PensionBee Group plc

A pensions fintech starting to look like a Rocketship

17th March 2022

PensionBee is the leading disruptor of one of the UK's most lucrative financial sectors. Pensions house a huge wealth pool (>£1trn in PensionBee's *defined contribution* addressable market), with customers looking for a multi-decade relationship with their provider to achieve financial security. Fuelled by £50m raised in its Apr 21 IPO, PensionBee is ramping up growth.

At the end of its latest financial year (Dec 21), PensionBee had secured 117,000 invested customers, **up 70%** from 69,000 at the end of FY20. It had also grown its assets under administration (AUA) by 91% to £2.6bn (from £1.4bn), and its revenue by 103% to £12.8m (from £6.3m), with run-rate revenue of £16.3m in Dec 21. In fact, it has roughly **doubled revenue every year since 2018**.

PensionBee has built a technology platform that has started to demonstrate its operating leverage potential. While not yet profitable, it is rapidly closing in on that milestone. Adjusted EBITDA margin improved from -236% in 2018 to -129% in FY21 and is forecast to turn positive from Dec 23.

The investment case is compelling:

- PensionBee has **hardly scratched the surface** of its growth potential – it still has a tiny market share (<0.25%) of a huge addressable market.
- **Revenue growth benefits from 'snowballing' effects**: New customers add 'lump sums', then typically make regular contributions until retirement, while investment returns compound.
- AUA and **revenue is likely to be less volatile** than most other wealth managers as customers are mostly unable to withdraw assets, and make regular, often 'automated' contributions.
- **Profitability is likely to ratchet up very quickly once positive** as the cost base spreads across a growing customer base, and existing customer revenue grows without new marketing spend.
- PensionBee is **well capitalised** and should meet its growth potential without new equity.
- It is founder-led (co-founders own 42%) with their **interests aligned to other shareholders**.
- A **transition to the Premium Main Market Segment of the LSE is a target for H1 22** (currently listed on High Growth Segment of Main Market): the Premium Segment demands the very highest listing and governance standards, and allows for inclusion in FTSE indices.

Valuation

Our fundamental value is 230p per share, 63% above the current share price. This is based on discounting the future cash flows of our growth forecasts. If progress tracks forecasts, we see **potential for the share price to close the gap on fundamental value**. If our forecasts are exceeded, there could be further potential upside for shareholders.

Key Financials

Year-end 31 Dec	FY20A	FY21A	FY 22E	FY 23E	FY24A	FY 25E	FY 26E
Invested customers, k	69	117	202	315	426	541	662
AUA, £bn	1.4	2.6	4.3	7.0	10.0	13.8	18.4
Rev, £m	6.3	12.8	21.1	35.1	53.9	74.3	99.4
Adjusted expenses*, £m	(16.7)	(29.2)	(40.5)	(48.0)	(53.3)	(60.6)	(68.8)
Adj EBITDA, £m	(10.4)	(16.4)	(19.5)	(12.9)	0.6	13.7	30.7
Adj EBITDA margin	-166%	-129%	-92%	-37%	1%	18%	31%
Statutory PAT, £m	(13.5)	(25.0)	(23.9)	(17.7)	(4.5)	8.3	25.0
EPS basic & adj, p		(11.9)	(10.7)	(7.8)	(2.0)	3.4	9.6
PER		-11.9	-13.2	-18.0	-71.7	41.3	14.7
Net assets, £m	10.7	51.2	34.6	26.6	35.1	60.2	107.5
Net cash, £m	6.7	43.5	23.3	9.2	8.2	19.8	47.4

Source: Company Historic Data, ED estimates. PER based on share price of: ***141p***
** Excluding share-based payments, dpereciation and one-off/extratordinary expenses (mostly IPO related)*

Company Data

EPIC	PBEE
Price (last close)	141p
52 weeks Hi/Lo	187p/122p
Market cap	£313m
ED Fair Value/share	230p
Net cash	£45m
Avg. daily volume	73k

Share Price, p

Source: ADVFN

PensionBee was founded in 2014 and listed on the High Growth Segment of the Main Market of the London Stock Exchange in Apr 2021.

It is a direct-to-consumer business, whose primary product gives customers the ability to easily switch their (often multiple) 'legacy' pensions, which are typically from previous jobs, and consolidate these into a single new pension. This can then be contributed to until retirement and drawn down from retirement age.

PensionBee also offers 'new' pensions to the self-employed.

AUA at end Dec 2021: £2.6bn

Next Event 21 April 22: Q1 22 trading update

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About PensionBee

PensionBee was founded in 2014, is based in London and employs around 176 people (Dec 21). It listed on the High Growth Segment of the Main Market of the London Stock Exchange in Apr 2021 and is currently **working to transition to the Premium Main Market segment of the LSE** (targeting H1 22). This segment demands some of the highest listing standards in the world and will allow for inclusion in FTSE indices.

PensionBee is a direct-to-consumer (D2C) fintech business, whose primary product gives customers the ability to **easily switch their (often multiple) 'dormant' pension pots**, which are typically the legacy of previous jobs that the customer has left, and consolidate these into a single new PensionBee account. This can then be contributed to until retirement and drawn down from retirement age.

Non-workplace or personal pensions such as SIPPS can also be switched and consolidated. And for the self-employed, PensionBee offers the ability to start a new pension plan from scratch.

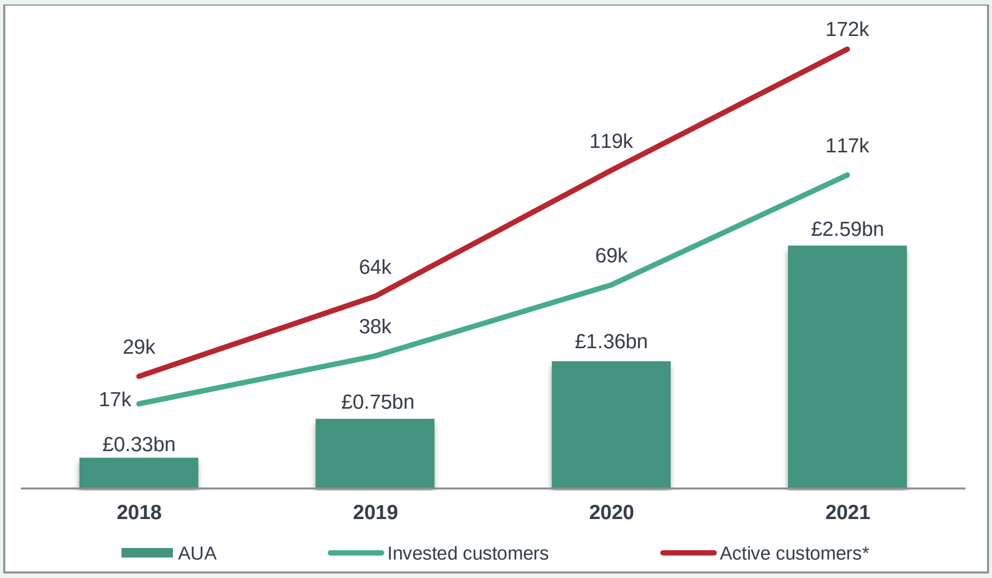
Meeting a previously unfulfilled market need

Research has shown that on average, people change jobs 11 times in their careers[1] which has led to a plethora of legacy pension pots in the UK which are difficult for the consumer to manage and poorly serviced by the pensions industry.

Customers who switch to PensionBee benefit from being a 'core' customer of their new provider, with access to cutting-edge, customer-friendly, multi-device technology designed specifically for pension management purposes. This contrasts sharply with the experience of being a 'legacy' client of a pensions provider whose primary customer is actually the ex-employer of that consumer, not the consumer themselves (the pensions provider would usually be providing the employer with a workplace scheme).

PensionBee has clearly identified an area of **huge market demand** and has been **impressively successful in attracting customers and their pension savings**. Its assets under administration or **AUA, has roughly doubled every year** over the last few years.

PensionBee customer numbers and AUA



Source: PensionBee
**Active = invested customers + customers with a transfer to PensionBee in progress i.e. funds not yet transferred*

We estimate that AUA can continue to grow rapidly and reach £15-£20bn in the next 4-5 years.

[1] *Meeting future workplace pension challenges: Improving transfers and dealing with small pension pots', DWP, 2011*

Simple investing proposition

Core to PensionBee's offering is its determination to **make pension investing simple**. As such, customers are offered just seven easy-to-understand investment plans, including a very popular responsible investing plan (PensionBee was one of the first UK pension providers to over a responsible investing pension plan, as far back as 2017) and 'pre-retirement' plans targeted at an older demographic. These plans are:

Core plans:

- **Tracker**: Low-cost, medium-risk which invests in global shares, bonds and cash.
- **Tailored**: Automatically adjusts risk according to age, moving into safer investments with age.
- **Fossil fuel free**: Investing in the equity of companies that are aligned with the Paris Agreement goals and excludes fossil fuel and tobacco sectors.

Additional plans:

- **4Plus**: Actively managed plan aiming to achieve long-term growth of 4% per year above the cash rate.
- **Sharia**: Investing in the equity of Shariah-compliant companies.
- **Preserve**: Low-risk investments into money market instruments and fixed deposits and other 'cash-like' instruments.
- **Pre-annuity**: Invests in bonds to provide returns that correspond to the cost of purchasing an annuity.

PensionBee charges an annual fee based on a percentage of AUA and is not reliant on transactional fees or other opaque charging structures which are so common in the pensions sector.

Importantly, it **outsources the investment management function** of its customer plans to leading providers: BlackRock, HSBC, Legal & General and State Street Global Advisors. It therefore offers customers the benefit of having their investments **managed by some of the most experienced money managers in the world**, while maintaining the flexibility to change and update the investment plans it offers to customers in accordance with market demands.

Superior technology

In contrast, no client-facing processes are outsourced to third-party providers, with PensionBee focusing on **being a customer-focused, technology-driven, D2C pensions provider**.

