Polar Capital Holdings

Navigating tough markets better than most

20 November 2023

AUM was slightly down by -0.4% to £19.1bn over H1-24 (to 30 Sep 23). This was however a relatively strong performance compared to most other asset managers. Amidst widespread sector outflows, only two from an 11-strong London-listed peer group outperformed Polar on AUM movement over H1, with some recording falls of more than 10% (see page 2).

Investment performance was +£546m, net flows -£581m, and fund closures -£50m. Average AUM was up on H2-23 but down y-o-y from £20.0bn in H1-23 to £19.4bn, with the H1-23 average still somewhat elevated as the full impact of Russia's invasion of Ukraine had not hit markets (page 4).

In turn, net management fees fell 4% y-o-y from £80.0m to £76.5m. But core operating costs were well controlled, decreasing slightly from £54.2m to £53.9m with core operating profit* decreasing 13% from £25.8m to £22.5m, a core H1-24 margin of 29% (H1-23: 32%). Statutory profit before tax decreased 8% y-o-y from £23.0m to £21.1m. Basic EPS decreased 8% to 16.2p (H1 23: 17.7p) while adjusted diluted core EPS fell 14% y-o-y to 17.3p (H1 23: 19.6p).

Polar's balance sheet remains strong, with no debt, net assets of £123m, net cash of £73m and £56m of surplus capital above regulatory requirements.

The board has declared an interim dividend of 14.0p per share, unchanged from H1-23. This, alongside the £7.6m spent on share re-purchases, is certainly a signal of confidence in Polar's prospects and the strength of its balance sheet. It is worth highlighting that **if the total full-year dividend is also maintained at 46p, that would translate to a yield of 10.2%.**

Positive outlook, fundamental value 27% above current share price

We believe Polar is well-positioned to return to growth. It has an enviable track record of investment outperformance; its multi-niche strategy should prove attractive to asset owners; history suggests active management bounces back after market falls; and its net-flow position is certainly improving.

Our fundamental valuation is 575p per share, 27% above the share price, and the sharp falls in asset manager valuations look over-done to us, especially in light of recent M&A activity.

Key Financials

Year-end 31 Mar	FY21A	FY 22A	*H1-23*	FY 23A	*H1-24*	FY24E	FY 25E
AUM, £bn	20.9	22.1	*18.8*	19.2	*19.1*	19.4	21.4
Rev, £m	201.5	224.1	*90.9*	182.9	*86.9*	169.2	178.0
Management fees, £m	157.3	210.0	*90.9*	176.2	*86.9*	166.3	173.7
Performance fees, £m	43.6	14.1	*0.0*	6.7	*0.0*	3.0	4.3
PBT, £m	75.9	62.1	*23.0*	45.2	*21.1*	41.6	46.5
Core op profit*, £m	51.5	69.4	*25.8*	47.9	*22.5*	40.7	42.2
Performance fee profit	19.5	4.1	*0.0*	1.7	*0.0*	1.3	1.9
EPS basic, p	67.2	50.8	*17.7*	36.8	*16.2*	31.8	35.0
EPS adjusted diluted, p	62.3	56.0	*19.0*	44.3	*17.2*	33.1	36.3
PER	6.7	8.9	*12.8*	12.3	*13.9*	14.2	12.9
Div, p	40.0	46.0	*14.0*	46.0	*14.0*	46.0	46.0
Yield	8.9%	10.2%	*3.1%*	10.2%	*3.1%*	10.2%	10.2%
Net assets, £m	151.4	156.2	*141.3*	142.9	*123.1*	130.4	126.4
Net cash, £m	136.7	121.1	*82.5*	107.0	*72.8*	91.7	91.7

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***452p***
** excluding performance fees and performance-related costs, other income, exceptional items and tax*

Company Data

EPIC	POLR
Price (last close)	452p
52 weeks Hi/Lo	555p/397p
Market cap	£428m
ED Fair Value/share	575p
Net assets	£123m
Avg. daily volume	159k

Share Price, p

Source: ADVFN

Description

Polar Capital (Polar) is an active fund manager, established in 2001. It has 13 autonomous investment teams managing specialist portfolios with a thematic, sector, geographic, or financial instrument focus, including:

- Global Technology
- Global Healthcare
- Global Insurance
- Emerging Markets & Asia
- UK Value
- European Opportunities
- Financials
- Sustainable Thematic Equity

AUM 30 Sep 23: £19.1bn

Next Event: Q3 AUM update, Jan 24

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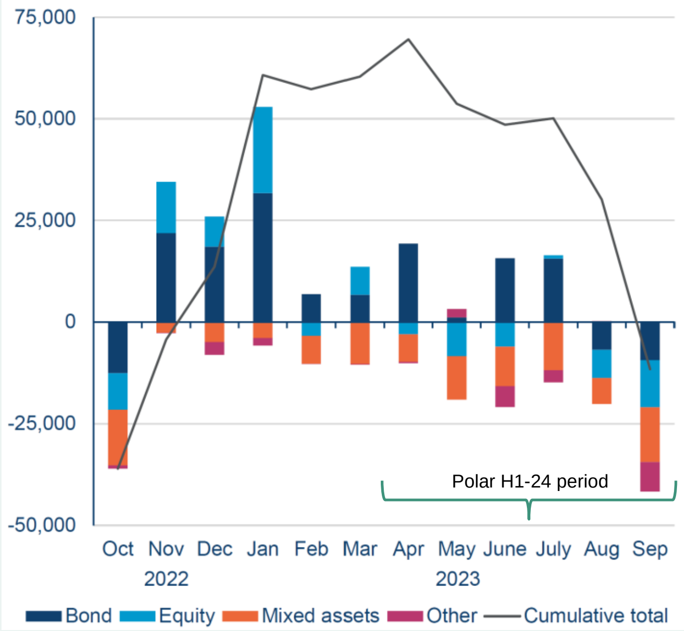
Solid half-year compared to other asset managers

While headline AUM performance over H1-24 may look disappointing at first glance, Polar actually recorded a relatively strong performance compared to the wider asset management sector. Across Europe, equity funds experienced significant outflows during the period (light blue bars below).

Net fund sales across Europe, €

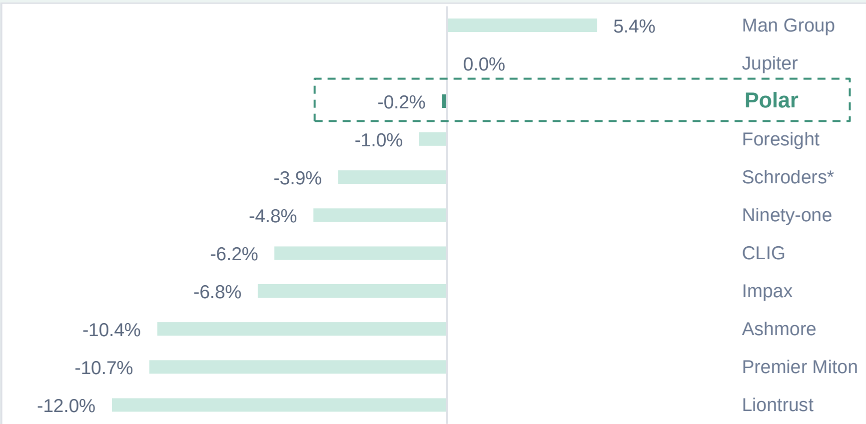


Source: Polar Nov 23 analyst presentation (original source: Broadridge Fund File and Fund Radar, 30 Sep 23)
Data excludes funds of funds, money market funds and ETFs.

And when compared to its London-listed peers, Polar ranked highly in total AUM movement, net flows, and investment performance.

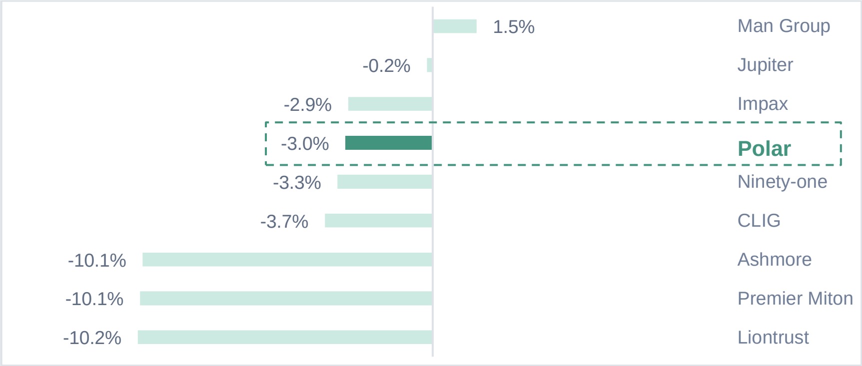
Only Man Group recorded a significantly better performance than Polar over the half-year, and this was heavily influenced by its large exposure to absolute return strategies (designed to make money in rising and falling markets), which is indicative of the caution and 'risk-off' stance of institutional investor clients. Among long-only dominant asset managers, Polar's investment performance was the strongest.

