Tatton Asset Management

Sector-leading net flows, double-digit profit growth

16 November 2023

AUM grew 8% over H1-24 (to 30 Sep 23) from £12.7bn to £13.7bn. Net inflows totalled +£910m (7% of opening AUM), an inflow rate far above most peers, with some experiencing substantial outflows (see page 2). Investment performance contributed +£100m to AUM. Encouragingly, Tatton reports that the level of net inflows of H1 has continued into H2.

Revenue was up 10% y-o-y from £15.9m in H1-23 to £17.5m; adjusted operating profit (AOP) increased 11% from £8.0m to £8.9m; and AOP margin hit 50.7%, from an already-impressive 50.1% in H1-23. These margins are far above any comparable business (see page 7).

Statutory PBT increased 16% from £6.6m to £7.7m; PAT increased 1% from £5.3m to £5.4m on a higher tax charge; basic EPS was flat at 9.0p while adjusted fully diluted EPS increased 6% to 10.5p.

Cash from operations was up 13% y-o-y to £8.3m, while **net cash increased 12% y-o-y to £24.2m. Tatton has no debt**. An interim dividend of 8p has been recommended, +78% on H1-23 (4.5p), although this is primarily bringing an element of the interim dividend forward, with overall dividend policy unchanged. Tatton reports: "*this reflects the confidence of the Board in the Group's financial performance, high levels of cash and liquidity, and headroom over our regulatory capital requirement.*"

Hitting growth target early, positive outlook in market 'sweet spot'

'Assets under influence' ('AUI', including 8AM Global) reached £14.8bn, within touching distance of the medium-term strategic AUI target of £15bn which Tatton set out to achieve by March 2024.

We highlight the significant growth potential going forward (detailed on pages 9-12): Tatton is in a growing market with significant tailwinds; it has a market-leading proposition and is gaining market share; it has a huge opportunity to grow AUM even without winning new clients (by increasing average AUM per client); and it can accelerate growth through strategic partnerships and acquisitions.

Our fundamental valuation is 580p per share, 18% above the current share price. We also flag that since the end of the bull market (end of 2021), **investment/wealth managers and platforms have 'de-rated' significantly, with the median PER of a tracked peer group declining 47% from 27.6 to 14.6. We believe there is potential for a significant sector re-rating (see page 16).**

Key Financials

Year-end 31 Mar	FY 21A	FY 22A	*H1-23A*	FY 23A	*H1-24A*	FY 24E	FY 25E
AUM end-of-period*, £bn	9.0	11.3	*11.3*	12.7	*13.7*	14.7	17.1
Revenue, £m	23.4	29.4	*15.9*	32.3	*17.5*	35.9	39.8
Operating profit (adj), £m	11.4	14.5	*8.0*	16.4	*8.9*	18.2	20.4
Operating margin (adj)	48.8%	49.5%	*50.1%*	50.7%	*50.7%*	50.7%	51.3%
PBT, £m	7.3	11.3	*6.6*	16.0	*7.7*	15.4	17.7
PAT, £m	6.1	9.2	*5.3*	13.4	*5.4*	11.7	13.4
EPS basic (adj), p	16.1	19.9	*10.1*	21.7	*11.1*	22.4	25.2
EPS diluted (adj), p	14.7	18.6	*9.6*	20.6	*10.5*	21.4	23.7
Div, p	11.0	12.5	*4.5*	14.5	*8.0*	16.0	17.6
Yield	2.0%	2.3%	*0.8%*	2.7%	*1.5%*	3.0%	3.3%
PER	49.7	33.9	*30.0*	24.1	*30.1*	27.9	24.3
Net cash, £m	16.9	21.7	*21.6*	26.5	*24.2*	26.5	32.9

Source: Company Historic Data, ED estimates. PER and Yield based on share price of: ***540p***
**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)	540p
52 weeks Hi/Lo	540p/329p
Market cap	£327m
ED Fair Value / share	580p
Proforma net cash	£24m
Avg. daily volume	57k

Share Price, p

Source: ADVFN

AUM/AUI on 30 Sep 23 : £14.8bn

Description

Tatton Asset Management was founded in 2007 and serves smaller, UK-based Independent Financial Advisers via two distinct business units: *investment management* - discretionary fund management delivered via WRAP platforms (c 83% of revenue), and *adviser support services* - regulatory and compliance consulting and outsourcing, plus mortgage and protection insurance aggregation (c 17% of group revenue).

Next event: Trading update Apr 24

Paul Bryant (Analyst)
0207 065 2690
paul.bryant@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

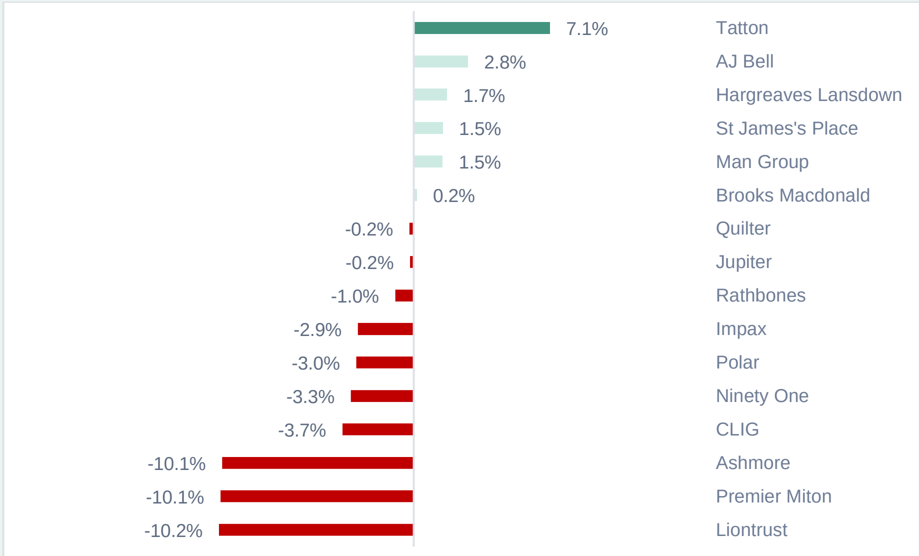
Standout AUM growth leader

AUM grew 8% over H1-24 from £12.7bn to £13.7bn, driven predominantly by strong positive net flows of £910m (7% of opening AUM). Market and investment performance contributed £100m to AUM. 'Assets under influence' (AUI), which includes the AUM of 8AM Global Limited (£1.1bn) in which Tatton owns a 50% stake, also grew 7% to £14.8bn.

