Impax Asset Management

AUM fall as expected and profits seen holding up

5 March 2025

Ahead of its 5 Mar 25 AGM, Impax has confirmed AUM of £28.5bn on 28 Feb 25. This is close to our expectations as on 31 Dec 24 AUM stood at £34.1bn, and we already knew that the termination of a £5.1bn James's Place mandate would impact the current quarter (Q2 of FY25). We expect AUM to jump again soon by c. £1.3bn once the Sky Harbor acquisition closes.

Also announced is an acceleration of the efficiency programme. Over 30 roles have been cut since 1 Oct 24 (c. 10% of headcount). This reduces run-rate annual costs by more than £11m (c. 9-10% of cost base), '*without materially reducing capabilities or growth prospects.*'

Growth outlook: some positive signs for Impax and for sustainable funds

While Impax has said it expects to report net outflows for March due to the closure of a small number of low-margin accounts (average fee margin of lost accounts = 30bps vs overall fee margin of 49bps), it has said that the H2 outlook is encouraging due to its pipeline and recent account wins. **Flows may receive a boost when investors see the improvement in Impax's investment performance relative to generic indices**: strategies representing 69% of AUM have outperformed their benchmarks in 2025, in a turnaround from market returns being dominated by 'mag-7' stocks.

Impax's commentary is consistent with market data, and on page 2 we detail encouraging signs from sustainable fund flows more generally, which have picked up in recent months. Additionally, several **large institutional investors (typical Impax clients) are becoming more insistent on maintaining sustainability considerations** in their asset allocations (also detailed on page 2).

Profit forecasts unchanged: revenue & cost estimates revised downward

Nevertheless, flows are a little weaker than our previous forecasts and we have reduced our AUM forecasts accordingly. Revenue forecasts are also reduced, but not by the same percentage as AUM as most account losses have been in low-revenue-margin accounts. **The acceleration of the efficiency programme offsets top-line reductions with profit forecasts largely unchanged.**

Cash and on-balance-sheet investments make up 50% of share price

Our fundamental valuation remains **600p per share**, based on a DCF model assuming a FY26 return to net inflows, which seems reasonable, and considers Impax's strong balance sheet. This is clearly out of kilter with the share price but justified in our view (data on page 3 backs up our analysis).

Summary financials & forecasts

Year end 30 Sep	FY22A	FY23A	FY24A	FY25E prev.	FY25E new	FY26E prev.	FY26E new
AUM, £bn	35.7	37.4	37.2	34.1	31.5	37.8	34.8
Revenue, £m	175.4	178.4	170.1	159.0	155.0	163.5	155.8
Adj. Op. Profit*, £m	67.4	58.1	52.7	40.3	40.2	42.7	42.6
Net profit after tax	59.5	39.2	36.5	30.6	30.5	32.7	32.7
EPS basic, p	46.0	30.5	28.5	23.9	23.8	25.6	25.6
EPS adj. & diluted, p	42.1	35.2	32.2	24.9	24.8	26.3	26.2
PER	3.7	5.6	6.0	7.1	7.1	6.6	6.7
Dividend, p	27.6	27.6	27.6	27.6	27.6	27.6	27.6
Yield	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%
Net assets, £m	138.2	134.0	131.1	124.7	124.6	117.6	117.4
Net cash, £m	110.9	91.5	93.1	74.6	74.3	69.9	69.5

*Source: Group report & accounts and ED estimates. ER and yield based on share price of **172.4p**.*
** IFRS costs less non-recurring acq. costs, amort. of intangibles acq'd, one-off tax credits & M-T-M of NI on equity awards*

Company Data

EPIC	IPX.L
Price (last close)	172p
52 weeks Hi/Lo	525p/172p
Market cap	£220m
ED Fair Value / share	600p
Proforma net cash	£91m
Avg. daily volume	432k

