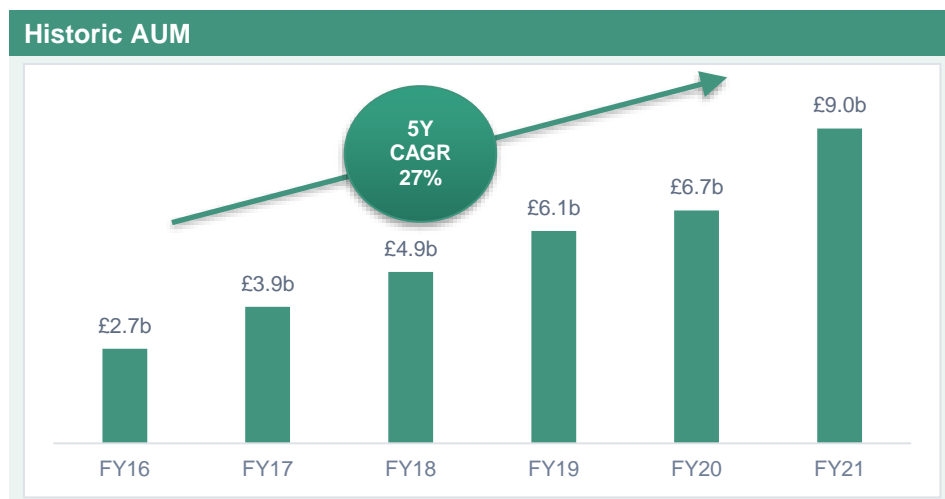


Racing ahead of forecasts: our fair value rises

20 April 2021

AUM closed FY21 on £9.0bn (+35% y-o-y from £6.7bn) with Tatton reaching this milestone a year ahead of our previous forecasts. A strong investment performance was the largest contributor to AUM growth (+£1.5bn), but the inflow of new client money was also strong (+£0.8bn) and accelerating, with average monthly inflows in H2 of £71m compared to £55m in H1. Net cash increased 32% from £12.8m to £16.9m, also well ahead of our forecast (£16.4m).



Source: Company reports and trading updates

In Paradigm (IFA support services), mortgages bounced back in H2 from the pandemic slowdown with gross lending of £6bn in H2 and £11bn for the year (FY20: £10bn). Mortgage firms increased from 1,544 to 1,612 (+4.4%) and consulting member firms increased from 394 to 407 (+3.3%).

Tatton's primary growth drivers include:

- **Market tailwinds:** IFAs continue to move assets onto DFM platforms to avoid the regulatory and risk burden of selecting investments and to focus more on financial planning and advice (DFM market £25bn in 2017, 5% of overall adviser platform market; £55bn in 2020 (10%));
- **Adding AUM per IFA:** Paradigm clients each place ~£26m AUM with Tatton on average (Sep 20), non-Paradigm clients ~£7m (typically increasing over time): this is an £8-9bn AUM opportunity *without* winning new clients if average non-Paradigm AUM reaches Paradigm levels;
- **Adding new IFA clients:** 624 asset management clients (Sep 20) out of 5,500 directly authorised UK adviser firms, plus a proven sales process, leaves significant scope for growth;
- **Strategic partnerships:** Deals such as that with Tenet Group (an adviser support business) can fast-track new client acquisition: 93 new clients from Tenet deal in around 18m (as at Sep 20);
- **Strategic acquisitions:** Tatton has £16.9m of net cash and a £30m credit facility available for strategic acquisitions – a strategy it is actively pursuing.

Undervalued vs prospects

Tatton's longer term growth trajectory remains firmly in place, and we think it is realistic that AUM reaches £15bn by 2025 through organic growth. Our fundamental valuation increases to 395p and we flag that Tatton's PER of 25.4 is undemanding compared to peers (median 27.3), despite it being a top quartile performer when it comes to attracting net AUM inflows.

¹ Tatton Analysts Presentation, Nov 2020 & Platforum

Company Data

EPIC	TAM
Price (last close)	378p
52 weeks Hi/Lo	385p/236p
Market cap	£220m
ED Fair Value / share	395p
Proforma net cash	£16.9m

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, and adviser support services (regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation).