AUM movement (excl. acquisitions), 1 Apr 23 to 30 Sep 23

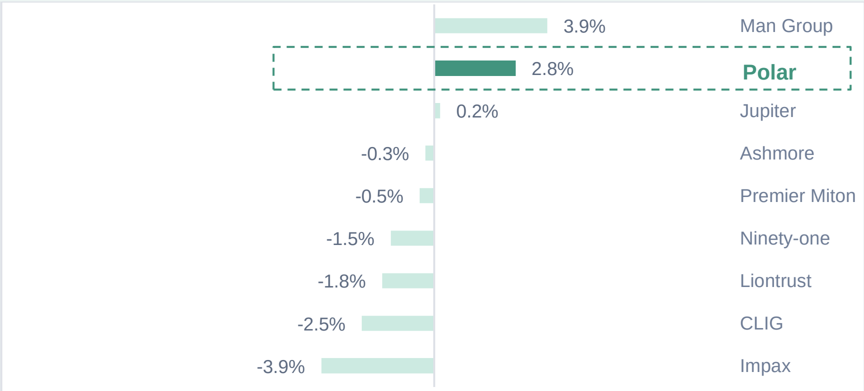


Source: Company reports and updates, ED analysis

Net inflows as % of opening AUM, 1 Apr 23 to 30 Sep 23



Investment performance*, 1 Apr 23 to 30 Sep 23



Source: Company reports and updates, ED analysis
All data excludes the impact of acquisitions.
Flow & investment performance data not available for Foresight, Schroders
**Impact of market movements and investment performance as % of opening AUM*

Market volatility a big influence on recent AUM moves

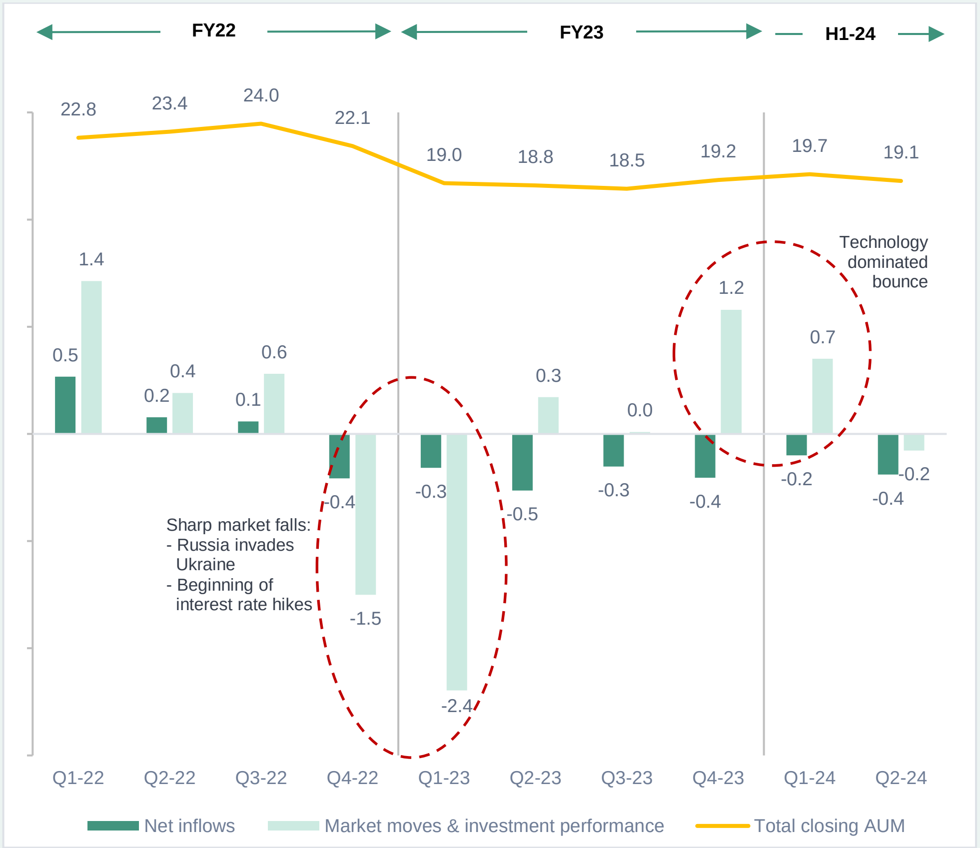
Zooming out beyond the most recent half-year, two factors have dominated Polar's AUM movements and levels since the end of the bull market towards the end of 2021:

- Periods of large and fast market moves: e.g.
  - the downward move following Russia's invasion of Ukraine and the beginning of interest rate hiking cycles in early-mid-2022; and
  - the technology-dominated bounce in early-mid-2023

  (see large swings in the light green bars in the chart below illustrating the AUM impact of these events).

- The already-mentioned risk-off stance of investors since early-2022 which has resulted in an extended period of outflows (see the string of negative dark green bars in the chart below, starting in the Jan-Mar 22 quarter).

AUM movements by quarter FY22 – H1-24, £bn



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

Volatility continued into H1-24 (as well as into Q3-24 in the post-interim-results period) in some of the sectors Polar has the largest exposure to (see chart overleaf).

Most significantly, technology equities experienced big gains in Q1-24 (and again in the post-results-period in Q3) with the insurance sector also achieving and holding onto solid gains.

However, healthcare and especially biotechnology stocks have been falling. And it has been a mixed bag for the sectors associated with Polar's other major strategies.

Key index data over Polar's H1-24 and Q3-24 to-date

Index	Relevant Polar strategy	% of AUM*	Q1-24 Apr-Jun	Q2-24 Jul-Sep	Q3-24 to date**
Dow Jones Global **Technology** Net Total Return (US$)	Global Technology	39%	14%	-4%	11%
MSCI AC World Daily Total Return Net **Health Care** (US$)	Global Healthcare	12%	3%	-2%	-2%
NASDAQ **Biotechnology** Net Total Return (US$)	Global Healthcare (Biotech)	7%	-1%	-3%	-5%
MSCI Daily TR World Net **Insurance** (US$)	Global Insurance	10%	5%	0%	1%
MSCI **Emerging Markets** Net Total Return (US$)	EM & Asia	8%	0%	-4%	3%
FTSE All-Share Total Return (GBP)	UK Value	6%	-1%	2%	-2%
		82%			

