Tatton Asset Management

FY24 forecasts exceeded, very strong start to FY25

18th June 2024

It has been a huge few years for Tatton. The three-year growth target of moving from £9bn AUM on 31 Mar 21 to £15bn Assets Under Influence (AUI) by 31 Mar 24 was comfortably exceeded, with AUI closing 17% above target at £17.6bn – a 96% gain over three years.

Yet FY24 was without doubt the most impressive. AUM jumped +30% over the year purely from organic growth, with net flows of +£2.3bn (record net inflows for Tatton and a net flow rate far higher than all peers - page 4), and a tailwind from investment performance of +£1.5bn.

Growth drove impressive financial metrics, with revenue up 14% from £32.3m in FY23 to £36.8m and adjusted operating profit up 13% from £16.4m to £18.5m, while adjusted operating margin still topped 50% at 50.3% compared to 50.7% in FY23 (again, a leading industry metric – page 13).

The one disappointment was 50%-owned 8AM Global not growing as expected, resulting in an impairment charge of £1.3m, which pared back statutory profits (although c£900k of contingent consideration was released which is now unlikely to be paid). PBT grew 5% from £16.0m in FY23 to £16.8m. The increase in corporation tax rate hurt PAT growth, which fell from £13.4m to £12.9m.

Tatton's balance sheet remains exceptionally strong, with net assets increasing from £41.8m at the end of FY23 to £43.3m and **net cash remaining robust at £24.8m**, declining slightly from £26.5m at the end of FY23. This is after the Group paid out £10.8m in dividends during the year (FY23: £8.0m) and purchased £3.3m of its own shares (FY23: nil). **Tatton has no debt.**

A full-year dividend of 16.0p has been recommended, up 10% (FY23: 14.5p), a yield of 2.7%.

Forecasts upgraded, fundamental value rises to 640p

Tatton has exceeded our previous forecasts for FY24. It has set an ambitious new 5-year plan to reach £30bn AUI by end-FY29. It has had an **exceptionally strong start to FY25**, with net inflows of £0.9bn in Q1-25 up to 14 Jun (matching the total inflows of H1-24), bringing AUI to £18.6bn.

We therefore increase our FY25 forecasts as detailed below, as well as our fundamental valuation which rises from 620p to 640p per share.

Key Financials

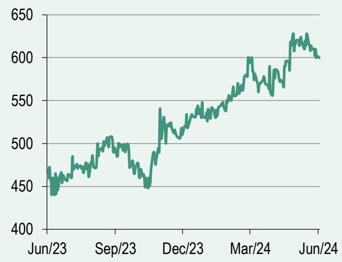
Year-end 31 Mar	FY 21A	FY 22A	FY 23A	FY 24E prev.	FY 24A	FY 25E prev.	FY 25E new
AUM end-of-period*, £bn	9.0	11.3	12.7	16.6	16.6	18.7	19.5
Revenue, £m	23.4	29.4	32.3	36.6	36.8	42.0	42.7
Operating profit (adj.), £m	11.4	14.5	16.4	18.3	18.5	21.0	21.6
Operating margin (adj.)	48.8%	49.5%	50.7%	50.0%	50.3%	50.0%	50.6%
PBT, £m	7.3	11.3	16.0	15.5	16.8	18.3	21.0
PAT, £m	6.1	9.2	13.4	11.8	12.9	13.9	15.9
EPS basic (adj.), p	16.1	19.9	21.7	22.6	23.7	26.0	26.9
EPS diluted (adj.), p	14.7	18.6	20.6	21.3	22.9	24.1	26.0
Div, p	11.0	12.5	14.5	16.0	16.0	18.2	18.8
Yield	1.8%	2.1%	2.4%	2.7%	2.7%	2.9%	3.1%
PER	55.3	37.7	26.7	31.0	26.7	27.0	23.4
Net cash, £m	16.9	21.7	26.5	24.8	24.8	31.5	31.6

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***600p***
**Excludes £1.1bn of 'Assets under Influence' (AUI) from 8AM Global acquisition in Aug 22 (i.e. in FY23).*
See pages 22-24 for more detailed FY25 and FY26 forecasts.

Company Data

EPIC	AIM: TAM
Price (last close)	600p
52 weeks Hi/Lo	628p/440p
Market cap	£363m
ED Fair Value / share	640p
Proforma net cash	£25m
Avg. daily volume	83k

Share Price, p



Source: ADVFN

Description

Tatton Asset Management was founded in 2007 and serves smaller, UK-based Independent Financial Advisers via two business units:

- *Tatton Investment Management*: discretionary fund management delivered via WRAP (investment) platforms (c84% of group revenue).
- *Paradigm* (adviser support services): regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (c16% of group revenue).

AUA/AUI **14 Jun 24: £18.6bn**

Next event: H1 trading update, Oct 24

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Tatton at a glance

Tatton Asset Management plc

- Tatton was founded in 2007, listed on AIM in 2017, and employs around 105 people.
- It serves smaller, UK Independent Financial Advisers via two business units: *Tatton Investment Management & Paradigm* (see right & below).
- It is still founder-led by CEO Paul Hogarth, who owns c.15% of the business.
- Other executive directors are CFO Paul Edwards, who has extensive quoted-company CFO experience, and group Chief Investment Officer Lothar Mentel, who is also CEO and co-founder of Tatton Investment Management Ltd.

Source: Company

Tatton Investment Management Limited (TIML)

- TIML's core offering is on-platform, discretionary fund management (DFM). This means financial advisers, via one of c.20 adviser investment platforms, select an investment portfolio for their client, and outsource the investment management to TIML. These advisers avoid the regulatory and risk burden of selecting investments to focus more on financial planning and advice
- Outsourcing of investment management is a growing trend, with the UK on-platform DFM market growing at c.28% per annum*. TIML has a c.13% market share, managing c.£18.6bn of AUM/I (June 24), serving 975 member firms.
- TIML makes up c.84% of group revenue

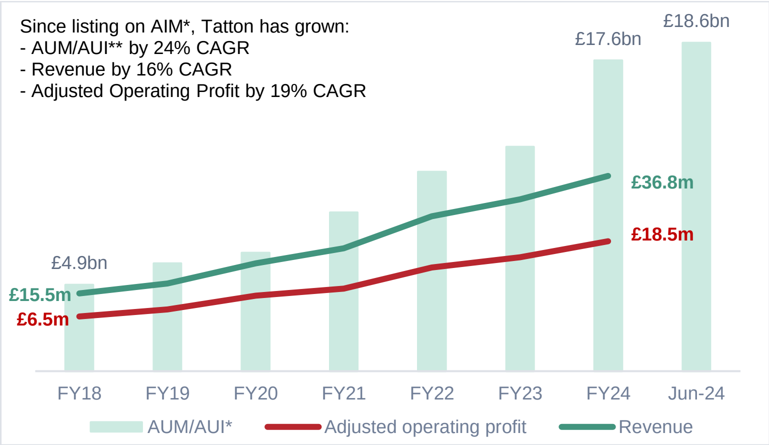
**Source Company (original source Platforum), market size £139bn (2023), £25bn (2017).*

Paradigm Mortgage Services and Paradigm Consulting

- Paradigm is a mortgage broker, providing 1,916 directly authorised client firms access to a whole-of-market lending panel, as well as providing them with related support services, such as specialist lending distributors, conveyancing partners, and life and general insurance via Paradigm Protect. It wrote £13.1bn of new business lending in the 12m to 31 Mar 24.
- Paradigm Consulting provides business, regulatory, compliance, pension, tax and trust consultancy services, as well as FCA application support to 424 Independent Financial Advisers.
- Paradigm (mortgages and consulting) makes up c.16% of group revenue

Source: Company

A highly successful combination



*Source: Company reports. *FY18 is the first full FY post AIM-listing.*
***AUI = Assets under Influence including AUM of 50% owned 8AM Global*

