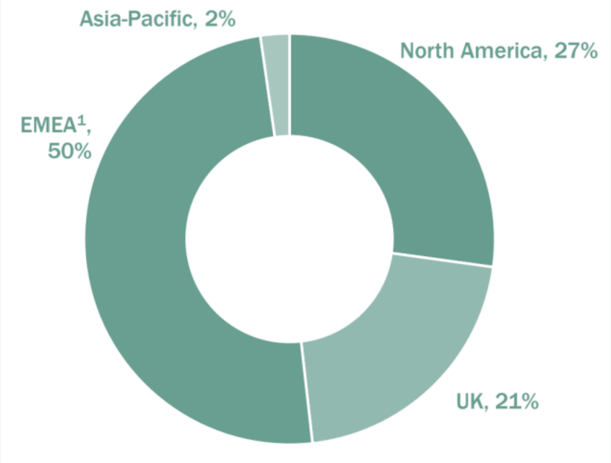
Source: Impax, ED Analysis.
**Impact of market movements, investment performance and forex movements*

Notable developments reported by Impax during the year included (see pages 12 and 13 for more detailed descriptions of Impax's strategies):

- Inflows into *Sustainability Lens* strategies were particularly strong, with *Global Opportunities* accounting for 58% of net inflows, driven principally by Impax's relationship with St James's Place in the UK and by new pension fund mandates in Australia.
- The *US Large Cap* strategy was responsible for 11% of net inflows, which included the launch of a fund on Lombard Odier's PrivilEdge platform targeted at European investors.
- Within Impax's *Environmental Markets* strategies, *Leaders* and *Climate* received the greatest investor interest, and were responsible for 11% and 9% of net inflows respectively. This included two new Climate strategy mandates in the US and China.
- Positive flows for Impax's own-label fund ranges, Ireland-based UCITS fund range, and London-listed investment trust *Impax Environmental Markets plc*.
- AUM of US-based *Pax World Funds* (to be renamed with the Impax brand) grew by 4% to £6.4 billion, including net inflows of £669 million.

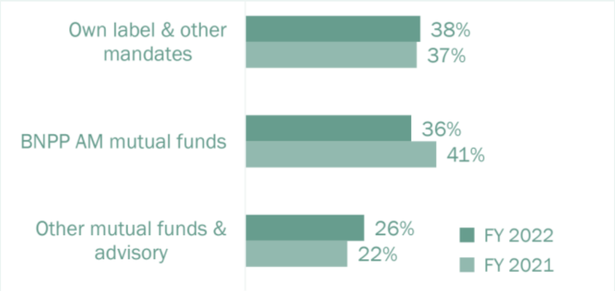
These developments have resulted in Impax's AUM base continuing to diversify, as shown overleaf, although it is concentrated in the listed equities asset class.

AUM by region



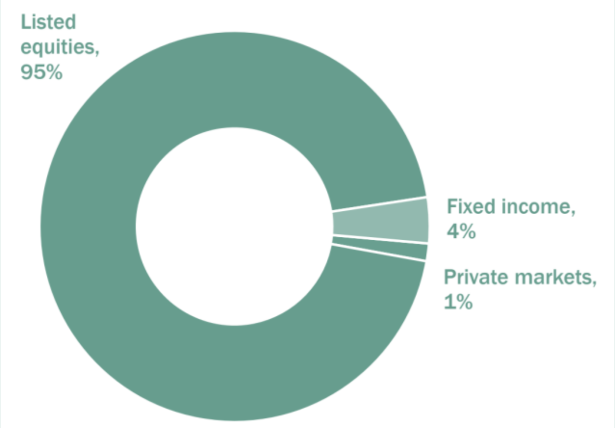
Source: Impax
Data as at 30 Sep 3022
[1] *Includes Ireland*

AUM by client type



Source: Impax
Data as at 30 Sep 2021 & 2022

AUM by asset class with AUM movement for FY22



	Listed equities £m	Fixed income £m	Private markets £m	Total firm £m
Total AUM at 30 September 2021	**35,637**	**1,257**	**318**	**37,211**
Net flows	2,634	62	191	2,887
Market movements, FX and performance	(4,470)	35	12	(4,423)
Total AUM at 30 September 2022	**38,801**	**1,354**	**521**	**35,676**