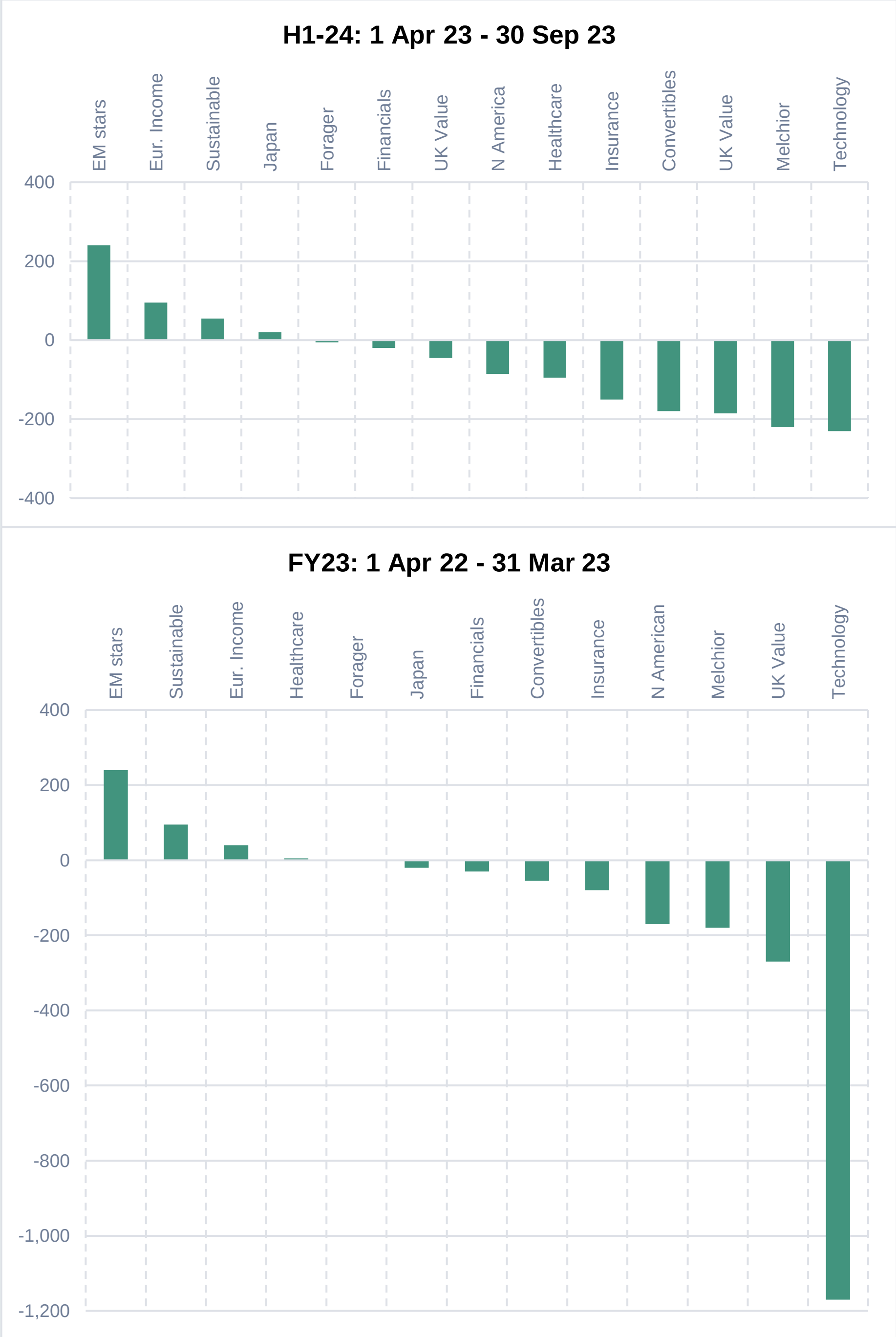
Source: Polar Capital, FT, NASDAQ, MSCI.
**As of 30 Sep 23. (approximate)*
*** All Q3-24 data from 1 Oct 23 to 16 Nov 23 except insurance which is from 1 Oct 23 to 31 Oct 23*

Net flow picture improving

Because of the changing picture in financial markets, with some large sector rotations being experienced in the last two-years or so, it is worthwhile comparing Polar's net flow picture by strategy during H1-24 to that of FY-23. This is shown in the chart below.

The charts are the same scale, and it should be obvious that the **large outflows from Polar's technology strategies have declined dramatically** (further details overleaf), **while the H1-24 net inflows of those strategies with positive flows are of similar magnitude to the full-year net inflows in FY-23.**

Changing picture of net flows: H1-24 vs FY-23, £m



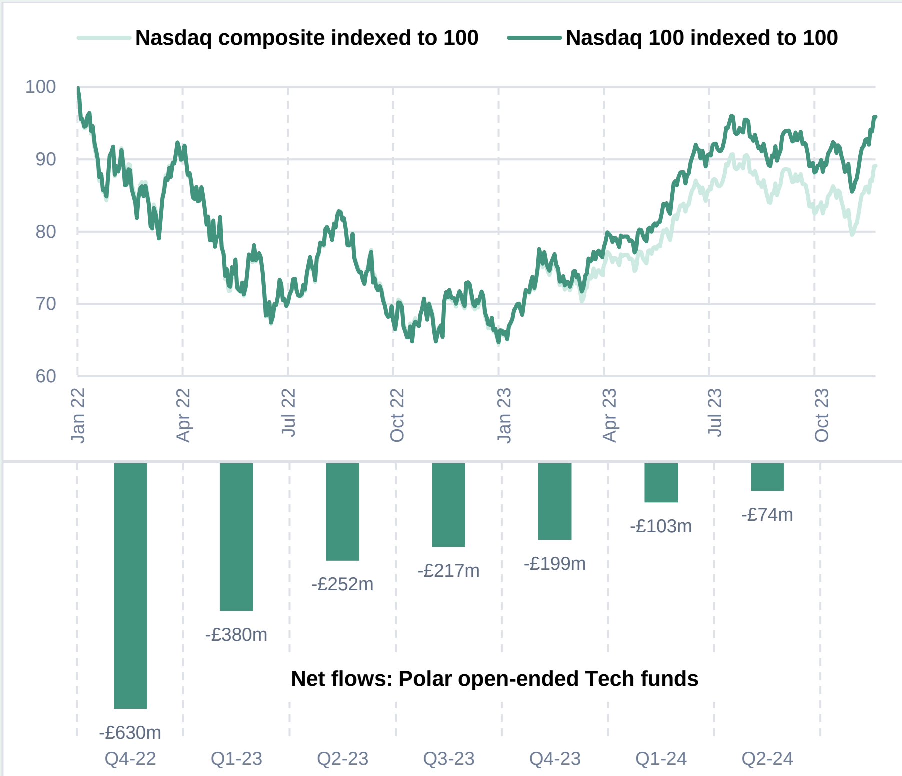
Source: Company.

Technology flows turning around

One of the most pleasing developments has been that **the rate of outflows from Polar's open-ended technology funds continued to decline in the last six months**, following the late-2021 and early-2022 rapid rotation out of high-growth technology equities as interest rate rises accumulated.

Indeed, sentiment has been turning more positive for technology equities during 2023, albeit more slowly and cautiously for smaller caps and more aggressively positive for mega-caps and AI-related equities.

Technology equities sentiment turning positive



Source: Nasdaq, Polar Capital
Nadaq composite is an index of c3,500 stocks listed on the Nasdaq exchange; Nasdaq 100 is an index of the largest (by market cap) non-financial companies listed on the Nasdaq exchange (and hence has a larger exposure to technology 'mega-caps')
Quarters on net flow chart labelled by FY quarter, not calendar quarter but do align graphically with Nasdaq chart

Emerging market, ESG and sustainability bright spots

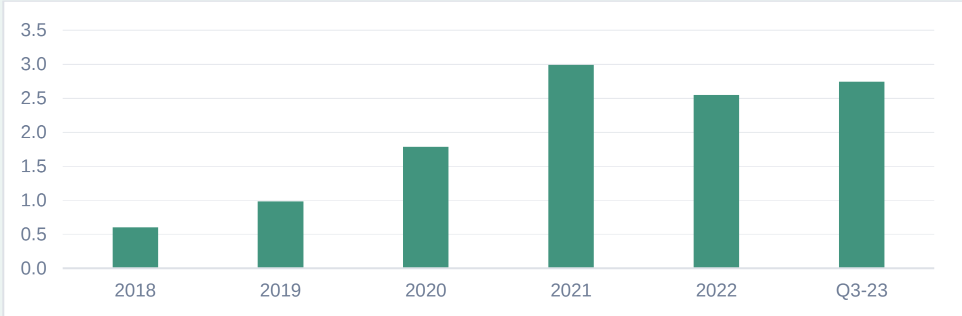
H1-24 was another strong period for the Emerging Market Stars fund with £244m of net inflows as it continues to attract investors (it recorded the highest inflows of all Polar strategies in both FY22 and FY23). Key attractions are its well-defined process around ESG, and it is proving attractive to US investors for diversification purposes away from the US.

And **progress continued for the Sustainable-Thematic Equities strategies** launched in Sep 21 (Smart Energy and Smart Mobility) with combined net inflows £60m and AUM reaching £280m.

We continue to believe EM Stars and Sustainable-Thematic Equities are especially well positioned in a growing and (relative to other areas) resilient ESG/sustainable investing market (see below).

Indeed, the sustainable investment market has expanded rapidly in recent years and following a dip in assets during 2022 (due to widespread market falls, not negative net flows – see below), 2023 has seen a return to growth.