Net flows continued a remarkable run of strength and consistency (H1-23: £907m; H2-23: £887m), made all the more impressive given weak economic conditions and financial markets, which hurt the growth of most peers, with some experiencing substantial outflows. Moreover, Tatton reports that **the level of net inflows from H1-23 has continued into H2-23, maintaining this run of consistency**.

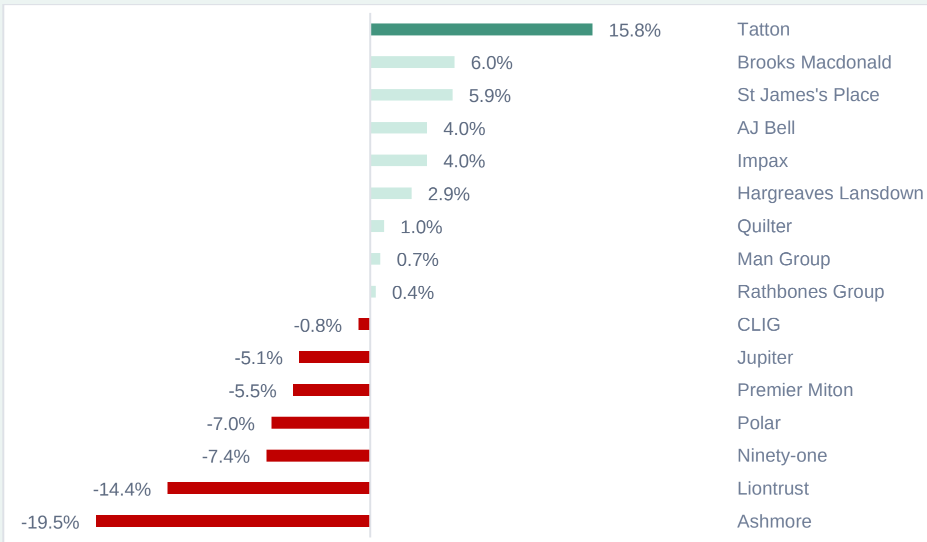
Indeed, **Tatton's ability to attract and retain assets stands head-and-shoulders above that of all London-listed peers** in this most recent half-year, and in the prior FY22. This is testament to its well-designed business model, powerful offering to clients, and ability to execute on its strategy.

H1-23 net flows*, % of opening AUM (6m 1 Apr 23 to 30 Sep 23)



*Source: Company reports, ED analysis. *excl. acquisitions*

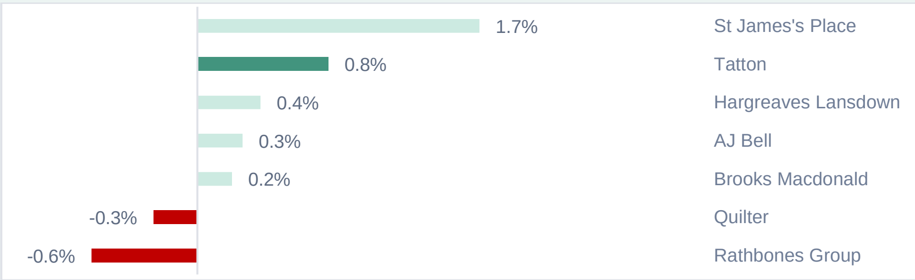
FY-22 net flows*, % of opening AUM (12m 1 Apr 22 to 31 Mar 23)



*Source: Company reports, ED analysis. *excl. acquisitions*

Market moves were not large over the six-month period, although Tatton did have one of the strongest investment performances compared to peers. Note that the below peer group is restricted to *investment managers, wealth managers and platforms* which typically house investment 'portfolios' (as Tatton does) and are the most appropriate comparators to Tatton when it comes to investment performance. It excludes 'pure play' asset managers which typically house specialist equity or bond funds which are not suitable comparators to Tatton's investment performance.

Investment performance, % of opening AUM, 1 Apr 23 to 30 Sep 23



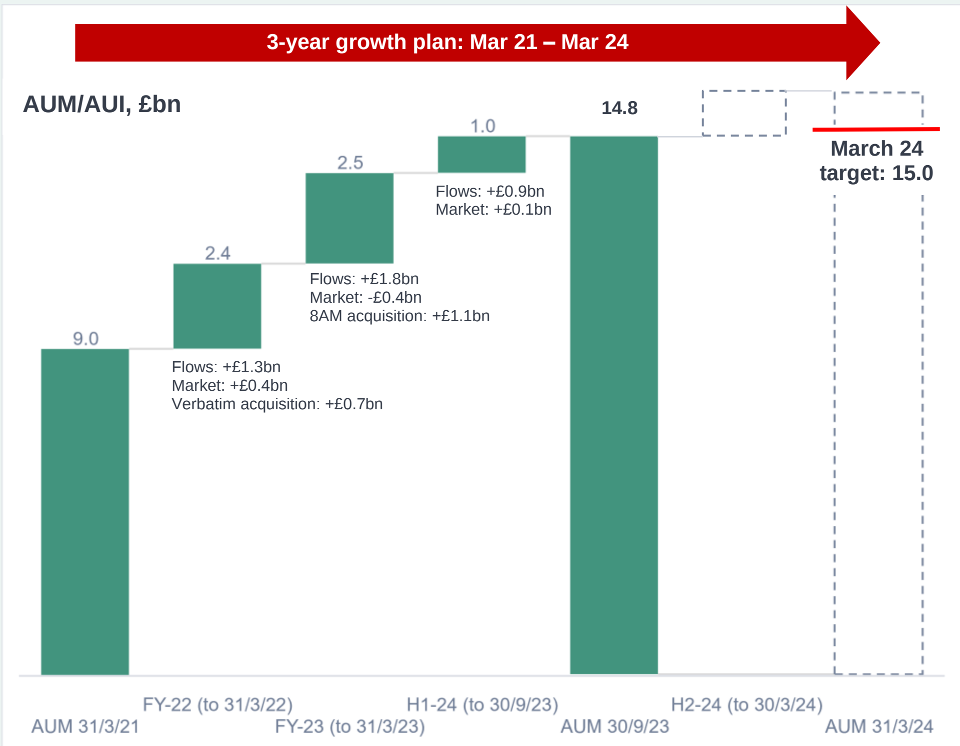
Source: Company reports and updates, ED analysis

