Tatton Asset Management

13th November 2024

H1 revenue +24%, profit +23%, forecasts upgraded

AUM jumped 14% over H1-25 (to 30 Sep 24) from £16.6bn to £18.9bn. Net inflows added £1,832m (22% p.a. inflow rate, far higher than all peers, see page 4), and investment returns £534m (3.2% over 6m). Including 50%-owned 8AM Global, Assets-Under-Management/Influence totalled £19.9bn. In the six weeks post-results, AUM/AUI increased another 4% to £20.6bn in early-Nov.

This is an exceptionally strong start to the next leg of Tatton's growth journey. In June '24 it set a target of reaching £30bn AUI by end-FY29, an 11% CAGR.

Strong AUM/AUI growth led to an exceptional set of interim results with revenue up 24% y-o-y from £17.5m in H1-24 to £21.7m. Adjusted operating profit (AOP) increased 23% from £8.9m to £10.9m with an impressive AOP margin of 50.3% (H1-24: 50.7%). Statutory PBT increased 31% from £7.7m to £10.1m; PAT 43% from £5.4m to £7.7m; basic EPS 45% from 9.0p to 13.0p, with adjusted fully diluted EPS up 30% from 10.5p to 13.7p. Cash from operations (pre-tax) was up 24% y-o-y to £10.2m.

Tatton's balance sheet remains strong with no debt and net cash increasing 8% over H1 to £26.9m. An interim dividend of 9.5p has been recommended, +19% on H1-24 (8.0p).

Net flow forecasts increase, fundamental value rises to 715p

Our previous forecasts assumed average net flows of c£150m per month. That was clearly overly-conservative. Monthly net flows actually averaged £305m over H1-25, far higher than £192m in FY24 and £150m in FY23. We upgrade forecasts assuming net flows of £200m per month for H2-25, as per Tatton guidance, reducing to c£170m per month after that (October net flows: £265m), also as guided.

This change materially increases our FY25 revenue and profit forecasts and our longer-term forecasts (see page 18). In turn, our **fundamental valuation increases from 640p per share to 715p**.

But with such a superior offering compared to peers in platform MPS (page 5), and structural market tailwinds (page 15), there is certainly potential for Tatton to grow faster than our current forecast and for our fundamental valuation to rise again.

Key Financials

Year-end 31 Mar	FY 23	*H1-24*	FY 24	*H1-25*	FY25E prev.	FY25 new	FY26E prev.	FY26E new
AUM*, £bn	12.7	13.7	16.6	18.9	19.5	20.3	22.1	23.2
Revenue, £m	32.3	17.5	36.8	21.7	42.7	44.3	48.2	49.2
Op. profit (adj.), £m	16.4	8.9	18.5	10.9	21.6	22.1	25.0	24.8
Op. margin (adj.), %	50.7%	50.7%	50.3%	50.3%	50.6%	50.0%	51.9%	50.4%
PBT, £m	16.0	7.7	16.8	10.1	21.0	21.3	23.9	23.9
PAT, £m	13.4	5.4	12.9	7.7	15.9	16.1	18.0	18.0
EPS basic (adj.), p	21.7	11.1	23.7	14.3	26.9	28.4	30.7	30.9
EPS diluted (adj.), p	20.6	10.5	22.9	13.7	26.0	27.5	29.6	29.9
Div, p	14.5	8.0	16.0	9.5	18.8	19.8	21.4	21.5
Yield, %	2.0%	1.1%	2.3%	1.3%	2.7%	2.8%	3.0%	3.0%
PER	31.6	39.5	31.6	27.2	27.7	27.2	24.0	24.8
Net cash, £m	26.5	24.2	24.8	26.9	31.6	32.4	39.1	39.0

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***708p***
**Excludes c£1.0bn of 'Assets under Influence' (AUI) from 8AM Global (50% owned).*

Company Data

EPIC	AIM: TAM
Price (last close)	708p
52 weeks Hi/Lo	722p/490p
Market cap	£436m
ED Fair Value	715p
Proforma net cash	£27m
Avg. daily volume	87k

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 (c85% of group revenue).
- *Paradigm* (adviser support services): regulatory & compliance consulting & outsourcing, mortgage & protection insurance aggregation (c15% of group revenue).

AUA/AUI Nov 24: £20.6bn

Next event: trading update, Apr 25

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Please refer to the important disclosures shown on the back page and note that this information is Non-independent and categorised as Marketing Material

Contents

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 c15% 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 c20 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 increasing, with the UK on-platform DFM market growing at c28% p.a.* TIML + 8AM Global have c14% market share, managing c£20.6bn of AUM/I (Nov 24), serving 1,038 member firms.
- TIML makes up c85% of group revenue

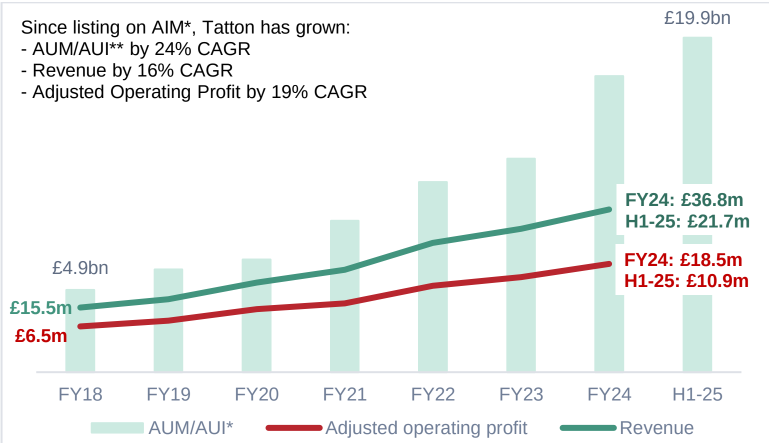
**Source Company (original source Platforum), market size £139bn (2023), £25bn (2017).*

Paradigm Mortgage Services and Paradigm Consulting

- Paradigm is a mortgage broker providing 1,930 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 £6.6bn of new business lending in the 6m to 30 Sep 24.
- Paradigm Consulting provides business, regulatory, compliance, pension, tax and trust consultancy services, as well as FCA application support to 437 Independent Financial Advisers.
- Paradigm (mortgages and consulting) makes up c15% of group revenue