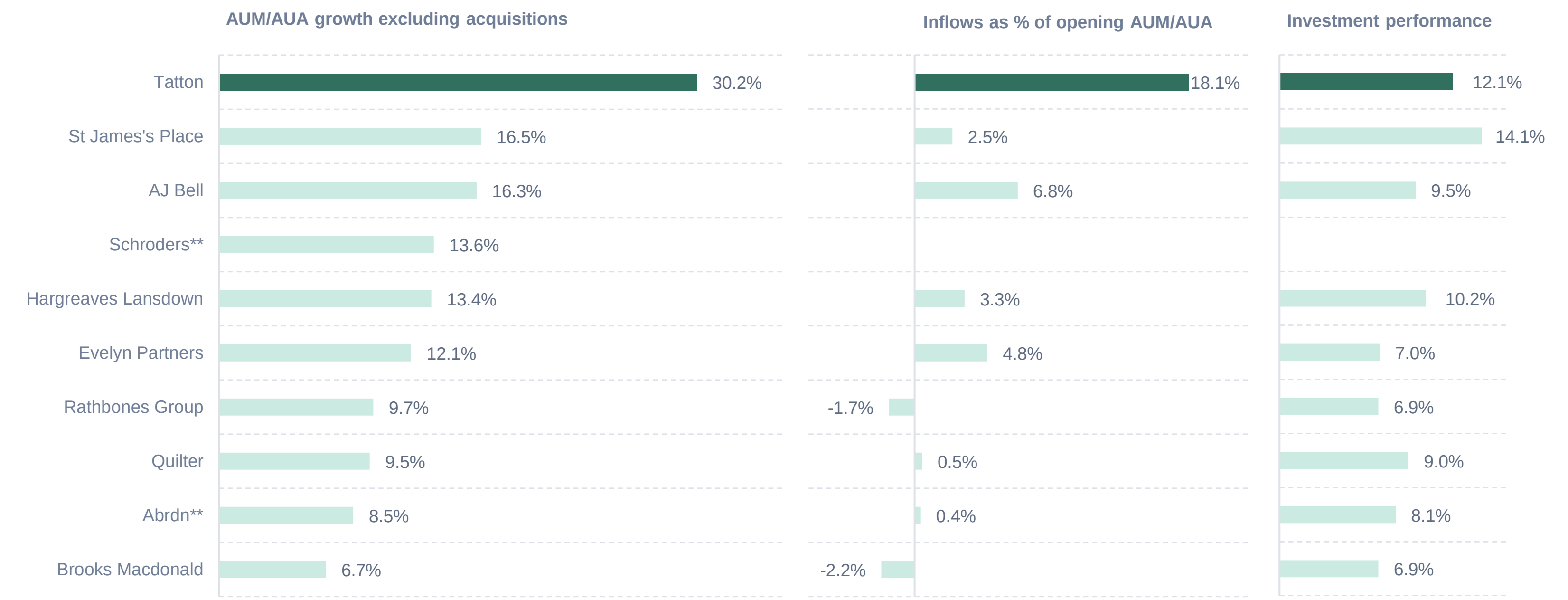
Assets under management

AUM jumped £3.8bn or +30% in FY24, reaching £16.6bn on 31 Mar 24. Including the assets of 50%-owned 8AM Global, Assets Under Influence hit £17.6bn. **In the post-year-end period, AUM and AUI have grown to £17.5bn and £18.6bn respectively.**

Best-in-class net flows and AUM growth in FY24

While markets and Tatton's own investment performance provided a tailwind, adding £1.5bn to AUM over FY24, the bulk of growth (+£2.3bn) came from **exceptionally strong net flows, far higher than all peers*. Strong flows continued post-yearend, totalling c.£0.9bn in Q1-25 up to 14 Jun (matching the total inflows of H1-24).** Tatton has however flagged that this strong start to FY25 year benefitted from several large mandate wins and expects flows to revert to more normal levels for the remainder of the FY.

AUM/AUA growth and components of growth: 12-months 1 Apr 23 – 31 Mar 24



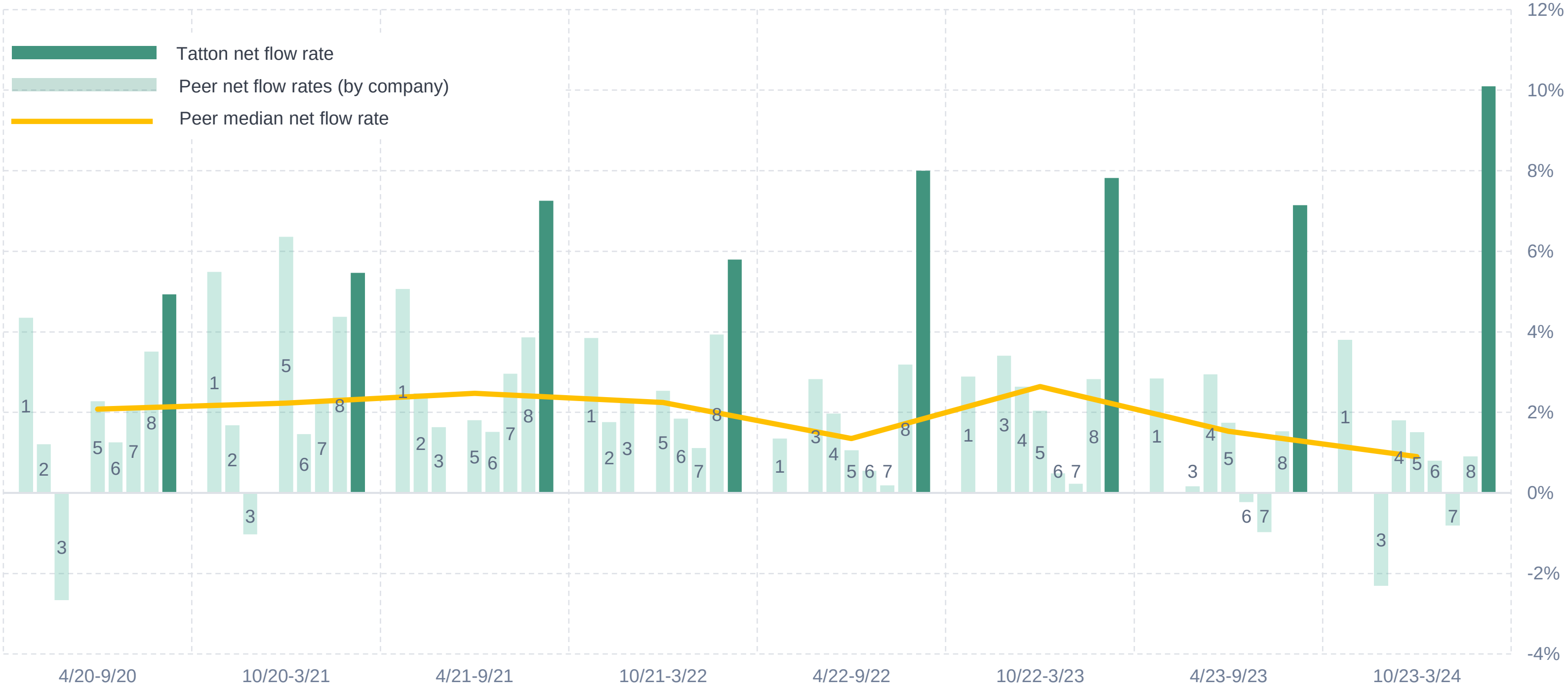
Source: company reports, ED analysis
**Peer group includes companies which typically house portfolios for individual investors. It does not include 'pure play' asset managers which typically run individual funds making up only a part of an investor's portfolio – these have different net flow and investment characteristics. Evelyn Partners is not publicly listed but is a large player and publishes this data, therefore included as a useful peer comparator.*
***Wealth management business units only (Schroders: 'wealth management', Abrdn: 'adviser + interactive investor'). Flow and investment performance data not available for this period for Schroders.*
Net flow and investment performance calculated as contribution to AUM for 1 Apr 23 – 31 Mar 24 period divided by opening AUM on 1 Apr 23 (except for Rathbones which is calculated as the sum of this calculation by quarter – to avoid distortion of percentage figures because of the large Investec Wealth and Investment acquisition during the period).

Net flows far higher than peers for a few years now

Tatton's consistent outperformance in attracting and retaining assets leads us to conclude that it has **designed and implemented a superior offering in platform-MPS**. That leadership looks even more pronounced in the most recent half-year (H2-24), despite many peers reducing the prices of their MPS products.

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 strong competitive positioning, we remind readers of the structural market tailwinds on page 17.

Half-yearly net flow rates (last 4 years): net flows / opening AUA/AUM



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.
Peer group includes companies which typically house portfolios for individual investors. It does not include 'pure play' asset managers which typically run individual funds making up only a part of an investor's portfolio – these have different net flow and investment characteristics. Evelyn Partners is not publicly listed but is a large player and publishes this data, therefore included as a useful peer comparator.

Appropriate investment products and performance key pins to AUM growth

Key to Tatton's superior client offering is its targeted range of investment products and delivering on its investment performance goals. Its MPS product range remains core, making up around 92% of AUM. MPS is increasingly recognised as an appropriate investment product for many investors, even more so post implementation of consumer-duty regulation. The MPS suite is complemented by a range of multi-manager funds (8% of AUM), and more recently by a range of money-market portfolios (launched in Aug 23).

Its investment performance track record is highly impressive, with advisers' confidence in Tatton clearly well justified. In its core MPS suite, **all strategies bar one have outperformed benchmarks over one, five and ten years** (with the active defensive strategy 'only' matching benchmark over five years). Dark green shading below depicts outperformance versus peers.

