

Tatton Asset Management



AUM up 30% in FY24, record flows, forecasts raised

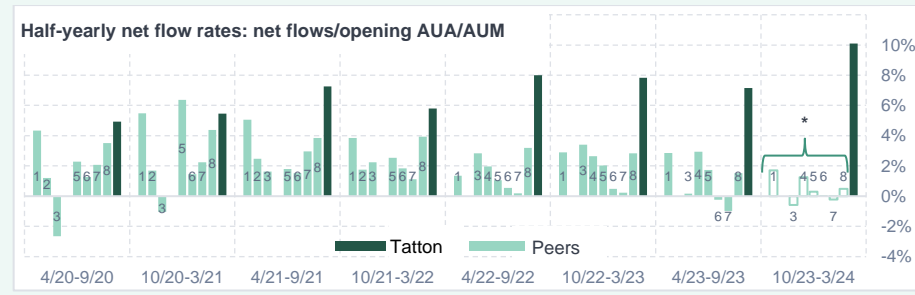
16th April 2024

AUM jumped £3.8bn or +30% in FY24, reaching £16.6bn on 31 Mar 24, 12% above our previous forecast of £14.7bn. Including 50%-owned 8AM Global, Assets Under Influence hit £17.6bn. Investment performance provided a tailwind, adding £1.5bn to AUM. But our key takeaway from Tatton's hugely impressive last few years, is that it has designed and implemented a superior offering in platform-MPS with net flows consistently far higher than peers. That leadership looks even more pronounced in H2-24 with net flows of £1.4bn v £0.9bn in H1.

Company Data

EPIC	TAM
Price (last close)	556p
52 weeks Hi/Lo	600p/440p
Market cap	£336m
ED Fair Value / share	620p
Proforma net cash	£24m
Avg. daily volume	84k

Net flows: Tatton v investment/wealth management peers & platforms



Source: Company reports, ED analysis.

Peer group bars (from L to R in each HY): 1) AJ Bell, 2) Brewin dolphin (data up to HY-end 3/22), 3) Brooks Macdonald, 4) Evelyn Partners (data from HY-end 9/22), 5) Hargreaves Lansdown, 6) Quilter, 7) Rathbones, 8) St James's Place. *Quarterly flow rates shown for peers (10/23-12/23), median for quarter 0.3%, quarter-end 3/24 data not yet available.

Indeed, in the [Defaqto DFM Satisfaction Study 2024](#), Tatton was the top ranked platform-MPS provider by some distance, with 20% of advisers ranking it as first choice provider (next highest 11%). In addition to its competitive positioning, we remind readers of structural market tailwinds on page 4.

Tatton has exceeded its 3Y growth target set in Mar 21 (when AUM was £9.0bn) of reaching £15bn AUM/AUI by Mar 24 (incl. acquisitions). It would have hit this target without acquisitions (see page 2).

Forecasts increase on the jump in AUM, although Tatton has flagged that flows were elevated in H2 and unlikely to continue at quite the same level. Our **fundamental value rises to 620p per share** (prev. 580p). We will re-visit forecasts in June with final results and when Tatton presents an updated strategic growth target. We also flag growing trading volumes/interest in TAM shares (see page 3).

Key Financials

Year-end 31 Mar	FY 21A	FY 22A	FY 23A	FY 24E	FY 24E	FY 25E	FY 25E
				prev.	new	prev.	new
AUM end-of-period*, £bn	9.0	11.3	12.7	14.7	16.6	17.1	18.7
Revenue, £m	23.4	29.4	32.3	35.9	36.6	39.8	42.0
Operating profit (adj.), £m	11.4	14.5	16.4	18.2	18.3	20.4	21.0
Operating margin (adj.), %	48.8%	49.5%	50.7%	50.7%	50.0%	51.3%	50.0%
PBT, £m	7.3	11.3	16.0	15.4	15.5	17.7	18.3
PAT, £m	6.1	9.2	13.4	11.7	11.8	13.4	13.9
EPS basic (adj.), p	16.1	19.9	21.7	22.4	22.6	25.2	26.0
EPS diluted (adj.), p	14.7	18.6	20.6	21.4	21.3	23.7	24.1
Div, p	11.0	12.5	14.5	16.0	16.0	17.6	18.2
Yield, %	2.0%	2.3%	2.6%	2.9%	2.9%	3.2%	3.3%
PER	51.2	34.9	24.8	28.7	24.8	25.0	24.2
Net cash, £m	16.9	21.7	26.5	26.5	24.8	32.9	31.5

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: 556p

*Excludes £1.1bn of 'Assets under Influence' (AUI) from 8AM Global acquisition in Aug 22 (i.e. in FY23).