Source: Company

A highly successful combination

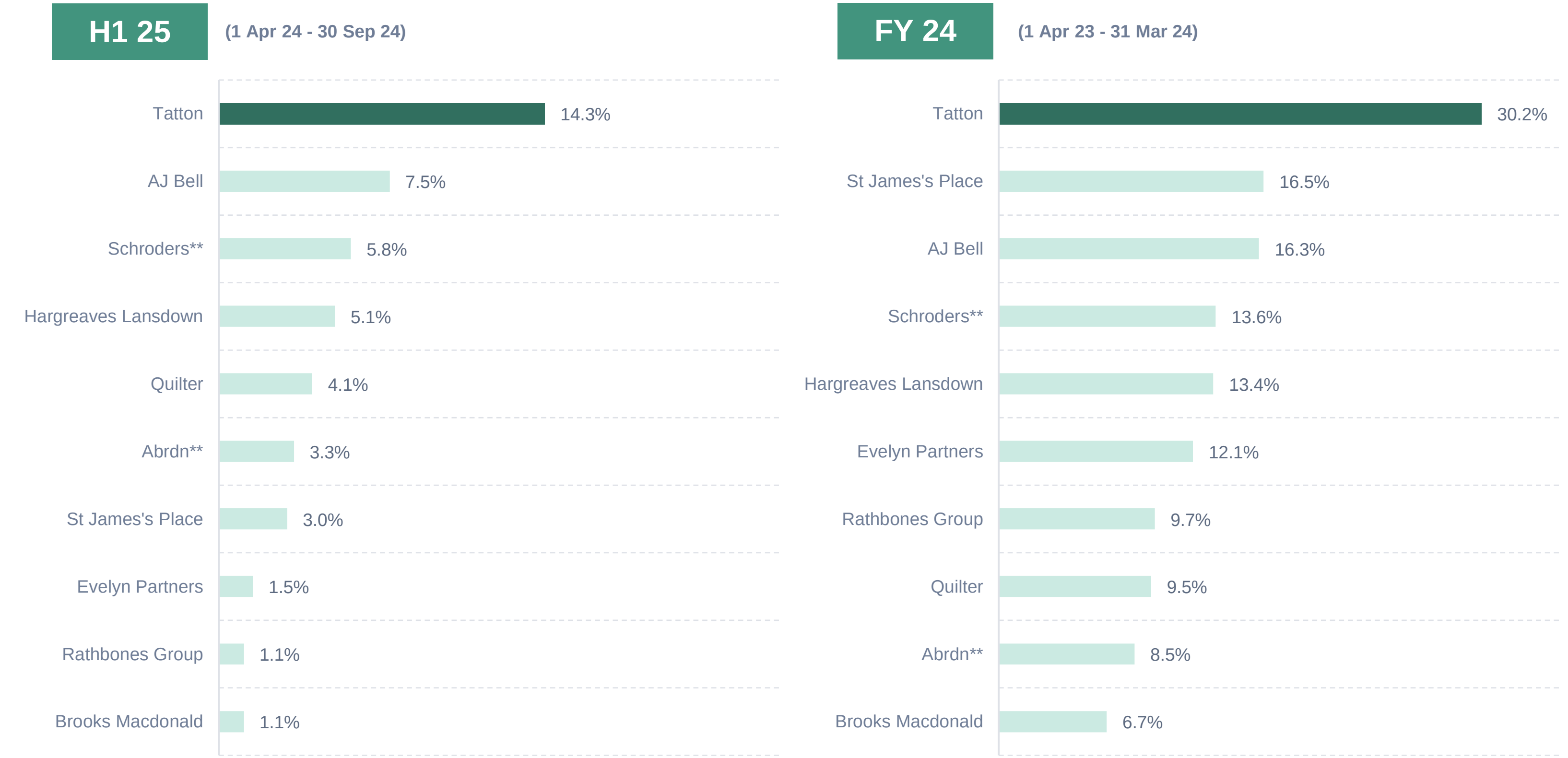


*Source: Company reports. *FY18 is the first full FY post AIM-listing.*
***AUI = Assets under Influence including AUM of 50% owned 8AM Global*

AUM growth has been far higher than peers

AUM jumped by £2.4bn or 14% over the six months of H1-25, from £16.6bn to £18.9bn. Including 50%-owned 8AM Global, Assets-Under-Influence totalled £19.9bn. In the six-weeks since the end of H1, AUI increased a further 4% to £20.6bn in early-Nov-24. AUM growth continues to be far higher than that of all peers.

AUM growth excluding acquisitions, wealth managers/investment managers/platforms*



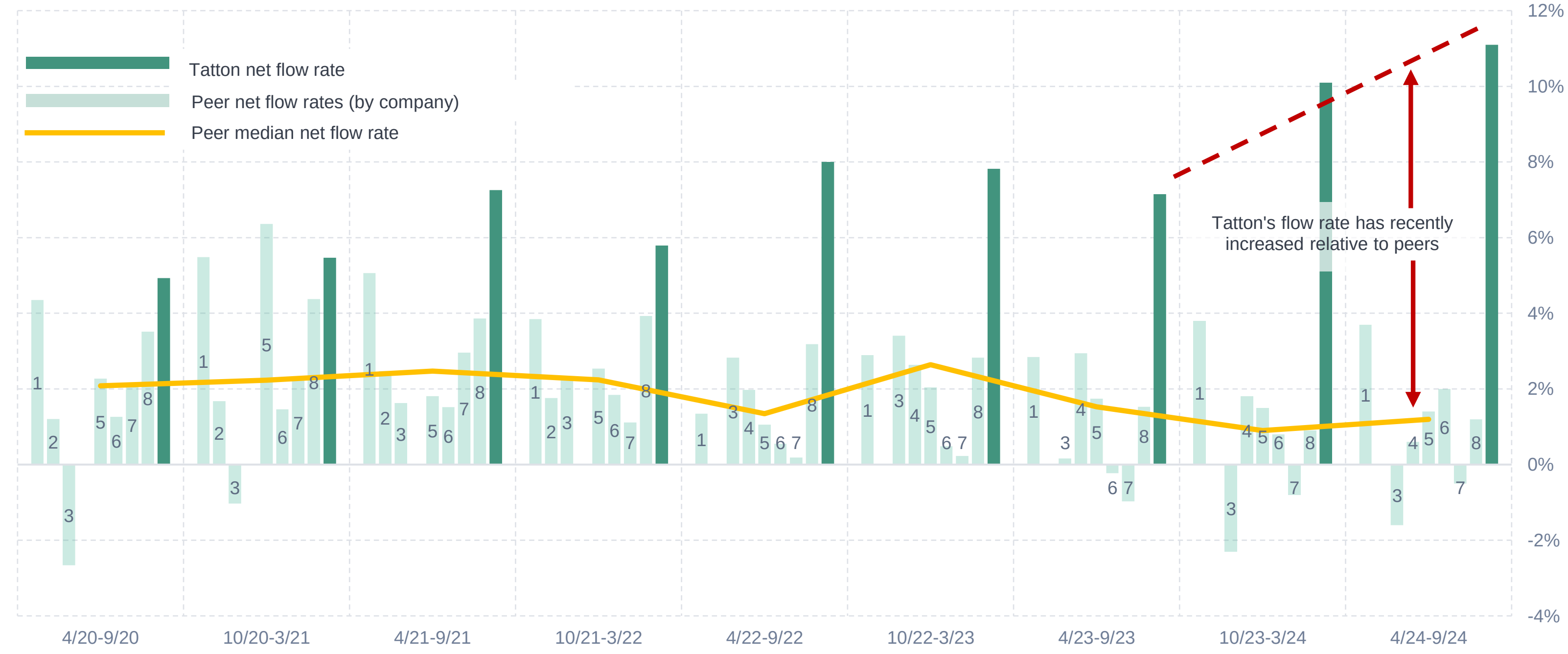
Source: company reports, ED analysis
**Peer group includes companies which typically house portfolios for individual investors. It does not include 'pure play' asset managers which typically run individual funds making up only a part of an investor's portfolio – these have different net flow and investment 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').*

Net flows primary driver of AUM growth

The bulk of H1-25 growth (+£1.8bn) came from exceptionally strong net flows. Monthly net flows averaged £305m over H1, well above the £192m of FY24 and £150m of FY23. Strong flows continued post half-year-end, with £389m recorded in the first six weeks of H2. Tatton reports strong net flows from both new and existing clients (see page 16 for details of this opportunity), supported by an increase in the ratio of back-book migrations as well as increased white label, co-branded propositions and appointed investment adviser relationships. It expects net flows to reduce to c£200m p.m. in H2-25, still significantly higher than historical levels.

Tatton's net flows have been impressive for a number of years, and as for AUM growth, consistently far higher than peers. In fact, **the difference between Tatton's net flow rate and the sector median flow rate has accelerated recently**. Tatton has clearly designed and implemented a superior offering in platform-MPS. 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%).

Longer-term net flow rate versus peers: 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.

Appropriate investment products and consistent returns key to generating flows

Investment returns were responsible for a £534m increase in AUM over H1-25 (3.2% over 6m, in line with the *MSCI PIMFA Private Investors Balanced Index*).

But returns should be judged over longer time horizons. On this score, Tatton's track record is highly impressive, with advisers' confidence in it clearly well justified. In its core MPS suite (c93% of AUM), **all strategies bar two have outperformed benchmarks over one, three, five and ten years** (with the active defensive strategy slightly behind peers over three and five years due to its slightly lower equity exposure). Dark-green shading below depicts outperformance versus peers, red shading depicts underperformance.

