

Forecasts exceeded in FY23, strong start to FY24

13th June 2023

In FY23, Tatton (once again) grew much faster than peers. AUM was up 12% y-o-y excluding acquisitions (peer group median: 0%) to £12.7bn on 31 Mar 23 (31 Mar 22: £11.3bn). Assets Under Influence (AUI) reached £13.8bn (including 8AM Global: 50% stake acquired in Aug 22). In just over two months post year-end, AUI has grown another 3% to £14.3bn.

The bulk of growth in FY23 came from exceptionally strong net flows of +£1.8bn (FY22: +£1.3bn); 16% of opening AUM (FY22: 14%) compared to a peer group median of 4% (FY22: 6%). Tatton's ability to attract and retain assets has been far above peers for some time now (see page 2). It has clearly designed, and is delivering, an outstanding proposition to clients.

Paradigm, Tatton's IFA support services business, continued its steady growth trajectory. Mortgage completions grew 10% to £14.5bn (FY22: 13.2bn), with completions holding up well in H2 (£7.2bn), despite housing market headwinds. Consulting member firms increased from 421 to 431.

Group revenue grew 10% from £29.4m in FY22 to £32.3m, adjusted operating profit 13% from £14.5m to £16.4m, and adjusted operating margin increased from 49.5% to 50.7% (compared to a sector median of 32%, see page 5), providing further evidence of operational gearing.

Net cash increased 22% to £26.5m, even with £8.0m paid out in dividends. Tatton has no debt. A full-year dividend of 14.5p has been recommended, up 16% (FY22: 12.5p) producing a yield of 3.2%.

Forecasts upgraded, fundamental value rises to 580p

Tatton has exceeded our previous revenue and profitability forecasts for FY23: revenue forecast £31.1m, actual: £32.3m; adjusted operating profit forecast £15.8m, actual: £16.4m.

We think its differentiated offering within a market sweet-spot (on-platform Model Portfolio Services growth rate: c25% p.a.) will fuel continued strong growth (although we caution that market pullbacks can interrupt growth). We also specifically highlight that while Tatton is adding new clients at a rapid rate, there is a huge opportunity (c£14bn) to grow AUM from its existing client base (see page 9).

We increase our FY24 forecasts: revenue from £35.0m to £35.9m; adjusted operating profit from £17.9m to £18.2m. This also pushes up our forecasts beyond FY24 and **our fundamental valuation rises from 560p to 580p, 28% above the current share price.**

Key Financials					
Year-end 31 Mar	FY 21A	FY 22A	FY 23A	FY 24E	FY 25E
AUM end-of-period*, £bn	9.0	11.3	12.7	14.7	17.0
Revenue, £m	23.4	29.4	32.3	35.9	39.8
Operating profit (adj), £m	11.4	14.5	16.4	18.2	20.4
Operating margin (adj), %	48.8%	49.5%	50.7%	50.7%	51.3%
PBT, £m	7.3	11.3	16.0	15.2	17.4
PAT, £m	6.1	9.2	13.4	11.5	13.2
EPS basic (adj), p	16.1	19.9	21.7	22.5	25.3
EPS diluted (adj), p	14.7	18.6	20.6	21.0	23.3
Div, p	11.0	12.5	14.5	15.8	17.7
Yield, %	2.4%	2.8%	3.2%	3.5%	3.9%
PER (on adj. basic earnings)	28.2	22.9	20.9	20.2	17.9
Net assets, £m	24.4	31.0	41.8	46.6	52.4
Net cash, £m	16.9	21.7	26.5	30.3	35.1

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: **454.5**
 *Excludes £1.1bn of 'Assets under Influence' (AUI) from 8AM Global acquisition in Aug 22 (i.e. in FY23).

Company Data	
EPIC	TAM
Price (last close)	454.5p
52 weeks Hi/Lo	489p/320p
Market cap	£273m
ED Fair Value / share	580p
Proforma net cash	£27m
Avg. daily volume	52k

Share Price, p



Source: ADVFN

AUM/AUI June 23: £14.3bn

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 (80% of group revenue), and *adviser support services* - regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (20% of group revenue).

Next event: H1-24 trading update, Oct 23

Paul Bryant (Analyst)

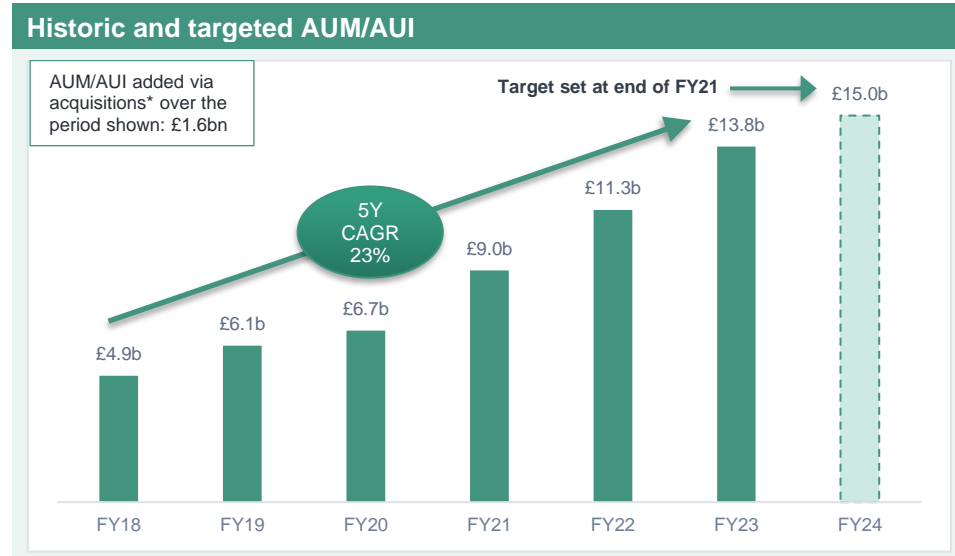
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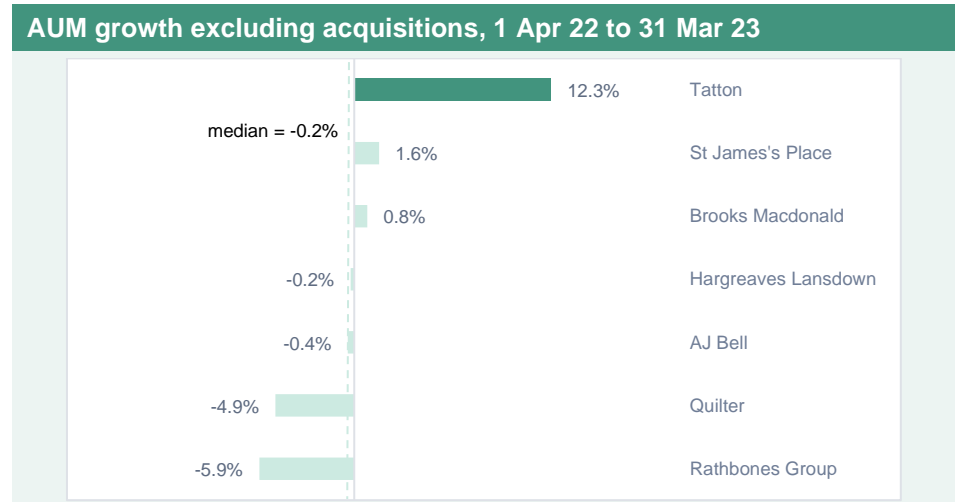
FY23 AUM growth impresses on all metrics

Tatton's 12% organic growth in FY23 and its acquisition of 50% of 8AM Global has moved it ahead of the trajectory required to meet its three-year growth target of £15bn by end-FY24. This has continued the impressive growth trajectory of recent years, driven mostly by organic growth.