On track to meet strategic goals early

The above AUM performance brings Tatton **within touching distance of its medium-term strategic AUI target of £15bn which it set out to achieve by March 2024**.

As reminder, in March 2021, when AUM was £9.0bn, Tatton outlined a growth plan to achieve £15bn of AUM in three years. It was targeting £1bn of organic growth per year and had a healthy M&A pipeline. Two-and-a-half years into this three-year timeline, it has comfortably exceeded these targets.

Tatton is on track to exceed its medium-term growth target



Source: Company

Investment offering underpins AUM growth

The above AUM growth success is underpinned by Tatton continuing to offer clients a suitable range of investment products and delivering on its investment performance goals. To this end**, it maintains an impressive investment performance record, with advisers' confidence in Tatton being well justified**.

The performance of its core suite of model portfolios has comfortably outperformed industry peers with **all core strategies producing higher returns against the relevant benchmarks over ten and five years**. Over one year, all core strategies with the exception of its defensive active and defensive hybrid portfolios have outperformed peers.

[Dark green shading below depicts outperformance versus peers, red shading underperformance].

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 10 years to 30 Sep 23

	Active	Tracker	Hybrid	ARC Peers**
Defensive	2.9	3.1	3.1	2.2
Cautious	4.5	4.4	4.5	3.3
Balanced	5.5	5.5	5.6	4.5
Active	6.7	6.6	6.7	4.5
Aggressive	7.3	7.5	7.4	5.3
Global Equity				

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

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 5 years to 30 Sep 23

	Active	Tracker	Hybrid	ARC Peers**
Defensive	2.9	3.1	3.1	2.2
Cautious	4.5	4.4	4.5	3.3
Balanced	5.5	5.5	5.6	4.5
Active	6.7	6.6	6.7	4.5
Aggressive	7.3	7.5	7.4	5.3
Global Equity				

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

CORE MPS PRODUCT SET: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 1 year to 30 Sep 23

	Active	Tracker	Hybrid	Ethical	ARC Peers**
Defensive	0.8	1.1	1.0	1.9	1.1
Cautious	2.3	2.5	2.4	3.2	1.7
Balanced	3.1	3.4	3.3	4.1	2.4
Active	4.2	4.3	4.3	5.1	2.4
Aggressive	4.8	5.2	5.0	6.1	3.0
Global Equity	6.8	7.0	6.9	6.4	3.0

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

ETHICAL MPS STRATEGY: Portfolio Performance (%)
Annualised, after DFM charge and fund costs – 5 years to 30 Sep 23

	Ethical	ARC Peers**
Defensive	1.9	1.1
Cautious	3.2	1.7
Balanced	4.1	2.4
Active	5.1	2.4
Aggressive	6.1	3.0
Global Equity	6.4	3.0

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

AUM growth translates to impressive financial results

Income statement

Group revenue increased 10% from £15.9m in H1-23 to £17.5m in H1-24. Tatton (investment management division) once again recorded very strong revenue growth (driven by AUM growth) of 13% to £14.5m (H1-23: £12.7m). This division made up 83% of group revenue.

Paradigm (IFA support services division: mortgage broking and IFA consulting) recorded a slight dip in revenue from £3.2m to £3.1m, primarily as a result of the weakness in the UK housing market.

Adjusted operating expenses, the best metric of underlying like-for-like costs (excluding exceptional items, share-based payment charges and amortisation of acquired intangibles) increased 11.8% y-o-y from £7.95m to £8.89m. Inflationary salary increases and the full-period costs of staff recruited in the previous year were mostly responsible for the overall cost growth.

In turn, **adjusted operating profit, Tatton's key operating profitability metric, grew 11% to £8.9m from £8.0m in H1-23 with adjusted operating margin increasing to 50.7% from 50.1%, providing further evidence of continued operational gearing and good cost control**.

The above operating results, at group and segment level, are summarised in the table below.