Source: Impax

FY22 revenue & profit up, balance sheet stronger

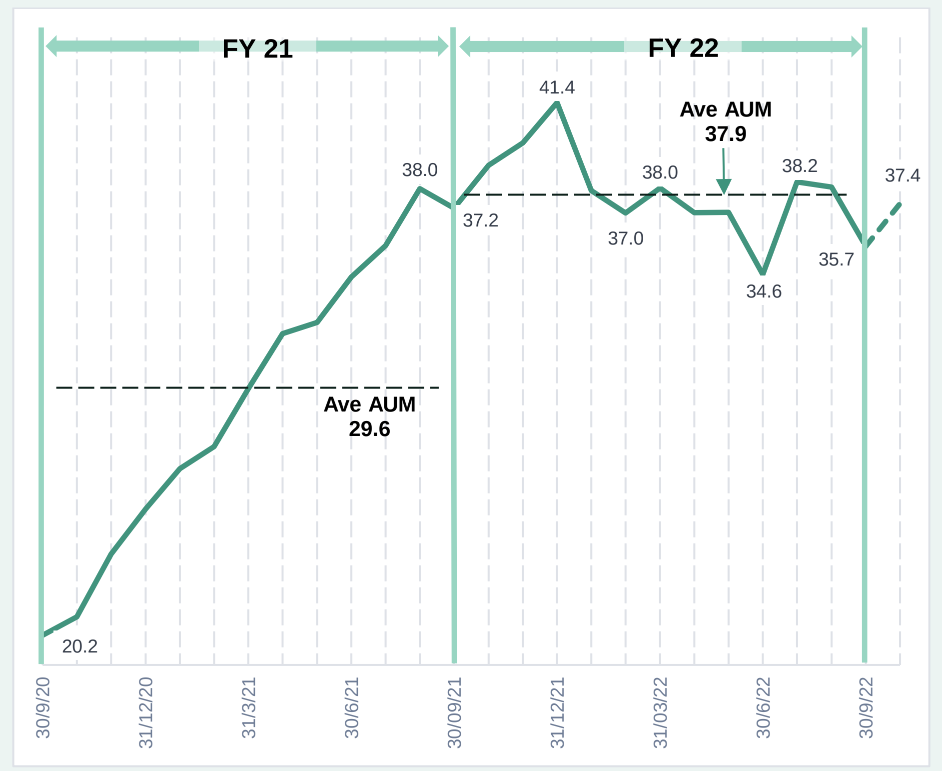
Revenue

Revenue grew 23% y-o-y from £143.1m in FY21 to £175.4m in FY22, with run-rate revenue at the end of the period falling 4% from £173.8m at the end of FY21 to £166.2m at the end of FY22 (run-rate revenue is the Sep result extrapolated for 12 months and adjusted to remove the effects of one-off transactions). The weighted average run rate revenue margin was unchanged at 47bps.

We think that FY22 is a year in which it is important to drill down in a little more detail into the relationship between AUM and revenue.

The discrepancy between a 4% AUM decline between end-FY21 and end-FY22, and a 23% revenue increase between FY21 and FY22 is explained by the vastly different intra-year AUM profiles between the two years, which resulted in the average AUM[4] of FY22 being 28% higher than that of FY21 (average AUM is Impax's main revenue driver: most clients pay Impax a quarterly-in-arrears fee, calculated by multiplying a management fee rate - the abovementioned 47bps - by the average AUM level of the previous quarter).

AUM profile: FY21 & FY22, £bn



Source: Company reports, ED analysis

Consequently, the more useful year-on-year revenue comparison between FY21 and FY22 is probably run-rate revenue, which reflects the decline in 'top-line' AUM over the FY22 year and the 'starting' AUM and revenue run-rate level for FY23.

Costs and profitability

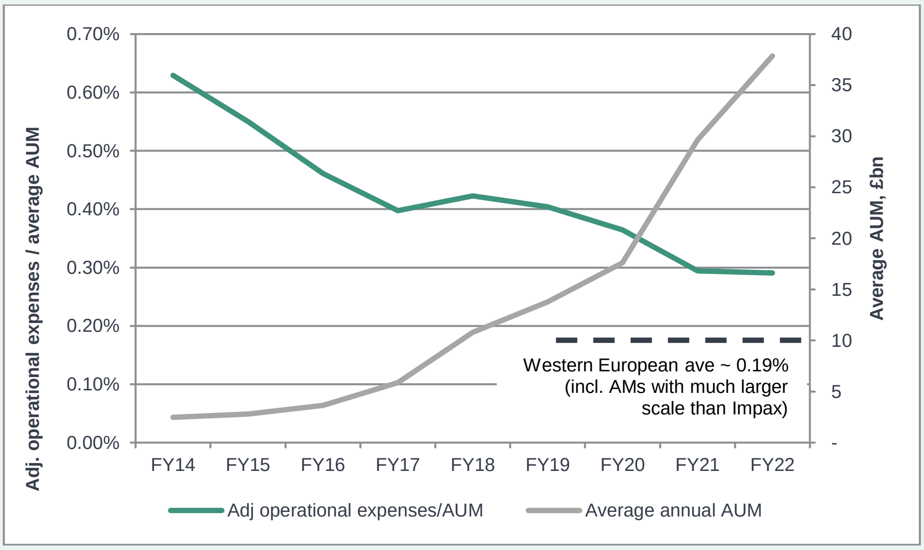
Adjusted operating costs - which differ from IFRS operating costs by excluding non-recurring acquisition costs, on-going amortisation of intangibles acquired, and mark-to-market charges on equity award schemes - increased 24% from £87.3m to £108.0m.