Its technology stands out from incumbents throughout the lifetime of a customer's pensions journey, with features that are attractive across the age spectrum. For example:

- Fully digital onboarding, where customers simply download the PensionBee app or sign up online and provide basic personal and pension details. PensionBee will then do the remaining work to transfer pensions to it, providing customers with a real-time transfer-tracking feature. (PensionBee now has established processes and relationships with most incumbent providers to make transfers efficient).

- Once transferred, customers have access to a range of features to manage their account, including online investment plan selection, live balance viewing, investment performance analytics, setting up recurring contributions or making one-off contributions, and accessing the 'retirement planner' which forecasts how much pension savings will be at retirement and provides drawdown scenarios.

- At retirement age, customers can manage their drawdowns digitally with on-demand pension withdrawals or even purchase an annuity.

PensionBee follows a cross-device approach. It reports that approximately 60% of its web traffic originates from mobile or tablet browsers.

The product and customer experiences are designed as 'all-digital', ensuring that complete business processes can be continuously monitored and optimised.

Best-in-class customer service

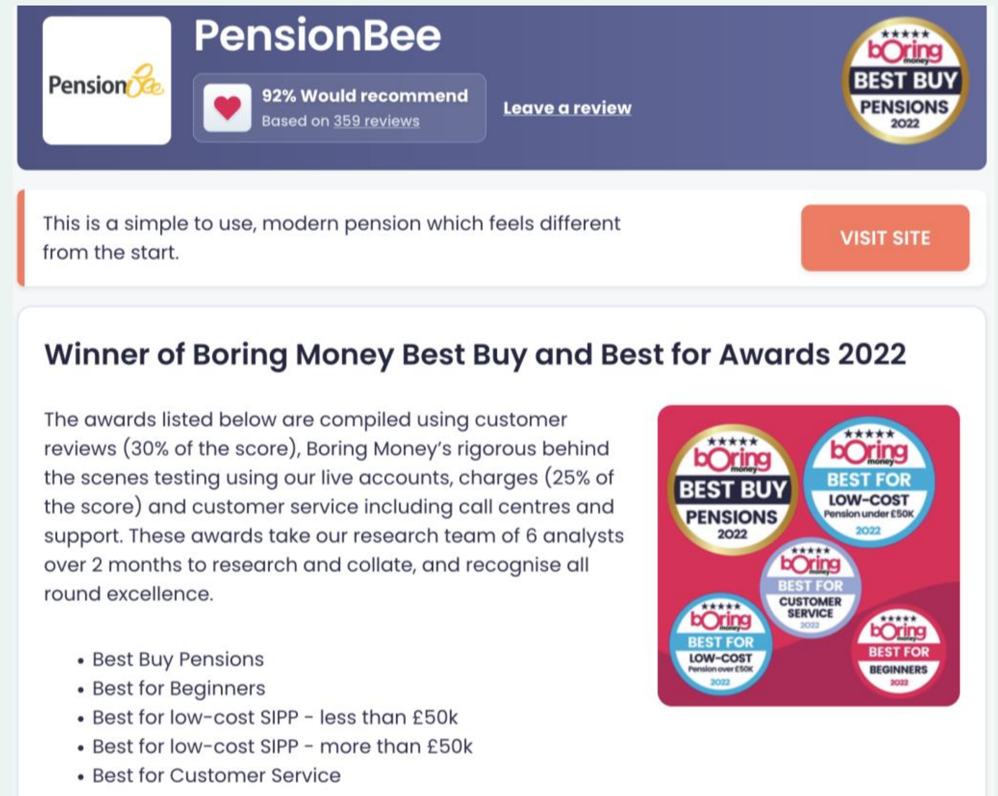
In addition to, although not independent from, its technological superiority, PensionBee has developed best-in-class customer service.

The technology platform is supported by easily accessible human interaction with 'BeeKeepers' providing customers with a dedicated account manager when they accept PensionBee's terms of business, assisting them through the onboarding process and helping them understand the technology platform.

Its record of impressive responsiveness to customer queries is backed up by hard data. For example, in FY 21, the average live chat waiting time was 27 seconds, the average phone line waiting time was 69 seconds and 84% of customer requests over email were dealt with within 72 hours[2].

And most recently, PensionBee won a range of pension provider awards from Boring Money, a leading financial product reviewer in the UK, including a '**Best for Customer Service 2022 award'**.

PensionBee's 2022 awards from Boring Money



Source: Boring Money, reproduced with permission

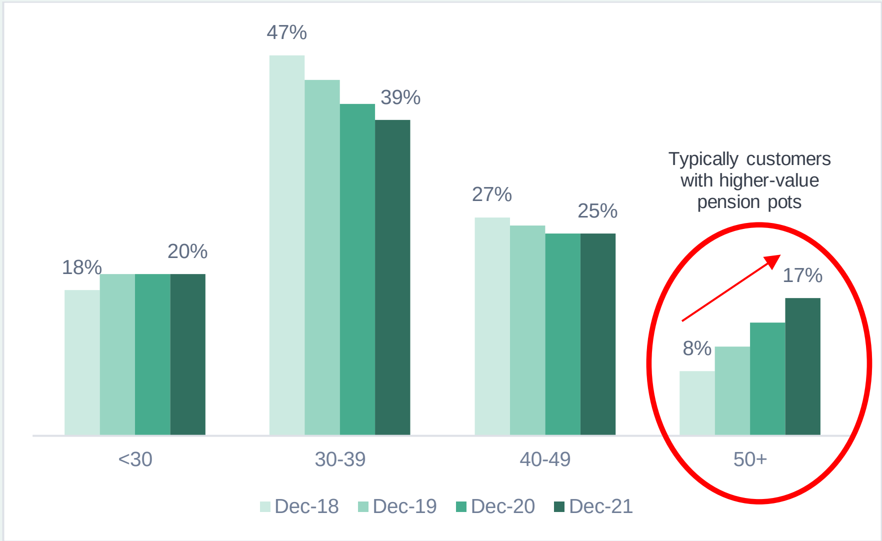
Attracting a diverse customer base

While PensionBee does attract a younger demographic, which is crucial to its longer-term success, it most certainly **does not only cater to a younger demographic**.

Its products and marketing are also focused on attracting older customers, as seen in the jump of proportion of over-50s in its customer base in the chart below. This is important to the economics of PensionBee as older customers typically have larger pension pots (the average pension pot size is approximately £22k, but this varies from under £10 to over £2.5 million).

[2] *As calculated across 31,539 live chats; 41,893 calls; and 165,311 emails*

Customer age distribution



Source: PensionBee

Competition

While there are large incumbent competitors to PensionBee – for example, platforms such as Hargreaves Lansdown and Fidelity offer pensions transfer and consolidations services – these have not been designed as a core product to attract new customers with (they are generally positioned as 'add a pot to your existing SIPP account') and their technology has not been specifically designed to offer this transfer and consolidation as a primary service. These competitors can certainly not to be dismissed, but PensionBee's current growth trajectory suggests it has a highly competitive offering (and marketing focus) in comparison.

Then there are a handful of younger fintechs which also compete with PensionBee, but none appear to have anywhere near the traction or scale of PensionBee which has a **significant first mover advantage** in the pensions fintech space. Some of these fintech competitors include:

Moneyfarm, which launched in the UK in 2016 (founded in Italy in 2012). This offers a similar service to PensionBee, but it is primarily a more general investing platform offering ISAs and investing accounts with its move into pensions being more recent. Its website claims to have 80,000 customers with £2.2bn AUA across all products, so its pensions business is likely to be a fraction of PensionBee's. It may however be one to watch as in Jan 22 it closed a £44m funding round led by M&G.

Moneybox, another more general investing fintech with a primary focus on fund investing and ISAs etc, also moved into the pensions space in 2020 and competes in the same market as PensionBee. By May 2021 its company accounts revealed it had reached £2.0bn AUA across all products, so like Moneyfarm, its pensions business will be a fraction of PensionBee's.

Management aligned with other shareholders

Both PensionBee founders still hold full-time executive leadership positions and significant stakes. Romi Savova is the Chief Executive Officer and has a 36% shareholding. Jonathan Lister Parsons is the Chief Technology Officer and holds a 6% stake.

PensionBee does not have a dual-class share structure as has become fairly common with technology companies which list on public markets, therefore all shareholders enjoy equal voting rights.

Huge and growing target market

PensionBee's target addressable market is the **UK Defined Contribution (DC) pensions market**. These can be workplace or personal (non-workplace) pensions.

A DC pension is distinguished from the other main pension type, 'defined benefit' (DB) pensions, in that in the case of a workplace DC pension, there is no obligation on the employer to meet any defined retirement income level (employee bears the investment risk), whereas DB pensions obligate the employer to pay a predefined retirement income (employer bears the investment risk).

The DC pensions market, is estimated to house more than £1.0 trillion of wealth[3] (excluding pensions 'in payment' i.e., annuities) **from around 25-30million consumers**[4]**.** With £2.6bn AUA (as at 31 Dec 21) and 117,000 customers, PensionBee **has hardly scratched the surface of its growth potential** (it has a market share of under 0.25% by value).

More specifically, PensionBee's addressable market can be broken down into a £722bn 'Pension Consolidation Market' (pensions which can readily be switched to PensionBee) and a £290bn 'Workplace DC Market' (pensions which can be switched only after an employee leaves their current job).