Summary operating financials

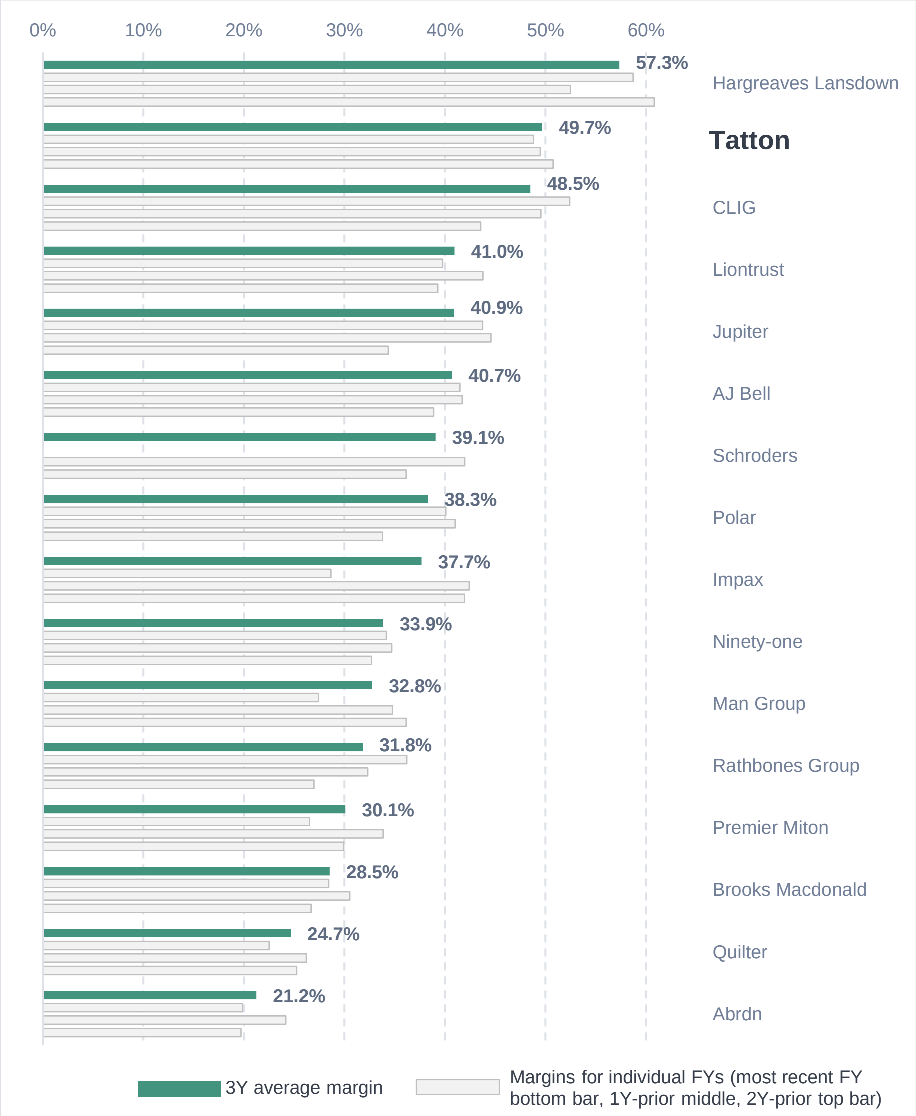
	-----Tatton-----			-----Paradigm-----			-----Group***-----		
	H1-23	H1-24		H1-23	H1-24		H1-23	H1-24	
Revenue, £m	**12.7**	**14.5**	**+13%**	**3.2**	**3.1**	**-4%**	**15.9**	**17.5**	**+10%**
Share of JV profit								0.3	
Key revenue drivers									
Average AUM*, £bn	11.3	13.2	+17%						
Revenue yield**, basis points	22.5	21.8	-3%						
No. of consulting firms				424	437	+3%			
No. of mortgage firms				1,706	1,798	+5%			
Value of mortgage completions, £bn				7.3	6.9	-5%			
Adj. Operating Expenses, £m	5.1	5.5	+8%	1.8	2.1	+14%	8.0	8.9	12%
Adj. Operating Proft, £m	**7.7**	**9.0**	**+17%**	**1.4**	**1.0**	**-29%**	**8.0**	**8.9**	**+11%**
Adj. Operating margin	60.2%	62.2%	+3%	42.3%	31.4%	-26%	50.1%	50.7%	+1%

Source: company reports, ED analysis
**Simple average: (AUM at start of period + AUM at end of period)/2*
***Revenue yield: Revenue/Average AUM (annualised)*
****Sum of Tatton + Paradigm (revenue, cost & profits) does not equal Group total because of allocation to 'Central'*

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**. In fact, it has the highest margin of any comparable company, with only Hargreaves Lansdown, the large-scale D2C platform having a higher margin. 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
** 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, amortisation of acquired intangible assets, and seed investments. The treatment of share-based payments is not consistent, and we have adjusted each company's adjusted margin to be consistent with Tatton's treatment i.e., excluding share-based payments. (Comparing statutory operating margins is a less useful exercise as those figures are regularly skewed by the exceptional and one-off items mentioned above).*

Statutory profits bring back share-based payment charges (H1-24: £0.8m; H1-23: £0.5m), amortisation of acquired intangibles (H1-24: £0.3m; H1-23: £0.2m) and exceptional items (H1-24: nil; H1-23: £0.4m).

In turn, statutory operating profit increased 12% to £7.7m in H1-24, up from £6.9m in H1-23. Statutory pre-tax profit after the impact of finance costs (H1-24: -£0.04m; H1-23: -£0.3m) increased 16% y-o-y from £6.6m to £7.7m, while profit after tax was only slightly up from £5.3m to £5.4m. The large difference between pre-and-post-tax profit growth is due to the higher tax charge during the period (£2.3m in H1-24 versus £1.3m in H1-23), primarily driven by the change in corporation tax rate from 19% to 25% and a higher tax charge on share-based payments.

At a per share level, basic earnings per share decreased marginally from 9.01p to 8.97p, while adjusted fully diluted EPS increased 6% from 9.89p to 10.52p. This includes the impact of potentially dilutive shares.

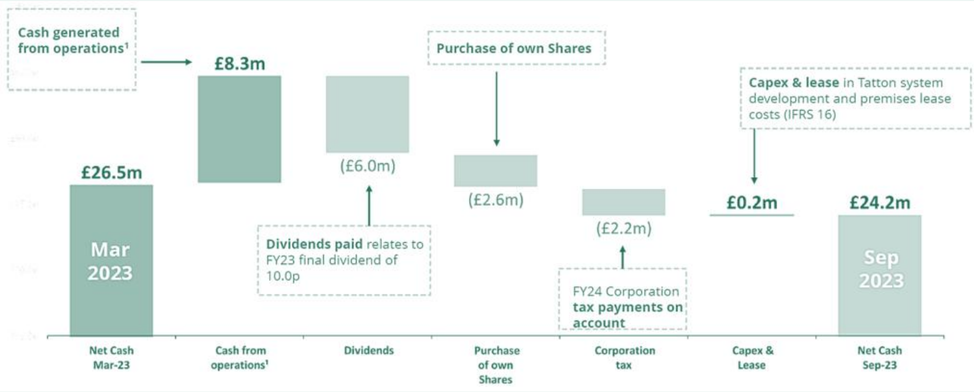
Balance sheet and cash resources

The balance sheet of the group remains strong with net assets increasing 13% y-o-y from £35.7m on 30 Sep 22 to £40.3m.