Aggregate AUM at end Mar 2021 was £9.0bn.

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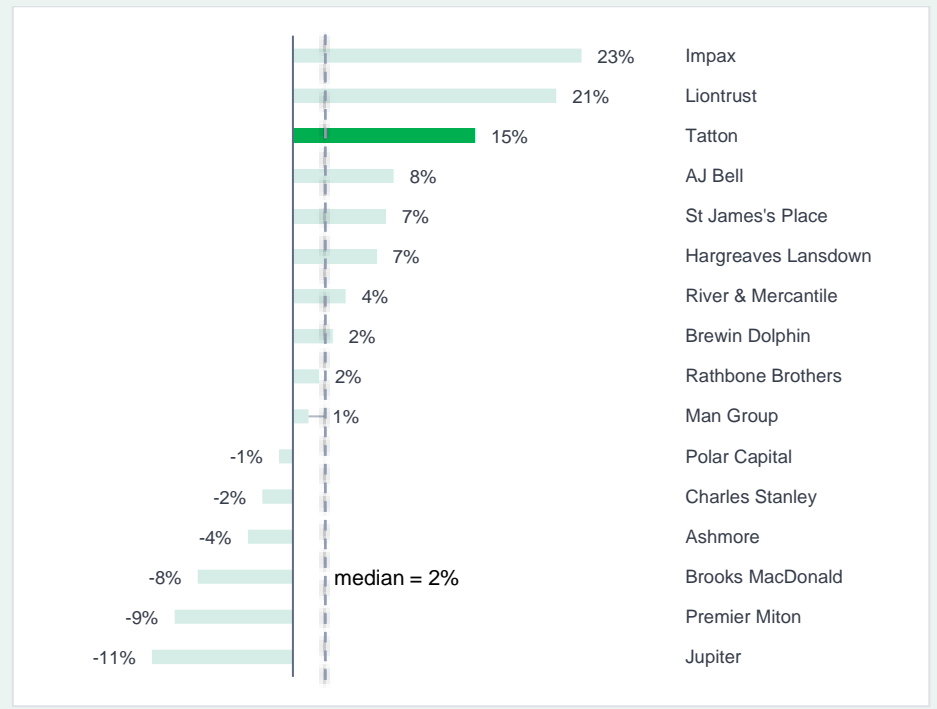
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Strong growth compared to peers ...

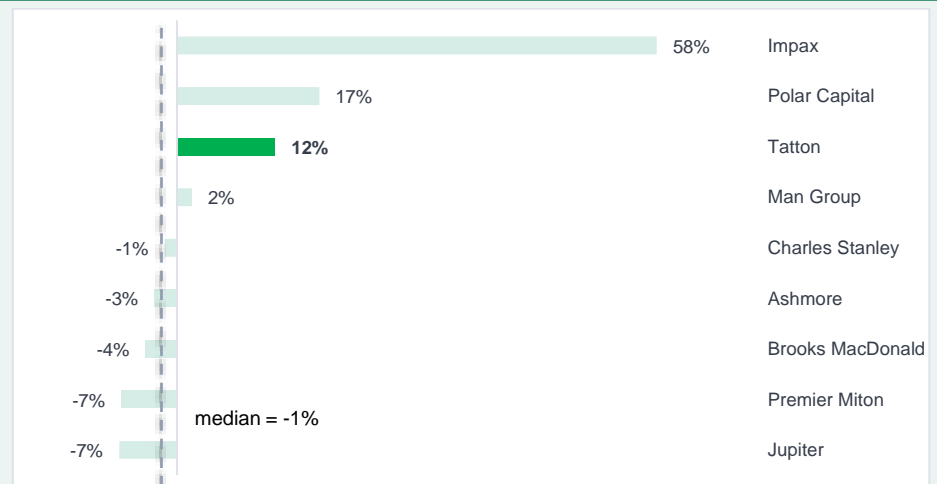
While impressive on an absolute basis, Tatton's growth is also impressive relative to peers and it continues to **attract AUM at a faster rate than most**. In the 12m period to 30 Sep 20 (with all peer data available) Tatton had the third highest net-inflow-to-AUM ratio amongst a group of 16 peers. In the 12m period to 31 Mar 21 (with only partial peer data available) it is maintaining its status as a strong performer (3rd out of nine with a number of historically slower growing asset managers still to report).