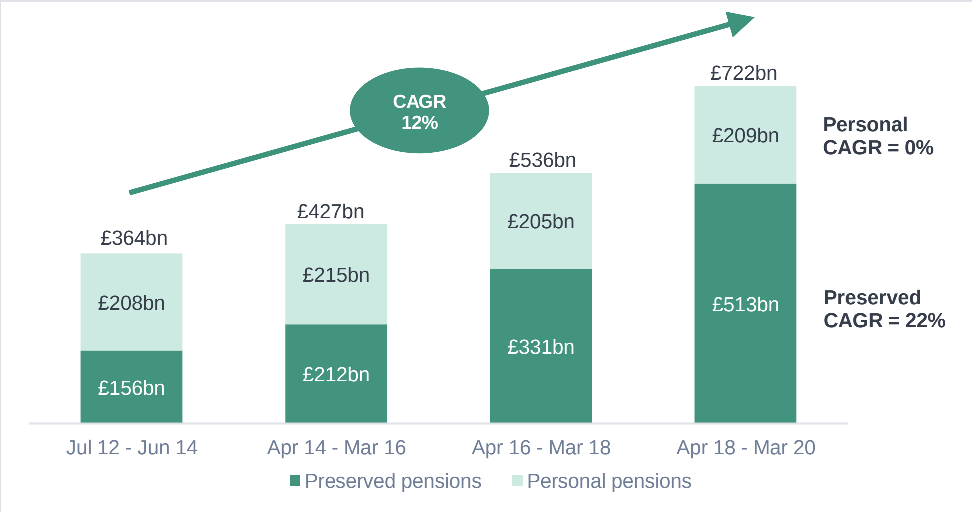
Pension Consolidation Market

This primary target market has two broad segments, 'preserved' pensions and 'personal' active pensions.

Preserved pensions (£513bn of wealth)[3] are where contributions are no longer being made, but the pension is also not yet in payment (i.e., the individual has not yet retired) and consist mostly of 'legacy' or 'dormant' workplace pensions from jobs an individual has left.

Personal active pensions (£209bn of wealth)[3] are where contributions are being made (hence 'active'), and could be taken out by employed people who want to enhance their pension savings in addition to their workplace pensions, or the self-employed, who are responsible for their own retirement planning and open a private pension account for this purpose.

PensionBee's primary target market: Pension Consolidation Market



Source: ONS, Pension wealth: wealth in Great Britain.

[3] *ONS, Pension wealth: wealth in Great Britain, Jan 22 (Preserved pensions = DC preserved pensions + preserved pensions expected from former spouse/partner. Personal pensions = active members of personal pension schemes.)*
[4] *fca.org.uk/news/press-releases/fca-tpr-outline-framework-value-money-defined-contribution-pension-schemes. FCA cites 30.7m members (contract-based DC schemes). The Pensions Regulator (TPR) cites 18.2m members (trust-based DC schemes). There will be overlap of these memberships and multiple memberships (PensionBee customers consolidate two accounts on average and some will also have an active workplace pension which cannot be consolidated: therefore rough estimate of 25-30m consumers).*

PensionBee provides a vehicle to consolidate all of the above pension types into a single account (on average customers consolidate two pension pots) and to start contributing to these pensions again.

However, from the above chart it is clear that preserved pensions are the growth driver of PensionBee's target 'consolidation' market - due to factors such as a continuous flow of job switching (discussed in more detail below).

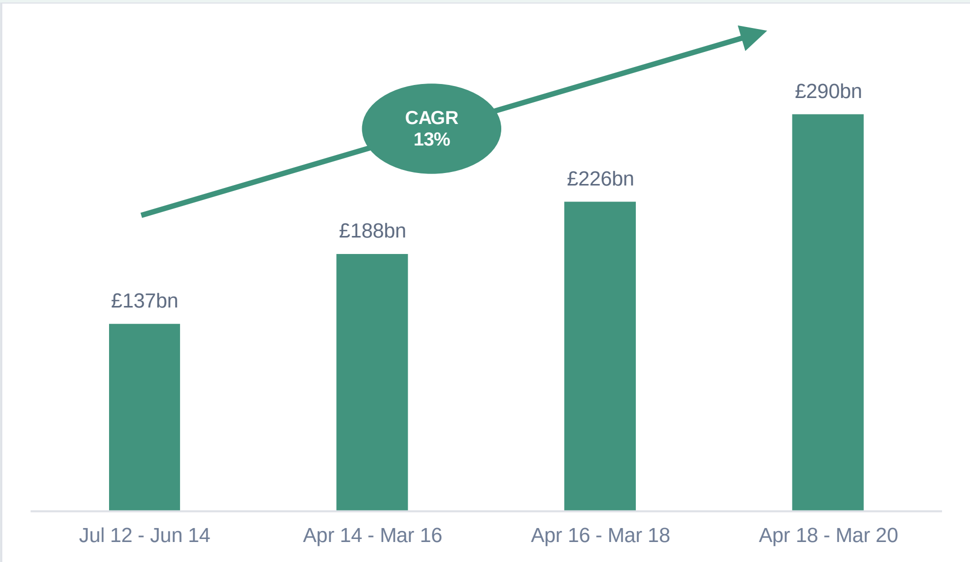
In addition to the above consolidation oppotunities, PensionBee has developed a **product for the self-employed (launched in Jan 21), to start a new pension from scratch.** These customers could start with the self-employed product and consolidate legacy pensions into the same account at a later stage.

Workplace DC Market

This £290bn market could be thought of as a 'latent' pension consolidation opportunity for PensionBee, or as a continuous source of growth which feeds the above preserved pensions market.

When an employee is a member of a workplace DC scheme their pension generally cannot be switched. But when they leave an employer, it can, and PensionBee can then target these workplace pensions (which become 'legacy' pensions as previously described).

PensionBee's latent opportunity: Workplace DC Pension Market



Source: ONS, Pension wealth: wealth in Great Britain.

Structural tailwinds suggest market growth will continue

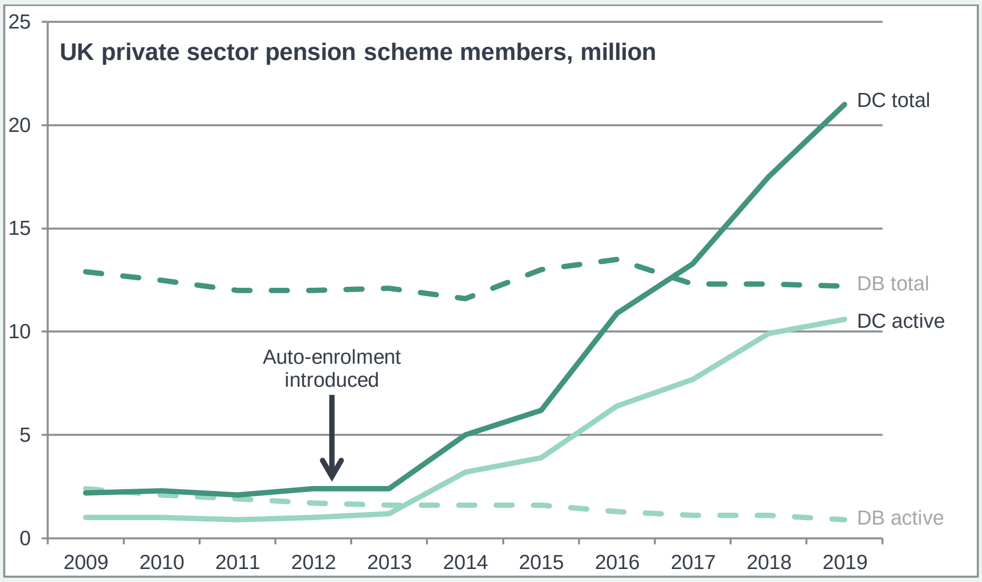
The above markets in which PensionBee operates are subject to a number of favourable tailwinds, and as such, we believe the **market growth outlook is attractive**.

The main forces at work which are likely to fuel market growth are described below, and comprise: **regulatory changes** (which are bringing more consumers into the pension market, driving a structural shift in favour of DC pensions over DB, and giving consumers more freedom over their pension options); **employment trends** (people are working for longer and changing jobs more often); and **digital adoption** of financial services (which is making it easier for consumers to take control of their financial products).

Regulatory changes

One of the key regulatory developments in recent years has been 'auto-enrolment', introduced in 2012, which obligated most employers to provide employees with a pension scheme. These mostly took the form of DC schemes, and consequently, the **membership of workplace DC schemes has jumped rapidly in recent years and shows no signs of slowing**, overtaking private sector DB membership by some margin.

Auto-enrolment has been a key driver of DC workplace pension growth



Source: ONS, Occupational Pension Schemes Survey (OPSS), 2019
Note: Total DC and DB membership includes active pensions, preserved pensions, and pensions in payment
Chart excludes contract-based workplace DC pension members (estimated at around 12m members by the FCA[5]) which are within PensionBee's addressable market, and public sector pensions which are almost exclusively DB and are not in PensionBee's addressable market.

Importantly, this rapid growth in workplace DC pension membership has not yet been matched by market AUA growth (see chart on previous page - *PensionBee's latent opportunity: Workplace DC Pension Market*), but it almost certainly will over time as **many of these new pension pots are likely grow in size as contributions and market gains accumulate**.

In addition to auto-enrolment, so-called '**pension freedoms**', which came into force in 2015, are working as a tailwind to PensionBee's markets. Historically, regulation made it compulsory for DB and DC pension assets to be 'converted' into a guaranteed annuity at retirement.

But pension freedoms changed this and improved the options available. Individuals can now maintain their pension pots for longer if they so wish. And they have greater flexibility around how they withdraw their pensions – being able to withdraw 25% of their retirement savings tax free at the age of 55 (57 from 2028).

[5] *fca.org.uk/news/press-releases/fca-tpr-outline-framework-value-money-defined-contribution-pension-schemes*

This additional regulatory flexibility allows companies such as PensionBee to design products more suited to their customers' individual needs and encourage more pension savings.

Lastly, the UK government follows a policy of increasing the age at which individuals can draw their state pension (in line with increasing life expectancies) and **is increasingly promoting private pension provision as a necessary means for individuals to supplement their state pensions**.