Source: Company
 *Sinfonia (2019) £135m; Verbatim (2021) £650m; 8AM (2022) c£800m

Organic growth over the FY23 period (including net flows and investment performance but excluding acquisitions) was in fact the highest among its peer group.



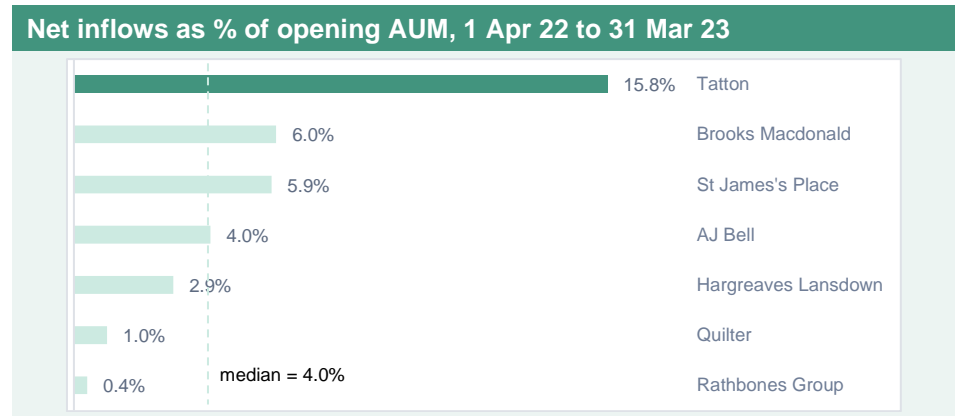
Source: Company reports and updates, ED analysis

[Note: The peer group comprises investment managers, wealth managers and platforms which typically house 'portfolios' as opposed to investments in individual funds (a characteristic of 'pure-play' asset managers). The flow and investment performance characteristics are different between these two groups; hence asset managers are not in the peer group.

In terms of net flows, the above peer group will typically be impacted less by movements between asset classes or investments into or withdrawals from individual funds – such transactions would usually be a change of allocation within a portfolio housed with the wealth/investment manager or platform. In contrast, such changes would usually be a net inflow or outflow for a pure-play asset manager i.e., funds moving from one asset manager to another.

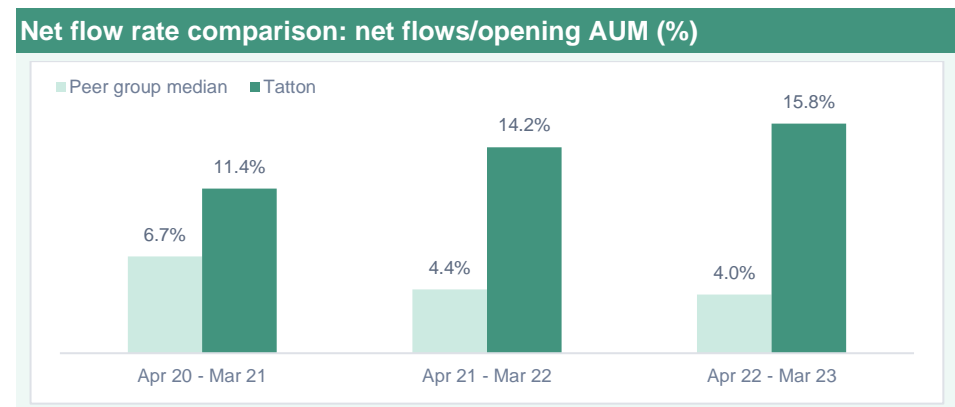
In terms of investment performance, the above peer group would mostly reflect that of investors' entire portfolios i.e., a mix of equities, bonds, cash etc, whereas pure-play asset managers would be impacted by the performance of their particular investment speciality (perhaps a class of equities or bonds etc)].

Tatton's strong net flows in FY23 were particularly impressive given the difficult economic and financial market environment and were consistent throughout the year (FY23: +£1.8bn; H1: £907m; H2: +£887m). **Its net inflow rate was by far the highest in the peer group.**



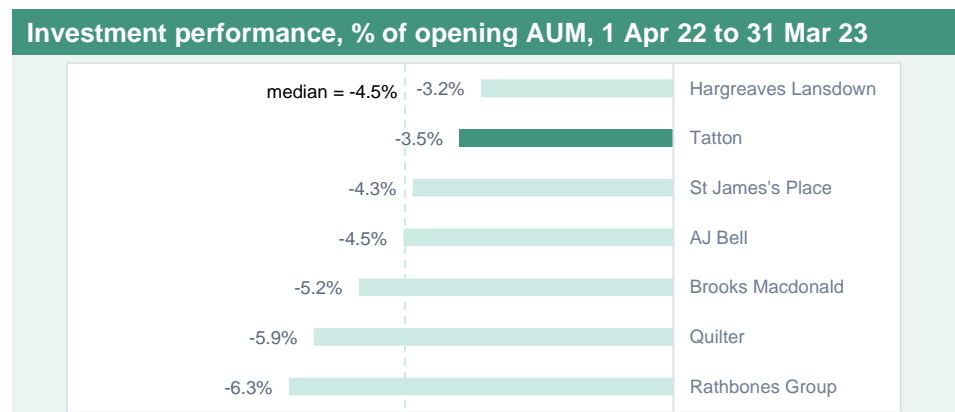
Source: Company reports and updates, ED analysis
 Data excludes AUM from acquisitions

This net flow outperformance continued the trend of the last few years.



Source: Company reports, ED analysis. Peer group: Quilter, St James's Place, Hargreaves Lansdown, AJ Bell, Rathbones, Brooks Macdonald, Brewin Dolphin (up to Mar 22).

AUM growth was however pegged back by the sharp market falls in H1. The impact of Tatton's investment performance on AUM was as follows: FY23: -£400m; H1: -£905m; H2 +£505m. But the full year investment performance (-3.5% of opening AUM) was one of the highest in the peer group.



Source: Company reports and updates, ED analysis

In addition to this impressive investment performance in relation to peers, **Tatton continued to deliver superior investment returns compared to benchmarks, a very important consideration for clients when selecting their investment manager.**

This is illustrated below showing performance of Tatton's core product set over ten, five, and one-year time horizons (dark green shading below depicts outperformance versus benchmark or performance matching benchmark, red depicts underperformance versus benchmark – ethical product set and global equity has not been in existence for full ten-year period).

