

Acquisition and distribution deal set to boost growth

15 September 2021

Tatton has made no secret it is hunting for suitable strategic acquisitions and partnerships to complement its smooth-running organic growth strategy. When year-end results (to 31 Mar 21) were announced, we highlighted that it was well positioned to put its significant 'war chest' - net cash of £16.9m and a £30m credit facility - to work, and that finding reasonably valued opportunities was likely. Today, Tatton has announced a deal that perfectly fits this strategy: a fund-portfolio acquisition, coupled with a long-term strategic distribution partnership.

It has acquired a range of funds with £650m AUM (6.8% of Tatton's June 21 AUM level) from Fintel plc, a prominent service provider to financial advisers (but with a non-core asset management arm). It has signed a five-year strategic distribution partnership with Fintel, which provides access for the distribution of Tatton funds and portfolios to 3,800 Fintel intermediary firms and 6,000 Defaqto users. And it has acquired the right to 2,500 Defaqto licenses (a financial product rating tool) which it can distribute to its own adviser-clients to enhance its offering.

The fund acquisition part of the deal looks to be an ideal strategic fit and struck at an attractive price from a Tatton perspective. It consists of a range of multi-asset and multi-index funds, which are certainly complementary to Tatton's existing fund range and are products that are popular with its core adviser base. Tatton will be paying up to £5.8m: £2.8m in cash on completion with the balance payable over four years, subject to performance conditions. The £5.8m translates to just 0.9% of AUM acquired, while Tatton itself is valued at 3.2% of AUM (market cap of ~£307m; AUM £9.5bn as of 15 Jun 21). The valuation ratio of this latest deal is also significantly below the 1.5% of AUM paid for the successful Sinfonia Asset Management acquisition in 2019 (£135m AUM).

The distribution deal looks to have huge potential, providing access to over 3,800 financial intermediary firms (Tatton had a total of 668 adviser-firm asset management clients in March 21). Although not an exact comparative, Tatton's strategic partnership with Tenet, made in June 2019, serves as a useful starting point to understand the scale of the Fintel opportunity. The Tenet deal provided access to 474 firms, and by Mar 21, resulted in 104 new clients and £541m AUM for Tatton.

The Fintel deal looks value enhancing and is also clearly set to boost growth and make it likely that our previous forecasts are exceeded (see table below). Indeed, Tatton has estimated that it will generate adjusted operating profit of ~£0.6m in FY22 and £1.5m in FY23 from the deal. Tatton's trading update for the half-year ending 30 Sep 21, usually delivered by mid-Oct, will be an appropriate time for us to update our forecasts and fair value.

Key Financials

y/e end March 31	FY 19A	FY 20A	FY 21A	FY 22E	FY 23E
AUM end-of-period, £bn	6.1	6.7	9.0	10.1	11.5
Revenue, £m	17.5	21.4	23.4	26.3	28.6
Operating profit (adj), £m	7.3	9.1	11.4	12.8	14.4
Operating margin (adj)	41.7%	42.5%	48.8%	48.8%	50.5%
EPS basic (adj), p	11.0	13.1	16.1	18.1	20.4
Div, p	8.4	9.6	11.0	12.5	14.1
Yield	1.6%	1.9%	2.1%	2.4%	2.8%
PER*	46.6	39.0	31.7	28.3	25.1
Net assets, £m	15.3	17.8	24.4	28.2	32.5
Net cash, £m	12.2	12.8	16.9	21.1	25.6

Source: Company Historic Data, ED estimates. PER and Yield based on share price of 512p

*PER based on adj basic earnings (particularly relevant in FY21 due to extraordinary share-based pmt charge)

Company Data

EPIC	TAM
Price (last close)	512p
52 weeks Hi/Lo	548p/248p
Market cap	£307m
Proforma net cash	£16.9m
Avg. daily volume	50k

Share Price, p



Source: ADVFN

Description

Tatton Asset Management was founded in 2007 and serves smaller, UK-based Independent Financial Advisers via two distinct business units: *investment management* (discretionary fund management or DFM) delivered via WRAP platforms (just under 80% of group revenue), and *adviser support services* - regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (just over 20% of group revenue).

AUM on 15 June '21 was £9.5bn

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