Favourable employment trends

An employment trend which favours the pensions market more generally is that people are living and working for longer. According to Europa, the average working life in the UK was 39.4 years as at 31 Dec 2019. This results in people having a longer savings-life (during which they can contribute to a pension pot) to be able to fund a longer retirement.

More specific to PensionBee's core offering is a trend which is specifically driving the overall preserved pensions market growth - the frequency of employees changing jobs. After each job, an employee is usually left with a legacy pension pot (especially now with auto-enrolment which makes workplace pensions compulsory for most) which can be consolidated into their PensionBee account. As far back as 2011, it was **estimated that a typical employee moves jobs once every six years on average (meaning an individual would typically have between ten and eleven jobs in a lifetime**[6)].

More recent data and anecdotal evidence would suggest that this trend has increased, particularly in PensionBee's main target demographics. *The Deloitte Global 2021 Millennial and GenZ Survey* reports that between 2016 and 2021, 31%-49% of millennials expected to leave their jobs in the next two years (the number fluctuates from year to year), while between 2018 and 2021, 50%-61% of GenZ's expected to do so (GenZ's were included in the survey from 2018).

The employment market is also in a state of flux as a result of the Covid-19 pandemic, with many employees reassessing their employment objectives and in particular, demanding more flexible working conditions from employers. Some employers have not adapted quickly enough, and the increasing trend of people leaving their jobs for pandemic-related reasons has been dubbed ***The Great Resignation***.

Another employment trend favouring PensionBee is the **increasing number of self-employed**, which has grown from 3.3 million people (12.0% the labour force) in 2001 to 4.8 million people (15.1 % of the labour force) in 2017[7]. These people have pension posts which can be switched and are also a prime market to start new pension savings accounts. In response, PensionBee recently **launched a dedicated self-employed pension product in January 2021** to support those individuals in saving for their retirement.

Digital adoption of financial services

A range of digital technologies – from advanced smartphones to cloud computing, AI, and Open Banking - has enabled fintech challengers and incumbent financial firms to develop better, cheaper financial products and delivery channels, as typified by the PensionBee offering.

Consumers across all age groups have by and large embraced this, with key trends being the growing use of mobile phones as a channel for different types of money management, including pensions, and the growing use of comparison sites to compare providers and products in more detail, (see Boring Money graphic on page 5: on its website, even more information can be found on PensionBee and other providers).

In particular, PensionBee's growth is a testament to consumers being totally comfortable managing their pensions through their smartphone on an almost totally digital basis.

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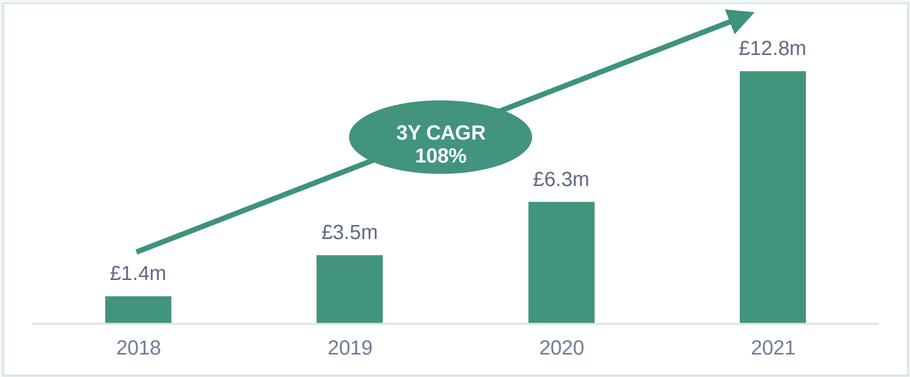
[6] *Meeting future workplace pension challenges: Improving transfers and dealing with small pension pots', DWP, 2011*
[7] *ONS: Trends in self-employment in the UK: 7 February 2018*

Compelling financial story

Revenue

On page 3 we showed PensionBee's impressive growth journey to date in terms of customer numbers and AUA. This has also translated into extremely strong revenue growth – PensionBee's revenue is directly linked to AUA with customers paying an average contractual fee of 0.69% of AUA per annum – with a **3-year compound annual growth rate of 108%, and revenue more than doubling in 2021**.

Historical revenue



Source: Company reports

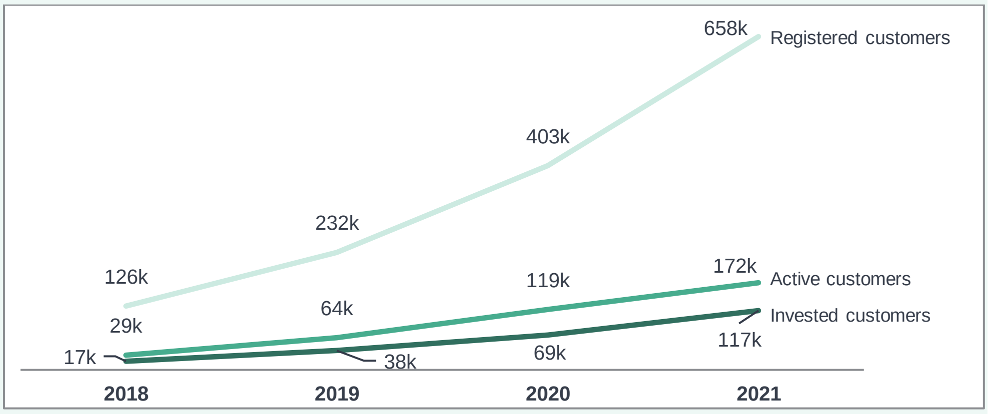
We believe the **strong growth trajectory is set to continue**, and outline three key drivers:

1. Growth from new customers

This growth results from new customers who typically transfer an existing pension pot to PensionBee (or multiple pots: on average each customer transfers two pensions). And the outlook for acquiring additional new customers is bullish, because PensionBee: 1) already has a significant 'in process' pipeline of customers, and 2) is continuing to channel significant investment towards 'top of the funnel' customer acquisition, where it has a proven track record of success.

PensionBee has an existing customer pipeline of around 541,000 which it is working to convert to invested customers (in the chart below, 541,000 is the difference between registered and invested customers, all of whom have, as a minimum requirement for being defined as a registered customer, started the sign-up process and submitted at least a name and email address). On average, the number of invested to registered customers is around 18%, which gives an indication of a longer-term 'conversion ratio'.

Growth of existing customers and pipeline



Source: Company reports
**Active = invested customers + customers with a transfer to PensionBee in progress i.e. funds not yet transferred*
***Registered = invested + active customers + customers registered with PensionBee but not applied to transfer a pension*

Within that pipeline of 541,000 is a short-term pipeline of 55,000 (in the above chart, the difference between active and invested customers), who have accepted PensionBee's terms of business but for whom the transfer or contribution process is not yet complete. It would be expected that the vast majority, but not all, of this pipeline will convert to invested customers.

These pipelines should prove to be a source of significant revenue growth with very little additional customer acquisition spending required.

In terms of adding to this pipeline, PensionBee plans to spend £50-£60m on advertising and marketing over the 3-year period to 31 Dec 23 (it spent £12.9m in FY21), in comparison to its spending of £2.1m, £4.1m and £8.2m in FY's 18, 19, and 20 respectively).

This step-change in marketing spend should secure even more robust growth in the number of top-of-funnel customers. We highlight that PensionBee deploys a multi-channel strategy which includes press, paid search, social media, display, online advertising, search engine optimisation, search engine marketing, partnerships, radio and television advertising, targeted email campaigns, traditional direct mail and outdoor advertising.

During 2021, the majority of the spend was deployed across three primary channels: TV, Out of Home and Paid Search. It was a year when flexibility and rapid adaptation was necessary. For example, TV advertisements and Out of Home advertising campaigns were ramped up during opportune months – often responding to the Covid-19 related 'lockdowns'.

An additional boost to new customer growth should be possible with the increasing sophistication of PensionBee's marketing spend as more and more data becomes available on the efficacy of its historical spend**. In 2021, every £1 of marketing spend delivered £74 of net flows, 16% up on the £64 of 2020**.

One further point worth mentioning is that PensionBee has been successful in recent years in attracting an older, wealthier client base (who transfer larger pension pots – this contributed to the average pension pot size increasing from £19,700 in 2020 to £22,000 in 2021). PensionBee intends to target this market segment even more in the next few years.

2. Growth from existing customers

Importantly, existing customers are also a significant source of growth for PensionBee.

Around one-third make regular contributions to their pension pots to build their pension wealth prior to retirement i.e., there is a continuous inflow of AUA, and hence recurring income, into PensionBee.

And some consolidate additional pension pots: they may not transfer all of their pension pots at once upfront, perhaps wanting to build confidence with PensionBee first before moving all of their pension wealth; in addition, when customers switch jobs, they might consolidate the legacy pension pot from the job they have just left into their PensionBee account.

These inflows are partly offset by: 1) customer churn (lumpy outflows), which has been less than 5% over the last few years; and 2) pension drawdowns, by those in retirement.

But overall, **the net inflows of AUA from existing customers has been running at +5% of existing AUA per annum**, known as 'cohort growth' (this excludes investment returns – see below).

3. Growth from investment returns

In addition to the above new and existing customer flows, AUA is impacted by investment returns.

Pensions wealth can rise and fall with general market movements and specific investment performance, but this has been a fairly strong source of AUA growth in recent years, and over the longer term, we would expect an average annual AUA growth from investment returns of around +5%.

An illustration of historical AUA growth (directly proportional to revenue growth) from these three main drivers is shown below.

Drivers of AUA growth

Source: Company reports
**includes new consolidations and contributions made during the year in which customer joined PensionBee*
***includes additional consolidations, contributions, withdrawals (churn), and pension drawdowns (after retirement)*

It is also worth mentioning that **we would expect PensionBee's AUA and revenue to be less volatile than most other asset or wealth managers,** given that all assets are housed in pensions which by their nature remove some elements of AUA volatility.