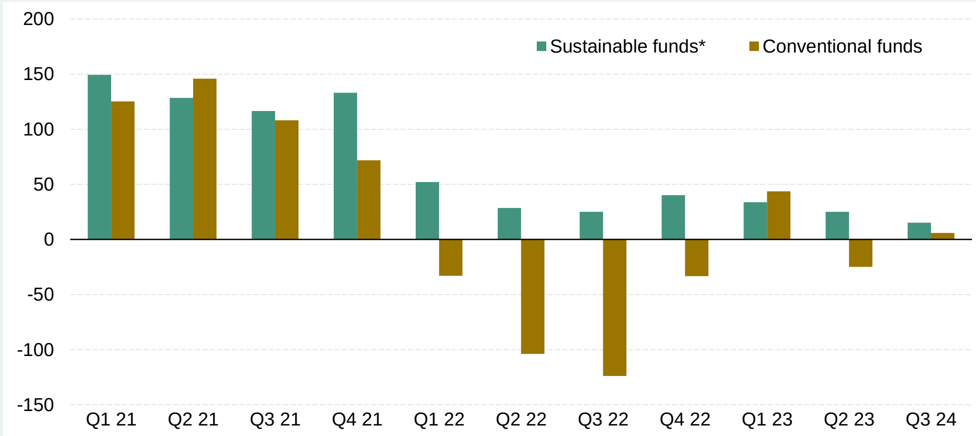
Global Sustainable Fund Assets, US$trn



Source: Morningstar: Global Sustainable Fund Flows: Q3 2023 in Review (and prior reports)

The return to growth has not been due to market tailwinds, but inflows. In Europe (around 85% of the global sustainable investing market), flows into sustainable funds were far stronger than those into conventional funds during the turmoil of 2022 and into 2023 and remained positive during every quarter. Meanwhile, conventional funds saw outflows in every quarter since the start of 2022 except Q1-23.

European sustainable* and conventional fund flows, US$bn



Source: Morningstar: Global Sustainable Fund Flows: Q3 2023 in Review (and prior reports)
** Open-end funds & ETFs domiciled in Europe that claim to have a sustainability objective and/or use binding ESG criteria for investment selection. Excludes funds that employ only limited exclusionary screens, such as controversial weapons, tobacco, and thermal coal. Excludes money market funds, feeder funds, and funds of funds.*

Mixed bag of flows for other strategies

In healthcare (five funds making up c19% of AUM), the large cap focused Polar Capital **Healthcare Blue Chip Fund saw net inflows of £50m** but the Polar Capital Healthcare Opportunities Fund, Biotechnology, and Healthcare Discovery Funds saw outflows.

On the back of continued strong fund performance, the Polar Capital **European ex-UK Income Fund had net inflows of £95m**. The Polar Capital **Japan Value Fund saw a return to net inflows**, reflecting strong market returns and improving investor sentiment.

But the inflationary, high-interest-rate, and risk-off environment resulted in a flight to fixed income and cash which hurt a number of Polar's funds, with Polar reporting:

- Negative sentiment towards UK and European equities led to redemptions from the Melchior European Opportunities Fund of £181m and from the Polar Capital UK Value Opportunities Funds of £46m.
- The Polar Capital Global Convertible Bond Fund experienced outflows of £149m, as some income investors sought yield from alternative, lower risk asset classes.
- The Polar Capital Global Insurance Fund suffered net outflows of £152m, as two long-standing shareholders took profits following the strong performance of the fund in calendar year 2022.

Still a leader in delivering superior returns

Polar has summarised the investment environment during the period below (emphasis added by Equity Development), and we have highlighted key H1-24 investment performance metrics by strategy or fund in the table below this commentary.

- *"In equity markets,* ***the US market and the tech sector in particular, have been the standout positive performers****.*
- *At the other end of the spectrum,* ***Emerging Markets currently sit close to a 20-year performance low*** *point relative to the US.*
- *A further side effect of the success of tech companies which are Artificial Intelligence beneficiaries, and of healthcare stocks which stand to gain from GLP-1 medications, is that* ***larger companies have tended to outperform smaller ones. This has been a headwind for Polar Capital****. Many of our investment teams have derived long term success from investing outside the larger, better-known areas of their respective markets, and many clients have supported this approach, as they often own the larger companies directly.*
- *As the dominance of growth styles has started to wane,* ***we have seen a recovery in the relative performance of the Group's more value-driven strategies****."*

Six-month performance against benchmark (to 30 Sep 23)

Underperformers	Outperformers
• Polar Capital Global Technology Fund, Polar Capital Technology Trust due to more exposure to smaller companies in an environment where the very largest companies have outperformed. • Polar Capital Healthcare Opportunities Fund (same reason as above) • Melchior European Opportunities Fund (same reason as above) • Emerging Market strategies (influenced by rotation away from renewable energy or electric vehicle supply chain)	• European ex-UK Income Fund outperformed by 277 bps (influenced by investor sentiment turning more positive towards value-driven strategies) • Polar Capital Japan Value Fund outperformed by 171 bps (same reason as above) • Polar Capital North American Fund outperformed by 107 bps (same reason as above). • Polar Capital Global Insurance Fund outperformed (same reason as above). • Smart Energy strategies performed in line with benchmark

Source: Company

Substantial longer-term investment outperformance

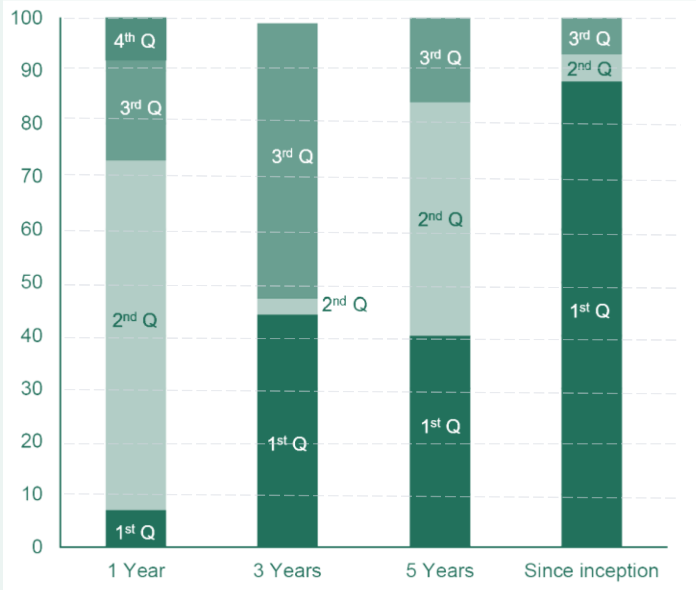
Looking beyond the short-term, Polar has a maintained a **hugely impressive track record of delivering outstanding investment returns compared to peers**.

Since fund-inception, 93% of Polar's total AUM is in the top two quartiles of the Lipper peer group, with 84% in the top two quartiles over five years.

Over three years, the performance drops off to 48% (mainly due to Polar Capital Global Technology Fund having a challenging year compared to benchmark in 2021) but rises again to 73% over one year and is 77% in the calendar year-to-date.

For Polar's UCITs fund range (around 72% of total AUM), the proportion of AUM in each benchmark quartile is shown below.

Proportion of UCITS AUM* by quartile (Q) compared to peer group



Source: Company, as at 30 Sep 23. **c72% of total Polar AUM. SI = Since Inception*

At an investment fund level, **13 out of 21 UCITS strategies have delivered 1st quartile returns since inception, with 7 delivering 2nd quartile returns and one in the third quartile.** This breakdown is shown below, which is a split of the far-right bar in the chart above (SI) by investment fund.

Annualised fund performance against benchmark (since inception)

Source: Company, Original source: Lipper.
Lipper quartile rankings as at 30 Sep 2023.
Funds ordered according to Polar Capital launch date. All data is based on the Fund's base currency.
*UCITS performance illustrative of Polar Capital Funds plc Irish UCITS and Melchior Selected Trust European Opportunities Luxembourg SICAV fund. Geometric performance shown for all periods greater than 1yr. *The Global Absolute Return Fund does not have a benchmark, therefore figures shown reflect absolute performance.*

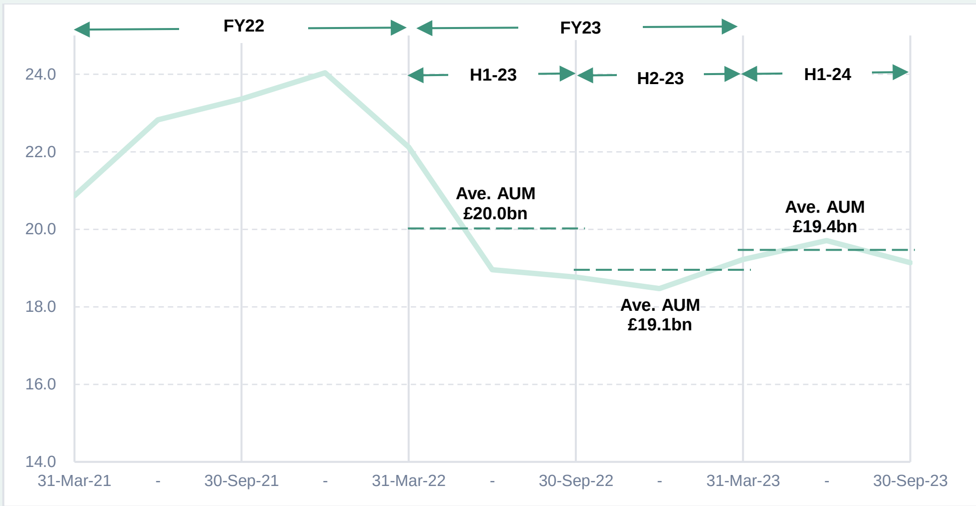
H1 financials: rev & profit down, balance sheet strong

Average AUM slightly down y-o-y, up on H2-23

Because average AUM is the main driver of Polar's largest source of revenue, *investment management and research fees* (IM fees), it is useful to understand AUM development and AUM averages for the period under review and for comparative periods. This is presented in the chart below. [Note that product mix and fee margins also impact IM fees to a degree, but not to the same extent as average AUM.]