10-year core MPS suite portfolio returns, % (annualised)*

	Active	Tracker	Hybrid	ARC Peers**
Defensive	3.2	3.5	3.5	2.4
Cautious	4.9	4.9	5.0	3.8
Balanced	6.1	6.1	6.2	5.0
Active	7.3	7.2	7.3	5.0
Aggressive	8.1	8.1	8.2	5.9
Global Equity	9.9	9.8	9.9	5.9

**10 years to 31 Mar 24*

5-year core MPS suite portfolio returns, % (annualised)*

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	2.1	2.3	2.2	3.3	2.1
Cautious	4.1	4.2	4.2	5.2	3.4
Balanced	5.6	5.7	5.6	6.5	4.5
Active	7.1	7.0	7.1	7.9	4.5
Aggressive	8.3	8.2	8.3	9.3	5.5
Global Equity	11.2	10.9	11.0	9.9	5.5

**5 years to 31 Mar 24*

1-year core MPS suite portfolio returns, % (annualised)*

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	5.3	6.5	5.9	9.6	4.7
Cautious	8.2	9.1	8.6	11.4	7.3
Balanced	10.6	11.2	10.9	12.8	9.3
Active	12.4	13.0	12.7	14.2	9.3
Aggressive	14.5	14.4	14.4	15.2	11.1
Global Equity	20.6	19.6	20.1	16.6	11.1

**1 year to 31 Mar 24*

5-year Ethical MPS strategy portfolio returns, % (annualised)*

	Ethical	ARC Peers**
Defensive	3.3	2.1
Cautious	5.2	3.4
Balanced	6.5	4.5
Active	7.9	4.5
Aggressive	9.3	5.5
Global Equity	9.9	5.5

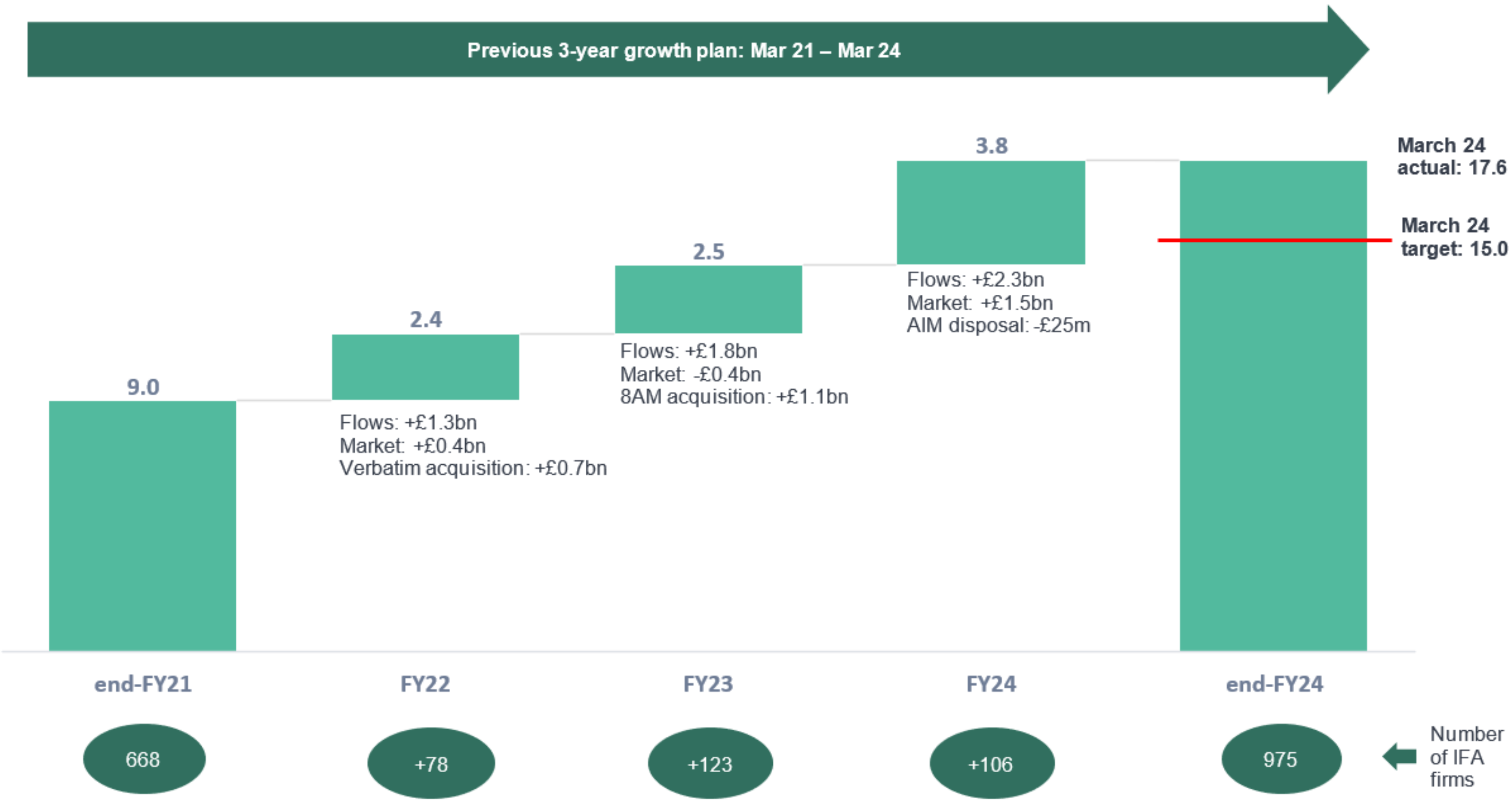
**5 years to 31 Mar 24*

Source: Tatton Analysts Presentation 18 June 2024
*** ARC PCI –UK wealth management portfolio peer group with historically comparable asset allocation characteristics*

Previous medium-term growth target exceeded by some distance

Zooming out to the medium-term, we remind readers that in Mar 21, when AUM was £9.0bn, Tatton 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. Over the plan period, Tatton increased the number of client firms, its average AUM per client firm, and made two acquisitions. It would have hit its growth target without acquisitions.

AUM/AUI development over period of previous medium-term growth plan, £bn



Source: company reports

Ambitious new growth target aims for £30bn AUM/AUI by Mar 29

Tatton has now presented its next medium-term target which is to grow from £17.6bn AUI at the end of FY24 to £30bn AUI by FY29 (31 Mar 29). This is a target of 11% compounded annual growth, or 70% total growth over the five-year period. It has also specifically targeted a minimum of £2bn of net inflows per annum.

We have summarised below the actions Tatton has outlined as essential to achieving this.

Strategic actions

- Build on already extensive relationships within the IFA community.
- Maintain:
  - long term investment track record,
  - cutting-edge customer service,
  - effective investment communications,
  - relentless focus on single route to market (IFA channel).
- Provide leading support for products and services offered to IFAs, helping them better advise and support their own clients.
- Identify and execute targeted acquisitions that align with business model, grow AUM, and enhance proposition.
- Forge new partnerships to aid distribution, broaden reach, and access new markets (strategic partnerships built over last few years including Tenet and Fintel provide model and learnings for this).

It has certainly been an encouraging start to this next leg of the growth journey, with £0.9bn of net inflows in the first 11 weeks of FY25 and AUI growing 6% before the end of Q1-25 to £18.6bn from £17.6bn on 31 Mar 24. We reiterate though that this growth rate is unlikely to be maintained as it is boosted by a number of large mandates.

Paradigm (mortgages and consulting): muted FY24 performance in difficult markets

FY24 was a more muted period for Paradigm, the group's IFA support services business (16% of group revenue in FY24). Consulting member firms declined slightly over FY24 from 431 to 424, attributed mostly to consolidation activity. Meanwhile, 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 FY24.**

Y-o-Y growth in new lending. Paradigm mortgages v UK mortgage market

Source: Tatton, Bank of England. Full year growth figures show Apr-Mar periods for both Paradigm and the UK market i.e., FY24 = period 1 Apr 23 to 31 Mar 24 etc.

Also, during the year, **the Group acquired a controlling interest in Fintegrate, a digital financial planning software company. This broadens the support services that can be offered to IFA firms**. The Group paid £0.5m for 56.49% of the share capital of Fintegrate.