First, **customers are mostly unable to withdraw assets prior to their retirement age**, and generally do not see their pensions as a 'trading' account. They tend to pick an investment plan and only check up on its performance periodically. There is little temptation (or ability) to withdraw assets when markets fall.

Conversely, other asset managers, particularly those with large general investment or trading accounts tend to see a correlation between market falls and net outflows, as some investors are prone to panic and withdraw assets during those periods.

Second, **customers mostly make regular contributions by means of monthly direct debits or the like to their pension accounts** as described above in 'growth from existing customers'.

And third, **pension customers are 'sticky' and tend to switch their pensions less** compared to other investment products. In the case of PensionBee, its customer retention rate has been over 96% for the last few years and increased further in 2021 (FY19: 96.4%; FY 20: 96.5%; FY21: 96.9%).

Costs and profitability

PensionBee is not yet profitable, **but is rapidly heading towards profitability**, primarily as a result of: 1) its investment in technology infrastructure and people (largely fixed costs) being spread across a larger and larger customer base as it grows, and 2) as a result of existing customer revenue growth compounding without new marketing spend.

We have described the main constituents of PensionBee's cost base below:

1. Fully variable costs

This consists primarily of **money-manager fees** (around 18% of revenue in FY21) which are paid to those organisations managing the investment plans PensionBee offers (Blackrock, HSBC, L&G, State Street). These fees are charged as a percentage of AUA and are therefore variable costs.

However, it is common for favourable fee structures to be negotiated with increasing AUA. PensionBee has successfully done this in the past (in FY18, it paid 25.4% of revenue to money managers) and will likely achieve incrementally more favourable rates going forward as its AUA grows.

2. Fixed and partly variable costs

These consist primarily of:

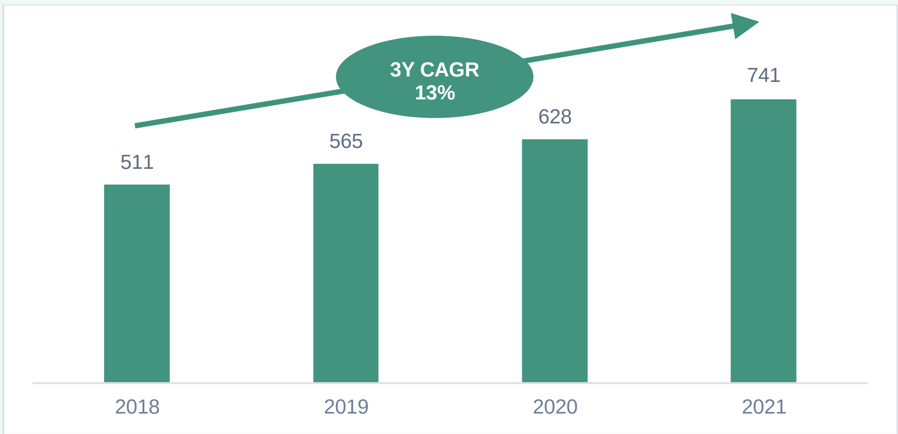
- **employee benefits expenses** (excluding share-based payments), and
- **other operating expenses** (which compise technology platform costs and other administrative costs).

Combined, the above two cost buckets are referred to as "**technology platform costs and other operating expenses**", one of the key KPIs for tracking operating leverage.

Employee benefits expenses (excluding share-based payments) made up around 58% of revenue in FY21 (down from 100% in FY18) and are expected to fall further as a percentage of revenue as the business grows. While the staff base of PensionBee is forecast to continue to grow, this will be at a far lower rate than revenue growth. PensionBee has **guided that it expects headcount to increase by up to 20% in FY22, while revenue growth is expected to be greater than 50%.**

A additional metric used by PensionBee which provides a good guide to the scalability of its employee base is the number of invested customers per staff member, which continues to show strong growth.

Invested customers per staff member*



Source: Company reports
** end of year Invested Customer divided by the average FTEs for the period*

Other operating expenses (technology platform costs and other administrative costs) are a mix of fixed, part-variable and variable costs, and made up around 51% of revenue in FY 21 (down from 61% in FY18).

PensionBee's own technology investments are largely fixed costs, but it does also use the Salesforce technology platform which requires payment per 'seat' i.e., as PensionBee adds customer service staff (for example), the Salesforce platform cost rises (although at a much lower rate than revenue growth).

3. 'Discretionary' costs

The third large cost bucket is **advertising and marketing costs** which can be 'dialled' up or down.

In FY21, £12.9m was spent compared to just £2.1m in FY18. Despite this huge increase in absolute spend, these costs actually dropped as a percentage of revenue from 150% in FY18 to 100% in FY21.

As already discussed, further ramping up of these costs are expected in the next few years (£50-60m over FY's 21-23, with around £34m of the £49m net IPO proceeds earmarked for advertising and marketing).

However, from FY24, while absolute marketing spend will continue to rise to maintain new customer growth momentum, growth in this spending is scheduled to slow (PensionBee's guidance states high single digit percentage growth). Thus, **as a percentage of revenue, we expect marketing and advertising spend to fall sharply in the years following FY24**.

Cost and profitability summary

A summary of the above costs and their historical trends as a percentage of revenue are shown below. Notably, we highlight that adj EBITDA margin has risen from -236% in FY18 to -129% in FY21, with PensionBee forecasting that it will reach monthly adj EBITDA profitability by Dec 23, and full-year adj EBITDA profitability in FY24. (See section '*Growth forecasts*' later in this document for further details).

Historical cost and profitability breakdown, £m

Year-end 31 Dec	FY18A	FY19A	FY20A	FY21A
Revenue	**1.4**	**3.5**	**6.3**	**12.8**
Money manager costs	(0.4)	(0.7)	(0.9)	(2.3)
as % of Rev	25.4%	18.8%	15.0%	18.0%
Net revenue	1.1	2.9	5.3	10.5
Tech platform costs & other opex*	(2.3)	(4.6)	(7.5)	(14.0)
as % of Rev	160%	130%	120%	110%
Adj EBITDA before marketing (EBITDAM)	(1.2)	(1.7)	(2.2)	(3.6)
Adj EBITDAM margin	-86%	-49%	-35%	-28%
Marketing costs	(2.1)	(4.2)	(8.2)	(12.9)
as % of Rev	150%	118%	131%	101%
Adj EBITDA, £m	**(3.4)**	**(5.9)**	**(10.4)**	**(16.4)**
Adj EBITDA margin	-236%	-166%	-166%	-129%
Share based pmts	(0.0)	(0.9)	(2.2)	(3.9)
Depreciation	(0.0)	(0.2)	(0.2)	(0.3)
Transaction costs	0.0	0.0	(0.6)	(2.9)
Operating profit	**(3.4)**	**(7.0)**	**(13.5)**	**(23.6)**
Finance Costs	0.00	(0.02)	(0.01)	(1.42)
Profit/(loss) before tax	**(3.4)**	**(7.0)**	**(13.5)**	**(25.0)**
Tax (payable)/receivable**	0.3	0.3	0.2	0.3
Profit/(loss) after tax	**(3.1)**	**(6.8)**	**(13.3)**	**(24.6)**

Source: Company Historic Data, ED estimates
**Technology platform & other opex comprises employee benefits expense (excl share-based pmts), technology platform costs and other administrative costs*
*** Tax receipts in FYs 18-21 are Research and Development tax credits*

Unit economics

An additional way to look at PensionBee's transition to profitability is to consider the unit economics of a customer over the duration of their lifetime as a PensionBee customer. Currently, the average age of a PensionBee invested customer is in their late-30s. With a retention rate of nearly 97% **we would therefore expect a customer lifetime duration to be at least 25-30 years**.

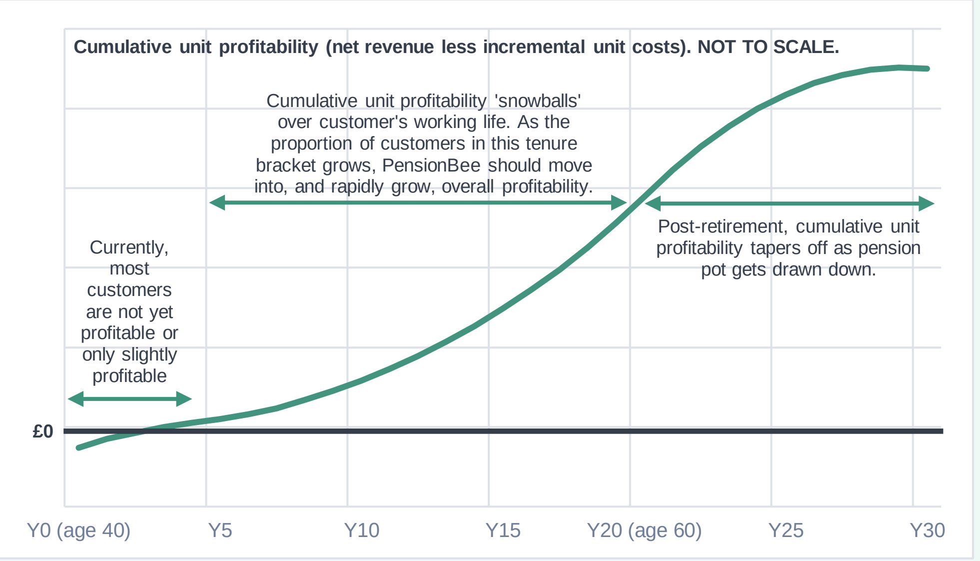
PensionBee, after incurring an initial customer acquisition cost of £200-£250, then **generates an annual net revenue per customer (PensionBee fee less money manger fee) which typically 'snowballs' over the life of the customer, while incurring very small incremental customer servicing costs**, thus generating rapidly increasing marginal profitability per customer over their customer life.