Average AUM was up on the preceding half-year period (H2-23) from £19.1bn to £19.4bn but year-on-year fell from £20.0bn in H1-23, with H1-23 average AUM still elevated to an extent as the full extent of the market fall following Russia's invasion of Ukraine had not filtered through.

AUM profile last three years, £bn



Source: Company, ED analysis

Revenue slightly down driven by fall in average AUM

With the decline in average AUM, net management fees (after commission and rebates) fell 4% y-o-y from £80.0m to £76.5m, with management fee yield margin declining slightly from 80 basis points to 79.

'Other income' was -£0.3m (H1-23: -£1.2m), boosted by increased interest income (£1.1m in H1-24 v £0.2m in H1-23) although was still negative due to net negative changes to the value of financial assets and liabilities.

H1-24 net income was consequently down 3% to £76.2m (H1-23: £78.8m).

Performance fees mostly crystalise in December and are not recorded in interim results. But for information purposes, as of 30 Sep 23, gross performance fee revenue was marked-to-market at £3.0m (£1.3m net after the deduction of staff interests) although there is no guarantee that these fees will crystalise.

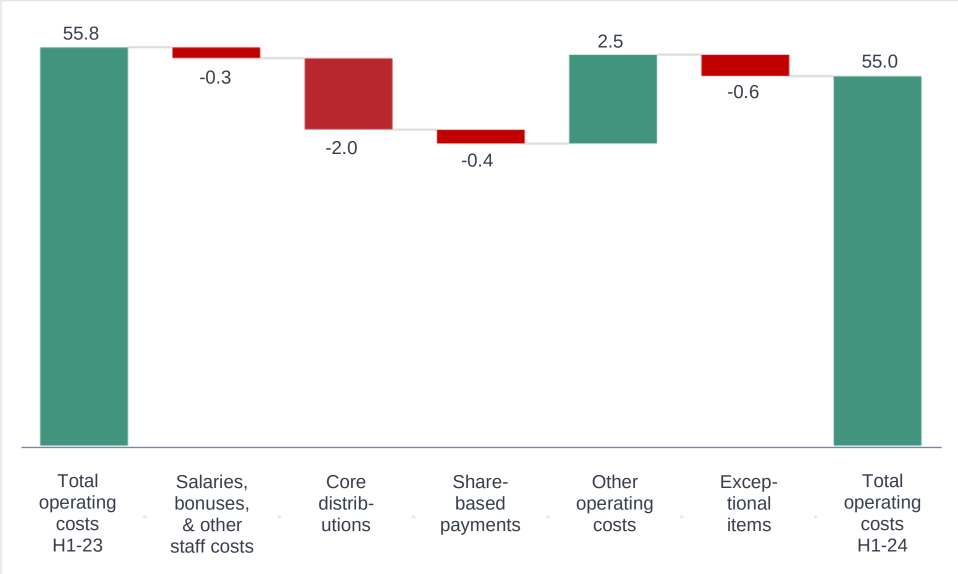
Costs well controlled, profits down on lower revenue

Core operating costs were well controlled, decreasing slightly from £54.2m to £53.9m mainly due to lower core distributions which comprises variable compensation payable to investment teams from management fee revenue (-£2.0m compared to H1-23), and slightly higher other operating costs (+£1.7m).

Core operating profit - *profit before performance fee profits, other income, exceptional items and tax* – which is a measure of Group profitability, excluding investment-performance-related profits and other components which may be volatile, non-recurring or non-cash in nature, with core operating profit decreasing 13% from £25.8m to £22.5m, a core H1-24 margin of 29.4% (H1-23: 32.3%).

Statutory operating costs declined by 1.3% from £55.8m in H1-23 to £55.0m in H1-24 as illustrated in the chart below.

Changes in total Operating Costs v H1-23 (£m)



Source: Company

Profit before tax decreased 8% y-o-y from £23.0m to £21.1m. Basic EPS decreased by 8% to 16.2p (H1 23: 17.7p) while adjusted diluted core EPS fell 14% y-o-y to 17.3p (H1 23: 19.6p).

Balance sheet and cash

Polar's balance sheet remains strong, with no debt and net assets of £123.1m (down 16% y-o-y from £146.8m and 14% from £142.9m on 31 Mar 23). Cash and equivalents were £72.8m, down 12% y-o-y from £82.5m and 32% from £107.0m on 31 Mar 23).

Significant movements in cash over H1 included: cash generated from operations (+£7.4m); net sales of financial assets at fair value through profit & loss (+£8.6m); net third-party subscriptions/redemptions into consolidated funds (-£6.4m); dividends paid (-£30.9m); and purchase of own shares (-£7.6m).

The total value of seed investments stood at £34.3m on 30 Sep 23 (£46.7m on 30 Sep 22).

The group produces a 'surplus capital' report which takes account of capital commitments and minimum levels of regulatory capital to illustrate the capital available to pursue growth opportunities, such as seeding new investment products or acquisitions.

This shows that £55.9m is available to maintain a strong balance sheet and pursue these growth opportunities, down slightly from £57.7m on 31 Mar 23.

Surplus capital calculation

Regulatory Capital	30 Sep-23 £m	31 Mar-23 £m
Shareholders funds	**123.1**	**142.9**
Less: Regulatory deductions[1]	-27.6	-28.2
Capital after regulatory deductions	**95.5**	**114.7**
Less: dividend provision	-13.6	-31.0
	81.9	**83.7**
Regulatory capital	-26.0	-26.0
Surplus capital	**55.9**	**57.7**

Source: Company
[1]Regulatory deductions include goodwill, intangible assets and deferred tax balances

Dividends

The board has declared an interim dividend of 14.0p per share, unchanged from H1 23. This, alongside the £7.6m spent on share re-purchases, is certainly a signal of the board's confidence in Polar's prospects and the strength of its balance sheet.

It is also worth noting that if the total full-year dividend is also maintained at 46p, that would translate to a yield of 10.2%.

Growth outlook

Strategically well positioned

We remind readers of Polar's 'growth with diversification' strategy and how it intends to grow its AUM organically from existing strategies and channels, and also from adding new:

1. *investment themes* (e.g. in late 2021 it launched a range of sustainable funds - Smart Energy and Smart Mobility themes - run by the team lifted from Robeco Switzerland);
2. *channels* (e.g. its acquisition of Dalton has added a range of Luxembourg SICAV funds and segregated mandates); and
3. *geographies* (e.g. Dalton brings a strong European client base, particularly in Germany, and we highlight that it is actively seeking opportunities in the US).