Cash generated from operations was £8.3m compared to £7.0m in H1-23 (£8.3m before exceptional items compared to £7.3m in H1 23).

Net cash was up 12% y-o-y from £21.6m to £24.2m but down 9% over the half-year from £26.5m on 31 Mar 23. This was, however, affected by large outlays for the purchase of own shares (£2.6m; H1-23: nil), dividends paid (£6.0m; H1-23: £5.0m), and corporation tax (£2.2m; H1-23: £1.6m). Tatton remains debt free.

H1-24 cash flow bridge



Source: Company
[1]Cash from operations adjusted for exceptional items

The group also produces a capital adequacy report which shows surplus capital, after all deductions and regulatory buffers, of £4.7m, compared to £2.7m on 30 Sep 22.

Capital adequacy

Regulatory capital requirement	**£4.3m**
Total Shareholder funds	£40.3m
Less: Foreseeable dividend	(£4.8m)
Less: Non-Qualifying assets	(£26.5m)
Total qualifying capital resources	**£9.0m**
% Capital resource requirement held	*211%*

Source: Company

Dividends

Tatton's Board has recommended an interim dividend of 8.0p per share (around £4.8m), an increase of 78% on the prior period interim dividend (4.5p). This bulk of this increase is the board deciding to bring an element of the interim dividend forward, although it has stated that its overall dividend policy is unchanged, i.e., total annual dividend of approximately 70% of adjusted earnings after tax.

Tatton's results state: "*A larger element of this year's total dividend has been brought forward to the interim dividend and reflects the confidence of the Board in the Group's financial performance, high levels of cash and liquidity, and headroom over our regulatory capital requirement.*"

Our forecast dividend for the full financial year is 16p per share (FY23: 14.5p), which, if accurate, would result in a yield of 3.0% on the last closing share price.

Growth Outlook - Tatton Investment Management

Despite having achieved such strong growth in recent years, we believe Tatton's investment management business still has significant growth potential:

1) it is in a growing market with significant tailwinds;

2) it has a market-leading proposition and is gaining market share;

3) it has a huge opportunity to grow AUM even without winning new clients (by increasing average AUM per client); and

4) it can accelerate growth through strategic partnerships and acquisitions.

Market tailwinds

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

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

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

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

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

[1] *Tatton analyst presentation Mar 23, original source Platforum*

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 14.3% in Sep 23.**

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

Opportunity to grow AUM from new and existing clients

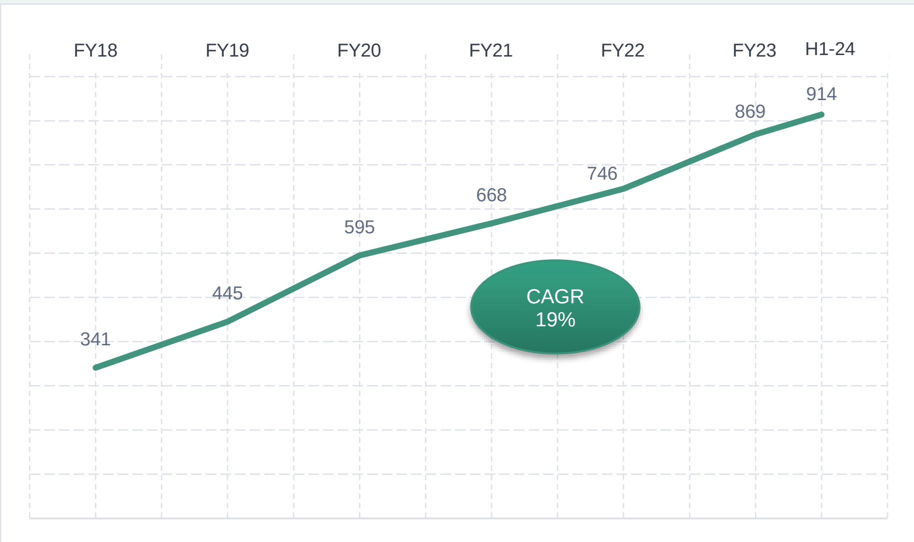
Net flows are primarily driven by:

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.**

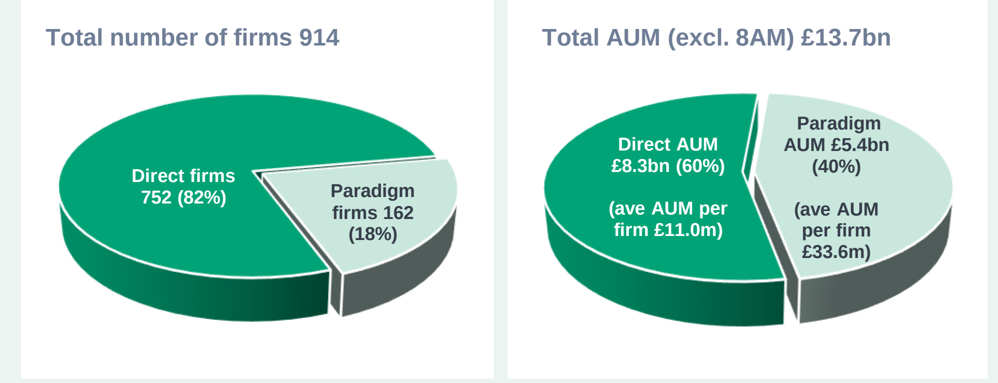
Number of Tatton IFA client firms



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

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

Paradigm firms v Direct 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 30 Sep 23, there were 162 of these clients (18% of Tatton's client base) which were responsible for £5.4bn (40%) of Tatton's AUM (average AUM per firm = £33.6m).