To illustrate this point further:

- The **current net revenue per customer is around £115** p.a., based on an average pension pot size of £22,000, an effective fee of 0.64%, and a money manager fee of 0.11% of revenue.
- **In ten years, this net revenue could increase to around £325** p.a. if a customer contributes £2,000 per annum, escalates this contribution by 2.5% per annum, and achieves a 5% investment return.
- **In twenty years, it could increase to around £725** p.a. based on the same assumtions.
- **While in each year, PensionBee would incur only an 'incremental' annual cost of around £20*** (servicing costs etc). *PensionBee estimate.

The remaining profits are then used to cover a largely fixed or part-variable cost base (technology platform and employee costs etc), with the balance providing returns available for shareholders.

Illustrative unit economics over customer lifetime



Source: Company reports, ED analysis

Importantly, most PensionBee customers are still in the very early years of this lifecycle (left of chart). However, **as more and more customers increase their tenure with PensionBee, a larger proportion of customers will be generating significant unit profitability.**

In summary, **once PensionBee reaches aggregate profitability, profitability should ratchet up very rapidly indeed as it driven by two scale factors**:

1. **Spreading overhead costs over many more customers as the customer-base grows**, and
2. **Generating significantly more profit per customer as customer tenure increases.**

This process is already in evidence as *technology platform costs and other operating expenses* (see page 14) have already dropped from 160% of revenue in FY 18 to 110% in FY21m with PensionBee estimating this ratio could drop to 30% over the long-term.

FY21 Results

AuA and Revenue

Total AUA grew 91% from £1.36bn at the end of FY20 to £2.59bn at the end of FY21.

Net flows from new customers was the largest driver of this growth (£729m in FY21 vs £439m in FY20), with net flows from existing customers contributing £226m (FY20: 84m) and market movements and investment performance contributing £275m (FY20: £90m).

In turn, **revenue grew by 103% to £12.8m** (FY20: £6.3m) with Annual Run Rate (ARR) revenue (revenue of the last month of the financial year multiplied by 12) growing 85% to £16.3m (FY20: £8.8m).

Contractual Revenue Margin (annual management fee paid by customers before applying discounts for incremental pension savings above £100,000) was unchanged from FY20 at 0.69%.

Expenses and profitability

Money manager costs (variable) increased 145% from £0.9m in FY20 to £2.3m in FY21, driven primarily by AUA growth. The increase in these costs as a percentage of revenue (15.0% in FY20 to 18.0% in FY21) is mainly due to an increase in the number of customers selecting funds with incrementally higher money manager fees.

Technology platform costs and other operating expenses ('overhead' costs comprising employee benefits expenses excluding share-based payments plus technology platform costs plus other administrative costs) grew 86% from £7.7m in FY20 to £14.0m in FY21. This growth was however characterised by two significant features:

- **Operating leverage kicking in** with regards to employee expenses (which grew only 66% from £4.5m to £7.4m), and
- **Extensive technology platform investment** contained in the 'other operating expenses' line which grew 116% from £3.0m to £6.6m. More specifically, significant spend was directed to the data platform, including the development of machine learning capabilities and the importing of new data sources to help optimise decision-making around marketing budget allocation.

Marketing spend ramped up 56%, in accordance with the plan outlined at the time of the IPO, from £8.2m in FY20 to £12.9m in FY21. As mentioned earlier, **efficiency of marketing spend continued to improve**. In 2021, every £1 of marketing spend delivered £74 of net flows, 16% up on the £64 of 2020.

EBITDA declined from -£10.4m in FY20 to £-16.4m in FY21, but destpite the ramping up of technology and marketing spend, **adjusted EBITDA margin improved from -166% to -129%.**

Other 'post-EBITDA' costs incurred included share-based payments of £3.9m (FY20: £2.2m); transaction costs (mostly non-recurring and IPO-related) of £2.9m (FY20: £0.6m); and finance costs of £1.4m (FY20: £0.0m). The £1.4m finance cost is also non-recurring as it mostly related to facility fees and cancellation fees of a £10m revolving credit facility, which has now been discontinued.

The significant increase in Share-based payments was in-part the result of restructuring around the IPO. The vesting of options granted at the end of 2020 was accelerated, and a post-IPO remuneration structure was introduced, including a Deferred Share Bonus Plan, for which an accrual was recorded.

The result of all of the above was a loss before tax of £25.0m (FY20: £13.5m) and a loss after tax of £24.6m (FY20: £13.3m), with a £0.2m tax credit relating to Research and Development refunds. Basic EPS was -11.86p for FY21 (-7.67p in FY20 after adjusting for the change in capital structure and issue of new shares as a result of the IPO to obtain a comparable EPS).

Balance sheet and cash position

PensionBee's April 21 IPO obviously transformed its balance sheet.

At the end of FY 21 (31 Dec), it had net assets of £51.2m (up from £10.7m at the end of FY20), net cash of £43.5m (FY20: £6.7m), and no debt.

PensionBee Limited, a subsidiary of the Company, is authorised and regulated by the FCA and must adhere to minimum capital requirements. As of December 2021, its actual capital resources were £31.7m vs a capital resource requirement of £0.9m, a coverage ratio of 33.7x.

Management

PensionBee is still founder-led, with a skilled and experienced executive team and highly experienced group of non-executive directors. The key individuals are:

Executive Directors and key senior managers

Romi Savova, Chief Executive Officer. Romi founded PensionBee in 2014 to simplify pension savings in the UK, following a difficult pension transfer experience of her own. As a prominent financial services and fintech CEO, she has played a pivotal role in advancing consumer standards in the pensions industry, from reducing transfer times to campaigning for the full abolition of exit fees. Romi is also a member of the government's Pensions Dashboards Programme Steering Group, which was set up to advise on the delivery of pensions dashboards.

Prior to founding PensionBee, Romi worked at Goldman Sachs, Morgan Stanley and Credit Benchmark, holding varied roles in risk management, investment banking and financial technology. She received an MBA from Harvard Business School as a George F. Baker scholar and graduated summa cum laude from Emory University.

Jonathan Lister Parsons, Chief Technology Officer. Jonathan co-founded PensionBee with Romi in 2014. He is passionate about bringing customers' pension experience into the 21st century and using technology to transform pension transfer processes that typically take months to a five-minute process on a smartphone. Jonathan champions a tech-forward culture within the business, aiming to raise the level of technology literacy among employees, and creating opportunities for people to develop technical skills as they move through different roles in their career at PensionBee.

Prior to this, he founded a digital consultancy, Penrose, where he worked as a Principal Consultant, and was a co-founder of Shoreditch Works, a co-working and events business. Jonathan started his career at BT plc, working in a variety of roles, including as a software developer at Osmosoft, BT's open source arm. Jonathan holds an MSci in Experimental and Theoretical Physics from the University of Cambridge.

Jasper Martens, Chief Marketing Officer. Jasper joined PensionBee in 2015 and is responsible for product and marketing across the business, bringing extensive multichannel marketing experience to PensionBee, gathered over 15 years working in financial services and digital agencies.

Prior to joining PensionBee, Jasper was Head of Marketing and Communications at small business insurance provider, Simply Business. Before moving to London, Jasper ran his own online marketing agency which he founded in the Netherlands.

Christoph Martin, Chief Financial Officer. Christoph joined PensionBee in 2019. He is responsible for financial reporting and business planning.

Christoph previously worked in private equity investment at Providence Equity Partners, focusing on investments in technology, media, telecommunications and education. Prior to that he worked in mergers and acquisitions, covering financial institutions at Morgan Stanley. Christoph holds a BSc in Business Administration from the WU Vienna.

Tess Nicholson, Chief Operating Officer. Tess joined PensionBee in 2015 and is responsible for a range of operational activities across the business, including customer success, compliance and banking operations.

Tess was previously Operations Manager and UK Commercial Manager at GO Markets UK Trading Limited (formerly Vantage FX UK Trading Limited). She holds a BA Hons degree in Fashion Design with Communication from Birmingham City University and is currently studying for a masters in Social & Political Theory at Birkbeck, University of London.

Lisa Picardo, Chief Corporate Officer. Lisa joined the company in 2020. She leads the corporate development of PensionBee, which included leading on the IPO and financing, and plays a broader management role across many aspects of the business.

Lisa previously worked at Morgan Stanley for 13 years, with the first seven years spent in the European Mergers & Acquisitions department, where she gained extensive experience working on many large and complex UK public transactions, and also played a role in firm management. Lisa then joined the Morgan Stanley Private Equity Fund, focused on investing in mid-market opportunities across sectors, with an interest in consumer-facing businesses. In 2015 Lisa founded LITTLECIRCLE, an online retail platform for children's fashion. Lisa holds a BSc in Economics from Bristol University.

Clare Reilly, Chief Engagement Officer. Clare joined PensionBee in 2017 and focuses on helping PensionBee transform the pensions industry to better serve consumer needs, playing a pivotal role in launching the UK’s first Open Banking - pension integrations and one of the UK's first mainstream fossil fuel free pensions.

Clare previously worked in the not-for-profit sector, in Corporate Relations at Citizens Advice and Fellowship at the Royal Society of Arts. She holds a BA Hons from University College London and an MSc from the University of Oxford in Russian and East European Studies.

Adebola Haffner, Senior Legal Counsel. Adebola joined PensionBee in April 2021 and is responsible for helping the company meet its legal and regulatory obligations, managing risk and offering strategic legal advice to the executive team and board.

Prior to joining PensionBee, Adebola was a Legal Counsel and member of the legal team at Transact for almost 5 years, dealing with a wide range of matters including product development, trusts, pension death benefit processes and decision making, risk management, compliance, regulatory matters, corporate and commercial legal issues. Adebola has also worked for a number of trust companies in the past including Capita Trust Company Ltd and ATU General Trust (BVI) Limited. He holds a Law Degree, Masters in Law (LLM) and also holds the Society of Trust and Estate Practitioners “TEP” (Trust and Estate Practitioner) designation.