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 10 years to 31 Mar 23

	Active	Tracker	Hybrid	Ethical*	ARC Peers**
Defensive	3.0	3.1	3.0		2.1
Cautious	4.6	4.4	4.6		3.3
Balanced	5.5	5.4	5.6		4.5
Active	6.6	6.6	6.7		4.5
Aggressive	7.4	7.5	7.4		5.4
Global Equity					

** ARC PCI –UK wealth management portfolio peer group with historically comparable asset allocation characteristics
 Source: Tatton Analysts Presentation June 2023

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 5 years to 31 Mar 23

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	1.5	1.6	1.6	2.1	1.5
Cautious	3.1	3.2	3.1	3.8	2.5
Balanced	4.0	4.3	4.2	5.0	3.6
Active	5.1	5.3	5.2	6.3	3.6
Aggressive	5.9	6.3	6.1	7.6	4.6
Global Equity	8.2	8.5	8.3	8.0	4.6

** ARC PCI –UK wealth management portfolio peer group with historically comparable asset allocation characteristics
 Source: Tatton Analysts Presentation June 2023

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 1 year to 31 Mar 23

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	-5.0	-4.1	-4.5	-6.7	-4.3
Cautious	-4.0	-2.9	-3.5	-5.9	-4.5
Balanced	-3.0	-1.9	-2.5	-5.1	-4.5
Active	-2.1	-1.1	-1.6	-4.3	-4.5
Aggressive	-1.9	-0.9	-1.4	-3.7	-4.6
Global Equity	-2.8	-2.0	-2.4	-3.5	-4.6

** ARC PCI –UK wealth management portfolio peer group with historically comparable asset allocation characteristics
 Source: Tatton Analysts Presentation June 2023

Strong FY23 financial performance

The above AUM growth, coupled with robust cost management, has translated to impressive FY23 results.

Income statement

Group revenue increased 10.1% from £29.4m in FY22 to £32.3m in FY23, with Tatton (investment management) being the standout contributor, growing revenue by 11.1% to £25.9m (FY22: £23.3m) and making up 80% of group revenue (FY22: 80%; FY21: 77%; FY20: 75%). Paradigm (IFA support services – mortgage broking and IFA consulting) also recorded solid growth, despite the headwinds in the mortgage market with revenue increasing 6.8% to £6.4m from £6.0m

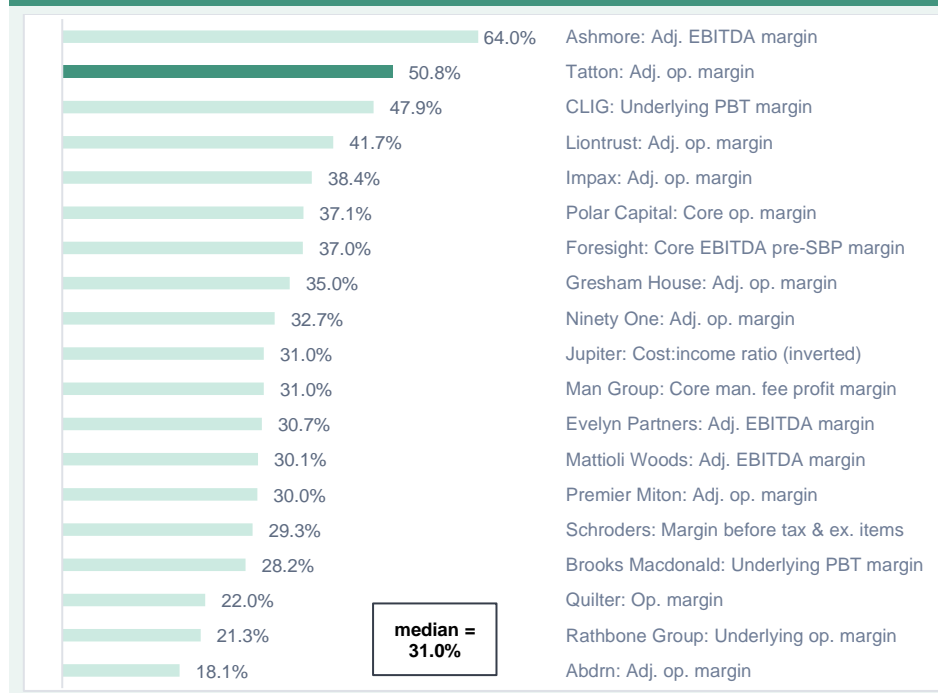
Adjusted operating expenses, the best metric of underlying like-for-like costs (excl. exceptional items, share-based payment charges and amortisation of acquired intangibles) increased 8.5% from £14.8m to £16.1m. Tatton has reported that in the inflationary environment, it implemented an average 5% annual salary increase (excl. executive directors salaries which remain unchanged) with personnel costs at around 60% of total cost base. An increase in variable compensation, in line with strong financial performance, has been mostly responsible for the overall cost growth being higher than average salary growth.

In turn, **adjusted operating profit, Tatton’s key operating profitability metric, grew 12.9% to £16.4m from £14.5m in FY22 with adjusted operating margin increasing to 50.7% from 49.5%, providing further evidence of continued operational gearing and good cost control.**

Tatton’s margin is also impressive compared to peers, where it has **consistently achieved one of the highest profit margins across the asset and wealth management sectors**. This comparison is shown below, and we think that two key takeaways are:

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

Adjusted operating margin (or similar metric*) comparison



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

* While exact comparators of Tatton’s adj. operating margin (a non-IFRS measure) are not available, most asset and wealth managers do 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 a less useful exercise as those figures are regularly skewed by the exceptional and one-off items mentioned above).

Adjusted earnings per share (basic) increased 9% from 19.9p to 21.7p with adjusted diluted EPS increasing 11% from 18.6p to 20.6p.

Statutory profits bring back share-based payment charges (£1.5m), amortisation of acquired intangibles (£0.5m) and exceptional items (£0.4m, mostly acquisition expenses). In FY23 there was also a credit (£2.7m) relating to the fair value adjustments of future deferred consideration payments on the Verbatim funds acquisition (£0.7m) and 8AM Global joint venture (£1.9m). These related to a determination that 'stretch' deferred payment profitability targets were unlikely to be met (more detail below in 'Balance sheet, cash and dividend section').

In turn, statutory operating profit increased 43% to £16.6m in FY23, up from £11.6m in FY22. In addition to the statutory profit boost from the above fair value adjustment, the percentage increase is also lifted by the significantly smaller share-based payment charge in FY23 (£1.5m compared to £2.4m in FY22).