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 30 Sep 23, there were 752 of these clients (82% of Tatton's client base) which were responsible for £8.3bn (60%) of Tatton's AUM (average AUM per firm = £11.0m). The number of these clients is growing rapidly (up 18% y-o-y from 638 on 30 Sep 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 £34m 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 (£34m), **Tatton has a £17bn AUM opportunity simply by increasing the average AUM per client, without winning new clients** (752 firms x £22.6m, the difference between current average AUM per firm for direct firms and Paradigm firms).

Accelerating growth through strategic partnerships and acquisitions

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.

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 (at the time of acquisition announcement).

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).

Growth Outlook: Paradigm - IFA Support Services

We see the Paradigm 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.

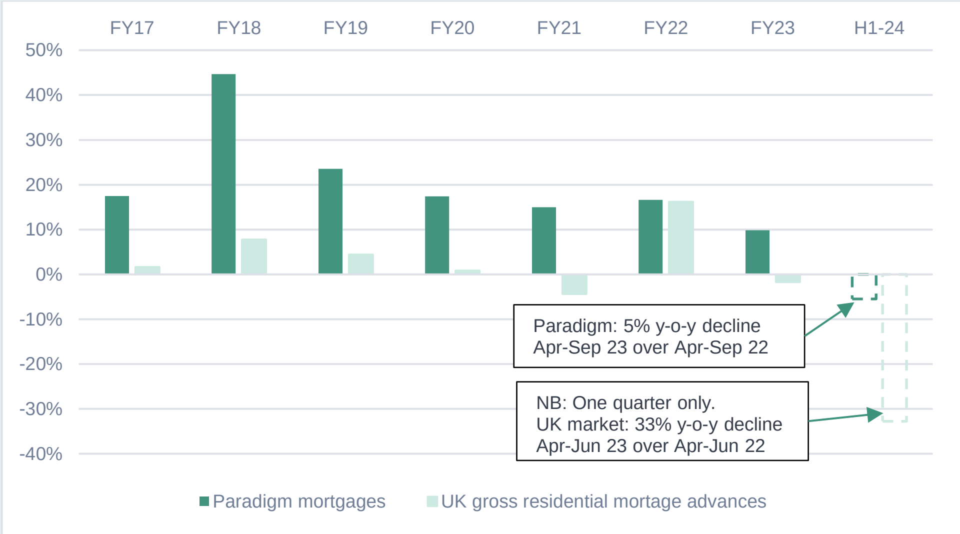
We see mortgages as a growth business, fundamentally underpinned by the supply-demand imbalance of the UK residential housing market, where it remains a national imperative to significantly increase housing supply.

There is, however, no denying that there are headwinds in the housing market, including the likelihood that interest rates remain elevated for some time, and cost-of-living pressures on households continue.

Tatton said: "*We have continued to deliver a strong volume of completions in this challenging economic climate, although as anticipated the nature and distribution of these completions reflected the wider market and shifted towards lower margin product transfers rather than new mortgages or buy-to-let completions."*

Having said that, **Paradigm has grown at a far faster rate than the UK residential mortgage market** in recent years and has not experienced the business declines to the same extent as the overall market during the pandemic or in 2023. It is clearly delivering a sought-after service to its mortgage-broker clients.

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



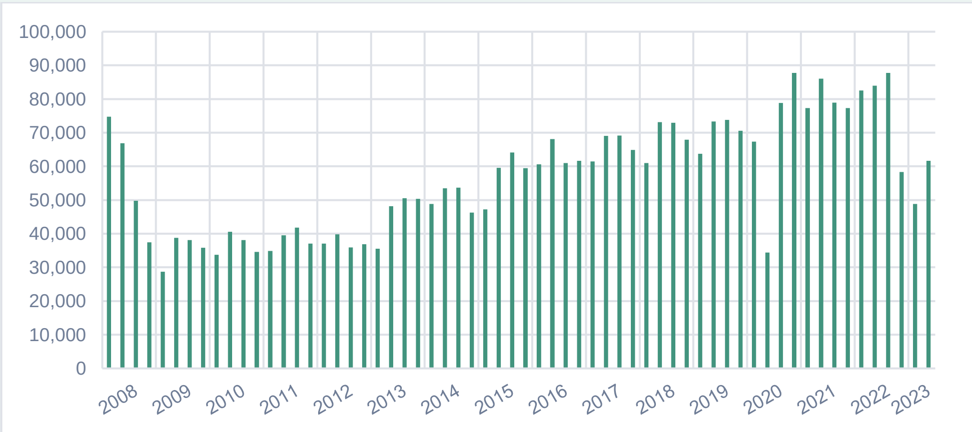
Source: Tatton, Bank of England. BoE data only available up to calender-Q2 23. Full year growth figures show Apr-Mar periods for both Paradigm and the UK market i.e., FY23 = period 1 Apr 22 to 31 Mar 23 etc.

Despite the sharp recent slowdown in the mortgage market, some perspective needs to be maintained over these headwinds.

While new mortgage lending, mortgage transactions and house prices have all recorded recent dips, these are, in all probability, only likely to be short-term interruptions to very strong longer-term trends (see charts below).