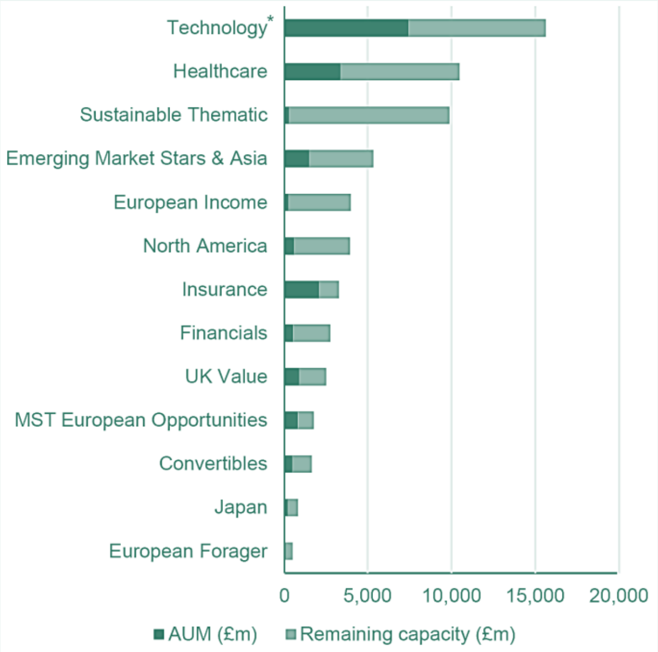
With respect to organic growth though, **we see particularly strong opportunities for growth for Polar's Sustainable Thematic strategies (as previously discussed, see page 8), Healthcare, Emerging Markets, and in the recovery of its Technology strategies** (while short-term uncertainty prevails, we believe technology will undoubtably be a leading investment theme over the medium-long term).

These opportunities arise not only out of market opportunities, but from Polar's available capacity, which is significant in the above areas (see chart below). **Currently, Polar has a total capacity of £63bn with a current remaining capacity (opportunity for growth) of £44bn, and notably:**

- >£17bn of capacity remains in strategies that had positive net inflows in the last six months (Sustainable Thematic - Smart Energy and Mobility; Emerging Markets & Asia; European (ex-UK) Income; and Japan);

- the majority of remaining capacity in Technology is the Artificial Intelligence Fund.

AUM & Available Capacity (30 Sep 23)



Source: Company
**Includes Artificial Intelligence Fund*

History suggests 'active' will bounce back

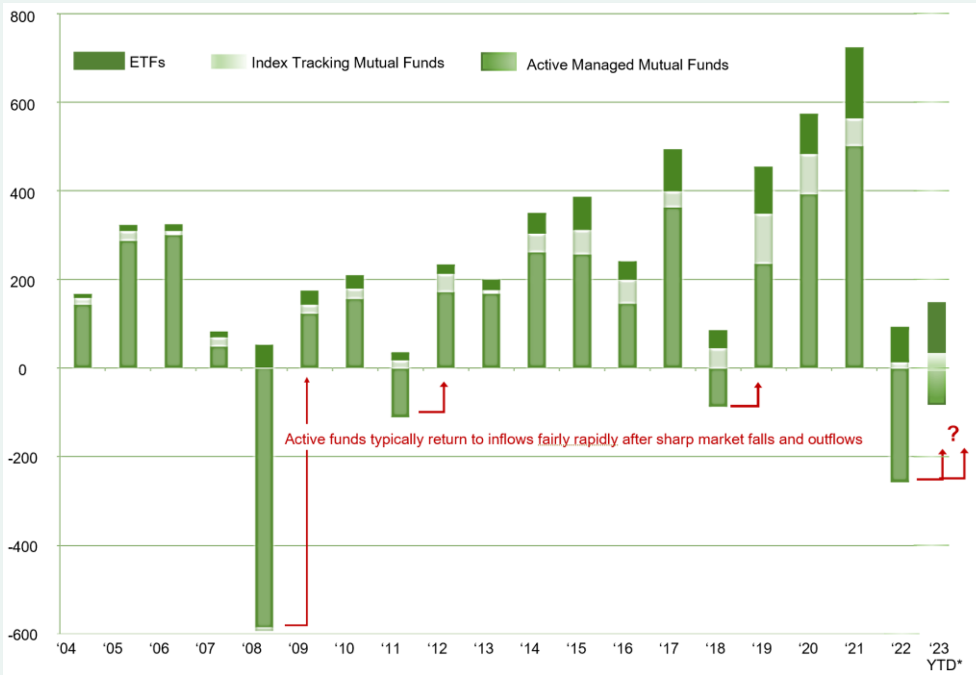
In addition to the investment-strategy-specific points outlined above, we believe it is also important for investors to understand the historical trends and outlook for actively managed funds more generally.

And while there certainly is an element of cyclicality in the active management space (which has worked against Polar over the last year or so, but which could soon work in Polar's favour); over the longer term, the case for active management is still very solid and **there should be ample growth opportunities for high-performing managers.**

The bear market of 2022 took a heavier toll on active funds compared to passive funds or ETFs, with active funds experiencing heavy outflows.

We do not downplay the impact of this, but we highlight that historically**, flows out of active funds tend to be more severe during market downturns, and that flows tend to quickly bounce back and revert to the positive longer-term trend**. This can be clearly seen in the chart below with flow recoveries after 2008 (financial crisis), 2011 (sovereign debt crisis), and 2018 (multiple factors) – highlighted in red.

Annual estimated European net fund flows, €bn



Source: Refinitiv Lipper: European Fund Market Trends: 2022; European Fund Flow Report: September 2023
Chart reproduced with permission
**to 30 Sep 23*

We remain bullish on the prospects for high-performing active managers, as asset owners (Polar Capital's clients) will continue to seek market outperformance. And we believe Polar's highly specialist investment teams are ideally situated to meet this market need. **There is no doubt that the most sophisticated clients are fully aware that there are cohorts of active managers which consistently outperform the market and will look to allocate capital to these managers**.

In fact, a recent study conducted by L.E.K. consulting (reported on in the article '*Active funds are here to stay*'), found that: *"…there is a cadre of active fund managers who are able to consistently generate alpha by focusing on niche strategies.*

Polar, with its impressive track record of delivering superior returns across its multiple niches, is in our view very likely to capture at least its fair share of asset owners' capital relative to its size. We believe the group is well positioned to return to growth.

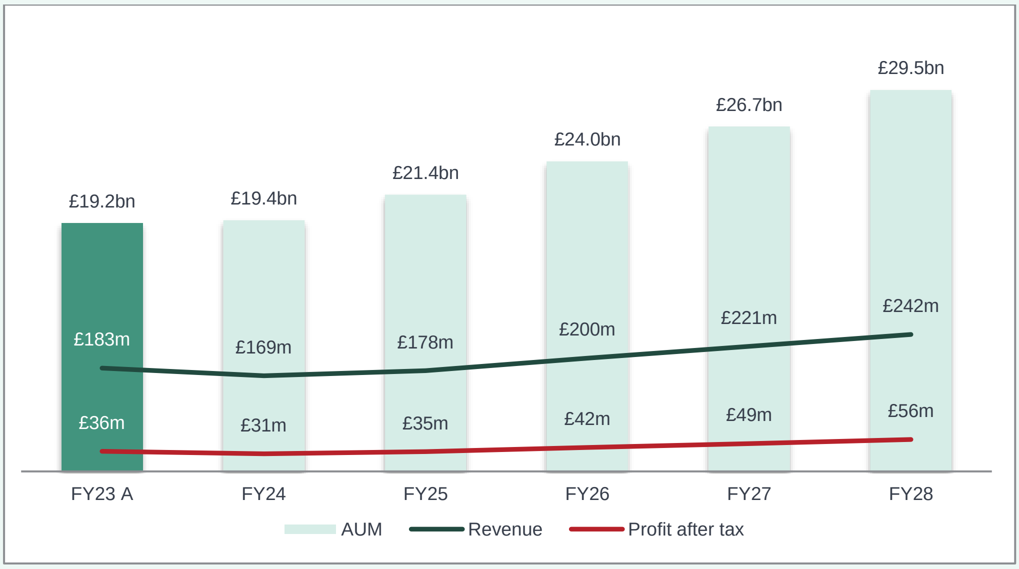
Forecast to return to positive flows

While significant uncertainty remains over the short-term, and in our forecasts we have allowed for some further net AUM outflows in FY24, we believe it is credible to forecast a return to positive net flows in FY25, building up to around £1.5bn of annual net inflows by FY28 (reminding readers that Polar achieved net inflows of around £2bn per year in the bull markets of FY18 and FY21).

In producing our 5-year forecast, we have also assumed that there is some price erosion of Polar's investment management fee, and that performance fees run at only 25% of recent (5Y) average historic levels – which we believe is a conservative assumption.

The combined effect of these assumptions is shown in the chart below.