[4] *Average AUM calculated on a monthly basis*

This was slightly less than the increase in average AUM (28%), which means that despite top-line AUM falling during the year, **Impax has continued to reduce its adjusted operating costs as a proportion of average AUM** (a good measure of operating leverage which eliminates pricing effects, and of cost control during years when growth is negatively impacted by market movements – see below).

On this metric, Impax is still showing a **downwards trend** towards levels achieved by larger-scale asset managers. Between 2014 and 2022, it has halved its *adjusted operational expenses to average AUM* ratio from 0.61% to 0.29%. And according to McKinsey, the average cost margin as a percentage of AUM among Western European asset managers (which includes AMs of much larger scale) is 0.19%[5], indicating that **Impax has plenty of headroom to capture even more operational leverage**. (While this ratio is likely to have risen since 2021, because of widespread AUM declines, it still serves as a useful benchmark on what expense ratios larger scale asset managers can achieve).

Adjusted operating expenses vs average AUM



Source: Impax, ED analysis, McKinsey[3]

Employee headcount grew by 26% to 272, roughly in line with the growth in average AUM, which is reflective of ongoing investment in the business. But adjusted operating cost control has benefitted from Impax's variable pay structure, which depressed the increase in staff costs to an extent in a year where growth and profitability were negatively impacted by poor market conditions.

Adjusted operating profit grew 21% from £55.8m in FY21 to £67.4m in FY22, while adjusted operating margin fell slightly from 39.0% in FY21 to 38.4% in FY22. 'Run rate' adjusted operating profit, the best indication of current profitability as it is reflective of current AUM levels, declined from £67.5m at the end of FY21 to £54.3m at the end of FY22. However, it is worth highlighting that AUM did increase by 4.8% in Oct 22 (to £37.4bn), and markets have been positive in Nov 22, developments which would in turn positively impact run-rate revenue and adjusted operating profit.

IFRS operating profit increased 38% from £47.4m to £65.2m. The primary differences between 'adjusted' and IFRS profits are that IFRS operating costs included a charge for the amortisation of intangible assets (management contracts) arising on the Impax NH acquisition (£2.4m), a charge for acquisition equity incentives (£1.3m), and a mark-to-market gain on equity awards (£1.5m).

Profit after tax increased 48% from £40.2m to £59.5m (a higher increase than operating profits primarily as a result of a £6.4m foreign exchange gain); and basic EPS 46% from 31.5p to 46.0p. Fully diluted adjusted earnings per share grew 22% from 34.4p (restated) in FY21 to 37.7p in FY22.

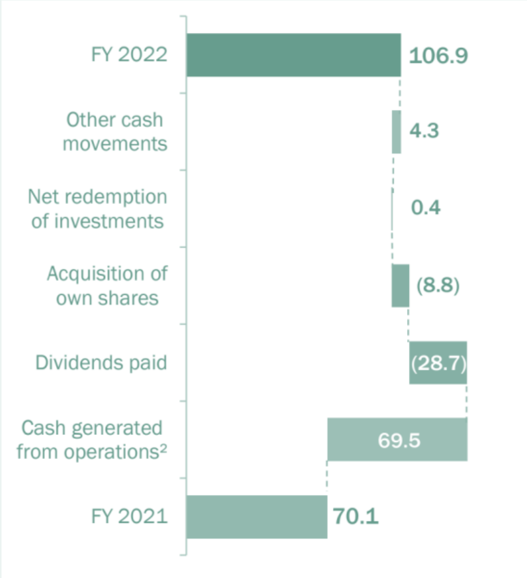
[5] McKinsey & Company. *European asset management after an unprecedented year*. July 2021

Balance sheet remains robust

The Balance sheet of the group also strengthened significantly, with net assets increasing by 25% to £138.1m from £110.5m.

Cash generated from operating activities (after tax) was £71.3m (FY21: £55.4m), with the most significant cash outlays being dividends paid (£28.7m) and the acquisition of own shares (£8.8m). **Cash reserves increased by 53% to £107.0m from £70.1m** (these exclude 3rd-party interest on consolidated funds, and therefore differ slightly from accounting 'net cash' which includes these funds).