It is also important to stress that MPS is increasingly recognised as an appropriate investment product for many investors, even more so post implementation of consumer-duty regulation. Tatton's MPS suite is complemented by a range of multi-manager funds (7% of AUM), and more recently by a range of money-market portfolios (launched in Aug 23).

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

	Active	Tracker	Hybrid	ARC Peers**
Defensive	3.2	3.4	3.3	2.4
Cautious	5.0	5.0	5.1	3.8
Balanced	6.1	6.2	6.2	5.1
Active	7.4	7.4	7.5	5.1
Aggressive	8.4	8.4	8.4	6.0
Global Equity	10.0	10.0	10.0	6.0

**10 years to 31 Oct 24*

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

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	1.8	2.1	1.9	2.8	1.9
Cautious	3.9	4.1	4.0	4.5	3.2
Balanced	5.3	5.5	5.4	5.8	4.2
Active	6.9	6.9	6.9	7.2	4.2
Aggressive	8.1	8.1	8.1	8.5	5.2
Global Equity	10.6	10.5	10.6	9.1	5.2

**5 years to 31 Oct 24*

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

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	-0.4	0.5	0.1	0.3	0.1
Cautious	1.6	2.4	2.0	1.4	1.0
Balanced	3.2	3.9	3.5	2.3	1.5
Active	4.7	5.2	4.9	3.3	1.5
Aggressive	5.8	6.1	5.9	4.0	1.7
Global Equity	7.2	7.3	7.3	4.6	1.7

**3 years to 31 Oct 24*

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

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	11.2	11.9	11.6	12.8	8.1
Cautious	14.0	14.8	14.4	15.3	12.6
Balanced	16.1	16.9	16.5	17.2	15.1
Active	18.0	19.1	18.5	19.1	15.1
Aggressive	20.0	20.6	20.3	20.4	17.5
Global Equity	23.8	24.7	24.3	22.3	17.5

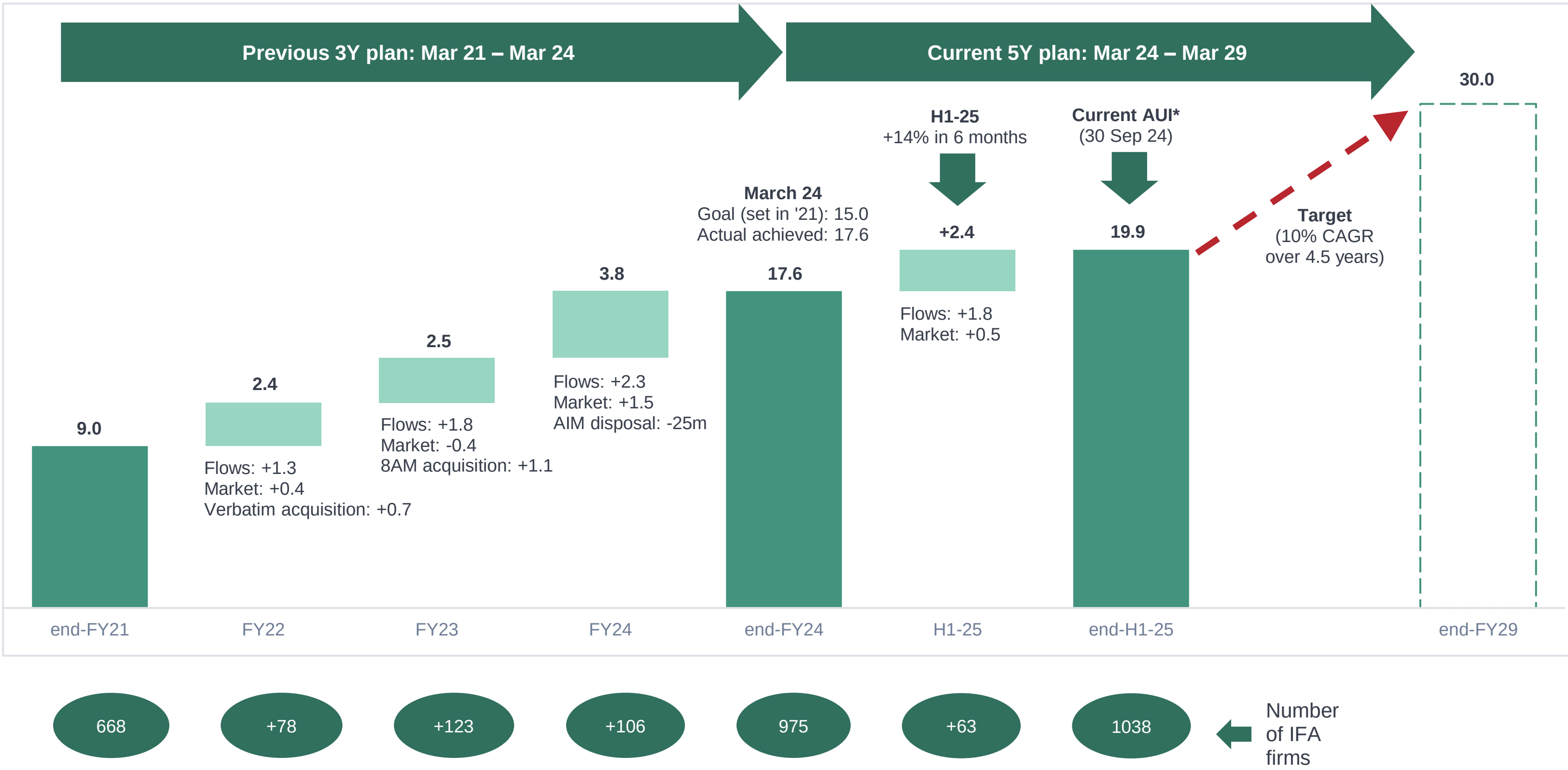
**1 year to 31 Oct 24*

Source: Tatton Analysts Presentation 13 November 2024
*** ARC PCI –UK wealth management portfolio peer group with historically comparable asset allocation characteristics*

Strong start to new medium-term growth target

The 14% organic AUM growth generated over H1-25 marks an exceptionally strong start to the next leg of Tatton's growth journey. We remind readers that in Jun 24 it set a new medium-term target of reaching £30bn AUM/AUI by end-FY29 (31 Mar 29), an 11% CAGR. This follows Tatton exceeding its previous three-year growth plan by some distance. In Mar 21, when AUM was £9.0bn, it outlined a plan to achieve £15bn of AUM/AUI in three years (by Mar 24), including growth from acquisitions. It actually reached £17.6bn in that timeframe and would have hit the £15.0bn target without acquisitions.