Analysis of FY24 financials

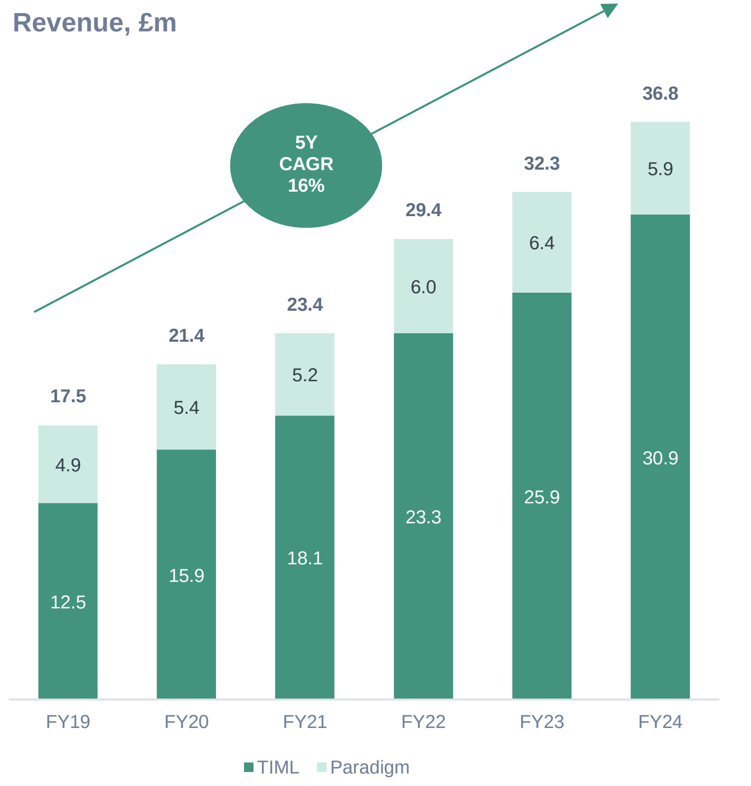
Income statement

Revenue

A standout year of revenue growth…

- **Group revenue increased 14% from £32.3m in FY23 to £36.8m in FY24.**
- TIML was the standout contributor, growing revenue by 19% to £30.9m (FY23: £25.9m) and making up 84% of group revenue.
- Five years ago, in FY19, TIML made up 72% of group revenue and the trend of this higher-margin part of the group growing as a proportion of revenue is expected to continue.
- TIML average revenue margin declined marginally from 22.1bps to 21.9bps.
- Paradigm (IFA support services – mortgage broking and IFA consulting) had a more difficult year, primarily due to the previously described headwinds in the mortgage market with revenue declining 7% to £5.9m from £6.4m.

…continues the longer-term growth trend



Source: Company reports
Note: sum of TIML + Paradigm does not match group total in all years due to rounding and some years having a small revenue allocation to 'central' (not shown on chart)

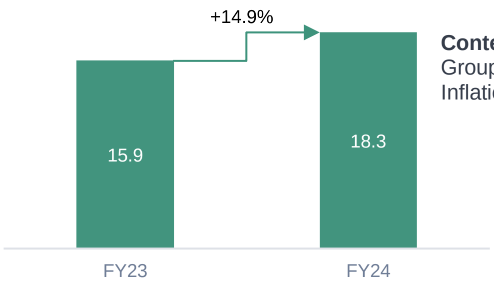
Adjusted operating expenses

Expenses well under control in an inflationary environment

- Adjusted operating expenses is probably the best metric of comparing underlying like-for-like costs. It excludes volatile, non-recurring, and non-cash items: exceptional items, share-based payment charges, changes in the fair value of contingent consideration, and amortisation of acquisition-related intangibles.
- At a group level, these increased 15% from £15.9m to £18.3m, which in the context of revenue growth of 14% and average inflation during the year of 5.7%*, we would consider to be a demonstration of solid cost control.
- The largest component of adjusted operating expenses are staff costs (73%) which increased by 16% from £10.8m in FY23 to £12.4m in FY24 on:
  - Increased headcount (average month number of employees 104 vs 97 in FY23)
  - Salary increases, averaging 5% (excl. executive directors' salaries which remained unchanged)
  - Variable pay which increased with the strong financial performance and especially strong net inflows (a key staff performance measure)

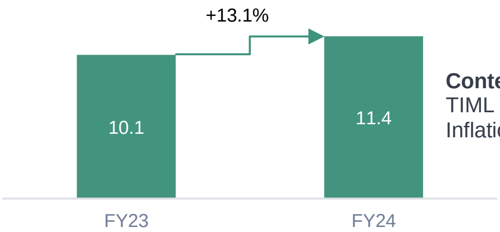
y-o-y adjusted operating expense comparisons

Group adjusted operating expenses, £m



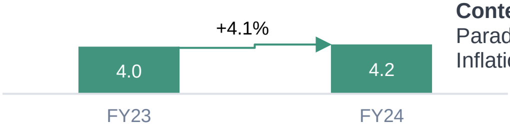
Context:
Group revenue growth: +14%
Inflation*: +5.7%

TIML adjusted operating expenses, £m



Context:
TIML revenue growth: +19%
Inflation*: +5.7%

Paradigm adjusted operating expenses, £m



Context:
Paradigm revenue growth: -7%
Inflation*: +5.7%

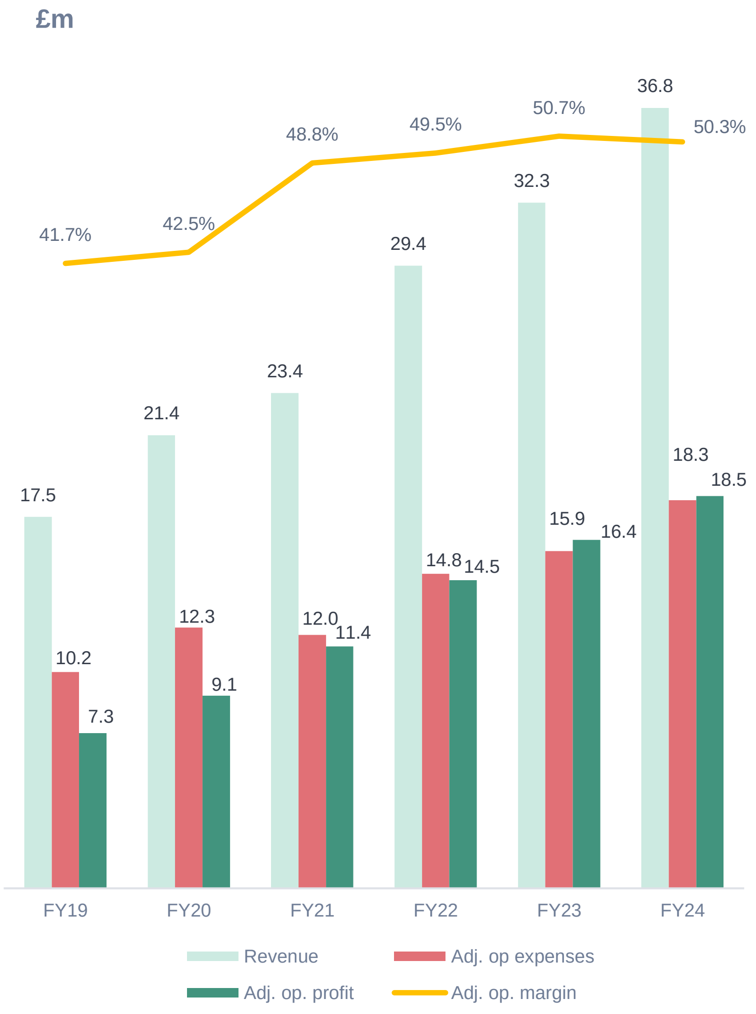
Source: Company, ONS
Note: Sum of TIML + Paradigm does not equal group costs as a cost allocation is made to 'Central' or unallocated adjusted costs: £1.8m in FY23, rising to £2.7m in FY24
**Inflation figure is UK monthly average CPI over period Apr 23 – Mar 24*

Adjusted operating profit and margin

Revenue growth, cost control maintains strong margin

- Revenue less adjusted operating expenses provides an alternative performance measure of *adjusted operating profit*, which is useful for comparing underlying profitability between periods where statutory profits can be distorted by exceptional, volatile and non-cash expenses.
- In FY24, adj. op. profit increased 13% y-o-y to £18.5m (FY23: £16.4m).
  - TIML adj. op. profit increased 23% to £19.4m (FY23: £15.8m)
  - Paradigm adj. op. profit decreased 26% to £1.8m (FY23: £2.4m)
- The associated *adjusted operating margin* of the group was maintained at an impressive level of 50.3% (FY23: 50.7%), highly creditable in our view given the previously described inflationary pressures.
  - TIML adj. op. margin increased to 63.0% (FY23: 61.1%)
  - Paradigm adj. op. margin decreased to 29.9% (FY23: 37.6%)
- A longer-term view of adjusted operating margin (see chart on right) shows how Tatton has captured operating leverage as the business has scaled, making it one of the highest-margin asset managers compared to peers (see overleaf).