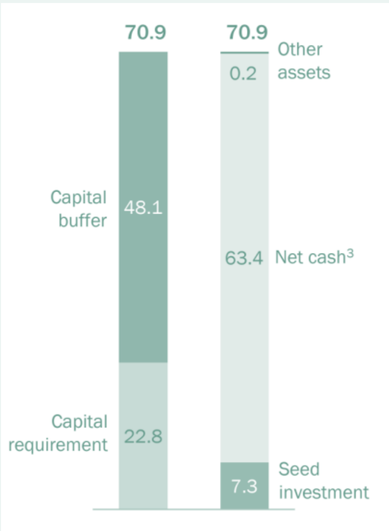
Cash movements, £m



Source: Impax
Excludes third-party interest on consolidated funds and cash held in Research Payment Accounts.
[2]Cash generated from operations after tax and lease-related charges.

The group also provides a capital resources breakdown (see chart below) that takes into account minimum regulatory cash. This shows Impax having a capital buffer of £48.1m (FY21: £18.1m) which can be utilised to pursue growth opportunities, buy shares for the employee benefit trust (to avoid dilution from share awards), and the like.

Capital resources breakdown, £m



Source: Impax
[3] For capital purposes

Impax's target dividend payout ratio is, in 'normal' circumstances, to pay an annual dividend within a range of 55%-80% of adjusted profit after tax.

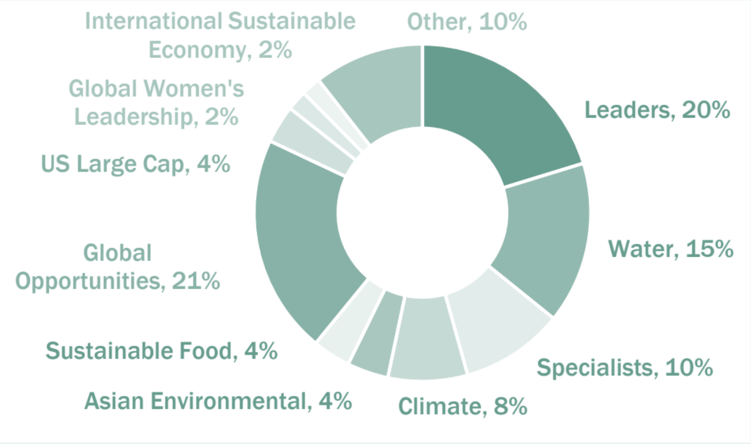
As such, for FY22, a final dividend of 22.9p per share (FY21 17.0p) has been recommended in addition to the interim dividend of 4.7p (FY21 3.6p), **bringing the total dividend for the year to 27.6p, up 34% on the FY21 total of 20.6p.**

This produces a yield of 3.6% on the closing share price of 722p on 30 November 2022.

Investment returns underpin sustainability propositions

Impax has constructed a diverse range of sustainable investing strategies to cater for a wide range of client needs (see pages 12 and 13 for more detailed descriptions of these strategies).

AUM by strategy



Source: Impax
Data as at 30 Sep 2022

The quality of these offerings contributed to the group being named "ESG Manager of the Year" by Financial News (after the FY22 year-end), "Active Manager of the Year" by Pension Age, and "Listed Equities Manager of the Year" at Environmental Finance's Sustainable Investment Awards.

While these offerings are attractive from a sustainability perspective, they are also underpinned by delivering superior investment returns, consistently above benchmarks over the longer term. Indeed, eight out of Impax's ten largest strategies (accounting for 89% of AUM) have outperformed their benchmarks over three years and seven out of nine strategies with five-year track records also outperformed.

However, given the heavy market falls during the period, particularly in growth-oriented and 'sustainability' stocks, many strategies have underperformed versus benchmark over the short term.

This is illustrated in the tables below (performance shown for Impax's *Environmental Markets* and *Sustainability Lens* strategies, which make up around 90% of AUM - above benchmark performance shaded in green, below benchmark in red).

Environmental Markets Strategies to 30 Sep 2022, % annualised return

LEADERS: AUM £ 7.2bn

All-cap global equities with material exposure to Environmental Markets, investing in companies that are developing innovative solutions to resource challenges in four key areas: new energy; water; waste and resource recovery; and sustainable food, agriculture and forestry.

Investment period	1Y	3Y	5Y
Impax performance	-11.3%	10.9%	8.4%
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

WATER: AUM £5.5bn

Global equities across the water infrastructure, utilities and treatment sectors.

Investment period	1Y	3Y	5Y
Impax performance	-8.6%	10.2%	10.4%
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

SPECIALISTS: AUM £ 3.5bn

Small & mid cap global equities with majority exposure to high growth Environmental Markets, investing in companies that are developing innovative solutions to resource challenges in four key areas: energy; water; waste and resource recovery; and sustainable food, agriculture and forestry.