12m AUM net inflows as % of opening AUM (Oct 19 – Sep 20)



Source: Company reports and trading updates, ED analysis
 Net inflows exclude AUMs added through acquisitions.

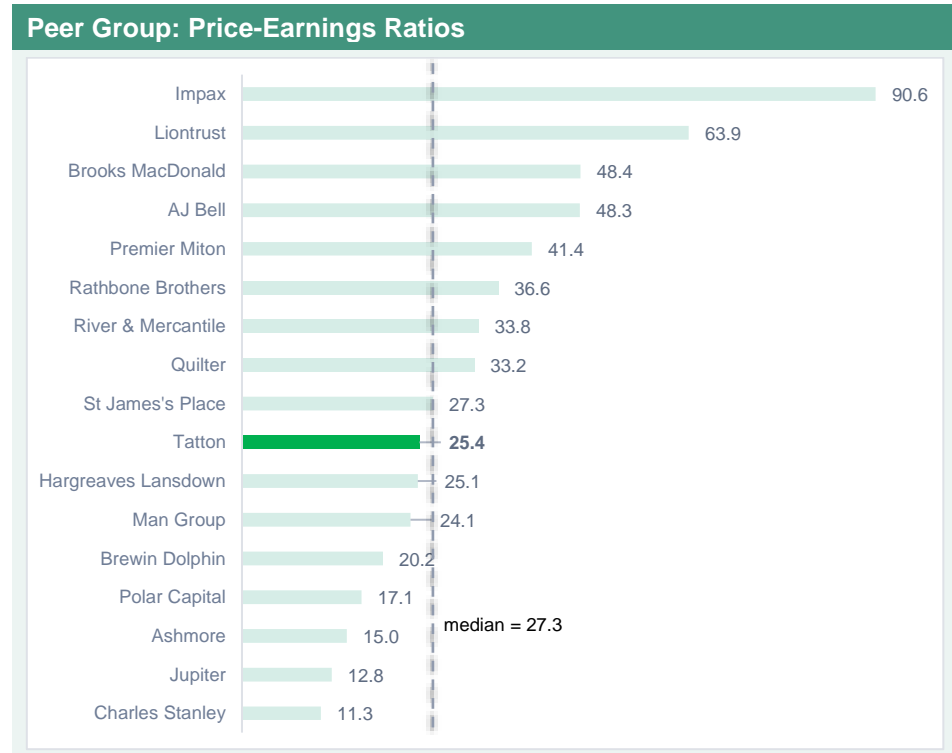
12m AUM net inflows as % of opening AUM (Apr 20 – Mar 21)



Source: Company reports and trading updates, ED analysis
 Net inflows exclude AUMs added through acquisitions.

... but below median valuation

Despite its strong growth credentials (as well as profitability credentials and a strong balance sheet – see table below), Tatton's PE ratio of 25.4 is below its peer group median of 27.3 and far below the highest-rated peers.



Source: ADVFN (as at 15 April 2021)

As Tatton continues to scale and if it continues to deliver strong results, **we believe both Tatton's rating and share price has headroom to grow.**

Key Financials					
y/e end March 31	FY 18A	FY 19A	FY 20A	FY 21E	FY 22E
AUM end-of-period, £bn	4.9	6.1	6.7	9.0	10.0
Revenue, £m	15.5	17.5	21.4	23.4	26.2
Operating profit (adj), £m	6.5	7.3	9.1	10.6	12.6
Operating margin (adj)	42.1%	41.7%	42.5%	45.4%	48.1%
EPS basic (adj), p	9.3	11.0	13.1	14.2	17.0
Div, p	6.6	8.4	9.6	10.5	11.9
Yield	1.7%	2.2%	2.5%	2.8%	3.2%
PER	40.4	34.4	28.8	26.6	22.2
Net assets, £m	13.6	15.3	17.8	22.5	26.3
Net cash, £m	10.6	12.2	12.8	16.9	21.1

Source: Company Historic Data, ED estimates

PER and Yield based on share price of 378p

NB PER ratio differs from peer comparison as ED calculation uses adjusted earnings



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