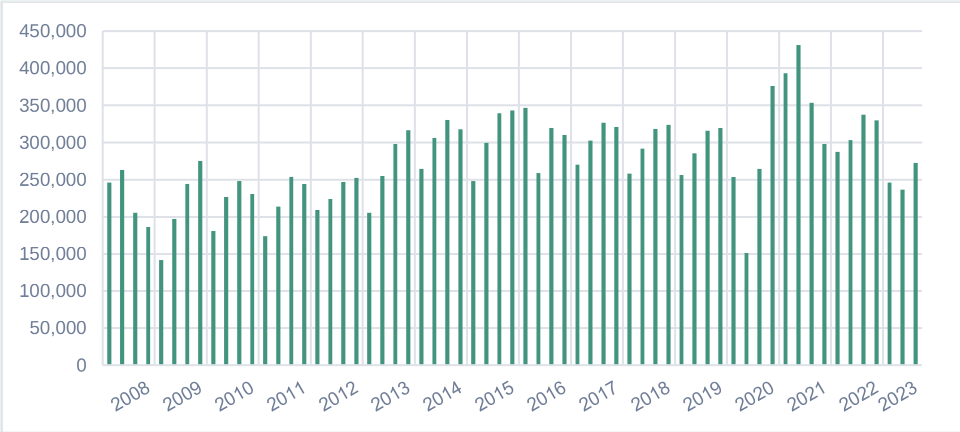
There was also an encouraging uptick in house prices in October, although it is far too early to read too much into that data point.

New mortgage commitments* (£m)



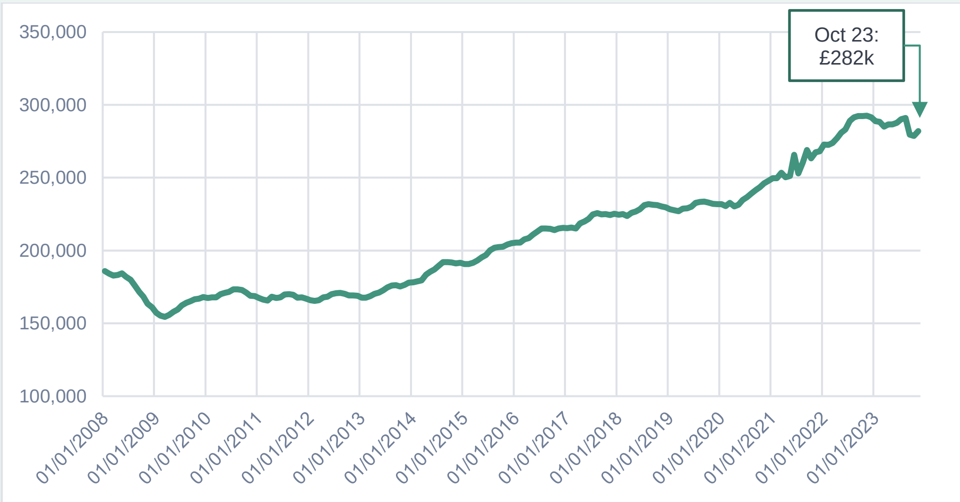
Source: Bank of Bank of England, Mortgage Lenders and Administrators Statistics - 2023 Q2
**lending agreed to be advanced in the coming months*

Residential property transactions



Source: HM Land Registry (latest data Q3-23). Transaction statistics are reported based upon when transactions were completed and only include those with a value of above £40,000. Data for Q3-23 provisional.

Average residential property price (£)



Source: HM Land Registry (to Aug 2023), Halifax house price index (Sep & Oct 23) - HM Land Registry data lags Halifax data

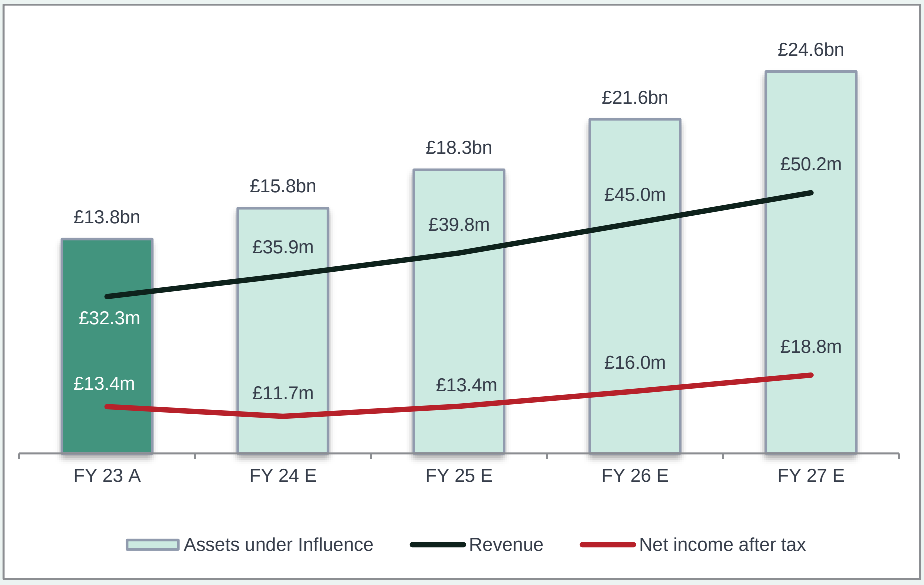
Growth forecasts and valuation

Fundamental valuation

We have assumed that the opportunities described above can drive net inflows of between £1.5bn and £2.0bn over the next five years (around the same level of current flows which average about £150m per month or £1.8bn per year). 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.

Summary growth projections



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.