Share Price, p

Source: Investing.com

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 28 Feb 2025: £28.5bn

Next event

AUM update April 2025

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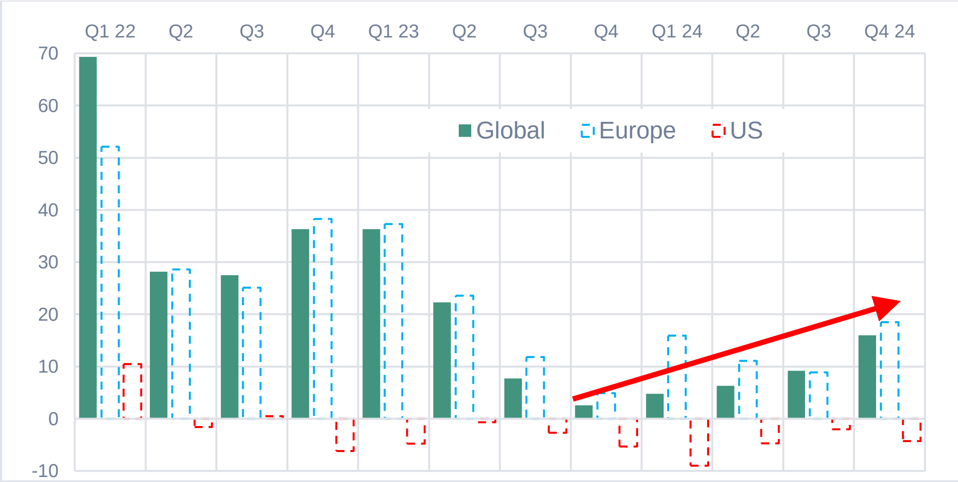
Sustainable fund flows show recent pickup

The fall in demand for sustainable funds over the last two years or so has certainly hurt Impax. But it is becoming clearer that significant demand remains. Data sets from Morningstar and LSEG Lipper both indicate a pickup in global demand in Q4-24 and into Jan 25 (although demand remains weak in the US).

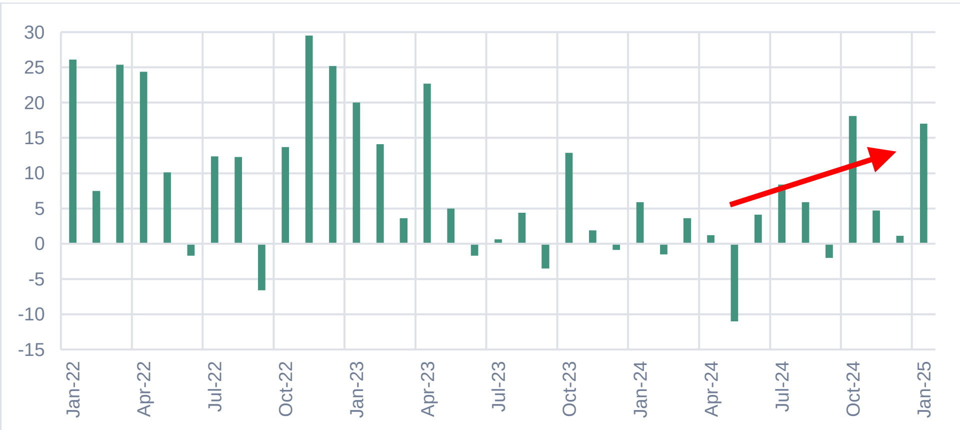
Particularly pleasing from an Impax outlook, is that **in Europe, net flows into sustainable funds more than doubled from US$8.9bn in Q3-24 to US$18.5bn in Q4**, with Morningstar commenting: "*Sustainable equity funds looked to be back in vogue after posting a remarkable recovery in the last quarter of 2024. Inflows into the equity sleeve rose sevenfold to more than US$12bn*."

Quarterly sustainable fund net flows, US$bn (Morningstar)



*Source: Morningstar: Global Sustainable Fund Flows: Q4 2024 in Review. Chart reproduced with permission. *Global sustainable fund universe encompasses open-end funds and ETFs that, by prospectus or other regulatory filings, claim to focus on sustainability; impact; or ESG factors.*

Monthly responsible fund net flows, US$bn (LSEG Lipper)



*Source: LSEG Lipper: Global Responsible Investments Fund Market Statistics for January. Chart reproduced with permission. *European funds: SFDR Article 9 funds plus all Lipper Responsible Investment Attribute funds reduced to those containing indicative sustainable keywords in fund name. US and Canadian funds align to Lipper's Responsible Investment Attributes with no further screening.*