Longer term trend shows powerful operating leverage



Source: Company historic data

Best-in-class operating margins

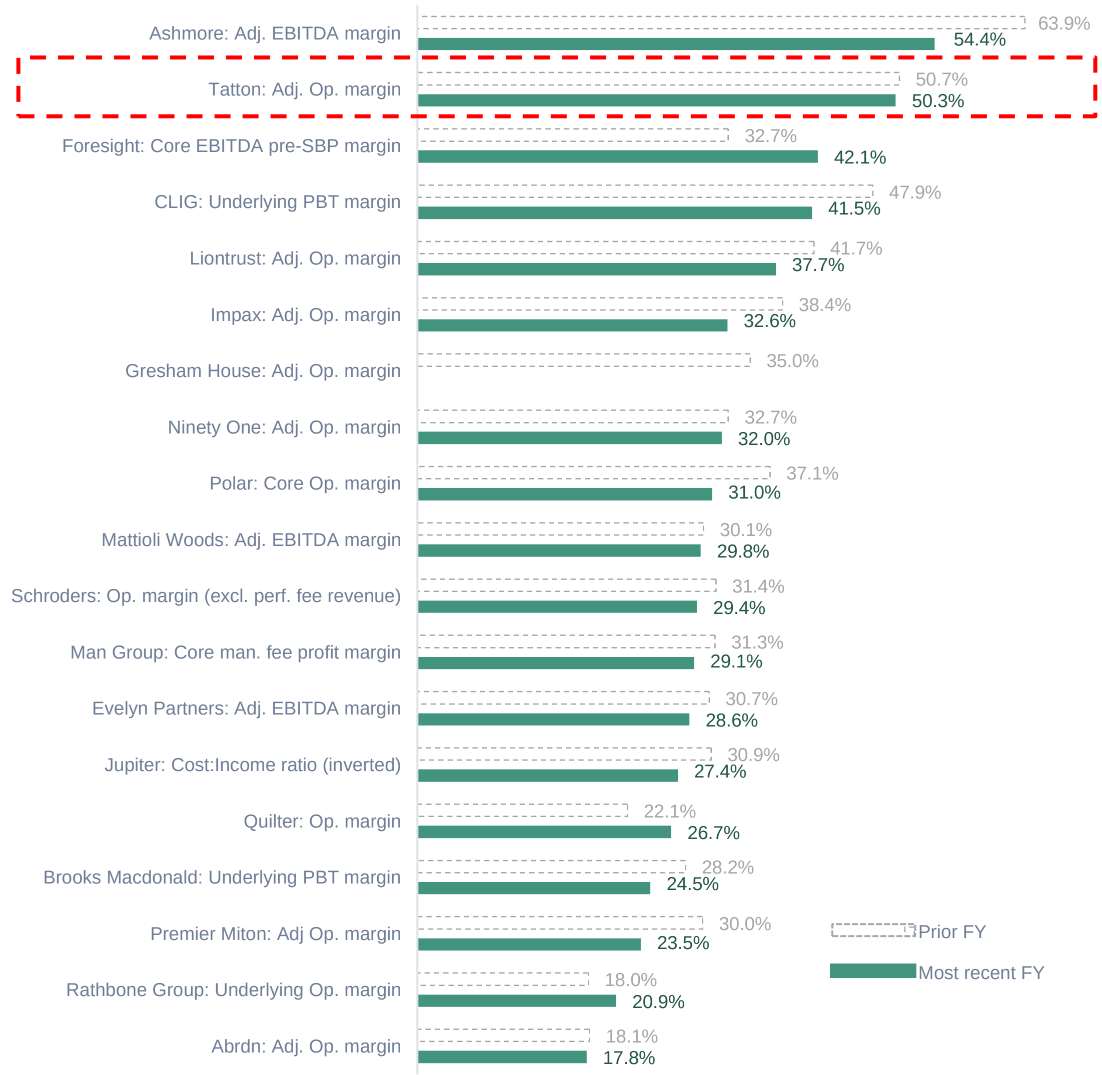
Tatton's operating margin is also hugely impressive compared to peers, where it has **consistently achieved one of the highest margins across the asset and wealth management sectors, demonstrating that:**

- It has designed and implemented a highly efficient and scalable business model; and
- It is highly effective at controlling costs.

In addition, we highlight that most peers have experienced a substantial drop in margin over the last year (mostly due to a combination of weak revenue growth or revenue falls and inflationary cost pressures).

Note on chart: While exact comparators of Tatton's adjusted operating margin are not available for all peers, most asset and wealth managers produce a similar measure (using different names), mostly measuring pre-tax operating profit excluding the effects of exceptional and volatile items such as acquisitions, performance fees and seed investments. (Comparing statutory operating margins is less useful as those figures are regularly skewed by exceptional and one-off items, and acquisition accounting rules).

Peer group margins (closest to Tatton's adj. op. margin)



Source: Company reports, ED analysis (figures relate to latest available full financial year and prior full financial year))

Statutory profits

Impairment and tax rate increase pare back statutory profits

- To get to statutory operating profit from adjusted operating profit, the following items are deducted:
  - share-based payment charges (£1.5m), in line with FY23
  - exceptional costs (£1.25m), which is a non-cash impairment of the investment in 8AM Global, which has not grown as quickly as expected, with the balance sheet holding value reducing from £6.8m to £5.4m (also reduced by amortisation of acquired intangibles, see below)
  - amortisation of acquired intangibles (£0.6m), slightly higher than FY23, related to the amortisation (over 10 years) of capitalised client relationships and brands related to acquisitions
  - changes to the fair value of contingent considerations due on acquisitions (8AM Global and Verbatim funds), which in FY24 was a gain of £1.35m (a review determined it was extremely unlikely future payments would be made for 8AM and a liability of £889k was released, and potential future payments for Verbatim were reduced by £461k)
- In turn, statutory operating profit was roughly the same at £16.5m (FY23: £16.6m).
- Statutory PBT after the impact of net finance income (£287k) was up 5% to £16.8m (FY23: 16.0m), while PAT weakened from £13.4m to £12.9m on an increased tax charge (£3.8m in FY24, £2.6m in FY23) following the increase in the UK corporation tax rate from 19% to 25%.
- At a per share level, basic earnings per share decreased from 22.4p to 21.4p and diluted EPS from 21.7p to 21.0p.

Adjusted profit to statutory profit bridge

£m	FY24	FY23
Adjusted operating profit	**18.5**	**16.4**
SB payment charges	(1.5)	(1.5)
Exceptional charges	(1.3)	(0.4)
Gain on changes in FV of contingent consideration	+1.4	+2.7
Amortisation of acquisition-related intangibles	(0.6)	(0.5)
Operating profit	**16.5**	**16.6**
Net finance income/(cost)	0.3	(0.6)
PBT	**16.8**	**16.0**
Tax	(3.8)	(2.6)
PAT	**12.9**	**13.4**
EPS basic	21.4p	22.4p
EPS diluted	21.0p	21.7p
Adjusted EPS basic	23.7p	21.7p
Adjusted EPS diluted	22.9p	20.6p

Source: Company

Balance Sheet and Cash Flow

Balance sheet robust

- The balance sheet of the group remained robust with net assets increasing from £41.8m at the end of FY23 to £43.3m.
- Net cash generated from operating activities before exceptional items was £16.9m (FY23: £16.2m), 91% of adjusted operating profit (FY23: 99%).
- **Net cash remained robust at £24.8m**, declining slightly from £26.5m at the end of FY23, noting that the Group paid out £10.8m in dividends during the year (FY23: £8.0m) and purchased £3.3m of its own shares (FY23: nil).
- **Tatton has no debt.**

Source: Company

High cash level maintained, £m

Source: Company

Regulatory capital position

- Tatton (at Group level and subsidiary Tatton Investment Management Limited) is subject to the UK's *Investment Firm Prudential Regime* (IFPR), which demands minimum capital requirements.
- To provide additional clarity on its capital and cash resources – particularly the levels of capital available to pursue growth opportunities such as acquisitions – Tatton produces analysis, which shows £17.1m of capital resources held with up to £12.8m (£17.1m less regulatory capital requirement of £4.3m) being available to pursue growth opportunities (FY23: £10.4m).