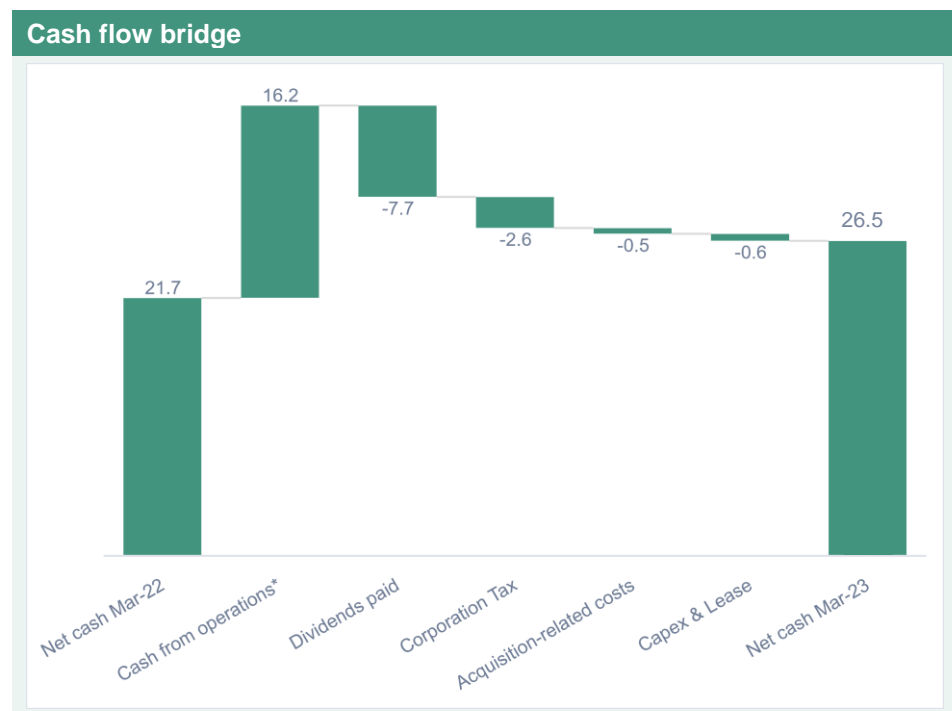
Statutory profit after tax attributable to shareholders was up 45% from £9.2m to £13.4m, with basic EPS increasing from 15.9p to 22.4p and diluted EPS increasing from 15.2p to 21.7p.

Balance sheet, cash and dividend

The balance sheet of the group remained robust with net assets increasing 35% from £31.0m at the end of FY22 to £41.8m, and net cash increasing 22% from £21.7m to £26.5m. This is particularly impressive considering that the Group paid out £8.0m in dividends during the year.

Tatton has no debt.

Net cash generated from operating activities before exceptional items was £16.2m (FY22: £15.5m), 99% of adjusted operating profit (FY22: 107%).



Source: Company
 *adjusted for exceptional items

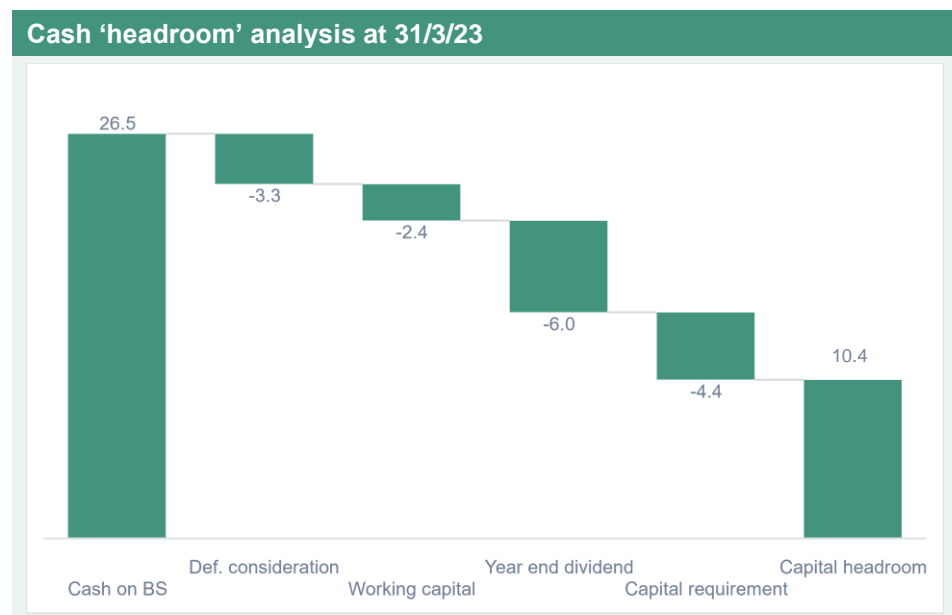
Some changes to the balance sheet occurred during the year as a result of the 8AM transaction. As a reminder, the Group acquired 50% of the share capital of 8AM Global Limited in August 2022. The consideration payable is up to £7.3m, with £3.8m paid on completion through the issuing of shares in TAM plc, and the remaining £3.5m to be paid in two equal instalments, after year one and two following completion, dependent on the business hitting predetermined profitability targets.

On acquisition, the Group recognised goodwill of £5.1m, intangible assets of £2.1m, and a discounted contingent consideration of £2.9m.

At year end, the deferred contingent consideration liability recognised on completion was remeasured to fair value based on the anticipated profitability against the deferred payment profitability target. It was determined that 8AM is unlikely to meet the 'stretch' deferred payment profitability targets, and so the deferred payment liability has been 'fair valued' in line with the anticipated payment value. The difference being £1.9m, between the original deferred payment fair value on completion and the fair value at the year end, which has been taken through the profit and loss account and included as a separately disclosed item.

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 a 'headroom' analysis, which shows **£10.4m of 'surplus' cash being available to pursue growth opportunities (FY22: £8.2m).**



Source: Company

Tatton has declared a final dividend of 8.5p, bringing the full-year dividend to 14.5p, up 16% from 12.5p in FY22, meaning a dividend yield of 3.2% for its shares.

Segmental analysis and outlook

Tatton Investment Management Limited

Note: In this section, 'Tatton' refers to the investment management business, not the group.

Making up over 80% of group revenue, 97% of adjusted operating profit, and being the fastest growing business unit within the group, Tatton's performance has by far the most influence on group results. In FY23 **revenue increased 11% y-o-y from £23.3m in FY22 to £25.9m, adjusted operating profit 14% (highlighting the scalability and operating leverage in this business unit) from £13.9m to £15.8m, while the adjusted operating margin increased from 60% to 61%.**

Revenue margin (revenue as a % of average AUM) remained for practical purposes unchanged at 22.2bps in FY23 compared to 22.6bps in FY22 (such minor differences could be attributable to the simplification used in calculating average AUM – we only have AUM values at two points in the year, so our average AUM calculation is an approximation). Management have stated that there have been no material price reductions or pricing pressures on Tatton's products.

Turning to the outlook, we highlight that **Tatton is a business that has performed strongly over the years, is positioned in a market with significant tailwinds, is gaining market share, and has significant further growth opportunities which are likely to benefit from a number of compounding effects. It also has opportunities to accelerate growth via strategic partnerships and acquisitions.**

We expand on these factors below.

Market tailwinds

UK on-platform discretionary fund management (DFM) managed portfolio services (MPS) AUM (Tatton's core offering) reached £104bn in 2023, up from £25bn in 2017, a CAGR of around 25%. This market 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 above 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 appreciating 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 (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 these 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) to avoid the regulatory and risk burden of selecting investments and to 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).