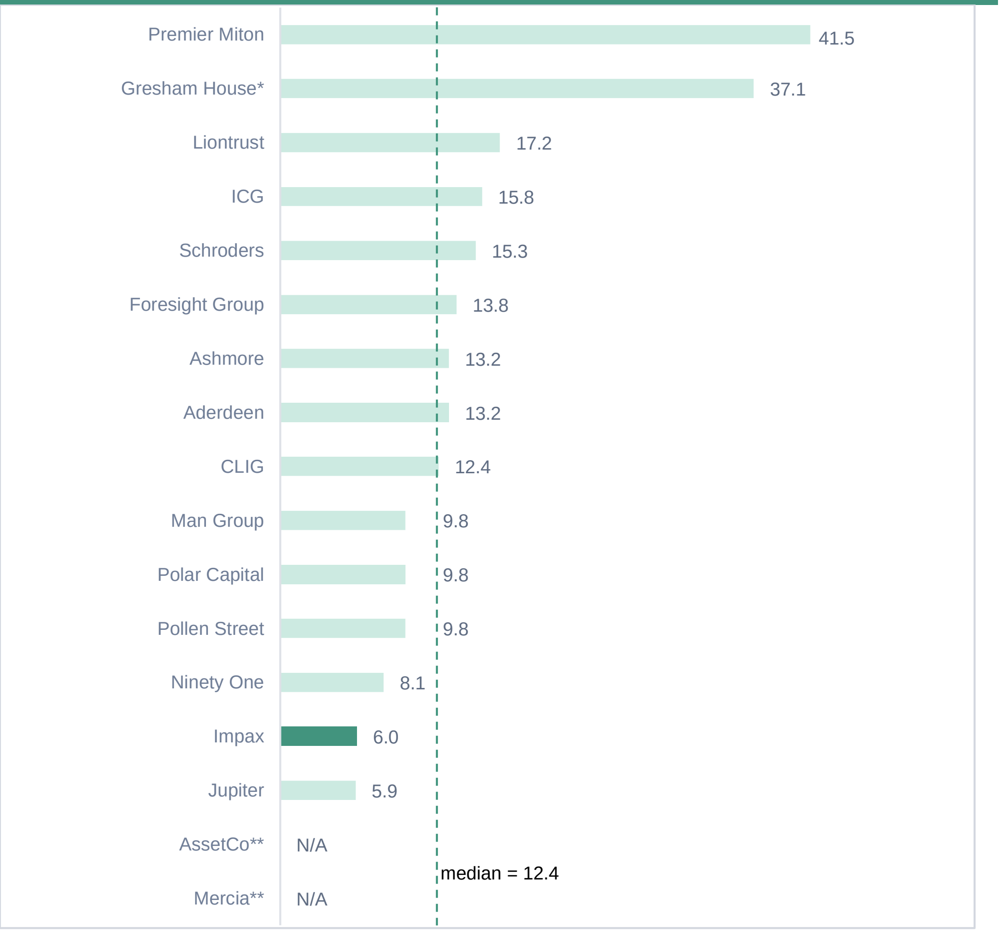
Additionally, several large institutional investors (i.e. potential Impax clients) are becoming more insistent on maintaining sustainability considerations in their asset allocations. Indeed, in Feb 25, the FT reported that "*Institutional investors with $1.5tn in funds have told asset managers to step up on climate action or risk being dumped*". Later that month, it reported that action had been taken with one of the UK's largest pension funds pulling £28bn from State Street, "*in a high-profile example of an asset owner pushing back against the retreat from ESG among the biggest US asset managers*".

Valuation data points suggest Impax may be mispriced

With such a big discrepancy between our fundamental valuation and share price, it is worth highlighting some data points which seem to support the view that Impax's current share price seems far too low:

- There is still solid fundamental demand for sustainable investment funds, as already discussed;
- Impax has one of the longest and most credible track records in this space, and is surely positioned to capture more than its fair share of this market;
- If CEO Ian Simm is correct in his view that smaller-cap growth equities (Impax's bias), which have been out of favour in recent years, start seeing a mean reversion in their valuations, Impax's AUM (and hence revenue) could be boosted;
- Impax's growth in the fixed income space has the potential to further boost AUM;
- Despite recent AUM falls, **adjusted operating margin is not expected to fall below 25-26% before recovering**;
- The **share price now trades at one of the lowest PE multiples in the sector (6.0x), which is less than half the sector-median PER of 12.4** (see below), and unjustified in our view given the quality of this company and its niche, differentiated positioning;
- **Net cash of £93m on 30 Sep 24 and on-balance-sheet investments of £16m (e.g. invested into to seed funds) make up c. 50% of the share price, making the low PER seem even stranger;**
- CEO Ian Simm acquired £40k of shares on 28 Feb 25 (he owns around 7.5% of the group).

PER (TTM) peer group comparison



Source: London Stock Exchange, company announcements. PERs based on share prices on 4 Mar 25 and latest available basic EPS on Trailing Twelve Months (TTM) basis on that date.
**De-listed on 20 Dec 2023 after being acquired*
***Made statutory losses on TTM basis*

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