AUM/AUI development over previous and current medium-term growth plans, £bn

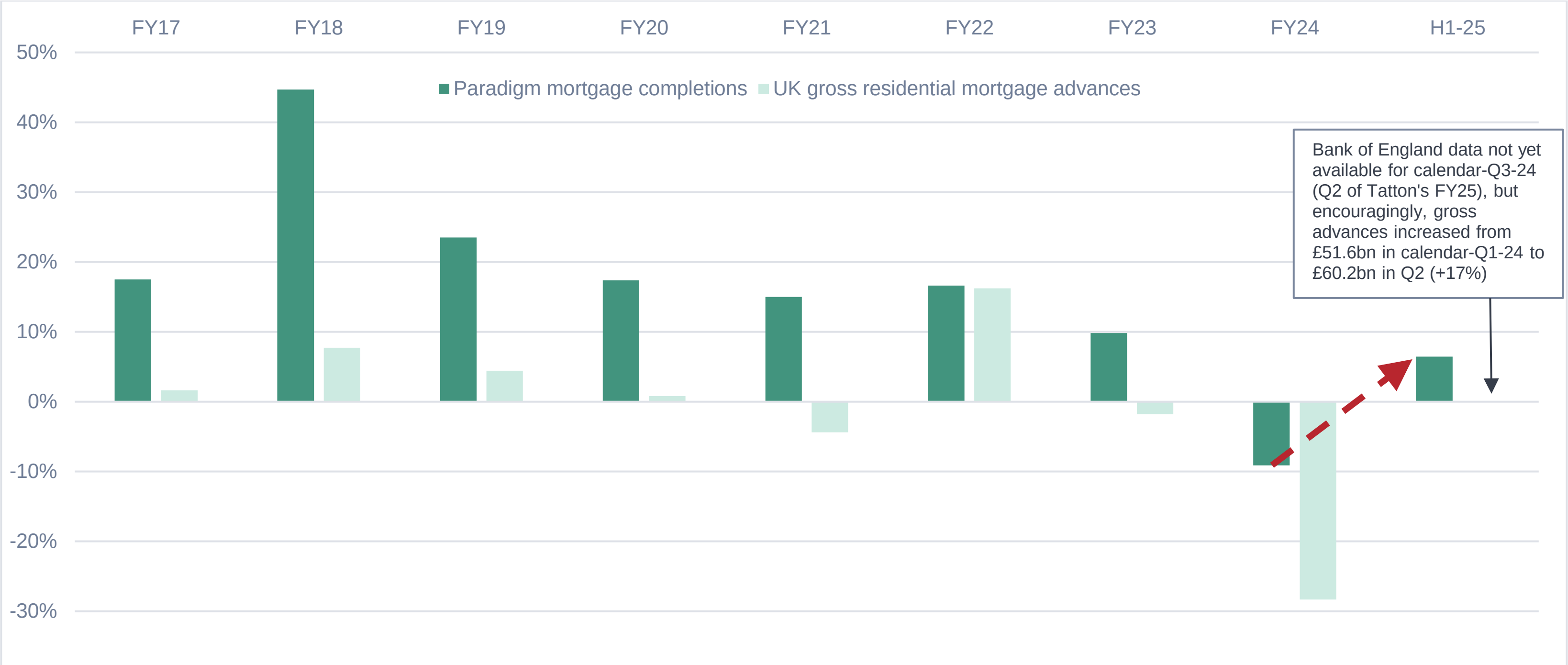


*Source: company reports. * Increased to £20.6bn by early-Nov-24.*

Paradigm (mortgages and consulting): signs of recovery from muted FY24

For Paradigm, the group's IFA support services business (15% of group revenue), H1-25 saw early signs of a recovery from a subdued FY24, which was hurt by the high-interest rate environment. **Mortgage completions returned to growth, totalling £6.6bn, up on the £6.2bn of H2-24.** Mortgage member firms continued to increase, from 1,916 on 31 Mar 24 to 1,930 on 30 Sep. And Paradigm is clearly performing strongly compared to the overall UK market. It continues to add mortgage firms, has grown at a far faster rate than the market in recent years and did not experience the business volume declines to nearly the same extent that the overall market did 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.

While there are still headwinds in the housing market with interest rates still elevated and ongoing cost-of-living pressures, new mortgage commitments have recovered in Q1 and Q2 of '24, transactions are only just below the longer-term average, and house prices have recovered to near-record levels (see page 17).

Pleasingly, Paradigm Consulting saw a return to growth with consulting member firms increasing from 424 to 437, following a slight decline in FY24 from 431 to 424.

Analysis of H1-25 financials

Income statement

Revenue

Strong revenue growth continues…

- **Group revenue was up 24% from £17.5m in H1-24 to £21.7m in H1-25.**
- TIML continued its very strong growth trend with revenue up 28% to £18.5m (H1-25: £14.5m), making up 85% of group revenue.
- It is worth highlighting the changing revenue mix of the group in favour of higher-margin investment management. Just over five years ago, in FY19, TIML made up 72% of group revenue. The trend towards TIML making up a larger proportion of group revenue is expected to continue.
- TIML average revenue margin declined slightly as expected from 21.9bps in FY24 to 21.0bps. This was driven not by price reductions but by product mix factors i.e. lower-yielding MPS making up a larger proportion of AUM.
- Paradigm (IFA support services – mortgage broking and IFA consulting) had a slower half-year, particularly in Q1, primarily due to the previously described headwinds in the mortgage market, with revenue increasing 3% y-o-y to £3.2m from £3.1m.

…maintaining the longer-term growth trend

Source: Company reports

Adjusted operating expenses

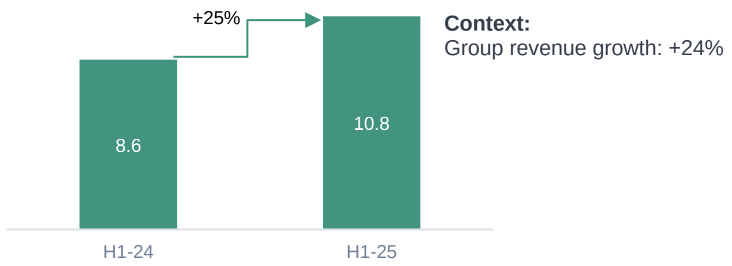
Expenses up in line with revenue, expected to slow

- 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 25% from £8.6m to £10.8m, roughly in line with revenue growth, with Tatton stating that going forward, **it expects revenue growth to outstrip the growth in costs**, which are expected to increase c10% per annum over the medium term.
- The largest component of adjusted operating expenses were staff costs (60%) which increased by 13% to c£6.6m (including bonuses). Note that variable pay totalled c.£1.5m in H1 or 23% of total employee costs and is payable against performance.
- Marketing and distribution costs are the next largest component of costs (21%), which increased by 15% to c£2.3m.
- Tatton has also flagged that:
  - c£0.6m of operating costs (employees, marketing & distribution) were ‘investments in growth’, not day-to-day operating costs;
  - c£0.5m of costs were due to an elevated inflation rate; and
  - c£0.3m of costs were ‘stepped costs’.

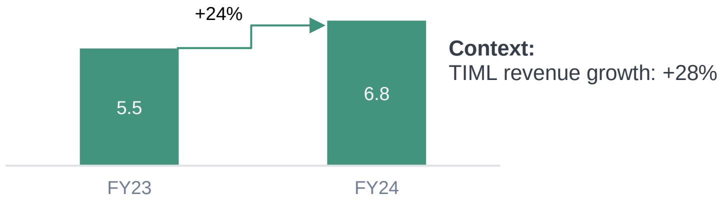
  Reductions in these cost items is expected to drive the overall reduction in cost growth to the guided c10%.

y-o-y adjusted operating expense comparisons

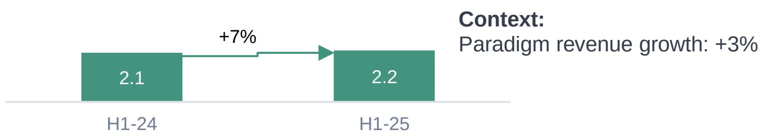
Group adjusted operating expenses, £m



TIML adjusted operating expenses, £m



Paradigm adjusted operating expenses, £m



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: £1.1m in H1-24, rising to £1.7m in H1-25