¹ Tatton analyst presentation Mar 23, original source Platform

Leading proposition driving increased market share

Tatton's market leading proposition continues to result in it gaining market share within the above growing market. Indeed, **its market share of the on-platform DFM market has increased from 11.8% in 2018 to 13.4% in 2023.**

Tatton's proposition to advisers

-  **Low cost** – places the adviser at the heart of the value chain, 0.15% DFM fee
-  **Agnostic** on platform, risk profiler, investment style, charging structure – you decide “how”
-  **Non compete** with adviser, platform only, IFA only, no D2C, Service Excellence
-  **Breadth of Offering** – Primarily Model Portfolios but also funds, AIM and BPS
-  **Strong Ethical Approach** – 7 Year ESG history, breadth of offering, accessible cost
-  **Client Protection** - We adopt the reliance on others approach
-  **Migration Support Process** – bulk migration support, costs and charges comparison, “Why Tatton?” and “Why Discretionary?”

Source: Company

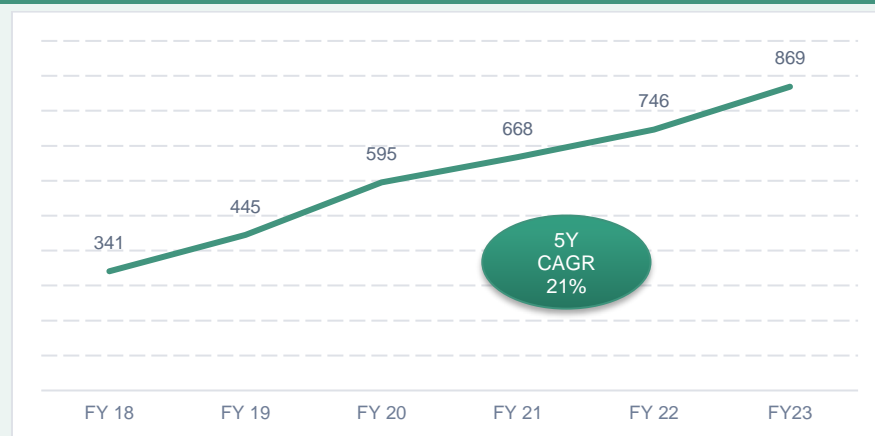
Drilling down into the net flow opportunity

Net flows are primarily driven by:

- 1) Tatton increasing the number of IFA clients that contract with it to manage their clients' investments; and
- 2) from existing IFA clients increasing the proportion of their client's investments managed by it i.e., increasing the average AUM per firm. [An IFA client will typically not move all their business to a new investment manager at once but increase it over time as the relationship builds].

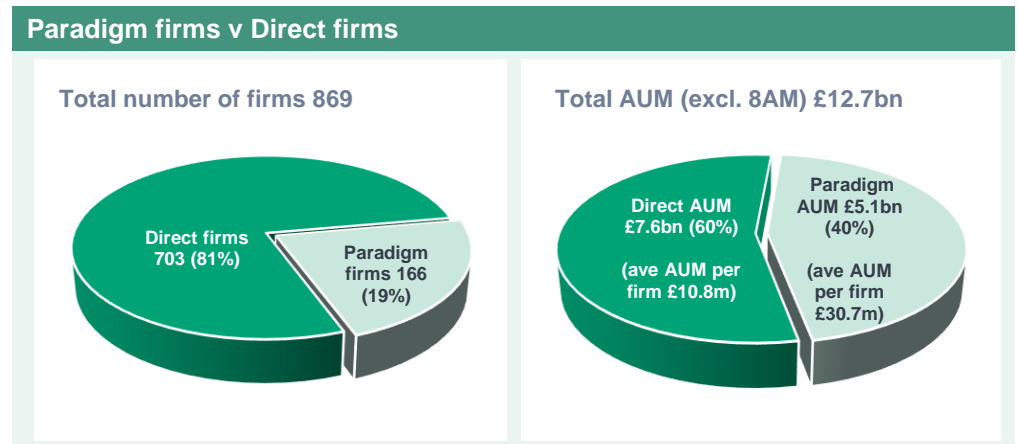
With regard to point 1 above, **Tatton has achieved exceptionally strong growth of its IFA client base in recent years, demonstrating that it has a very attractive offering. And there is still ample room to grow this further as the UK has over 5,500 directly authorised IFA firms.**

Number of Tatton IFA client firms



Source: Tatton. Number of firms at end of FY.

With regard to point 2 above (average AUM per client firm), it is necessary to consider two distinct segments of IFA client firms.



Source: Tatton

In the first segment are '**Paradigm firms**', which are IFAs that are clients of both Paradigm (the IFA consulting business) and Tatton. There are fewer firms in this segment, but they have a higher average AUM per firm. As of 31 Mar 23, there were 166 of these clients (19% of Tatton's client base) which were responsible for £5.1bn (40%) of Tatton's AUM (average AUM per firm = £30.7m).

In the second segment are '**Direct firms**', which are clients of Tatton but are not clients of Paradigm. There are more firms in this segment, but they have a lower average AUM per firm. As of 31 Mar 23, there were 703 of these clients (80% of Tatton's client base) which were responsible for £7.6bn (60%) of Tatton's AUM (average AUM per firm = £10.8m). The number of these clients is growing rapidly (up 21% from 581 on 31 Mar 22).

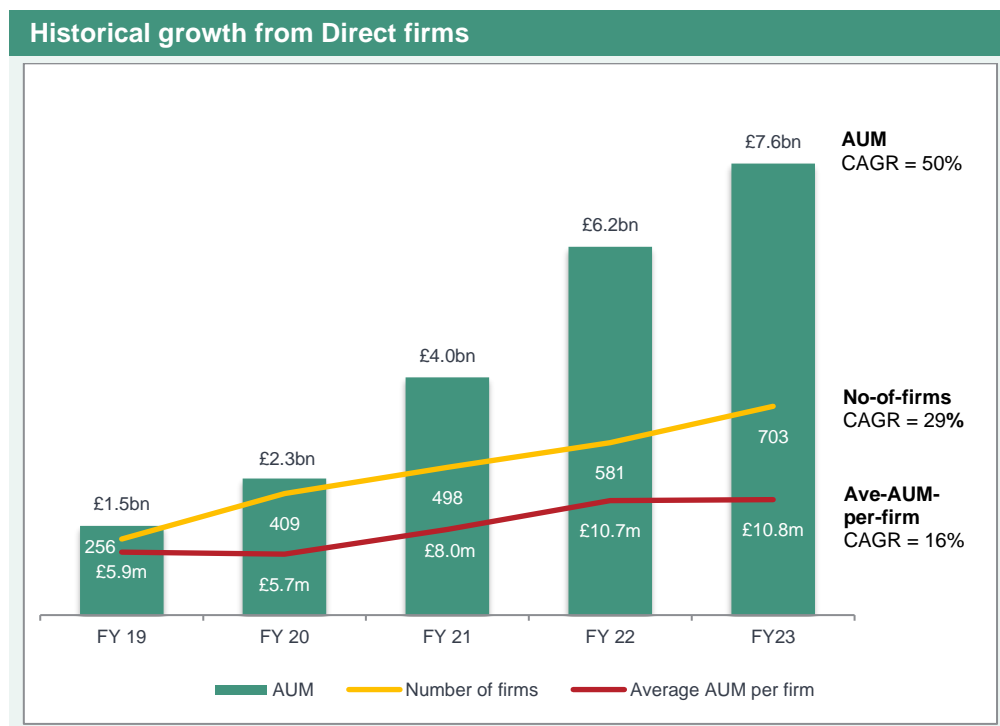
The reason Paradigm firms have a higher average AUM than Direct firms is that they tend to have been Tatton clients for a longer time than Direct firms, and as stated above, IFAs tend to build up their AUM placed with investment managers over time. Their £31m per-firm average AUM therefore serves as a realistic level for the Direct firm segment to achieve over time. **This opportunity is huge.**

Indeed, if Tatton succeeds in growing its Direct firm segment average AUM (as it currently is), and if this average AUM approaches that of the Paradigm firm segment (£31m), **Tatton has a £14bn AUM opportunity simply by increasing the average AUM per client, without winning new clients** (703 firms x £19.9m, the difference between current average AUM per firm for direct firms and Paradigm firms).