Matt Loft, Chief Design Officer. Matt joined PensionBee in 2015 and is responsible for the design and customer experience of PensionBee's products and the company's visual brand, bringing over 18 years’ experience in designing customer-centred products.

Prior to joining PensionBee, Matt worked at design agencies and in-house for some of the UK's largest companies and organisations, including The Money Advice Service, Legal & General, The Ministry of Justice, Oxford University and the V&A.

Non-executive directors

Mark Wood CBE, Independent Non-Executive Chairman. Mark joined PensionBee as a director in January 2016.

He has previously held the position of Chief Executive at some of the country's largest financial services companies, including Prudential UK & Europe, AXA UK and Jardine Lloyd Thompson Employee Benefits. He has also been at the helm of several financial services and technology start-ups, including Paternoster, a regulated insurance company which he founded in 2005, and Digitalis Reputation Management, an online reputation management company, where he currently serves as Chairman. Mark is a regular commentator in the press on pensions and insurance

He was previously the Chairman of the National Society for the Prevention of Cruelty to Children and was awarded a CBE in 2017 for services to children.

Mary Francis CBE, Senior Independent Director. Mary was appointed to the board in November 2020.

She has extensive and diverse board-level experience across a range of industries, including previous Non-Executive Directorships at the Bank of England, Alliance & Leicester, Aviva, Centrica and Swiss Re Group.

Through her former senior executive positions with HM Treasury, the Prime Minister's Office, and as Director General of the Association of British Insurers, Mary brings strong governance values to the board, a strong understanding of the interaction between public and private sectors, and skills in strategic decision-making and reputation management.

Mary was awarded a CBE in 2006 for her services to business.

Michelle Cracknell CBE, Independent Non-Executive Director. Michelle was appointed to the board in November 2019

She has a portfolio career as a Pension Trustee and Non-Executive Director, bringing over 30 years' experience in pensions and retirement planning, including most recently as the Chief Executive of the Pensions Advisory Service. During her time there she significantly grew the number of customers and increased the channels offered, transforming the service to provide greater support on pension freedom legislation, pension scams and transfers from pension schemes. Michelle was awarded a CBE in 2019 for her services to the pensions industry.

Michelle started her career at a financial advice business where she became a shareholding Director prior to selling it to Aegon, and subsequently worked as a Strategy Director at Skandia/Old Mutual. Michelle is a qualified Pensions Actuary.

IPO and shareholdings

In April 2021, PensionBee listed on the High Growth Segment of the Main Market of the London Stock Exchange, **raising £55m** (£49m net after fees and expenses).

The proceeds are being deployed to accelerate growth, more specifically (budgets are approximate):

- **£34m for advertising and marketing** (aggregate budget for 3-year period ending 31 Dec 23 £50-£60m), with the aim of increasing the number of invested customers and, in turn, AUA;
- **£10m for investment in the technology platform**, including new features prioritised through the product development process; and
- £5m for other general corporate purposes.

Immediately post-IPO, founders Romi Savova (CEO) and Jonathan Lister Parsons (Chief Technology Officer) owned ~42% of the business (~51% pre-IPO). The most significant shareholders are listed below.

Significant shareholdings (immediately post-IPO)	
Romi Savova (CEO)	36.16%
Jonathan Lister Parsons (Chief Technology Officer)	5.98%
State Street Global Advisors Inc (invested in 2017)	3.96%
Norges Bank	3.32%
Joseph Suddaby (a pre-IPO non-executive director)	2.69%
Mark Wood, CBE (Chairman)	1.28%
Jasper Martens (Chief Marketing Officer)	1.27%

Source: PensionBee admission document & RNS's

The above shareholders (excluding Norges Bank which was not a pre-IPO shareholder), together with certain other pre-IPO shareholders, who in aggregate held around 84% of the company's issued share capital immediately following the IPO, are subject to certain 'lock-up' conditions, more specifically[8]:

- The executive directors (Savova and Lister Parsons) have agreed not to sell any Ordinary Shares for a period of 720 days from the IPO date (i.e., this lock-up period ends on 16 Apr 23).
- The independent non-executive directors, certain senior managers (CFO, COO, Chief Marketing Officer, Chief Corporate Officer, Chief Engagement Officer), and major pre-IPO shareholders of more than 3% (State Street Global Advisors, Joseph Suddaby & Rowanmoor Trustees Limited) have agreed not to sell any of their Ordinary Shares until 90 days after the publication of the Company's trading update for the three months ending 30 Sep 22 (this trading update is scheduled for 30 Oct 22, hence this lock-up period is expected to expire in Jan 23). However, this group may be allowed to sell up to 50% of this position after the trading update for the three months ending 31 Mar 22 (Q1 22), which is expected on 21 Apr 22, subject to permission from the Company and its broker (so as to allow an orderly market for trading in PensionBee shares).
- Certain other pre-IPO shareholders holding <3% each, and optionholders (mostly angel investors and employees, together owning approximately 31% of the group) have agreed not to sell any of their Ordinary Shares until 90 days after the publication of the Company's Q1 22 trading update (scheduled for 21 Apr 22, hence this lock-up period is expected to expire in Jul 22). However, this group were allowed to elect to sell up to one-third of this position post the Q3 21 results on 21 Oct 21, and may be allowed to elect to sell up to two-thirds of their stake following the release of the full-year results on 17 Mar 22, and up to 100% of their stake following the Q1 22 results on 21 Apr 22, subject to permission from the Company and its broker.

Therefore, **roughly 48% of PensionsBee's shares will make up the 'free float' from Jul 22** (pre-IPO shareholders in the third bullet above + new investors who own around 16% post-IPO).

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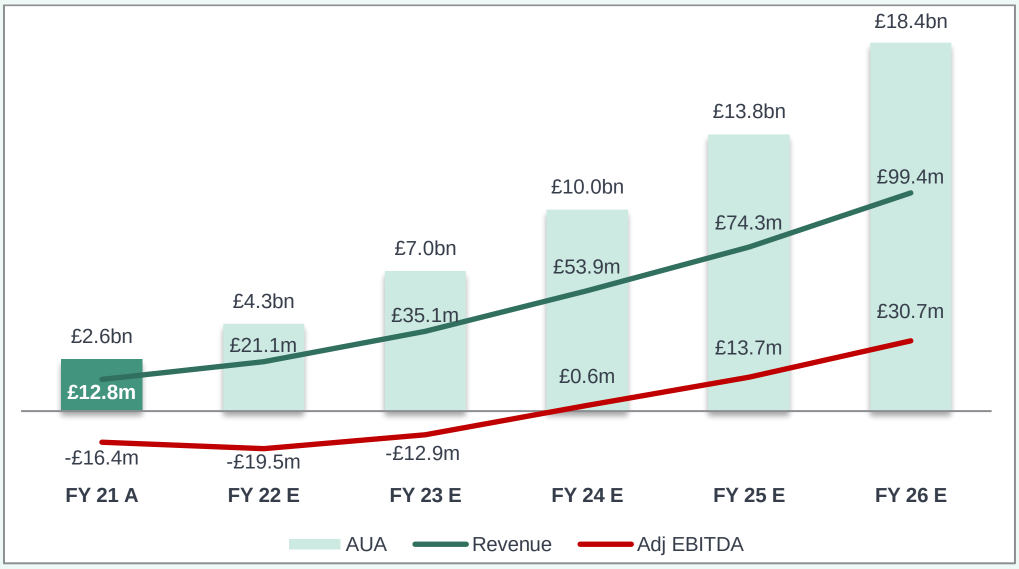
[8] *See PensionBee Prospectus (April 2021) for full details*

Growth forecasts

Based on the market, strategic and economic outlooks previously discussed, we forecast the following 5-year projections for PensionBee (a summary in the chart, with more detailed metrics in the table below it).

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates

Five year forecast, £m

Year-end 31 Dec	FY21A	FY 22E	FY 23E	FY24A	FY 25E	FY 26E
Revenue	**12.8**	**21.1**	**35.1**	**53.9**	**74.3**	**99.4**
Money manager costs	(2.3)	(3.6)	(5.8)	(8.4)	(11.5)	(15.1)
as % of Rev	18.0%	17.2%	16.4%	15.6%	15.5%	15.2%
Net revenue	10.5	17.4	29.4	45.5	62.8	84.3
Tech platform costs & other opex*	(14.0)	(17.9)	(21.1)	(23.8)	(26.4)	(29.2)
as % of Rev	110%	85%	60%	44%	36%	29%
Adj EBITDA before marketing (EBITDAM)	(3.6)	(0.5)	8.2	21.7	36.4	55.1
Adj EBITDAM margin	-28%	-2%	23%	40%	49%	55%
Marketing costs	(12.9)	(19.0)	(21.1)	(21.1)	(22.7)	(24.4)
as % of Rev	101%	90%	60%	39%	31%	25%
Adj EBITDA, £m	**(16.4)**	**(19.5)**	**(12.9)**	**0.6**	**13.7**	**30.7**
Adj EBITDA margin	-129%	-92%	-37%	1%	18%	31%
Share based pmts	(3.9)	(4.2)	(4.5)	(4.7)	(5.0)	(5.3)
Depreciation	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Transaction costs	(2.9)	0.0	0.0	0.0	0.0	0.0
Operating profit	**(23.6)**	**(23.9)**	**(17.6)**	**(4.5)**	**8.4**	**25.1**
Finance Costs	(1.42)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Profit/(loss) before tax	**(25.0)**	**(23.9)**	**(17.7)**	**(4.5)**	**8.3**	**25.0**
Tax (payable)/receivable**	0.3	0.0	0.0	0.0	(0.4)	(2.5)
Profit/(loss) after tax	**(24.6)**	**(23.9)**	**(17.7)**	**(4.5)**	**7.9**	**22.5**

Source: Company Historic Data, ED estimates
**Technology platform & other opex comprises employee benefits expense (excl share-based pmts), technology platform costs and other administrative costs*
*** Tax receipts in FYs 18-21 are Research and Development tax credits*

Valuation

Our valuation of PensionBee is based on a discounted cash flow methodology, which is described in detail below. Unfortunately, there are no comparable London-listed peers which can be used to do a conventional peer comparison valuation.