Investment period	1Y	3Y	5Y
Impax performance	-13.5%	11.4%	10.2%
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

CLIMATE: AUM £ 2.7bn

Global equities with demonstrable exposure to products and services enabling mitigation of climate change or adaptation to its consequences.

Investment period	1Y	3Y	5Y
Impax performance	-14.0%	10.5%	
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

ASIAN ENVIRONMENTAL: AUM £ 1.4bn

Regional exposure to the fast growing Environmental Markets in South East Asia, China, Japan and Australia.

Investment period	1Y	3Y	5Y
Impax performance	-16.9%	7.3%	6.2%
Benchmark – MCSI AC AP Composite	-12.5%	1.6%	2.9%

SUSTAINABLE FOOD: AUM £ 1.3bn

Investing in the most innovative companies across the sustainable food value chain.

Investment period	1Y	3Y	5Y
Impax performance	-10.1%	4.1%	5.2%
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

Source: Impax, ED analysis
All numbers show annualised returns. All returns and AUM shown in GBP as of 30 Sep 22.
Figures are presented gross of management fees and include the reinvestment of all income.
MSCI indices are total net return (net dividend re-invested).
MSCI AC AP Composite is a custom made benchmark made up of 80% MSCI AC Asia Pacific ex Japan and 20% MSCI Japan, rebalanced daily

Sustainability Lens Strategies to 30 Sep 2022, % annualised return

GLOBAL OPPORTUNITIES: AUM £ 7,5bn

An all-cap global equity strategy that invests in companies possessing sustainable competitive advantages in order to achieve long-term capital growth.

Investment period	1Y	3Y	5Y
Impax performance	-7.3%	9.4%	12.5%
Benchmark – MCSI All Country World Index	-4.2%	7.2%	8.4%

US LARGE CAP: AUM £ 1,3bn

A core equity strategy that fully integrates analysis of sustainability risks and opportunities and invests in companies that have strong prospects and attractive valuations.

Investment period	1Y	3Y	5Y
Impax performance	-0.2%	14.8%	15.8%
Benchmark – S&P 500 Index	2.1%	11.8%	13.3%

US SMALL CAP: AUM £ 0.5bn

A core strategy that fully integrates analysis of ESG risks and opportunities and focuses on high quality companies at reasonable prices. The strategy uses a proprietary sustainability lens and ESG research to better manage sustainability risks and identify opportunities, and it is fossil fuel free.

Investment period	1Y	3Y	5Y
Impax performance	-6.0%	8.6%	8.0%
Benchmark – Russell 2000 Index	-7.6%	7.8%	7.4%

CORE BOND STRATEGY: AUM £ 0.7bn

An investment-grade bond strategy focused on the opportunities and risks arising from the transition to a more sustainable economy.

Investment period	1Y	3Y	5Y
Impax performance	4.1%	0.5%	3.8%
Benchmark – Bloomberg Barclays US Aggregate Index	3.2%	0.0%	3.5%

HIGH YIELD BOND STRATEGY: AUM £ 0.6bn

A high yield bond strategy leveraging proprietary sustainability tools and research to better identify opportunities and mitigate risks. Focuses on companies with stable profits and manageable debt loads and growing businesses with improving credit profiles.

Investment period	1Y	3Y	5Y
Impax performance	2.6%	2.7%	5.4%
Benchmark – ICE BofA Merrill Lynch US High Yield BB-B (Constrained 2%) Index	4.3%	2.6%	5.3%

Source: Impax, ED analysis
All numbers show annualised returns. Returns and AUM as at 30 Sep 2022.
Strategy returns are calculated including the dividends re invested, net of withholding taxes , gross of management fee.
MSCI indices are total net return (net dividend re invested).
S&P 500 Index is an unmanaged index of large capitalisation common stocks.
The Russell 2000 Index ("Benchmark") is an unmanaged index and measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
The ICE BofA Merrill Lynch U.S. High Yield BB B (Constrained 2%) index ("Benchmark") tracks the performance of BB and B rated fixed income securities publicly issued in the major domestic or Eurobond markets, with total index allocation to an individual issuer limited to 2%.
Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities and asset backed securities.

New CFO

In January 2023, Karen Cockburn will be taking over from Charlie Ridge as CFO. She will lead the Finance function, including Investor Relations, have oversight of Governance arrangements and the Legal function, and will be a member of Impax's Executive Committee. Karen is expected to join the Impax Group Board as Executive Director following the AGM in March 2023, subject to regulatory approval.