Share Price, p



Source: ADVFN

AUM/AUI on 31 Mar 24: £17.6bn

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 delivered via WRAP platforms (c83% of revenue), and *adviser support services*: regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (c17% of group revenue).

Next event: FY24 results 18 Jun 24

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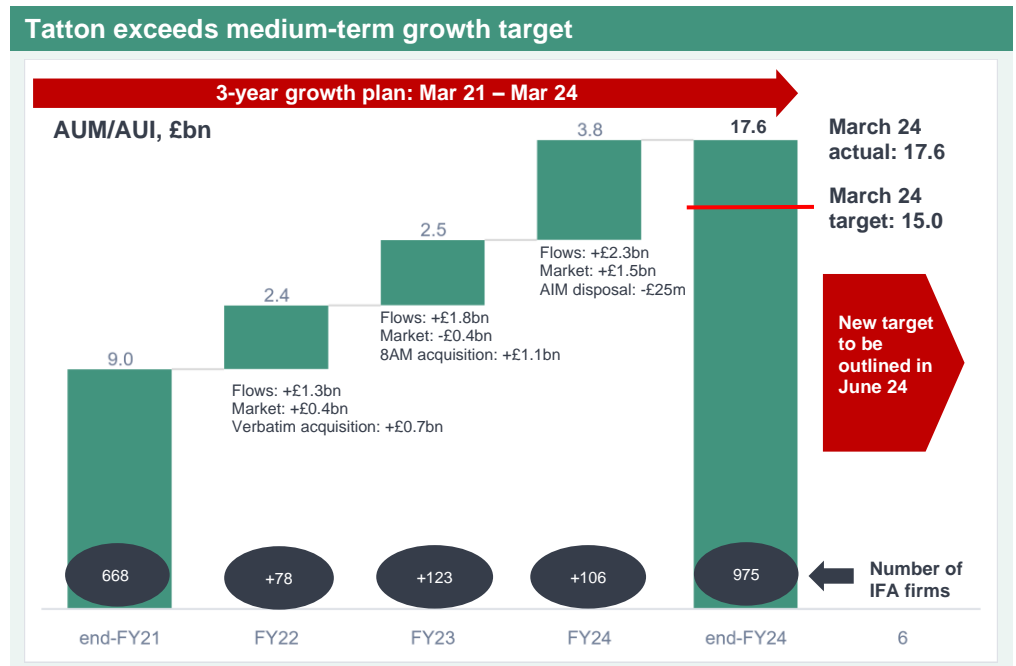
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TIML strategic target exceeded by some distance

We remind readers that in Mar 21, when AUM was £9.0bn, Tatton Investment Management or TIML (83% of group revenue in H1-24), outlined a plan to achieve £15bn of AUM/AUI in three years, including growth from acquisitions. It was targeting £1bn of net inflows per year and had a healthy M&A pipeline.

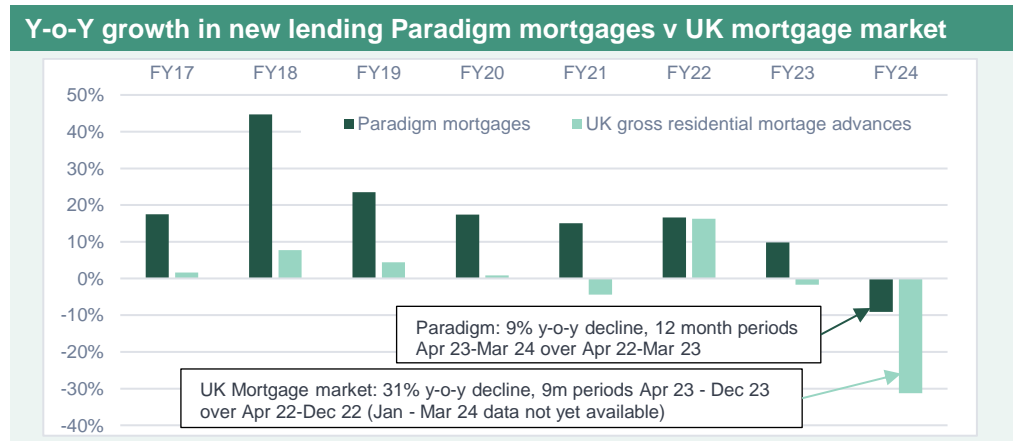
Those targets have been exceeded by some distance, primarily due to: 1) strong growth in new client firms; 2) increasing AUM per client firm; and 3) making selective high-quality acquisitions. Tatton will present new strategic growth targets with FY24 results in June.