Source: Company

Summary capital adequacy calculation, £m (Mar 24)

Regulatory capital requirement	**£4.3m**
Total Shareholder funds	£43.3m
Less: foreseeable dividend	(£4.8m)
Less: non-qualifying assets	(£21.4m)
Total qualifying capital resources	**£17.1m**
% Capital resource requirement held	400%

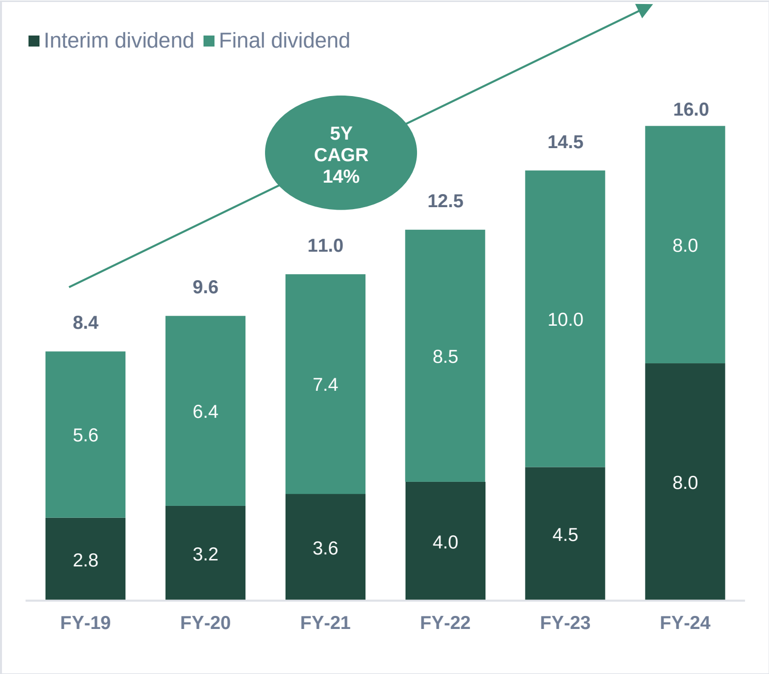
Source: Company

Dividends

Dividend up 10% on strong results and cash position

- Tatton's dividend policy is to pay a dividend of approximately 70% of adjusted earnings, with a 50/50 split between interim and final dividend (changed from 1/3 interim, 2/3 final in FY24).
- The board has recommended a final dividend of 8.0p, bringing the full year dividend to 16.0p (FY23: 14.5p), 10.3% up y-o-y.
- This produces a yield of 2.7% on the 14 Jun 24 closing share price of 600p.

Historic and proposed dividends, pence per share



Source: Company historic data

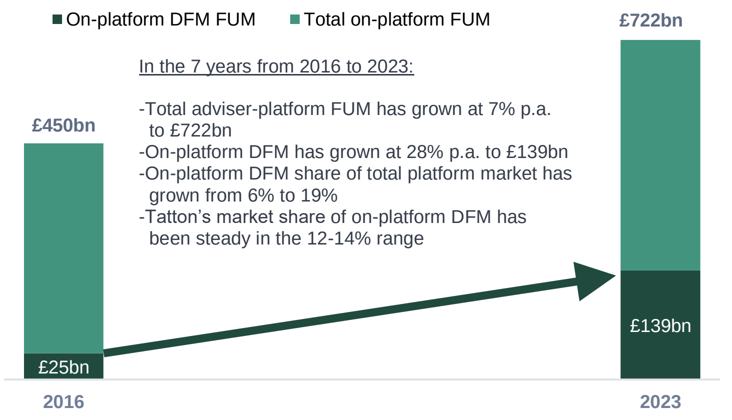
Growth Outlook - Tatton Investment Management

Tatton is in a large and growing market…

- Tatton's core offering is on-platform, discretionary fund management (DFM). This means financial advisers, via a technology platform (Nucleus, Transact, etc), select a portfolio for their client, and outsource the investment management to a company such as Tatton i.e., giving them 'discretion'.
- It is a rapidly growing market, reaching £139bn in Dec 23, with potential to expand further, as it still only makes up 19% of the overall platform market.
- Research house Platforum has forecast that the MPS market could reach £200bn by 2027. If this pans out, and **if Tatton maintains its market share of around 13-14%, that will take it to an AUM level of close to £27bn, well on track to meet its strategic growth target of £30bn by Mar 29**.

Source: Tatton analyst presentation Mar 24, original source Platforum

Platform and Platform-DFM Funds Under Management



Source: Tatton analyst presentation Mar 24, original source Platforum

…with substantial longer-term tailwinds

- **Inflows continue from savers and investors** who keep contributing to and topping up their investment and retirement pots.
- **Financial assets mostly appreciate over the longer term** (although valuation pullbacks are inevitable from time to time).
- An ageing UK population and the demand for financial advice ratcheting up as people age results in **more 'adviser-led' investments (Tatton's distribution channel)**.
- Regulatory shifts have provided more freedom to access pensions and increased the responsibility on individuals to manage their own assets, also leading to increased demand for advice and 'adviser-led' investments.

Source: ED commentary

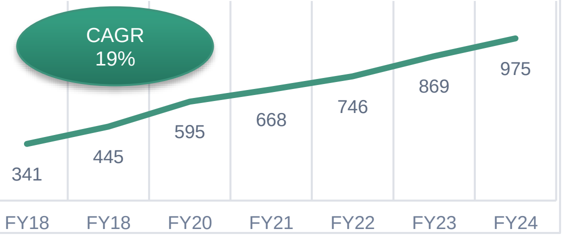
- IFAs continue to move assets onto DFM platforms and to MPS providers (such as Tatton) so that **these advisers avoid the regulatory and risk burden of selecting investments and focus more on financial planning and advice** (a trend which is likely to accelerate with newer regulatory reforms such as *consumer duty* because of the availability of low cost and competitive investment solutions for clients).
- An additional point related to the above 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.

Source: ED commentary

It can grow by adding new IFA clients…

- TIML continues to increase the number of IFA clients that contract with it to manage their clients' investments.
- **And there is still ample room to grow this further as the UK has over 5,500 directly authorised IFA firms.**

Number of TIML IFA client firms

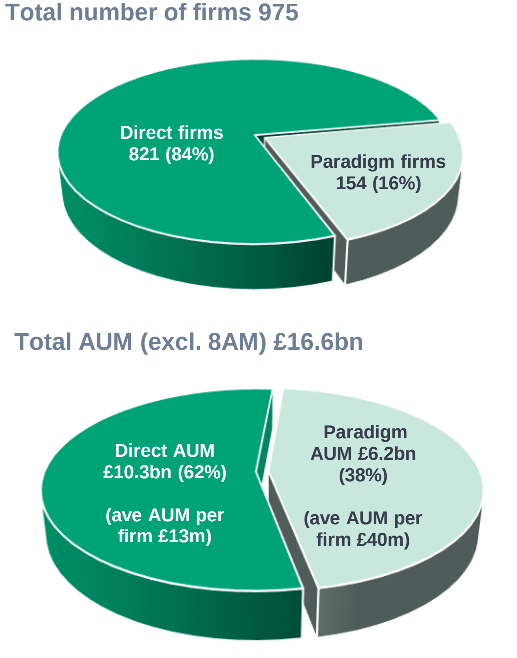


Source: Company

…with a huge opportunity to add AUM from existing clients

- This opportunity is to increase average-AUM-per-client-firm. [An IFA will typically not move all their AUM to a new investment manager at once but increase it over time as the relationship builds].
- **'Paradigm firms'** (clients of both Paradigm and TIML) offer a benchmark of average-AUM-per-firm potential. These firms tend to have been Tatton clients for a longer time than Direct firms and have built up their AUM placed with TIML over time to a current average of £40m per firm.
- **'Direct firms'** (clients of TIML but not of Paradigm) have a lower average AUM per firm of £13m. While this cohort has been growing rapidly over the last few years, they tend to be 'younger' relationships and have not had the same period as Paradigm firms to build up their AUM with TIML.
- But, given time, there is no reason for average-AUM-per-Direct firm to get closer to or match that of Paradigm firms, i.e. there is £27m of AUM-per-firm growth 'headroom'. (Indeed, Tatton has already manged to increase the average AUM for direct firms from £6m in Mar 19 to £13m today).
- And because there are so many Direct firms (821), with so much average-AUM headroom, **this opportunity is huge i.e. if Tatton succeeds in growing its average-AUM-per-Direct-firm from £13m to £40m, it can add £22bn of AUM without winning new clients** (821 firms x £27m, the difference between current average AUM per firm for direct firms and Paradigm firms).