Karen is highly experienced, with previous roles including: Transformation CFO at Virgin Money, CFO at Cofunds, Finance Director at Aegon Digital Solutions, and Head of Finance, Strategy and Planning and Lloyds Banking Group.

Charlie Ridge will remain in the group as a part-time adviser for calender-2023.

Growth forecast and valuation

As previously explained in this note, we remain bullish about the prospects of the sustainable investing market more generally, and within this, the prospects of Impax specifically (see pages 1 and 4).

But it is a particularly difficult time to conduct growth forecasts, given that the last two years have seen such huge swings in both inflows and market movements/investment performance:

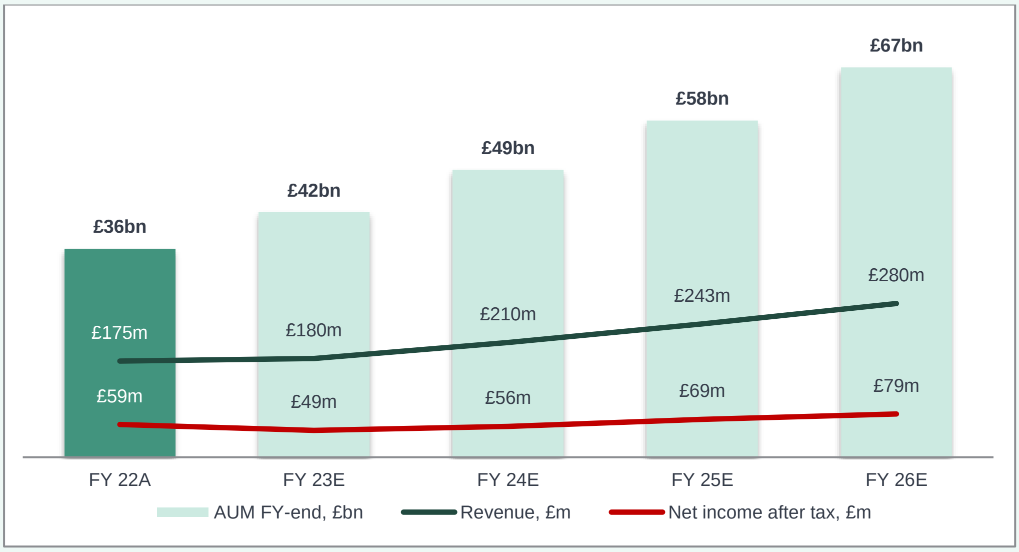
- FY21 saw +£10.7bn of net inflows and +£6.4bn of investment performance (without doubt a 'bumper year' in a bull market, and when sustainable investing became 'normal practice' for many investors).
- FY22 saw +£2.9bn of net inflows and -£4.4bn of investment performance (a year characterised by heavy market falls, particularly for growth-oriented sustainable investment stocks, and widespread fund outflows).

However, we believe our growth forecasts for Impax are certainly achievable, if not conservative:

- We have assumed that net inflows top £4bn in FY23 and grow to just over £6bn by FY26 (still far below FY21 levels), and
- That market movements and investment performance return 5% per annum on average.

This translates to Impax achieving an AUM level of around £67bn in FY26 with revenue of around £280m and net income after tax of around £80m. We also highlight that Impax has said that it has capacity to grow to $100bn (c£85bn) in 3-5 years.

Projections used for fundamental valuation

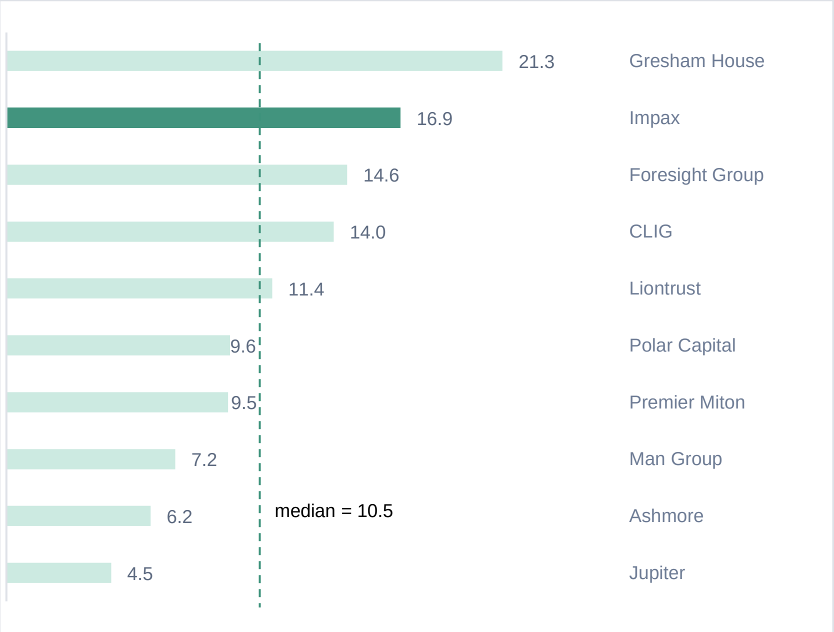


Source: Impax, ED Analysis
Note, dip in FY23 net income after tax is impacted by £6m forex gai in FY22 and increase in UK corporation tax rate from 19% to 25% during FY23