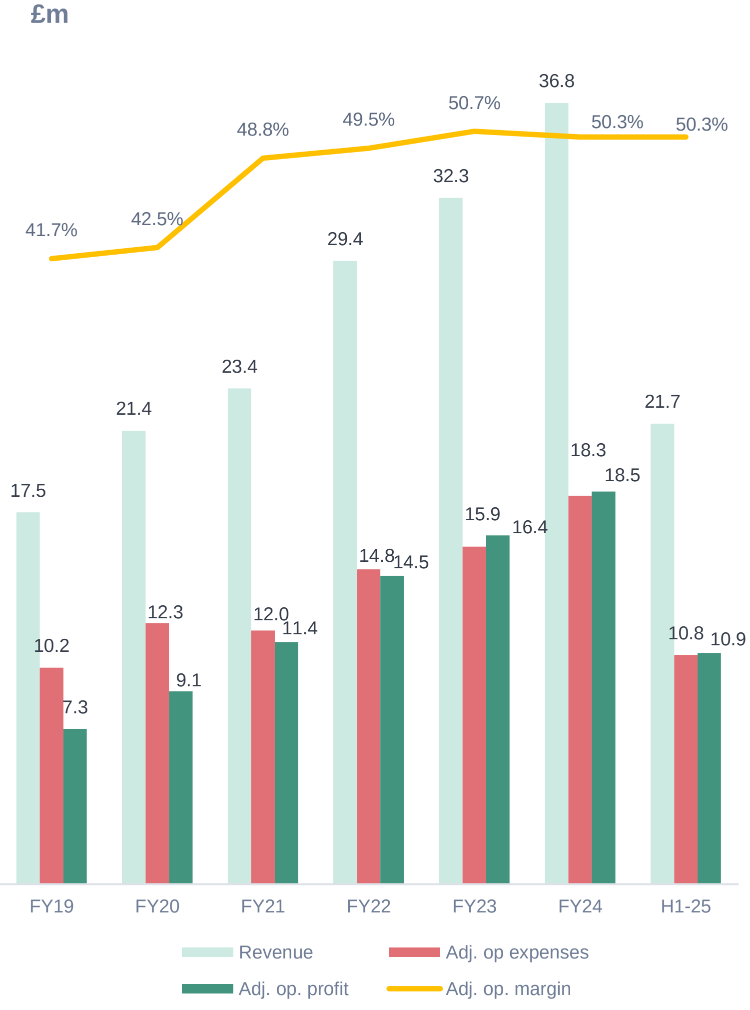
Adjusted operating profit and margin

Revenue growth and cost control keeps margin high

- 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 H1-25, adj. op. profit increased 23% y-o-y to £10.9m (H1-24: £8.9m).
    - TIML adj. op. profit increased 30% to £11.7m (H1-24: £9.0m)
    - Paradigm adj. op. profit decreased 5% to £0.92m (H1-24: £0.96m)

  Note that £1.7m of adjusted operating expenses (H1-24: £1.1) were not allocated to business segments, hence the sum of TIML + Paradigm adj. op profits is larger than that of the group (unallocated expenses include general corporate expenses, head office salaries, and other administrative costs that are not directly attributable to the operating segments).
- The associated *adjusted operating margin* of the group was maintained at an impressive over-50% level of 50.3% (H1-24: 50.7%), highly creditable given the inflationary pressures between Sep 23 and Sep 24.
    - TIML adj. op. margin increased to 63.3% (H1-24: 62.2%)
    - Paradigm adj. op. margin decreased to 29.0% (H1-24: 31.4%)
- A longer-term view of adjusted operating margin (see chart on right) shows how **Tatton has captured operating leverage as the business has scaled.**

Longer term trend shows powerful operating leverage



Source: Company historic data

Statutory profits

Statutory profits boosted by finance income and tax effects

- To get to statutory operating profit from adjusted operating profit, the following items are deducted:
  - share-based payment charges of £0.84m (H1-24: £0.83m)
  - amortisation of acquired intangibles of £0.33m (H1-24: £0.31m), being the amortisation of capitalised client relationships and brands related to acquisitions
  - a small operating loss from the non-controlling interest in Fintegrate Financial Solutions Limited.
- In turn, statutory operating profit increased 25% to £9.64m (H1-24: £7.73m).
- Statutory PBT after the impact of net finance income (H1-25: +£462k; H1-25: -£40k) was up 31% to £10.1m (H1-24: £7.7m), with PAT increasing 43% to £7.7m (H1-24: £5.4m).
- The higher-percentage PAT increase was primarily due to a lower average percentage taxation charge in H1-25 (23.6%) versus H1-24 (29.9%). This was in turn mainly due to differences in the taxation charge related to share-based-payments (-£0.01m in H1-25 v +£0.37m in H1-24) and adjustments to prior years' tax charges (-£0.17m in H1-25 v nil in H1-24).
- At a per share level, basic earnings per share increased 45% from 8.97p in H1-24 to 13.03p in H1-25, and diluted EPS 47% from 8.66p to 12.69p.

Adjusted profit to statutory profit bridge, £m

	H1-25	H1-24
Adjusted operating profit	**10.89**	**8.87**
SB payment charges	(0.84)	(0.83)
Amortisation of acquisition-related intangibles	(0.33)	(0.31)
Operating loss relating to non-controlling interest in Fintegrate	(0.08)	-
Operating profit	**9.64**	**7.73**
Net finance income/(cost)	0.46	(0.04)
PBT	**10.10**	**7.69**
Tax	(2.38)	(2.30)
PAT	**7.72**	**5.39**
EPS basic	13.03p	8.97p
EPS diluted	12.69p	8.66p
Adjusted EPS basic	14.29p	11.08p
Adjusted EPS diluted	13.67p	10.52p

Source: Company

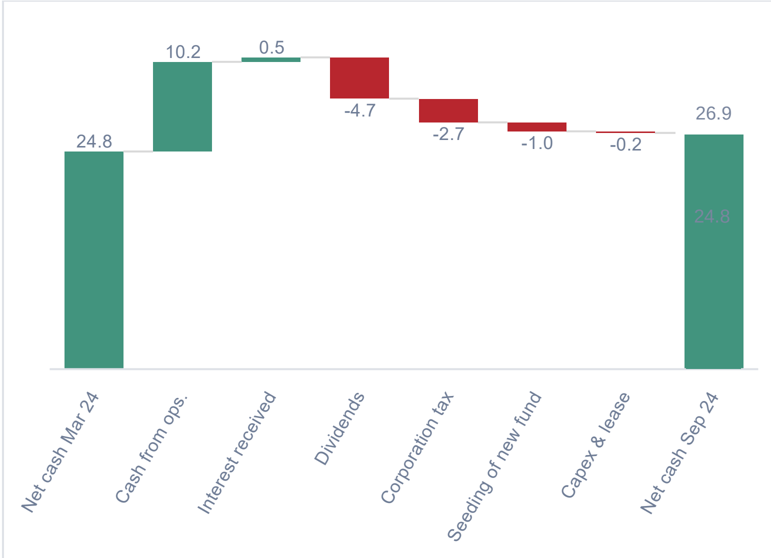
Balance Sheet and Cash Flow

Balance sheet robust

- The balance sheet of the group remained robust with net assets increasing 9% from £43.3m at the end of FY24 to £47.4m.
- Net cash generated from operating activities (before tax) was £10.2m (H1-24: £8.3m), 94% of adjusted operating profit (H1-24: 93%).
- **Net cash increased 8% over the six-month period, reaching a robust level of £26.9m (end-FY24: £24.8m).** Note that the Group paid out £4.7m in dividends during the period and used £1.0m to seed a new passive fund range.
- **Tatton has no debt.**

Source: Company

High cash level increases further, £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 an analysis, which shows £12.1m of capital resources held with up to £7.5m (£12.1m less regulatory capital requirement of £4.6m) being available to pursue growth opportunities.

Source: Company

Summary capital adequacy calculation, £m (Sep 24)

Regulatory capital requirement	**£4.6m**
Total Shareholder funds	£47.4m
Less: Foreseeable dividend	(£5.7m)
Less: Unaudited profits	(7.8m)
Less: Non-qualifying assets	(£21.8m)
Total qualifying capital resources	**£12.1m**
% Capital resource requirement held	265%

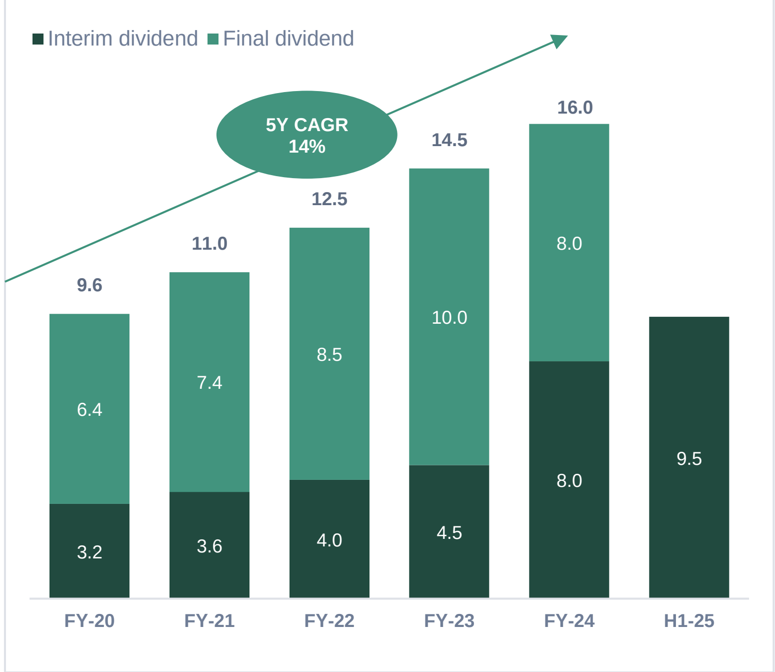
Source: Company

Dividends

Dividend up 19% 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 an interim dividend of 9.5p, up 19% on the 8.0p FY24 interim dividend.