Paradigm firms v Direct firms



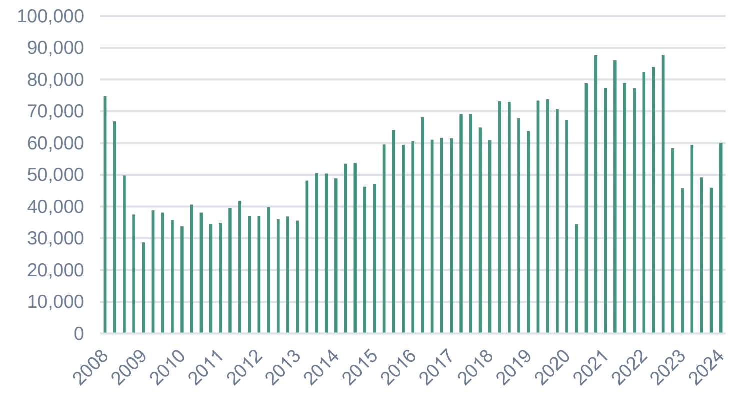
Source: Company

Growth Outlook – Paradigm

Short-term headwinds but fundamental growth opportunity

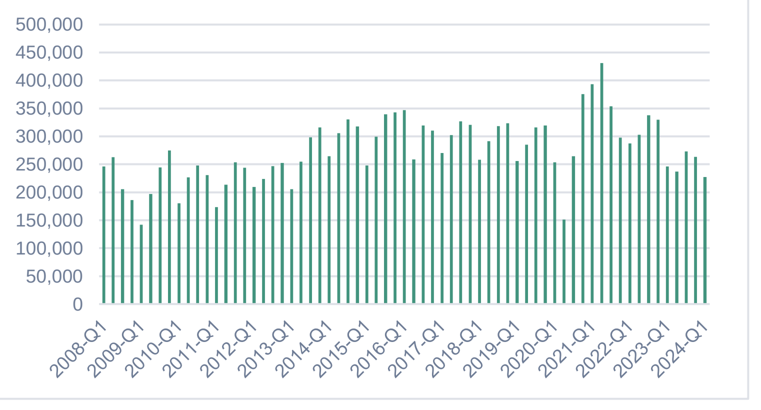
- Paradigm consulting has potential to grow steadily. It also ensures that the group maintains close relationships with IFAs and gains valuable market insights, so it is strategically very important.
- **Mortgages are a growth business, underpinned by the supply-demand imbalance of the UK residential housing market, where it remains a national imperative to significantly increase housing supply.**
- While there are short-term headwinds in the housing market, with interest rates still elevated and ongoing cost-of-living pressures, new mortgage commitments jumped in the most recent quarter, transaction numbers are only just below the longer-term average, and house prices have held steady.

New mortgage commitments* (£m)



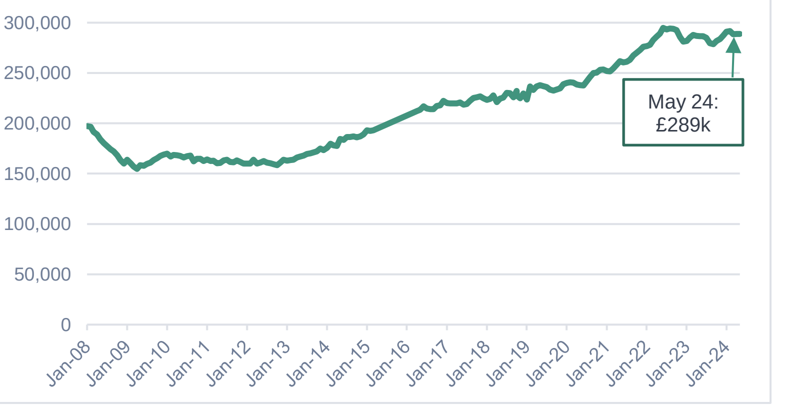
Source: Bank of Bank of England, Mortgage Lenders and Administrators Statistics - 2023 Q2
**lending agreed to be advanced in the coming months*

Residential property transactions



Source: HM Land Registry. Transaction >£40k. Data for Q1-24 provisional.

Average residential property price



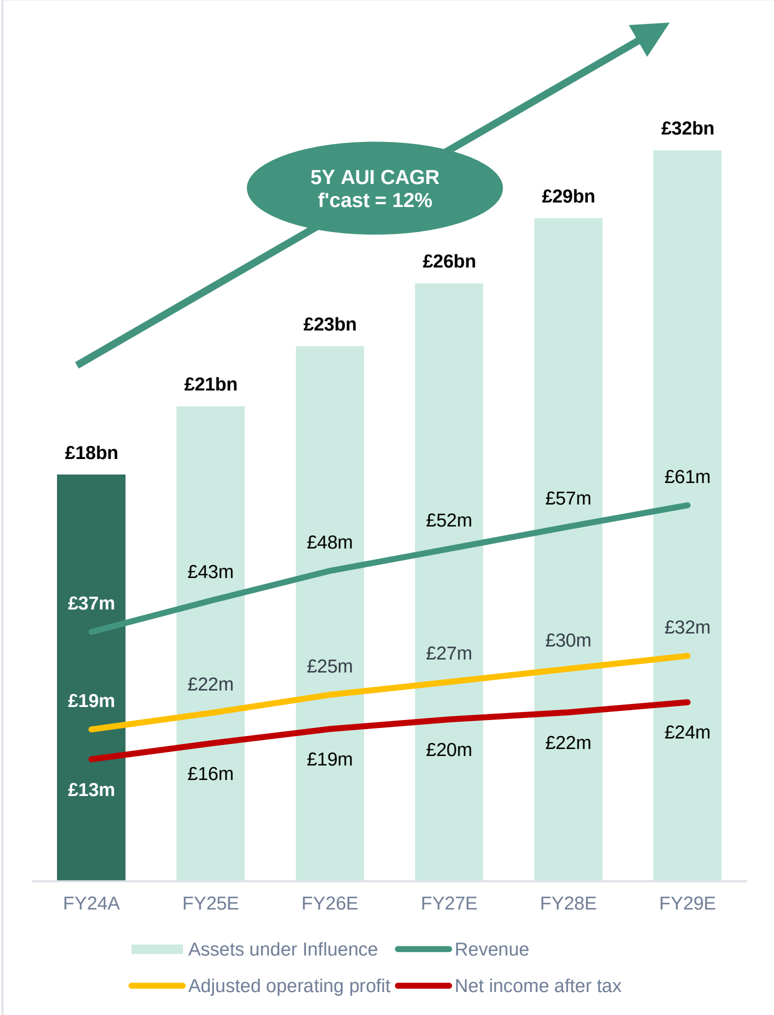
Source: Halifax house price index

Fundamental Valuation of 640p

Underlying assumptions of fundamental valuation

- Our fundamental valuation uses a discounted cash flow methodology which is underpinned by a 5-year explicit growth forecast. This assumes:
  - Tatton achieves its new growth targets (see page 8).
  - **AUI grows at c.12% CAGR**, driven by:
    - Annual net inflows of 7-8% of AUM, although expected to be higher than this in FY25 given the strong start to the year (noting that the last 3-years' net inflow rates have been: FY22: 14%, FY23: 16%, FY24: 18%).
    - Investment returns of 4% per annum (noting that Tatton typically manages investment portfolios for end-clients which will include a mix of asset classes, hence the investment return assumption we use is slightly less than we would use for pure equities).
  - **Revenue grows at a CAGR of 11%**, lower than AUI growth because we assume some price erosion over time due to competitive pressures.
  - **Adjusted operating margin increases slightly from the current 50.3% to c.53% over 5 years as further operational leverage is captured.**
  - We do not include any impact from acquisitions in our forecast.
- For the terminal value of our DCF we assume that Tatton is acquired at the end of the 5-year explicit forecast period at a PER of 20.
- All cash flows are discounted at a rate of 11.25%, which produces a **fundamental valuation of 640 pence per share**.

Summary 5Y growth forecast



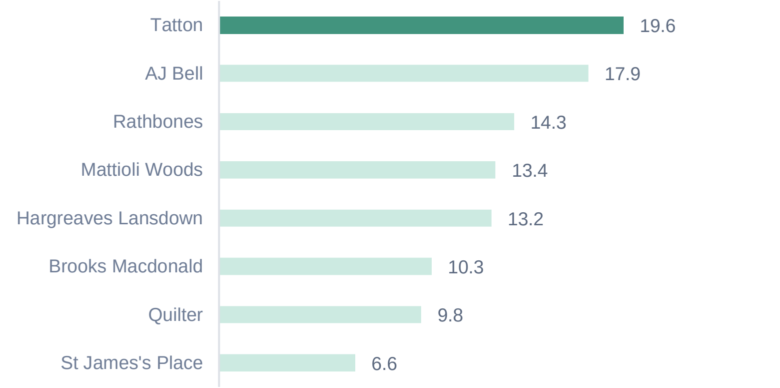
Source: Company historic data, ED forecasts and analysis

Peer comparator valuations

Valuation premium looks small given superior growth

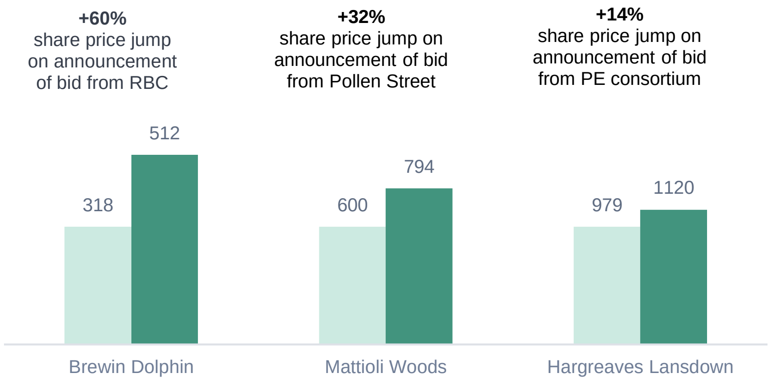
- A number of companies in the peer group we use to compare Tatton's valuation to had substantial distortions to statutory earnings in their last FY, making PER comparisons based on statutory earnings an almost meaningless exercise (e.g. Quilter had a huge swing in policyholder tax adjustments, Rathbones had substantial acquisition-related costs and goodwill adjustments, St James's Place incurred a large provision for potential client refunds).
- We have therefore compared PE ratios using the closest measure to Tatton's adjusted operating profit (pre-tax). This comparison is shown in the chart on the right.
- Given its far superior growth rate compared to peers (page 4), very high profit margins compared to peers (page 13), and strong balance sheet (£24.8m net cash at the end of FY24 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 (640p per share) exceeding the share price (600p per share).
- **We also flag the recent share price jumps in the sector (bottom right chart) driven by acquisition activity, suggesting that foreign and local acquirers are seeing significant value in the sector**.