Using the above growth outlook, our fundamental value is 1,000p per share, 29% above the current share price, which is up from 960p per share on these strong financial results and a recent fall in the 10-year gilt yield (the risk-free rate used in our DCF valuation).

We also highlight that Impax's PE ratio of 16.9, while in the upper range of a peer group of London-listed active fund managers, is not excessive and looks justified given is relative recent outperformance and growth prospects.

PE Ratios, UK-listed active fund managers



Source: ADVFN, ED Analysis
Data as at 30 Nov 2022

Appendix – Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Sept, £m	**2020A**	**2021A**	**2022A**	**2023E**	**2023E**
Revenue	**87.5**	**143.1**	**175.4**	**180.3**	**209.5**
IFRS Income Statement					
Operating costs	(69.9)	(95.6)	(110.2)	(117.6)	(134.4)
Operating profit	**17.6**	**47.4**	**65.2**	**62.7**	**75.1**
Fair value gain/(loss) on investments	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Finance cost	(1.9)	(2.0)	(0.6)	(0.6)	(0.6)
Investment income	1.0	0.3	8.0	0.6	0.6
IFRS profit before tax	**16.7**	**45.7**	**72.6**	**62.8**	**75.1**
Taxation	(2.9)	(5.5)	(13.1)	(13.8)	(18.8)
IFRS PAT	**13.7**	**40.2**	**59.5**	**49.0**	**56.3**
Basic EPS, p	10.6	31.5	46.0	37.3	42.7
Diluted EPS, p	10.5	30.3	44.7	36.0	41.2
Adjusted Income Statement					
Adjustments to operating costs:					
Acquisition equity incentive scheme awards	0.1	1.6	1.3	-	-
Mark to market charge on equity awards	3.0	4.2	(1.5)	-	-
Amortisation of goodwill/intangibles	2.5	2.4	2.4	2.4	2.4
Credit from contingent consideration adjustment	-	0.2	-	-	-
Adjusted operating profit	**23.2**	**55.8**	**67.4**	**65.2**	**77.5**
Fair value gain/(loss) on investments	-	-	-	-	-
Non-controlling interest	-	-	-	-	-
Finance cost	(1.9)	(1.1)	(0.6)	(0.6)	(0.6)
Investment income	0.9	0.2	8.0	0.6	0.6
Adjusted profit before taxation	**22.2**	**54.9**	**74.8**	**65.2**	**77.6**
Taxation	(3.5)	(9.3)	(12.3)	(14.3)	(19.4)
Adjusted PAT	**18.7**	**45.7**	**62.5**	**50.8**	**58.2**
Adjusted Basic EPS, p	14.6	35.8	48.3	38.8	44.0
Adjusted Diluted EPS, p	14.5	34.4	42.1	37.4	42.5
Dividends					
Interim dividend, p	1.8	3.6	4.7	7.3	7.7
Final dividend, p	6.8	17.0	22.9	21.8	23.2
FY dividends per share, p	**8.6**	**20.6**	**27.6**	**29.1**	**30.9**