Source: Company

Paradigm performance more muted

FY24 was a more muted period for Paradigm, the group's IFA support services business (17% of group revenue in H1 24). In a difficult mortgage market, completions declined by 9% from £14.5bn in FY23 to £13.2bn. However, mortgage firms continued to increase, 9% y-o-y from 1,751 to 1,916. Also, Paradigm has grown at a far faster rate than the UK residential mortgage market in recent years and has not experienced the business declines to the same extent as the overall market during the pandemic or in 2023.



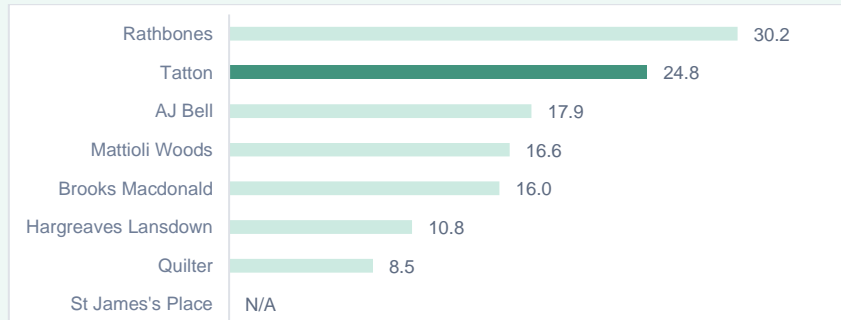
Source: Tatton, Bank of England. BoE data only available up to end-2023. Full year growth figures show Apr-Mar periods for both Paradigm and the UK market i.e., FY23 = period 1 Apr 22 to 31 Mar 23 etc.

Consulting member firms declined slightly over FY24 from 431 to 424.

Justifiable PER rating v peers, but not excessive

Given its far superior growth rate compared to peers, very high profit margins, and strong balance sheet (£24m net cash at the end of H1-24 and no debt), it is wholly unsurprising that Tatton commands a premium PER rating compared to most peers. However, that premium is hardly excessive, and in our view fully justified, as evidenced by our DCF valuation (620p per share) exceeding the share price (556p per share).