Combined compounding effect of TATTON growth

We summarise the combined compounding effect of adding new clients, increasing average AUM per client, and that of investment returns below (chart shows the direct client segment which is quickly becoming the dominant segment of Tatton as a result of these compounding effects).

To stress this point, it can be seen that overall, AUM growth (the primary driver of revenue) has recorded a far higher compounded annual growth rate (50% over five years) than that of the number of client firms and average AUM per firm.



Source: Company reports and updates, ED analysis

In addition to the above growth drivers, Tatton has an opportunity to further accelerate growth through strategic partnerships and through acquisitions.

Growth accelerator 1: strategic partnerships

Tatton has also demonstrated that it can accelerate growth by entering into **strategic partnerships** which reduce its dependence on winning new client firms 'one-by-one'.

Its most mature partnership dates back to 2019, when it won a long-term mandate to provide a managed portfolio service through Tenet Group, one of the UK's largest adviser support groups, giving it strategic access to 474 additional IFA firms, with the corresponding opportunity to rapidly boost AUM (total opportunity estimated at £1.2bn).

Then, in September 2021 Tatton announced a new strategic partnership with Fintel plc, a prominent service provider to financial advisers. It signed a five-year strategic distribution agreement which provides access for the distribution of Tatton funds and portfolios to 3,800 Fintel intermediary firms and 6,000 Defaqto users.

This distribution deal looks to have significantly larger potential than the Tenet partnership, and we believe that £1.3bn - £1.5bn would be a conservative AUM estimate over five years.

In addition, Tatton has also entered into strategic partnerships with **Threesixty Services** (900+ IFAs, including over 100 discretionary management firms - more than 9,000 individuals) and **Sesame Bankhall Group** (10,000+ Advisers, 800+ directly regulated financial services firms).

Other strategic partnerships are possible which could accelerate growth.

Growth accelerator 2: acquisitions

Tatton is also pursuing a strategic acquisition strategy, with three acquisitions or partial acquisitions concluded in recent years. Sinfonia Asset Management was acquired in 2019, adding £135m of AUM; Verbatim Funds was acquired in 2012, adding £650m of AUM; and 50% of 8AM Global was acquired in 2022, adding c£0.8bn of AUI.

We believe all have been concluded at **attractive valuations** and have **relatively low execution and integration risk**. Sinfonia and Verbatim were both closely linked to strategic partnerships (see above) and constituted the acquisition of non-core (from a seller's perspective), 'going concern' funds from sellers whose rationale was well understood by Tatton, with the management of these funds being taken over by Tatton, rather than the acquisition of whole businesses with complexities such as teams and systems which would need to be integrated.

In the case of 8AM Global, the existing management team will remain in place with 8AM continuing to run as a separate business, while cross-and-up-selling opportunities are pursued (8AM runs a range of MPS and funds which are complementary to Tatton's, and it broadens Tatton's financial adviser base).

Paradigm: IFA Support Services

Paradigm continued its steady growth trajectory. Mortgage completions grew 10% to from £13.2bn to £14.5bn, despite rising interest rates and housing market headwinds. The number of mortgage client firms also increased from 1,674 to 1,751 and consulting member firms increased from 421 to 431.

In turn, **paradigm revenue grew 7% from £6.0m in FY22 to £6.4m, with adjusted operating profit flat at £2.4m. a margin of 37.6% (FY22: 40.6%).**

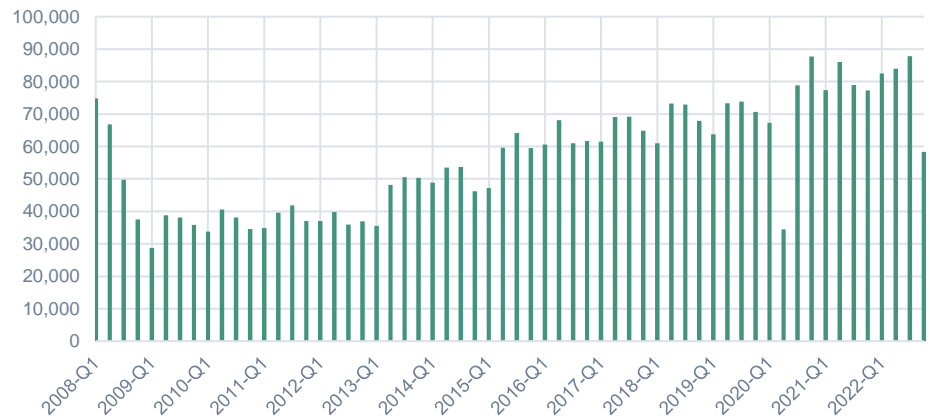
Looking forward, we see the consulting business as a solid business with potential to grow steadily. It also ensures that the group maintains extremely close relationships with IFAs and gains valuable market insights, so it is strategically very important.

We see mortgages as a growth business, fundamentally underpinned by the supply-demand imbalance of the UK residential housing market, where it remains a national imperative to significantly increase housing supply.

There is however no denying that there are headwinds in the housing market, including the likelihood that the UK interest rate hiking cycle has not yet ended, and the cost-of-living pressures on households fuelled by stubbornly high inflation.

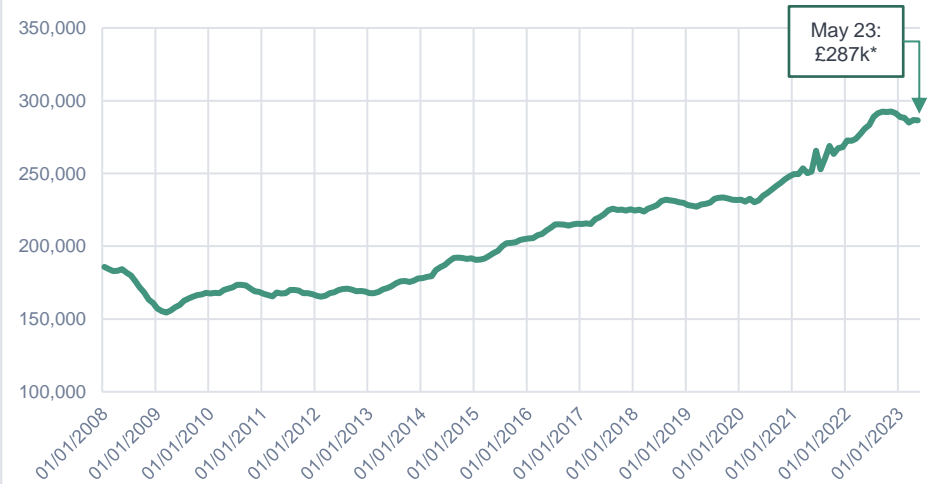
Having said that, some perspective needs to be maintained over these headwinds. **While new mortgage lending, house prices, and mortgage transactions have all recorded dips in recent months, these are, in all probability, only likely to be short-term interruptions to very strong longer-term trends** (see charts overleaf).