Source: Group report & accounts and ED estimates

Consolidated Balance Sheet + Forecasts					
as at end Sept, £m	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**
Assets					
Non-current assets					
Goodwill	12.3	11.8	13.9	13.9	13.9
Intangible assets	20.9	17.5	18.3	15.9	13.4
Property, plant and equipment	10.9	9.4	9.3	8.0	6.8
Deferred tax assets	5.5	11.9	4.8	4.8	4.8
Total non-current assets	**49.5**	**50.6**	**46.3**	**42.6**	**38.9**
Current assets					
Trade and other receivables	20.7	39.8	38.8	39.9	46.3
Investments	4.4	7.6	7.3	7.3	7.3
Current tax account	0.2	0.1	0.2	0.2	0.2
Cash: money mkt & LT deposits	18.5	38.1	58.7	58.7	58.7
Cash and cash equivalents	20.2	36.2	52.2	70.6	98.7
Total current assets	**64.1**	**121.7**	**157.1**	**176.5**	**211.1**
Total Assets	**113.6**	**172.4**	**203.5**	**219.2**	**250.0**
Equity and Liabilities					
Equity					
Ordinary shares	1.3	1.3	1.3	1.3	1.3
Share premium incl. merger reserve	9.3	10.8	10.8	10.8	10.8
Exchange translation reserve	1.4	0.4	3.1	3.1	3.1
Hedging reserve	(0.1)	-	-	-	-
Retained earnings	59.5	98.0	123.0	138.9	162.6
Total equity	**71.4**	**110.5**	**138.2**	**154.1**	**177.8**
Current Liabilities					
Trade and other payables	28.0	50.1	53.6	55.1	64.1
Lease liability	1.4	1.3	1.5	1.3	1.1
Current tax liability	0.2	1.9	2.2	2.2	2.2
Total current liabilities	**29.6**	**53.4**	**57.3**	**58.6**	**67.3**
Non-current Liabilities					
Accruals	-	-	-	-	-
Lease liabilities	9.3	8.1	7.6	6.1	4.6
Deferred tax liability	3.3	0.4	0.4	0.4	0.4
Total non-current liabilities	**12.6**	**8.5**	**8.0**	**6.4**	**4.9**
Total equity and liabilities	**113.6**	**172.4**	**203.5**	**219.2**	**250.0**

Source: Group report & accounts and ED estimates

Consolidated Cash Flow Statement + Forecasts

12 months to end Sept, £'m	2020A	2021A	2022A	2023E	2024E
Profit before taxation	**16.7**	**45.7**	**72.6**	**62.8**	**75.1**
Adjustment for:					
Investment income	(1.0)	(0.3)	(8.0)	(0.6)	(0.6)
Interest expense	1.9	2.0	0.6	0.6	0.6
Depreciation and amortisation	4.3	4.1	4.3	4.5	4.5
Fair value (gains)/losses	-	-	-	-	-
Non-controlling interests	-	-	-	-	-
Contingent consideration adjustment	-	-	-	-	-
Share-based payment charges	1.8	4.9	6.2	6.2	6.2
Op CF before movement in working capital	**23.7**	**56.4**	**75.6**	**73.4**	**85.8**
(Increase)/decrease in receivables	(4.0)	(19.0)	1.0	(1.1)	(6.4)
(Decrease)/increase in payables	4.7	22.5	3.7	1.5	8.9
Cash generated from operations	**24.4**	**59.8**	**80.3**	**73.8**	**88.3**
Corporation tax paid	(0.6)	(4.4)	(9.0)	(13.8)	(18.8)
Net cash generated from operating activities	**23.8**	**55.4**	**71.3**	**60.0**	**69.5**
	-	-	-	-	-
Investing activities	**-**	**-**	**-**	**-**	**-**
Deconsolidation of investment fund	-	-	-	-	-
Investment income received	0.2	0.1	0.6	0.6	0.6
Settlement of investment related hedges	(0.2)	(0.5)	0.1	-	-
Net redemptions/(investments) from unconsolidated Impax	*1.2*	(2.5)	0.4	-	-
(Increase)/decrease in cash held in money market & LT de	(3.3)	(19.6)	(19.1)	-	-
Purchase of Impax NH shares	-	(0.7)	-	-	-
Acquisition of property, plant and equip and intangible asse	(0.2)	(0.3)	(0.8)	(0.8)	(0.8)
Net cash used in investing activities	**(2.2)**	**(23.4)**	**(18.9)**	**(0.2)**	**(0.2)**
	-	**-**	**-**	**-**	**-**
Financing activities	**-**	**-**	**-**	**-**	**-**
Acquisiiton of non-controlling interest	(0.2)	(0.2)	(0.2)	-	-
Repayment of bank debt	-	-	-	-	-
Interest paid on bank debt	(0.1)	(0.1)	(0.1)	(0.6)	(0.6)
Dividends paid	(7.4)	(13.6)	(28.7)	(39.2)	(38.8)
Acquisition of own shares	(4.2)	-	(8.8)	-	-
Payment of lease liabilities	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Cash received on exercise of Impax share options	0.5	0.6	0.5	-	-
Net cash generated from /(used in) financing activitie	**(13.2)**	**(15.0)**	**(39.0)**	**(41.5)**	**(41.1)**
	-	**-**	**-**	**-**	**-**
Net (decrease)/increase in cash and cash equivalent	**8.4**	**16.9**	**13.4**	**18.3**	**28.1**
Cash and cash equivalents at beginning of year	11.9	20.2	36.2	52.2	70.6
Effect of foreign exchange rate changes	(0.1)	(1.0)	2.6	-	-
Cash and cash equivalents at end of year	**20.2**	**36.2**	**52.2**	**70.6**	**98.7**

Source: Group report & accounts and ED estimates

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