Adjusted PER* peer group comparison



Source: Company historic data, ED analysis. Share price as at close on 17 Jun 24.
**Market cap divided by pre-tax profit metric closest to Tatton's 'adjusted operating profit'. AJ Bell: operating profit; Rathbones: underlying profit; Brooks Macdonald: underlying profit; Mattioli Woods: adjusted PBT; Hargreaves Lansdown: operating profit; Quilter: adjusted profit; St James's Place: underlying cash result.*

Acquisition interest spurs share price jumps



Source: London Stock Exchange, company announcements

Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Mar, £'m	**FY 22A**	**FY 23A**	**FY 24A**	**FY 25E**	**FY 26E**
Revenue	**29.4**	**32.3**	**36.8**	**42.7**	**48.2**
Share of profit from joint venture		0.2	(1.2)	0.6	0.6
Admin exp (before separately disclosed items)[1]	(14.8)	(15.9)	(18.3)	(21.1)	(23.2)
Adj op profit (before sep. disclosed items)[1]	**14.5**	**16.4**	**18.5**	**21.6**	**25.0**
Share based payment costs	(2.4)	(1.5)	(1.5)	(1.5)	(1.5)
Amortisation of acquisition-related intangibles	(0.3)	(0.5)	(0.6)	(0.6)	(0.6)
Op. loss relating to non-controlling interest	-	-	(0.1)	-	-
Exceptional items	(0.2)	(0.4)	(1.3)	(0.3)	(0.3)
Gains: changes in FV of contingent cons.		2.7	1.4	-	-
Total admin expenses	(17.7)	(15.7)	(20.3)	(23.4)	(25.5)
Statutory Operating profit	**11.6**	**16.6**	**16.5**	**19.8**	**23.3**
Finance income/(costs)	(0.4)	(0.4)	0.3	0.5	0.5
Unwinding of discount rate on deferred comp.		(0.2)	-	-	-
Profit before tax	**11.3**	**16.0**	**16.8**	**20.4**	**23.9**
Tax	(2.0)	(2.6)	(3.8)	(5.1)	(6.0)
Profit attributable to shareholders	**9.2**	**13.4**	**13.0**	**15.9**	**18.6**
Basic EPS, p	15.9	22.4	21.4	25.6	29.5
Diluted EPS, p	15.2	21.7	21.0	25.2	29.1
Basic adjusted EPS[2], p	19.9	21.7	23.7	26.9	30.7
Diluted adjusted EPS[2], p	18.6	20.6	22.9	26.0	29.6

Source: Group report & accounts and ED estimates

[1] Adjusted for exceptional items and share-based payments

[2] Adjusted for exceptional items and share-based payments and the tax thereon

Consolidated Balance Sheet + Forecasts

As at 31 Mar, £m	FY 22A	FY 23A	FY 24A	FY 25E	FY 26E
Non-current assets					
Investments in Joint Ventures	-	6.8	5.4	5.7	6.1
Intangible assets incl. goodwill	13.4	13.0	13.5	13.5	13.5
Property, plant and equipment	0.7	0.5	0.8	0.8	0.8
Deferred income tax assets	0.8	1.3	2.6	2.6	2.6
Other receivables	-	-	0.2	0.2	0.2
Total non-current assets	**15.0**	**21.4**	**22.4**	**22.7**	**23.1**
Current assets					
Trade and other receivables	3.8	3.8	5.1	5.9	6.7
Cash and cash equivalents	21.7	26.5	24.8	31.6	39.1
Financial assets at fair value through P&L	0.2	0.1	0.1	0.1	0.1
Corporation tax asset	0.7	0.1	-	-	-
Total current assets	**26.4**	**30.5**	**30.1**	**37.6**	**45.9**
TOTAL ASSETS	**41.3**	**51.9**	**52.5**	**60.3**	**69.0**
Current liabilities					
Trade and other payables	(7.6)	(7.9)	(8.1)	(9.4)	(10.6)
Corporation tax	-	-	(0.0)	(0.0)	(0.0)
Total current liabilities	**(7.6)**	**(7.9)**	**(8.1)**	**(9.4)**	**(10.6)**
Non-current liabilities					
Other payables	(2.7)	(2.3)	(1.0)	(1.0)	(1.0)
Total non-current liabilities	**(2.7)**	**(2.3)**	**(1.0)**	**(1.0)**	**(1.0)**
TOTAL LIABILITIES	**(10.3)**	**(10.2)**	**(9.1)**	**(10.4)**	**(11.6)**
NET ASSETS	**31.0**	**41.8**	**43.3**	**49.9**	**57.4**
Equity					
Share capital	11.8	12.0	12.1	12.1	12.1
Share premium account	11.6	15.3	15.5	15.5	15.5
Other reserve	2.0	2.0	2.0	2.0	2.0
Merger reserve	(29.0)	(29.0)	(29.0)	(29.0)	(29.0)
Joint Venture reserve		(0.0)	-	-	-
Retained Earnings	34.6	41.5	45.9	52.4	59.9
Own shares	-	-	(3.3)	(3.3)	(3.3)
Non-controlling interest	-	-	0.1	0.1	0.1
TOTAL EQUITY	**31.0**	**41.8**	**43.3**	**49.9**	**57.4**

Source: Group report & accounts and ED estimates

Consolidated Statement of Cash Flows + Forecasts

12 months to end Mar, £m	FY 22A	FY 23A	FY 24A	FY 25E	FY 26E
Operating activities					
Profit for the year	**9.2**	**13.4**	**12.9**	**15.9**	**18.6**
Adjustments:					
Income tax expense	2.0	2.6	3.8	5.1	6.0
Finance (income)/costs	0.4	0.6	(0.3)	(0.5)	(0.5)
Depreciation of property, plant and equipment	0.4	0.4	0.4	0.4	0.4
Amortisation of intangible assets	0.5	0.7	0.5	0.5	0.5
Share-based payment expense	1.5	1.4	1.2	1.5	1.5
Post-tax share of JV loss/(profit) less related amort.	-	(0.0)	1.2	(0.6)	(0.6)
Changes in FV of contingent consideration		(2.7)	(1.4)	-	-
Changes in trade and other receivables	0.3	(0.1)	(1.6)	(0.8)	(0.8)
Changes in trade and other payables	0.9	(0.4)	0.1	1.3	1.2
Exceptional costs	0.2	0.4	1.3	0.3	0.3
Cash generated from operations	**15.3**	**15.8**	**16.9**	**22.7**	**26.2**
Income tax paid	(1.6)	(2.6)	(3.7)	(5.1)	(6.0)
Net cash from operating activities	**13.6**	**13.2**	**13.2**	**17.6**	**20.2**
Investing activities					
Acquisition & JV payments, net of cash acquired	(2.8)	(0.2)	(1.2)	(0.3)	(0.3)
Dividends received from Joint Venture	-	-	0.3	0.3	0.3
Purchase of intangible assets	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Purchase pf property, plant and equipment	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Interest received	-	-	0.6	0.6	0.6
Net cash used in investing activities	**(3.1)**	**(0.5)**	**(0.7)**	**0.2**	**0.1**
Financing activities					
Proceeds from the issue of shares	0.1	0.1	0.2	-	-
Purchase of own shares	-	-	(3.3)	-	-
Proceeds from the exercise of options	1.2	-	-	-	-
Interest received/(paid)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Payment of lease liabilities	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)
Repayment of loan liabilities	-	-	(0.0)	-	-
Dividends paid	(6.6)	(7.7)	(10.8)	(10.8)	(12.5)
Net cash used in financing activities	**(5.8)**	**(8.0)**	**(14.2)**	**(11.1)**	**(12.8)**
Net increase in cash and cash equivalents	**4.8**	**4.8**	**(1.7)**	**6.7**	**7.5**
Cash and equivalents at beginning of the period	16.9	21.7	26.5	24.8	31.6
Net cash and equivalents at end of the period	**21.7**	**26.5**	**24.8**	**31.6**	**39.1**

Source: Group report & accounts and ED estimates

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