New mortgage commitments* (£m)



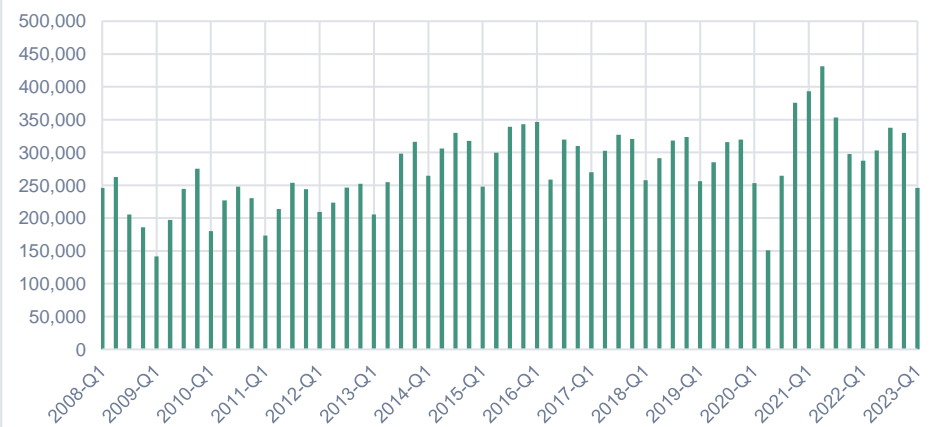
Source: Bank of Bank of England, Mortgage Lenders and Administrators Statistics - 2022 Q4
 *lending agreed to be advanced in the coming months

Average residential property price (£)



Source: HM Land Registry (up to Mar 2023), Halifax house price index (Apr & May 23)
 *HM Land Registry data lags Halifax data

Residential property transactions



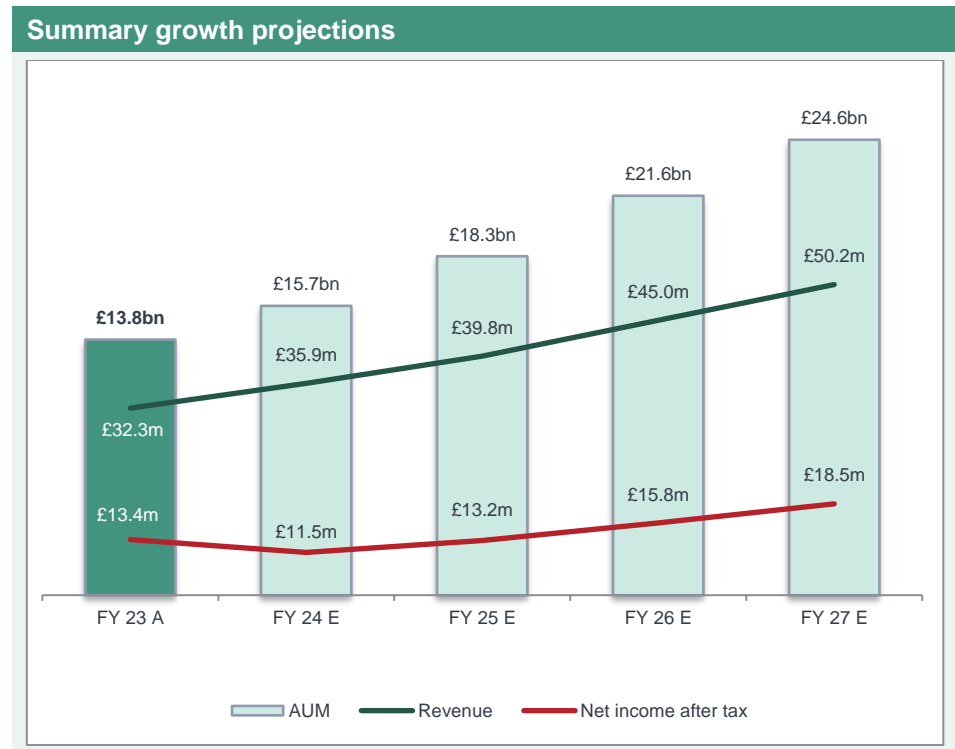
Source: HM Land Registry (latest data Q1-23). Transaction statistics are reported based upon when transactions were completed and only include those with a value of above £40,000. Data for Q1-23 provisional.

Growth forecasts and valuation

Fundamental valuation

We have assumed that the opportunities described above can drive net inflows of between £1.5bn and £1.8bn over the next five years (notably, lower than Tatton's current inflow rate). We also assume that market movements add a further 4% per year to AUM.

In addition, operational leverage should see margins continue to improve as the business scales. The resultant financial projections for our modelled growth scenario are summarised below.



Source: Company Historic Data, ED estimates

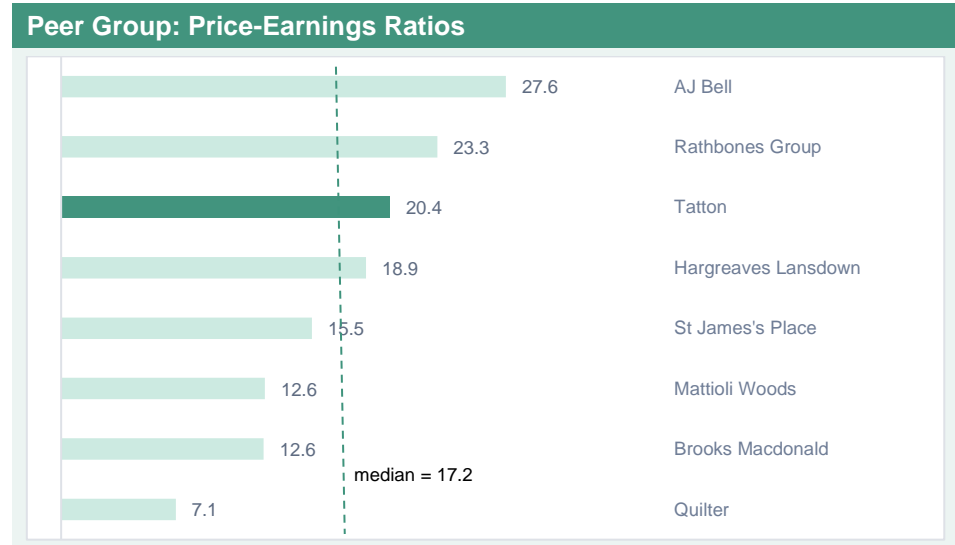
Note: FY24 net income after tax impacted (relative to FY23) by two one-off negative factors: 1) Increase in UK corporation tax rate from 19% to 25% (from Apr 23); and 2) FY23 statutory profits were boosted by a £2.6m fair-value adjustment on future contingent payments related to acquisitions.