For our valuation, we have split our forecast into three distinct periods:

- An initial 5-year high growth period, detailed in 'Growth forecasts' above, with revenue CAGR of 50%;
- A 'medium growth' period in years 5-10, where revenue CAGR is 15% and adj EBITDA margin improves from around 30% to 45% as a result of additional scale benefits (notably it is during this period that PensionBee also benefits most from the tax losses it accumulated in its loss-making years, which provides a boost to free cash flow);
- An ongoing period of steady growth thereafter assumed to be 2.5% per annum.

We have then discounted the forecasted free cash flows arising from the above assumptions and the cost of equity (PensionBee has no debt) which we have calculated to be 9.5%, based on a risk-free rate of 1.26%, an equity market risk premium of 6.0% and a beta of 1.35 (with PensionBee only having been publicly listed for a relatively short time, we have used a beta at the top end of the range of betas of other asset managers, wealth managers and platforms with substantial operations in providing pensions to consumers).

This produces a per share fundamental value of 230p, 63% above the current share price of 141p.

[Note: While this beta-selection methodology is far from perfect, we think it does provide a good basis to work with at the moment until a longer period of PensionBee stock price data becomes available.

We note that being a relatively young, high growth company that is yet to reach profitability would probably result in a higher beta. However, this would probably be counteracted by: 1) the fact that virtually all of its revenue (post-customer acquisition) is recurring; 2) its customer relationships are very sticky (churn <5% underpinned by PensionBee's strong customer ratings and the fact that customers do not tend to switch pension providers very often); and 3) its AUA is typically not subjected to sharp outflows like some asset managers (customers either cannot or typically do not withdraw assets from pension funds other than planned retirement drawdowns).]

Investment case

- Despite its already impressive growth achievements, PensionBee still has a tiny market share in a huge addressable market (which is also growing) and has clearly developed a market leading customer-proposition that appeals across the age spectrum – **this provides enormous growth potential**.

- **Current growth momentum is strong and is likely to 'snowball'** as:

    - new customers are added (from an existing pipeline and through an already refined customer acquisition strategy);
    - existing customers continue to increase their AUA as they make contributions to their existing pension pots and consolidate additional pots with PensionBee;
    - investment returns add to AUA over the longer-term.

- **Its AUA and revenue is likely to be less volatile** than most other asset or wealth managers, given that all assets are housed in pensions, which means:

    - customers are mostly unable to withdraw assets prior to their retirement age;
    - customers mostly make regular, 'automated' contributions by means of monthly direct debits or the like to their pension accounts;
    - pension customers are 'sticky' and do not tend to switch their pensions very often.

- PensionBee has made substantial progress towards profitability and is forecasting monthly adjusted EBITDA profitability by Dec 23 and annual adjusted EBITDA profitability in FY24. After this**, profitability is likely to ratchet up very quickly as its cost base is spread across a far larger customer base,** and existing customer AUA (and hence revenue) continues to grow without additional marketing spend**.**

- PensionBee is **well capitalised** (with £43.5m of net cash and no debt) and should be able to meet its growth potential without raising additional equity.

- The management team, which is still founder led, still have substantial shareholdings and **their interests are well aligned with other shareholders**.

- **A transition to the Premium Main Market Segment of the LSE is a target for H1 22** (currently listed on High Growth Segment of Main Market): the Premium Segment demands the very highest listing and governance standards, and allows for inclusion in FTSE indices.

- Based on its growth potential, its valuation is not demanding.

If progress tracks forecasts, we see potential for the share price to close the gap on fundamental value. If our forecasts are exceeded, there could be further potential upside for valuation.

Appendix 1: Historical and forecast Financials

Consolidated Income Statement + Forecasts						
12 months to end Dec, £'000	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY 22E**	**FY 23E**
Revenue	**1,424**	**3,545**	**6,268**	**12,753**	**21,056**	**35,111**
Employee expense (excl share-based pmts)	(1,417)	(2,603)	(4,475)	(7,447)	(9,383)	(10,641)
Advertising & marketing	(2,142)	(4,172)	(8,223)	(12,865)	(19,000)	(21,135)
Other expenses*	(1,225)	(2,670)	(3,991)	(8,862)	(12,125)	(16,233)
Adj. EBITDA	**(3,360)**	**(5,900)**	**(10,421)**	**(16,421)**	**(19,452)**	**(12,898)**
Share based pmts	(26)	(923)	(2,174)	(3,939)	(4,195)	(4,476)
Depreciation	(22)	(182)	(240)	(256)	(243)	(273)
Transaction costs	-	-	(637)	(2,947)	-	-
Operating profit/(loss)	**(3,408)**	**(7,005)**	**(13,472)**	**(23,563)**	**(23,890)**	**(17,647)**
Finance Costs	-	(21)	(11)	(1,416)	(30)	(30)
Profit/(loss) before tax	**(3,408)**	**(7,026)**	**(13,483)**	**(24,979)**	**(23,920)**	**(17,677)**
Tax (payable)/receivable**	288	265	220	348	-	-
Profit/(loss) after tax	**(3,120)**	**(6,761)**	**(13,263)**	**(24,631)**	**(23,920)**	**(17,677)**
Basic & Diluted EPS**, p				(11.9)	(10.7)	(7.8)

Source: Company Historic Data, ED estimates.
** Including IT Platform costs, other admin expenses, Money Manager fees*
*** EPS shown only in post-IPO period*

Consolidated Balance Sheet + Forecasts						
As at end Dec, £'000	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY 22E**	**FY 23E**
ASSETS						
Non-current assets						
Property, plant and equipment	65	249	195	127	211	292
Right of Use Assets	-	236	118	692	572	452
Total non-current assets	**65**	**485**	**313**	**819**	**783**	**744**
Current assets						
Trade and other receivables	678	1,092	1,506	3,171	5,279	8,795
Cash and cash equivalents	9,696	10,191	6,736	43,518	23,253	9,208
Total current assets	**10,374**	**11,283**	**8,242**	**46,689**	**28,533**	**18,003**
TOTAL ASSETS	**10,439**	**11,768**	**8,555**	**47,508**	**29,316**	**18,747**
LIABILITIES						
Non-current Liabilities						
Lease liabilities	-	139	-	560	447	334
Provisions	-	-	-	43	43	43
Deferred tax liability	-	26	-	-	-	-
Total non-current liabilities	**-**	**165**	**-**	**603**	**490**	**377**
Current Liabilities						
Trade and other payables	257	1,161	1,991	3,028	4,674	7,419
Lease liabilities	-	109	109	97	97	97
Total current liabilities	**257**	**1,270**	**2,100**	**3,125**	**4,771**	**7,516**
NET ASSETS	**10,696**	**13,203**	**10,655**	**51,236**	**34,577**	**26,640**
EQUITY						
Share capital	-	-	-	221	221	221
Share premium	17,122	23,111	30,322	53,218	53,218	53,218
Share based payment reserve	1,281	2,204	4,378	8,317	12,512	16,988
Retained earnings	(8,221)	(14,982)	(28,245)	(17,976)	(41,896)	(59,573)
Total equity	**10,182**	**10,333**	**6,455**	**43,780**	**24,055**	**10,854**
TOTAL EQUITY + LIABILITIE!	**10,439**	**11,768**	**8,555**	**47,508**	**29,316**	**18,747**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts						
12 months to end Dec, £'000	**FY18A**	**FY19A**	**FY20A**	**FY21A**	**FY 22E**	**FY 23E**
OPERATING ACTIVITIES						
Profit/(loss) for the year	**(3,120)**	**(6,761)**	**(13,263)**	**(24,631)**	**(23,920)**	**(17,677)**
Adjustment for non-cash items:						
Depreciation	22	182	240	256	243	273
Loss/(profit) on disposal	-	(18)	7	10	-	-
Finance costs	-	21	11	1,416	-	-
Share based payment transactions	26	923	2,174	3,939	4,195	4,476
Tax	(288)	(265)	(220)	(348)	-	-
Decrease/(increase) in receivables	(208)	(316)	(627)	(1,277)	(2,108)	(3,516)
(Decr)/incr in trade and other payables	110	904	831	997	1,646	2,745
Cash used in operations	**(3,458)**	**(5,330)**	**(10,847)**	**(19,638)**	**(19,945)**	**(13,699)**
Income taxes received/(paid)	-	171	406	-	-	-
Net cash from operating activities	**(3,458)**	**(5,159)**	**(10,441)**	**(19,638)**	**(19,945)**	**(13,699)**
INVESTING ACTIVITIES						
Purchase of property and equipment	(68)	(236)	(75)	(69)	(207)	(234)
Right-of-use assets	-	-	-	(6)	-	-
Net cash used in investing activities	**(68)**	**(236)**	**(75)**	**(75)**	**(207)**	**(234)**
FINANCING ACTIVITIES						
Revolving credit facility fees	-	-	-	(1,409)	-	-
Proceeds of issue of shares	8,988	5,989	7,211	59,765	-	-
Transaction costs on issue of shares	-	-	-	(1,748)	-	-
Payment of finance costs	-	-	-	-	-	-
Pmt of lease liabilities	-	(99)	(150)	(113)	(113)	(113)
Net cash from /(used in) fin activities	**8,988**	**5,890**	**7,061**	**56,495**	**(113)**	**(113)**
Net (decr)/incr in cash & equivalents	**5,462**	**495**	**(3,455)**	**36,782**	**(20,265)**	**(14,045)**
Cash & equivalents at beginning of year	4,234	9,696	10,191	6,736	43,518	23,253
Cash & equivalents at end of year	**9,696**	**10,191**	**6,736**	**43,518**	**23,253**	**9,208**

Source: Company Historic Data, ED estimates.

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