Historic and proposed dividends, pence per share



Source: Company historic data

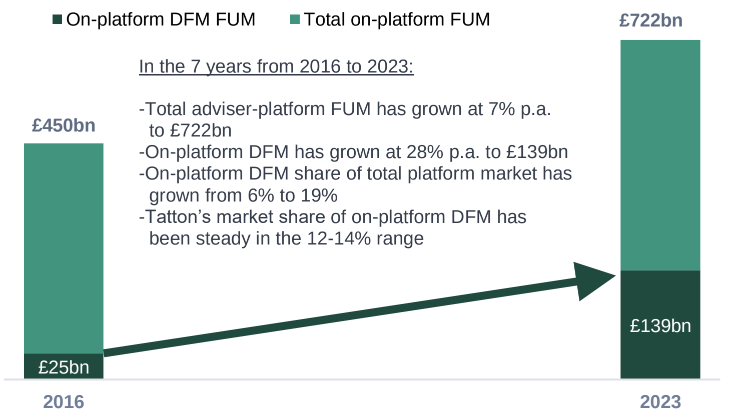
Growth Outlook - Tatton Investment Management

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 Sep 24, original source Platforum

Platform and Platform-DFM Funds Under Management



Source: Tatton analyst presentation Sep 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

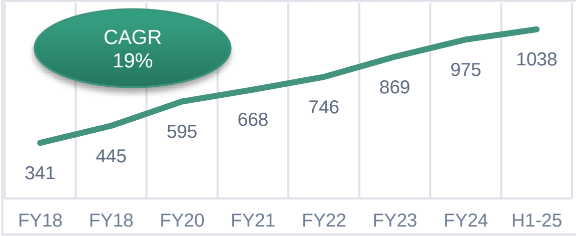
- IFAs continue to move assets onto DFM platforms and to MPS providers (such as Tatton) so that **these advisers avoid the regulatory and risk burden of selecting investments and focus more on financial planning and advice** (a trend which is likely to accelerate with newer regulatory reforms such as *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

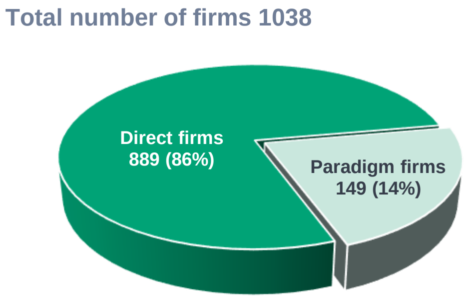


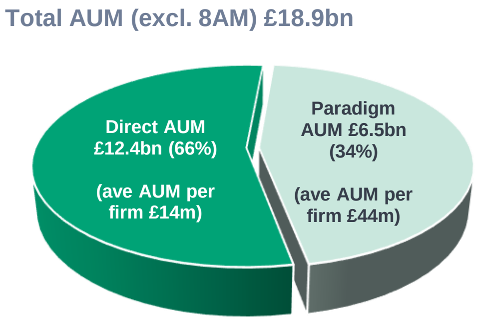
Source: Company

…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 £44m per firm.
- **'Direct firms'** (clients of TIML but not of Paradigm) have a lower average AUM per firm of £14m. 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 c£30m 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 £14m today).
- And because there are so many Direct firms (1023), with so much average-AUM headroom, **this opportunity is huge i.e. if Tatton succeeds in growing its average-AUM-per-Direct-firm from £14m to £44m, it can add c£26bn of AUM without winning new clients** (1023 firms x £30m, the difference between current average AUM per firm for direct firms and Paradigm firms).

Paradigm firms v Direct firms





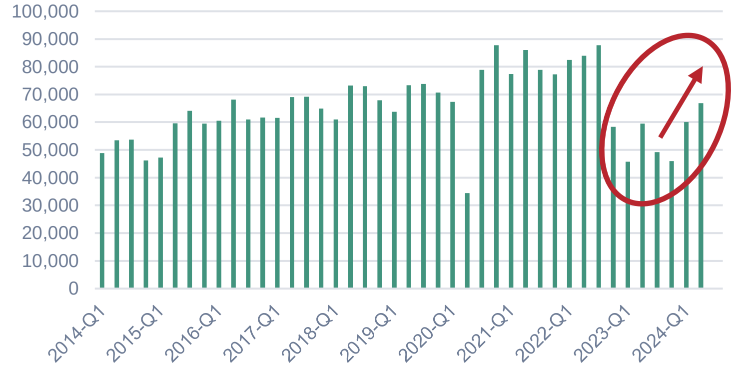
Source: Company

Growth Outlook – Paradigm

Short-term headwinds but fundamental growth opportunity

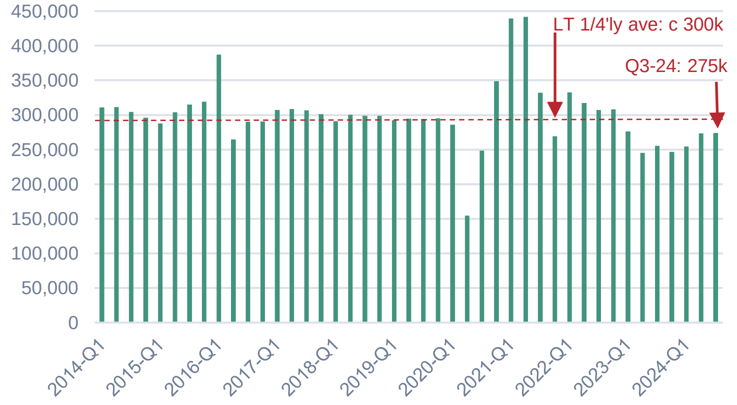
- Consulting has potential to grow steadily, it is strategically important, enabling close relationships with IFAs and provides valuable market insights.
- **Mortgages are a growth business, underpinned by the supply-demand imbalance of the UK residential housing market, where it remains a national imperative to significantly increase housing supply.**
- While there are still headwinds in the housing market with interest rates elevated and ongoing cost-of-living pressures, new mortgage commitments have recovered in Q1 and Q2 of '24, transactions are only just below the longer-term average, and house prices have recovered to near-record levels.

New mortgage commitments* (£m)



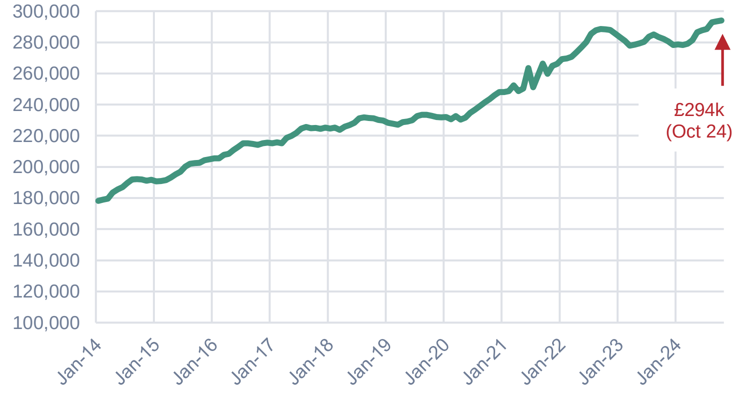
Source: Bank of Bank of England, Mortgage Lenders and Administrators Statistics - 2024 Q2
**lending agreed to be advanced in the coming months*

Residential property transactions (seasonally adjusted)



Source: HM Land Registry. Transaction >£40k. Data for Q3-24 provisional.