For the purposes of determining the terminal value of our discounted cash flow fundamental valuation, we assume that after five years Tatton is acquired at a PE ratio of 20. Discounting the cash flows from these forecasts and the proceeds of a sale, at a discount rate of 10.4% **produces a fundamental valuation of 580p per share.**

Quoted comparators

We have also looked at Tatton's valuation on a peer-comparison basis.

While it is a relatively highly-rated company in relation to peers, this rating is hardly excessive (PE of 20 compared to a peer group median of 17), and we believe this is fully justified given its superior growth track record and its superior profitability.



Source: ADVFN (as at 09 June 2023), ED analysis.
 PEs calculated using latest full-year basic EPS

Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Mar, £'m	FY 21A	FY 22A	FY 23A	FY 24E	FY 25E
Revenue	23.4	29.4	32.3	35.9	39.8
Share of profit from joint venture			0.2	0.7	0.8
Admin exp (before separately disclosed items) ¹	(12.0)	(14.8)	(16.1)	(18.4)	(20.2)
Adj op profit (before separately disclosed items)¹	11.4	14.5	16.4	18.2	20.4
Share based payment costs	(3.7)	(2.4)	(1.5)	(2.4)	(2.4)
Amortisation of acquisition-related intangibles	(0.1)	(0.3)	(0.5)	(0.5)	(0.5)
Exceptional items	(0.0)	(0.2)	(0.4)	(0.3)	(0.3)
Gains: changes in FV of contingent consideration			2.7	-	-
Total admin expenses	(15.8)	(17.7)	(15.9)	(21.6)	(23.4)
Statutory Operating profit	7.5	11.6	16.6	15.0	17.2
Finance income/(costs)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Unwinding of discount rate on deferred compensation			(0.2)	-	-
Profit before tax	7.3	11.3	16.0	14.6	16.8
Tax	(1.2)	(2.0)	(2.6)	(3.7)	(4.2)
Profit attributable to shareholders	6.1	9.2	13.4	11.5	13.2
Basic EPS, p	10.9	15.9	22.4	19.4	22.3
Diluted EPS, p	10.3	15.2	21.7	18.7	21.4
Basic adjusted EPS ² , p	16.1	19.9	21.7	22.5	25.3
Diluted adjusted EPS ² , p	14.7	18.6	20.6	21.0	23.3

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 21A	FY 22A	FY 23A	FY 24E	FY 25E
Non-current assets					
Investments in Joint Ventures	-	-	6.8	7.1	7.5
Intangible assets incl goodwill	7.7	13.4	13.0	13.3	13.7
Property, plant and equipment	1.0	0.7	0.5	0.4	0.4
Deferred income tax assets	1.4	0.8	1.3	1.3	1.3
Total non-current assets	10.1	15.0	21.4	22.1	22.9
Current assets					
Trade and other receivables	4.3	3.8	3.8	4.2	4.7
Cash and cash equivalents	16.9	21.7	26.5	30.3	35.1
Financial assets at fair value through P&L	0.2	0.2	0.1	0.1	0.1
Corporation tax asset	0.0	0.7	0.1	0.1	0.1
Total current assets	21.4	26.4	30.5	34.7	40.0
TOTAL ASSETS	31.5	41.3	51.9	56.8	62.9
Current liabilities					
Trade and other payables	(6.6)	(7.6)	(7.9)	(8.8)	(9.7)
Total current liabilities	(6.6)	(7.6)	(7.9)	(8.8)	(9.7)
Non-current liabilities					
Other payables	(0.5)	(2.7)	(2.3)	(1.5)	(0.7)
Total non-current liabilities	(0.5)	(2.7)	(2.3)	(1.5)	(0.7)
TOTAL LIABILITIES	(7.1)	(10.3)	(10.2)	(10.3)	(10.5)
NET ASSETS	24.4	31.0	41.8	46.6	52.4
Equity					
Share capital	11.6	11.8	12.0	12.0	12.0
Share premium account	11.5	11.6	15.3	15.3	15.3
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)	(0.0)	(0.0)
Retained Earnings	30.2	34.6	41.5	46.2	52.1
Acquisition of own shares	(2.0)	-	-	-	-
TOTAL EQUITY	24.4	31.0	41.8	46.6	52.4

Source: Group report & accounts and ED estimates

Consolidated Statement of Cash Flows + Forecasts					
12 months to end Mar, £'m	FY 21A	FY 22A	FY 23A	FY 24E	FY 25E
Operating activities					
Profit for the year	6.1	9.2	13.4	11.5	13.2
Adjustments:					
Income tax expense	1.2	2.0	2.6	3.7	4.2
Finance (income)/costs	0.2	0.4	0.6	0.4	0.4
Depreciation of property, plant and equipment	0.4	0.4	0.4	0.4	0.4
Amortisation of intangible assets	0.3	0.5	0.7	0.7	0.7
Share-based payment expense	3.7	1.5	1.4	2.4	2.4
Post-tax share of JV profits less related amortisation	-	-	(0.0)	(0.5)	(0.6)
Changes in FV of contingent consideration			(2.7)	-	-
Changes in trade and other receivables	(0.5)	0.3	(0.1)	(0.4)	(0.5)
Changes in trade and other payables	(0.5)	0.9	(0.4)	0.9	1.0
Exceptional costs	0.0	0.2	0.4	0.3	0.3
Cash from operations before exceptional costs	10.9	15.5	16.2	19.2	21.4
Cash generated from operations	10.9	15.3	15.8	18.9	21.2
Income tax paid	(2.1)	(1.6)	(2.6)	(3.7)	(4.2)
Net cash from operating activities	8.8	13.6	13.2	15.3	17.0
Investing activities					
Acquisition & JV payments, net of cash acquired	(0.2)	(2.8)	(0.2)	(1.5)	(1.5)
Purchase of intangible assets	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)
Purchase of property, plant and equipment	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net cash used in investing activities	(0.5)	(3.1)	(0.5)	(1.9)	(1.9)
Financing activities					
Proceeds from the issue of shares	3.2	0.1	0.1	-	-
Proceeds from the exercise of options		1.2	-	-	-
Transaction costs related to borrowings	(0.6)				
Interest received/(paid)	(0.0)	(0.1)	(0.2)	(0.4)	(0.4)
Payment of lease liabilities	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Acquisition of own shares	(1.0)	-	-	-	-
Dividends paid	(5.6)	(6.6)	(7.7)	(9.1)	(9.7)
Net cash used in financing activities	(4.1)	(5.8)	(8.0)	(9.6)	(10.2)
Net increase in cash and cash equivalents	4.2	4.8	4.8	3.8	4.9
Cash and equivalents at beginning of the period	12.8	16.9	21.7	26.5	30.3
Net cash and equivalents at end of the period	16.9	21.7	26.5	30.3	35.1

Source: Group report & accounts and ED estimates



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