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates

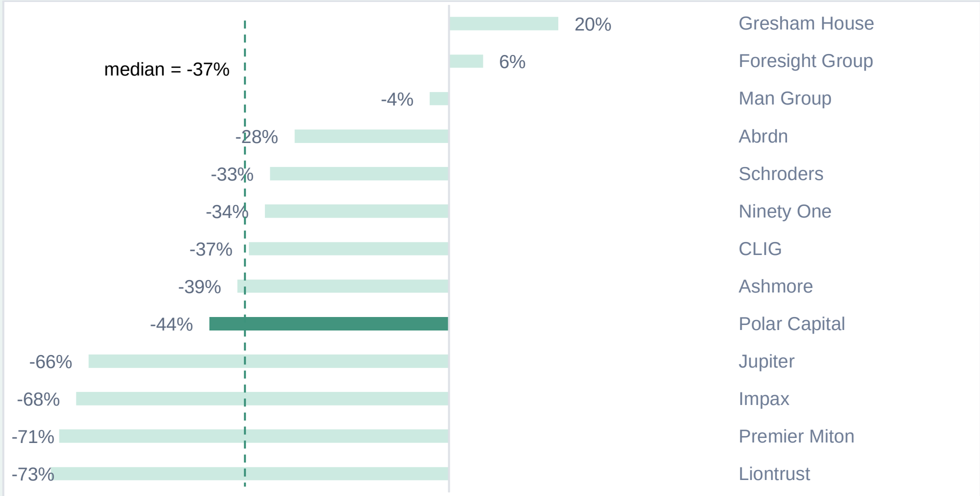
Fundamental valuation of 575p per share

Using a discounted cash flow methodology, based on the above growth assumptions and assuming a terminal value based on an assumption that the business is acquired at a PE multiple of 15 in five years, we calculate a per share fundamental value of 575p, 27% above the current share price of 452p.

Asset management sector ripe for a re-rating

Unsurprisingly, because asset managers' earnings are linked to financial market valuations, their share prices have fallen sharply since the end of the bull market in late 2021/early 2022 (median fall 37%).

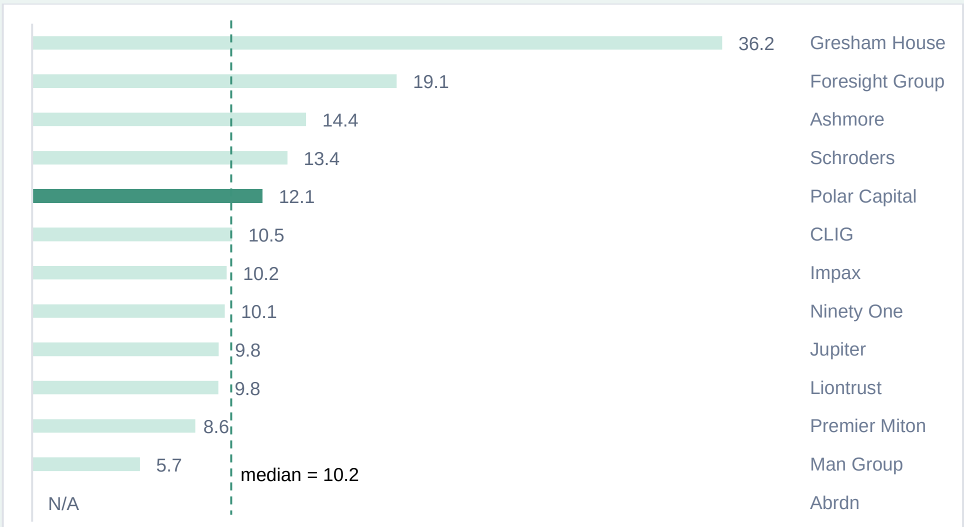
Asset managers' share price movement 31 Dec 21 – 17 Nov 23



Source: ADVFN, ED analysis

But while valuations may very well have become stretched at the end of the bull market, we would highlight that the acquisition of Gresham House (announced 15 Jul 23) is currently in process at a PE multiple of 35.9, far above the next highest valuations in the sector and the current peer group median of 10.2. This somewhat negates that argument and demonstrates that significant value is being seen in the sector by some (the acquisition price is 56% above the price on the day prior to the announcement of the acquisition).

Asset managers' PE Ratios



Source: ADVFN as at 17/11/23, ED analysis

We think asset managers' valuations have fallen too far and suspect that share prices may recover quite sharply should markets stage a recovery or the market outlook turns more positive.

But for Polar specifically, we think there is an argument for its share price to outperform the sector. There is a compelling 'deep value' argument, given its solid net cash position of £73m on 30 Sep 23 (17% of its market cap), a forecast core margin of 27.4% (which excludes any potential boost from performance fees) and a forecast dividend yield of 10.2%.

Historical and forecast financials

Consolidated Income Statement + Forecasts							
12 months to end Mar, £'m	**FY21A**	**FY 22A**	***H1-23***	**FY 23A**	***H1-24***	**FY 24E**	**FY 25E**
Revenue	201.5	224.1	*90.9*	182.9	*86.9*	169.2	178.0
Other Income	8.3	1.6	*(1.2)*	2.6	*(0.3)*	(0.1)	2.7
Gross Income	**209.8**	**225.7**	***89.7***	**185.5**	***86.6***	**169.1**	**180.7**
Commissions and fees payable	(15.4)	(22.6)	*(11.0)*	(21.4)	*(10.4)*	(18.0)	(18.8)
Net Income	194.4	203.0	*78.8*	164.1	*76.2*	151.1	162.0
Operating Costs	(118.5)	(140.9)	*(55.8)*	(118.7)	*(55.0)*	(109.4)	(115.3)
Profit for the year before tax	**75.9**	**62.1**	***23.0***	**45.2**	***21.1***	**41.6**	**46.5**
Taxation	(13.2)	(13.2)	*(5.9)*	(9.6)	*(5.4)*	(10.4)	(11.6)
Profit attributable to ordinary shareholders	**62.7**	**48.9**	***17.1***	**35.6**	***15.6***	**31.2**	**34.9**
Adjusted Profit, £'000							
The Group believes that aligning staff remuneration and profits generated in the same period will allow users of the financial statements to gain a better understanding of the Group's results and their comparability year on year.							
(post tax)							
Add exceptional items, acquisition related costs	1.9	2.9	*0.6*	5.0	*-*	-	-
Add exceptional items, amortisation of intangible assets	0.4	1.9	*0.6*	1.2	*0.6*	-	-
Add exceptional items, impairment of intangible assets		6.0	*-*	-	*-*	-	-
Add back cost of share-based pmts on prefs	(0.3)	1.1	*0.1*	0.3	*0.4*	0.3	0.3
Add back exceptional items - FV charge on def cons on acquisition		*(3.7)*	*-*	-	*-*	-	-
Less net amount of deferred staff rem	(3.7)	(0.8)	*0.3*	1.7	*0.2*	1.7	1.7
Adjusted Profit After Tax	**61.0**	**56.2**	***18.7***	**43.7**	***16.8***	**33.2**	**36.8**
Earnings per share, p							
Basic	67.2	50.8	*17.7*	36.8	*16.2*	31.8	35.0
Diluted	64.0	48.7	*17.4*	36.1	*16.0*	31.2	34.3
Adjusted basic	65.3	58.4	*19.3*	45.2	*17.4*	33.8	37.0
Adjusted diluted	62.3	56.0	*19.0*	44.3	*17.2*	33.1	36.3
Core operating profit (non-GAAP), £m							
Profit before performance fee profits, other income and tax. This presents a clear view of what the Group considers to be the results of its underlying operations before items which may either be volatile, ing or non-cash in nature, and taxation.							
Management fees	157.4	210.0	*90.9*	176.2	*86.9*	166.3	173.7
Commissions and fees payable	(15.4)	(22.6)	*(11.0)*	(21.4)	*(10.4)*	(18.0)	(18.8)
Net management fees	142.0	187.3	*80.0*	154.8	*76.5*	148.3	154.9
Profit/(loss) on foreign currency contracts	0.6	-	*-*	-	*-*	-	-
Core operating costs	(91.1)	(117.9)	*(54.2)*	(106.7)	*(53.9)*	(107.4)	(112.5)
Finance costs				(0.2)	*(0.1)*	(0.2)	(0.2)
Core operating profits (before tax)	**51.5**	**69.4**	***25.8***	**47.9**	***22.5***	**40.7**	**42.2**