Average residential property price



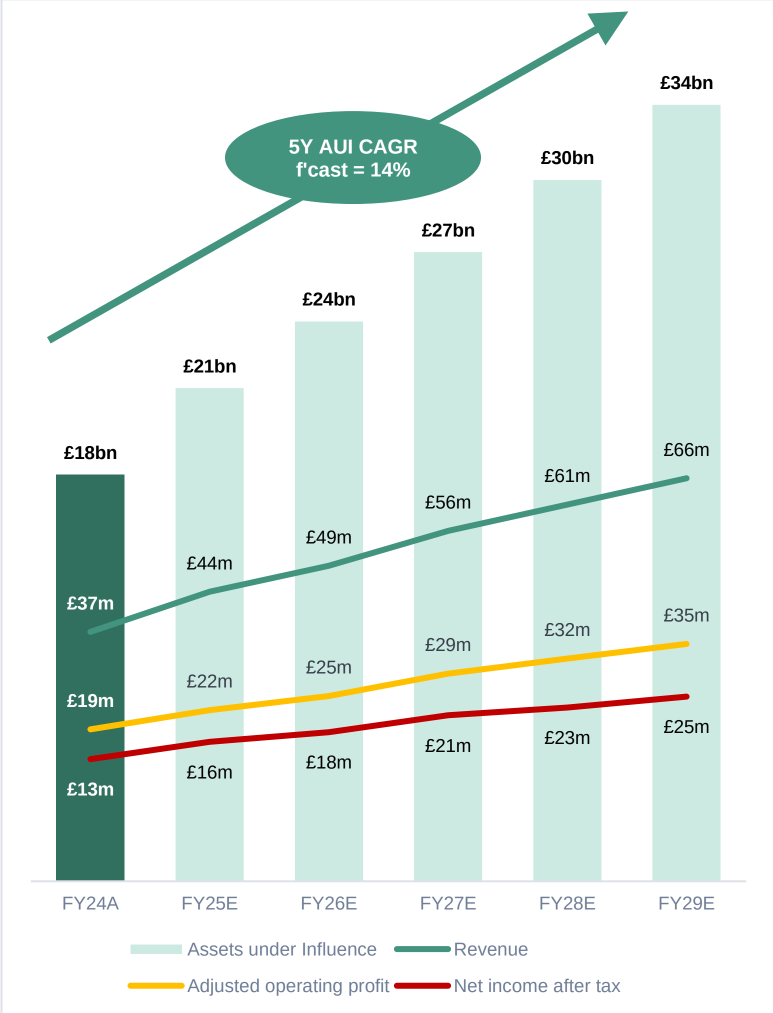
Source: HM Land Registry (up to Aug 24), Halifax house price index (Sep & Oct 24)

Fundamental Valuation increases to 715p as growth exceeds forecasts

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 7).
  - **AUI grows at c14% CAGR**, driven by:
    - Annual net flows of £2bn+ p.a. as guided (7-10% of AUM), although expected to be c£3bn in FY25 (recent net flow rates: FY22: 14%, FY23: 16%, FY24: 18%; H1-25: 22% annualised).
    - Investment returns of 4% p.a. (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 12%**, lower than AUI growth because we assume some price erosion over time due to competitive pressures.
  - **Adjusted margin increases slightly from the current 50.3% to c53% 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.
- We also highlight that Tatton has flagged that its contract with Perspective Financial Group may end in Jan 26, although discussions are ongoing. Tatton manages c£2.5bn of AUM for Perspective which could be at risk towards the end of FY26. However, producing only £500k of revenue in H1-25, this is clearly AUM with a low revenue yield, and even if lost, the impact on revenue and profitability would be very small.

Summary 5Y growth forecast



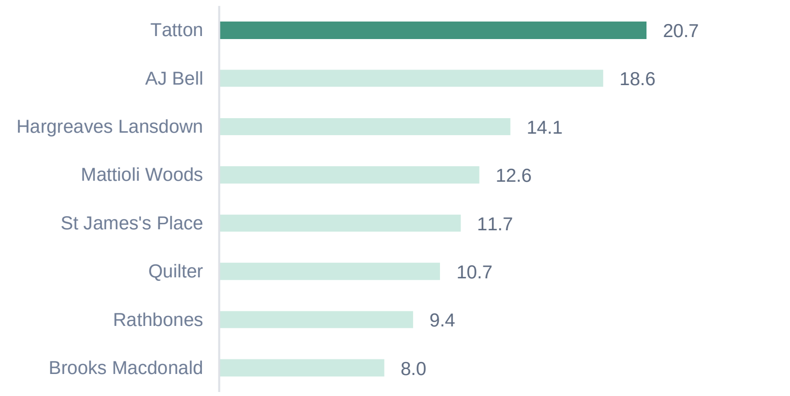
Source: Company historic data, ED forecasts and analysis

Peer comparator valuations

Valuation premium looks small given superior growth

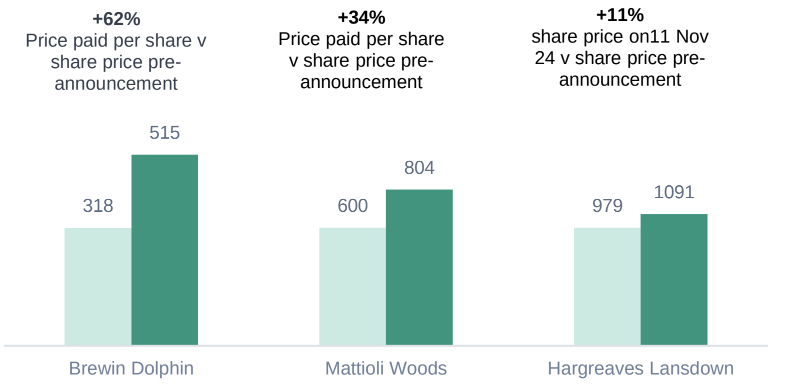
- A number of companies in the peer group we use to compare Tatton's valuation to had substantial distortions to statutory earnings in their last FY making PER comparisons based on statutory earnings an almost meaningless exercise.
- We have therefore compared PE ratios using the closest measure to Tatton's adjusted operating profit (pre-tax). This comparison is shown in the chart on the right.
- Given its far superior growth rate compared to peers (pages 4 & 5), very high profit margins, and strong balance sheet (£26.9m net cash at the end of H1-25 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 of 715p.
- **We also flag the recent share price premiums 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 11 Nov 24 except Mattioli Woods which de-listed on 4 Sep 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	**FY23**	***H1-24***	**FY24**	***H1-25***	**FY25E**	**FY26E**
Revenue	**32.3**	***17.5***	**36.8**	***21.7***	**44.3**	**49.2**
Share of profit from joint venture	0.2	*0.3*	(1.2)	*(0.1)*	0.2	0.2
Admin exp (before separately disclosed items)[1]	(15.9)	*(8.6)*	(18.3)	*(10.8)*	(22.4)	(24.6)
Adj op profit (before sep. disclosed items)[1]	**16.4**	***8.9***	**18.5**	***10.9***	**22.1**	**24.8**
Share based payment costs	(1.5)	*(0.8)*	(1.5)	*(0.8)*	(1.5)	(1.5)
Amort. of acquisition-related intangibles	(0.5)	*(0.3)*	(0.6)	*(0.3)*	(0.6)	(0.6)
Op. loss relating to non-controlling interest	-	-	(0.1)	*(0.1)*	-	-
Exceptional items	(0.4)	-	(1.3)	-	-	-
Gains: changes in FV of contingent cons.	2.7	-	1.4	-	-	-
Total admin expenses	(15.7)	*(9.8)*	(19.2)	*(11.9)*	(24.7)	(26.9)
Statutory Operating profit	**16.6**	***7.7***	**16.5**	***9.6***	**20.1**	**22.7**
Finance income/(costs)	(0.4)	*(0.0)*	0.3	*0.5*	1.0	1.0
Unwinding of discount rate on deferred comp.	(0.2)	-	-	-	-	-
Profit before tax	**16.0**	***7.7***	**16.8**	***10.1***	**21.3**	**23.9**
Tax	(2.6)	*(2.3)*	(3.8)	*(2.4)*	(5.1)	(5.9)
Profit attributable to shareholders	**13.4**	***5.4***	**13.0**	***7.8***	**16.1**	**18.0**
Basic EPS, p	22.4	*9.0*	21.4	*13.0*	26.1	28.6
Diluted EPS, p	21.7	*8.7*	21.0	*12.7*	25.7	28.2
Basic adjusted EPS2, p	21.7	*11.1*	23.7	*14.3*	28.4	30.9
Diluted adjusted EPS2, p	20.6	*10.5*	22.9	*13.7*	27.5	29.9