PE Ratios: UK-listed investment/wealth managers and platforms



Source: LSEG, ED analysis, prices at close on 15/04/24

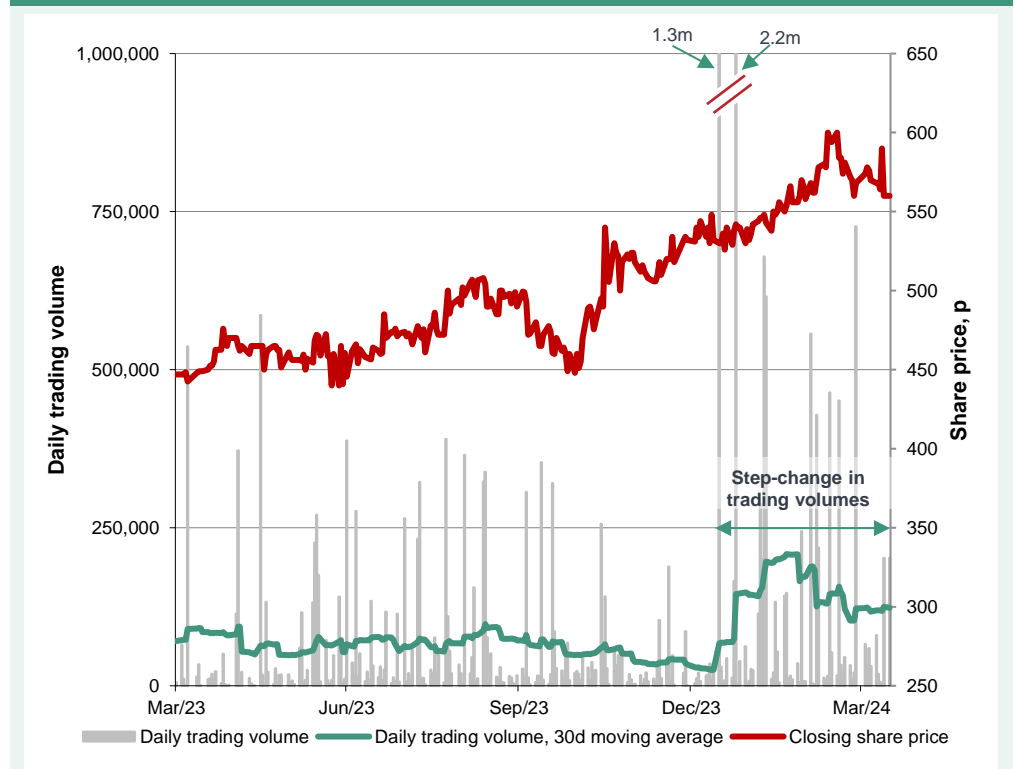
* Mattioli Woods PER calculated using 'adjusted PAT' which eliminates some of the distortions in earnings created by the statutory accounting treatment of recent large acquisitions. All other PERs calculated using statutory EPS.

In addition to its superior competitive performance compared to peers, we also remind readers overleaf of some of the structural market growth drivers in the segment where Tatton operates, which should contribute to its growth path continuing for some time to come.

Investor interest picking up

An observation we have also made is that trading volumes in TAM shares have jumped over the last three months or so, a sign of increasing investor interest in the shares.

TAM share price and trading volumes



Source: LSEG, ED analysis

Structural market growth drivers

Tatton's core offering is on-platform, discretionary fund management (DFM), managed portfolio services (MPS). This means financial advisers, via one of the technology platforms which are common in the market (such as Nucleus, Transact, etc), select an invest portfolio suitable for their client (an MPS portfolio), and outsource the investment management of the portfolio to a company such as Tatton i.e., giving them 'discretion' to run the portfolio.

It is a **rapidly growing market** which reached £104bn in 2023, up from £25bn in 2017, a CAGR of around 25%. The market also has potential to continue to expand, as it still only makes up 16% of the overall platform market (AUM: £647bn) which is itself growing (overall platform AUM £450bn in 2017 i.e., a 6Y CAGR of >6%)¹.

To illustrate the potential of this market, research house Platform has forecast that the MPS market will grow at a rate of 25% per annum and reach up to £200bn by the end of 2026. If this pans out, and if Tatton maintains its market share of around 13-14%, that would take it to an AUM level of close to £28bn.

The fundamental drivers of the growth in platform AUM generally, and DFM AUM specifically, include:

- **inflows continue from savers and investors** who keep contributing to and topping up their investment and retirement pots, with these flows often accelerating as an individual's earnings and wealth increases over time;
- **financial assets mostly appreciate over the longer term** (although valuation pullbacks are inevitable from time to time);
- an ageing UK population, plus the fact that the **demand for financial advice ratchets up as people approach or enter retirement, results in more 'adviser-led' investments which is Tatton's distribution channel**;
- previous regulatory shifts such as pension reforms have given individuals new freedoms to access and manage their pension assets but have also placed **increased responsibility on individuals to manage their assets (with less responsibility taken by the state and employers)**, which again leads to an increased demand for financial advice and 'adviser-led' investments; and
- IFAs continuing to move assets onto DFM platforms and to MPS providers (such as Tatton) so that **these advisers avoid the regulatory and risk burden of selecting investments and focus more on financial planning and advice** (a trend which is likely to accelerate with newer regulatory reforms such as *consumer duty* because of the availability of low cost and competitive investment solutions for clients). An additional point related to this is that a material portion of Tatton's flows are funds already invested on platforms, with Tatton taking over the investment management from IFA's which previously managed client funds i.e., Tatton's growth is not solely dependent on 'new' platform AUM.

¹ Tatton analyst presentation Mar 23, original source Platform



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