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts							
As at end Mar, £'m	**FY21A**	**FY 22A**	***H1-23***	**FY 23A**	***H1-24***	**FY 24E**	**FY 25E**
Non-current assets							
Goodwill and intangible assets	25.0	17.1	*16.5*	15.9	*15.4*	14.8	13.6
Property & equipment	5.1	4.1	*3.5*	10.5	*9.5*	10.0	9.5
Deferred tax assets	5.8	3.5	*4.2*	0.1	*1.0*	1.0	1.0
	35.9	**24.7**	***24.2***	**26.6**	***25.8***	**25.8**	**24.2**
Current assets							
Assets at fair value through P&L	57.2	77.8	*88.9*	83.0	*70.5*	69.7	69.7
Trade & other receivables	23.9	25.4	*20.9*	19.5	*22.7*	18.1	19.0
Other financial assets	0.1	2.7	*11.3*	5.2	*4.7*	5.8	5.8
Cash & cash equivalents	136.7	121.1	*82.5*	107.0	*72.8*	91.7	91.7
Current tax assets	2.0	1.6	-	0.3	*0.6*	0.3	0.3
	219.8	**228.6**	***203.6***	**215.1**	***171.2***	**185.5**	**186.5**
Total assets	**255.7**	**253.3**	***227.8***	**241.7**	***197.0***	**211.3**	**210.6**
Non-current liabilities							
Provisions & other liabilities	4.1	2.9	*2.3*	8.9	*7.9*	7.9	7.9
Liabilities at fair value through P&L	4.3	0.6	*0.5*	0.5	*0.3*	0.5	0.5
Deferred tax liabilities	4.1	3.4	*5.4*	0.5	-	-	-
	12.5	**6.9**	***8.1***	**9.9**	***8.2***	**8.4**	**8.4**
Current liabilities							
Liabilities at fair value through P&L	16.1	10.0	*14.5*	16.4	*8.2*	8.0	8.0
Trade & other payables	71.6	80.1	*61.2*	68.7	*55.3*	63.5	66.8
Provisions				3.2	*0.3*	0.3	0.3
Other financial liabilities	4.1	0.0	-	0.0	-	0.0	0.0
Current tax liabilities	-	-	*2.7*	0.7	*2.0*	0.7	0.7
	91.8	**90.1**	***78.3***	**88.9**	***65.8***	**72.6**	**75.9**
Total liabilities	**104.3**	**97.0**	***86.5***	**98.8**	***74.0***	**80.9**	**84.3**
NET ASSETS	**151.4**	**156.2**	***141.3***	**142.9**	***123.1***	**130.4**	**126.4**
Capital & Reserves							
Issued share capital	2.5	2.5	*2.5*	2.5	*2.5*	2.5	2.5
Share premium	19.4	19.4	*19.4*	19.4	*19.4*	19.4	19.4
Investment in own shares	(26.6)	(24.9)	*(28.7)*	(31.6)	*(33.3)*	(33.3)	(33.3)
Capital & other reserves	11.0	12.4	*14.1*	12.3	*12.2*	12.3	12.3
Retained Earnings	145.2	146.9	*134.0*	140.3	*122.3*	129.5	125.5
TOTAL EQUITY	**151.4**	**156.2**	***141.3***	**142.9**	***123.1***	**130.4**	**126.4**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts (page 1 of 2)							
12 months to end Mar, £'m	**FY21A**	**FY 22A**	***H1-23***	**FY 23A**	***H1-24***	**FY 24E**	**FY 25E**
OPERATING ACTIVITIES							
Profit before taxation	**75.9**	**62.1**	***23.0***	**45.2**	***21.1***	**41.6**	**46.5**
Interest receivable and similar income	(0.1)	(0.1)	*(0.2)*	(0.7)	*(1.1)*	(2.0)	(2.0)
Investment income	(0.2)	(0.2)	*(0.5)*	(0.6)	*(0.4)*	(0.7)	(0.7)
Interest on lease	0.1	0.1	*0.0*	0.2	*0.1*	0.2	0.2
Depreciation on property & equipment	1.4	1.4	*0.8*	2.2	*1.2*	2.5	2.5
Revaluation of liability at FVTPL	(0.4)	-	-	-	-	-	-
Amortisation & impairment of intantible assets	0.4	7.9	*0.6*	1.2	*0.6*	1.2	1.2
Decr/(Incr) in fair value of inv securities	-	-	-	-	-	-	-
Decr/(incr) in fair value of assets at FVTPL	(14.3)	7.7	*6.6*	(4.2)	*4.8*	4.8	-
(Decr)/incr in other financial liabilities	5.1	(10.4)	*(8.7)*	(0.5)	*(0.6)*	(0.6)	-
incr in other financial assets	-	-	-	-	-	-	-
Decr/(incr) in receivables	(9.1)	(1.5)	*4.6*	5.9	*(3.2)*	1.5	(0.9)
(Decr)/incr in trade and other payables	26.5	8.4	*(18.9)*	(8.7)	*(16.6)*	(9.0)	3.3
Share-based payment charges	5.6	7.4	*2.7*	4.4	*2.4*	6.2	6.5
Incr/(decr) in liabilities at FVTPL	(6.1)	(3.9)	*(3.0)*	0.3	*(1.9)*	(1.9)	-
Release of fund units deferred rem	5.6	6.5	*3.5*	7.4	*1.0*	1.0	-
Other non-cash items	0.4	-	-	-	-	-	-
Cash generated from operations	**90.9**	**85.3**	***10.4***	**52.0**	***7.4***	**44.7**	**56.5**
Corporation tax paid	(13.6)	(10.9)	*(1.1)*	(7.7)	*(5.9)*	(10.4)	(11.6)
Interest on lease	(0.1)	(0.1)	*(0.0)*	-	-	-	-
Interest received				0.9	*1.1*	2.0	2.0
Net cash from operating activities	**77.1**	**74.4**	***9.3***	**45.1**	***2.7***	**36.3**	**46.9**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts (page 2 of 2)							
12 months to end Mar, £'m	**FY21A**	**FY 22A**	***H1-23***	**FY 23A**	***H1-24***	**FY 24E**	**FY 25E**
INVESTING ACTIVITIES							
Interest received	0.1	0.3	-	-	-	-	-
Investment income received	0.2	0.2	*0.5*	0.4	*0.4*	0.7	0.7
Sale of investment securities	-	-	-	-	*29.0*	29.0	-
Purchase of investment securities	-	-	-	-	-	-	-
Sale of assets at FV through P&L	33.3	41.2	*17.9*	55.3	-	-	-
Purchase of assets at FV through P&L	(45.2)	(70.3)	*(33.7)*	(62.8)	*(20.3)*	(20.3)	-
Purchase of property and equipment	(0.2)	(0.6)	*(0.1)*	(0.5)	*(0.1)*	(0.5)	(0.6)
Cash introduced via business combination	1.1	-	-	-	-	-	-
Payments in respect of business combination	(8.5)	(8.1)	-	-	-	-	-
Payments in respect of asset acquisition	(0.3)	(1.3)	-	(0.2)	-	-	-
Cash from disposal of cons seed inv	(0.3)	-	*(6.1)*	(11.7)	-	-	-
Net cash used in investing activities	**(19.8)**	**(38.5)**	***(21.6)***	**(19.5)**	***8.8***	**8.8**	**0.1**
FINANCING ACTIVITIES							
Dividends paid to shareholders	(31.9)	(43.4)	*(30.9)*	(44.5)	*(30.9)*	(44.7)	(45.4)
Lease payments	(1.3)	(1.3)	*(0.7)*	(1.4)	*(0.7)*	(1.4)	(1.4)
Interest on lease				(0.2)	*(0.1)*	(0.2)	(0.2)
Issue of shares	0.3	0.0	-	-	-	-	-
Purchase of own shares	(6.1)	(12.4)	*(6.7)*	(10.7)	*(7.6)*	(7.6)	-
3rd party subs into cons funds	12.0	9.9	*12.1*	20.7	*3.7*	3.7	-
3rd party redemptions from cons funds	(1.3)	(4.6)	*(1.2)*	(3.9)	*(10.2)*	(10.2)	-
Dividends paid to 3rd party interests	-	-	-	-	-	-	-
Net cash from /(used in) financing	**(28.3)**	**(51.8)**	***(27.5)***	**(39.9)**	***(45.7)***	**(60.4)**	**(47.0)**
Net (decr)/incr in cash & equivalents	**29.0**	**(15.9)**	***(39.8)***	**(14.3)**	***(34.2)***	**(15.3)**	**0.0**
Cash & equivalents beginning of year	107.8	136.7	*121.1*	121.1	*107.0*	107.0	91.7
Effect of forex rate changes	(0.1)	0.3	*0.9*	0.1	*(0.0)*	-	-
Cash & equivalents at end of year	**136.7**	**121.1**	***82.2***	**107.0**	***72.8***	**91.7**	**91.7**

Source: Company Historic Data, ED estimates.

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