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	**FY23**	***H1-24***	**FY24**	***H1-25***	**FY25E**	**FY26E**
Non-current assets						
Investments in Joint Ventures	6.8	*6.8*	5.4	*5.3*	5.3	5.3
Intangible assets incl. goodwill	13.0	*12.7*	13.5	*13.3*	13.4	13.3
Property, plant and equipment	0.5	*0.3*	0.8	*0.7*	0.8	0.8
Deferred income tax assets	1.3	*1.5*	2.6	*3.2*	2.6	2.6
Other receivables	-	*0.2*	0.2	*-*	0.2	0.2
Total non-current assets	**21.4**	***21.6***	**22.4**	***22.5***	**22.3**	**22.2**
Current assets						
Trade and other receivables	3.8	*4.1*	5.1	*5.3*	5.4	6.0
Cash and cash equivalents	26.5	*24.2*	24.8	*26.9*	32.4	39.0
Fin. assets at FV through P&L	0.1	*0.2*	0.1	*1.1*	1.1	1.1
Corporation tax asset	0.1	*0.6*	-	*0.2*	-	-
Total current assets	**30.5**	***29.0***	**30.1**	***33.5***	**38.9**	**46.2**
TOTAL ASSETS	**51.9**	***50.7***	**52.5**	***56.0***	**61.2**	**68.3**
Current liabilities						
Trade and other payables	(7.9)	*(8.0)*	(8.1)	*(7.6)*	(9.8)	(10.8)
Corporation tax	-	*-*	(0.0)	*-*	(0.0)	(0.0)
Total current liabilities	**(7.9)**	***(8.0)***	**(8.1)**	***(7.6)***	**(9.8)**	**(10.8)**
Non-current liabilities						
Other payables	(2.3)	*(2.3)*	(1.0)	*(1.0)*	(1.0)	(1.0)
Total non-current liabilities	**(2.3)**	***(2.3)***	**(1.0)**	***(1.0)***	**(1.0)**	**(1.0)**
TOTAL LIABILITIES	**(10.2)**	***(10.3)***	**(9.1)**	***(8.6)***	**(10.8)**	**(11.9)**
NET ASSETS	**41.8**	***40.3***	**43.3**	***47.4***	**50.4**	**56.5**
Equity						
Share capital	12.0	*12.1*	12.1	*12.1*	12.1	12.1
Share premium account	15.3	*15.5*	15.5	*15.6*	15.6	15.6
Other reserve	2.0	*2.0*	2.0	*2.0*	2.0	2.0
Merger reserve	(29.0)	*(29.0)*	(29.0)	*(29.0)*	(29.0)	(29.0)
Joint Venture reserve	(0.0)	*0.0*	-	*-*	-	-
Retained Earnings	41.5	*42.2*	45.9	*49.3*	52.8	58.9
Own shares	-	*(2.6)*	(3.3)	*(2.7)*	(3.3)	(3.3)
Non-controlling interest	-	*-*	0.1	*(0.0)*	0.1	0.1
TOTAL EQUITY	**41.8**	***40.3***	**43.3**	***47.4***	**50.4**	**56.5**

Source: Group report & accounts and ED estimates

Consolidated Statement of Cash Flows + Forecasts						
12 months to end Mar, £'m	**FY23**	***H1-24***	**FY24**	***H1-25***	**FY25E**	**FY26E**
Operating activities						
Profit for the year	**13.4**	***5.4***	**12.9**	***7.7***	**16.1**	**18.0**
Adjustments:						
Income tax expense	2.6	*2.3*	3.8	*2.4*	5.1	5.9
Finance (income)/costs	0.6	*0.0*	(0.3)	*(0.5)*	(1.0)	(1.0)
Depreciation of PPE	0.4	*0.2*	0.4	*0.2*	0.4	0.4
Amortisation of intangible assets	0.7	*0.3*	0.5	*0.3*	0.6	0.6
Share-based payment expense	1.4	*0.8*	1.2	*0.8*	1.5	1.5
Post-tax share of JV (P)/L less related amort.	(0.0)	*(0.2)*	1.2	*0.1*	(0.2)	(0.2)
Changes in FV of contingent consideration	(2.7)	-	(1.4)	*(0.0)*	-	-
Changes in trade and other receivables	(0.1)	*(0.6)*	(1.6)	*0.1*	(0.3)	(0.6)
Changes in trade and other payables	(0.4)	*(0.0)*	0.1	*(0.8)*	1.7	1.1
Exceptional costs	0.4	-	1.3	-	-	-
Cash generated from operations	**15.8**	***8.3***	**16.9**	***10.2***	**23.9**	**25.6**
Income tax paid	(2.6)	*(2.2)*	(3.7)	*(2.7)*	(5.1)	(5.9)
Net cash from operating activities	**13.2**	***6.1***	**13.2**	***7.5***	**18.7**	**19.7**
Investing activities						
Acquisition & JV pmts, net of cash acquired	(0.2)	-	(1.2)	-	(0.3)	(0.3)
Dividends received from Joint Venture	-	*0.1*	0.3	-	0.3	0.3
Purchase of intangible assets	(0.2)	*(0.1)*	(0.2)	*(0.1)*	(0.3)	(0.3)
Purchase of property, plant and equipment	(0.1)	*(0.1)*	(0.1)	*(0.0)*	(0.1)	(0.2)
Payments for financial assets at FV	-	-	-	*(1.0)*	(1.0)	-
Interest received	-	*0.2*	0.6	*0.5*	1.0	1.0
Net cash used in investing activities	**(0.5)**	***0.1***	**(0.7)**	***(0.7)***	**(0.4)**	**0.5**
Financing activities						
Proceeds from the issue of shares	0.1	*0.2*	0.2	*0.1*	0.1	-
Purchase of own shares	-	*(2.6)*	(3.3)	-	-	-
Proceeds from the exercise of options	-	-	-	-	-	-
Interest received/(paid)	(0.2)	*(0.1)*	(0.1)	-	-	-
Payment of lease liabilities	(0.3)	*(0.1)*	(0.2)	*(0.1)*	(0.2)	(0.2)
Repayment of loan liabilities	-	-	(0.0)	*(0.0)*	-	-
Dividends paid	(7.7)	*(6.0)*	(10.8)	*(4.7)*	(10.7)	(13.3)
Net cash used in financing activities	**(8.0)**	***(8.5)***	**(14.2)**	***(4.8)***	**(10.8)**	**(13.6)**
Net increase in cash and cash equivalents	**4.8**	***(2.3)***	**(1.7)**	***2.1***	**7.5**	**6.7**
Cash and equivalents at beginning of the period	21.7	*26.5*	26.5	*24.8*	24.8	32.4
Net cash & equivalents at end of the period	**26.5**	***24.2***	**24.8**	***26.9***	**32.4**	**39.0**

Source: Group report & accounts and ED estimates

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