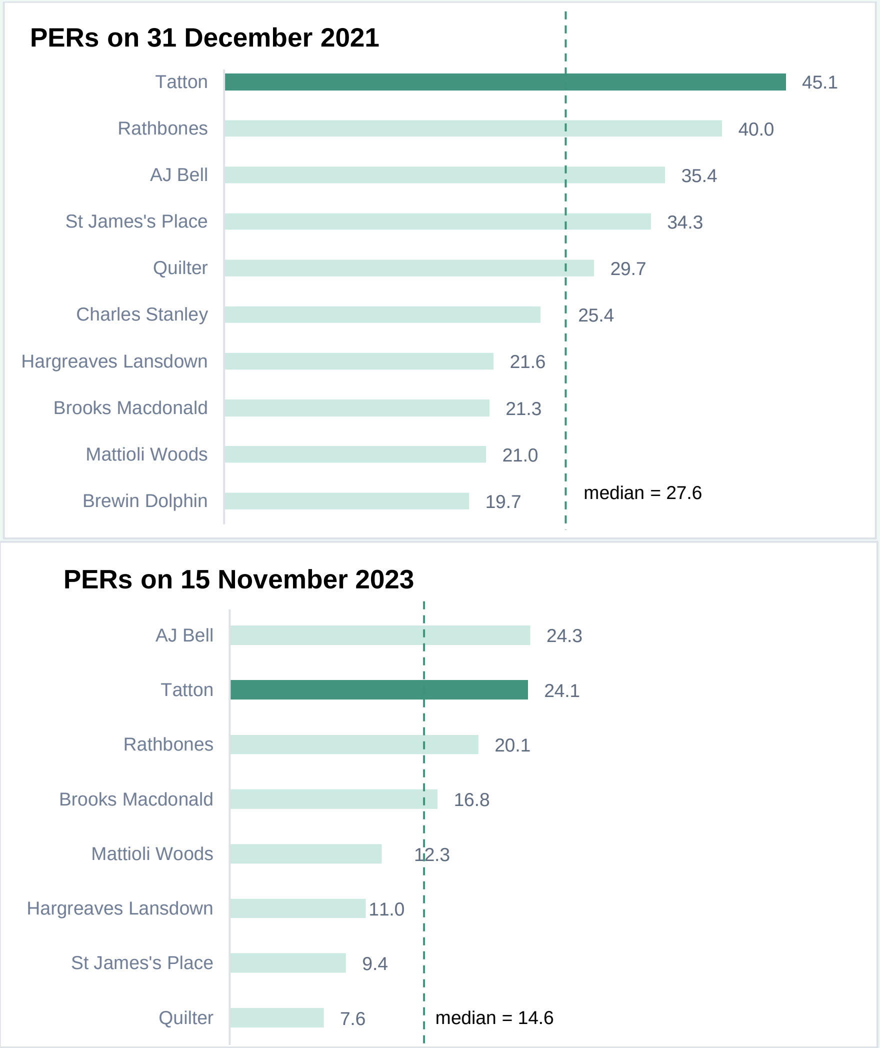
For the purposes of determining the terminal value of our discounted cash flow fundamental valuation, we assume that after five years Tatton is acquired at a PE ratio of 20. Discounting the cash flows from these forecasts and the proceeds of a sale, at a discount rate of 10.4% **produces a fundamental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

Sector valuation decline looking overdone

Since the end of the bull market (end of 2021), investment/wealth managers and platforms have 'de-rated' significantly with the median PER of a tracked peer group declining 48% from 27.6 to 14.6.

While valuations may well have 'over-run' to a degree at the end of the bull market, we certainly see the current median PER of 14.6 as low (noting that this has dropped 14% in just two months: sector-median PER was 17.0 on 14th September 2023).

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



Source: ADVFN, as of 15 Nov 23, ED analysis.
** Mattioli Woods PER calculated using 'adjusted PAT' which eliminates some of the distortions in earnings created by the statutory accounting treatment of recent large acquisitions. All other PERs calculated using statutory EPS.*

While Tatton quite justifiably commands a premium rating compared to these peers, given its superior growth, high margins, and future potential, it would **surely be a beneficiary from any general sector re-rating**.

Another interesting, related data point is that when the acquisition of Brewin Dolphin by RBC Wealth Management (Jersey) was announced on 31 March 2022, its PER jumped from 16.9 to 27.2, a premium of 62% to its share price the day before the deal was announced.

This suggests that large foreign investment/wealth managers were seeing substantial value in the UK at that time. They are surely seeing even more value now.

Historic and forecast financials

Consolidated Income Statement + Forecasts							
12 months to end Mar, £'m	**FY 21A**	**FY 22A**	***H1-23A***	FY 23A	***H1-24A***	FY 24E	FY 25E
Revenue	**23.4**	**29.4**	***15.9***	**32.3**	***17.5***	**35.9**	**39.8**
Share of profit from joint venture				0.2	*0.3*	0.7	0.8
Admin exp (before separately disclosed items)1	(12.0)	(14.8)	*(8.0)*	(16.1)	*(8.9)*	(18.4)	(20.2)
Adj op profit (before separately disclosed items)1	**11.4**	**14.5**	***8.0***	**16.4**	***8.9***	**18.2**	**20.4**
Share based payment costs	(3.7)	(2.4)	*(0.5)*	(1.5)	*(0.8)*	(2.4)	(2.4)
Amortisation of acquisition-related intangibles	(0.1)	(0.3)	*(0.2)*	(0.5)	*(0.3)*	(0.5)	(0.5)
Exceptional items	(0.0)	(0.2)	*(0.4)*	(0.4)	-	(0.3)	(0.3)
Gains: changes in FV of contingent consideration				2.7	-	-	-
Total admin expenses	(15.8)	(17.7)	*(9.0)*	(15.9)	*(10.0)*	(21.6)	(23.4)
Statutory Operating profit	**7.5**	**11.6**	***6.9***	**16.6**	***7.7***	**15.0**	**17.2**
Finance income/(costs)	(0.2)	(0.4)	*(0.3)*	(0.4)	*(0.0)*	(0.1)	(0.1)
Unwinding of discount rate on deferred compensation				(0.2)	-	-	-
Profit before tax	**7.3**	**11.3**	***6.6***	**16.0**	***7.7***	**14.9**	**17.1**
Tax	(1.2)	(2.0)	*(1.3)*	(2.6)	*(2.3)*	(3.7)	(4.3)
Profit attributible to shareholders	**6.1**	**9.2**	***5.3***	**13.4**	***5.4***	**11.7**	**13.4**
Basic EPS, p	10.9	15.9	*9.0*	22.4	*9.0*	19.4	22.2
Diluted EPS, p	10.3	15.2	*8.7*	21.7	*8.7*	18.9	21.5
Basic adjusted EPS2, p	16.1	19.9	*10.4*	21.7	*11.1*	22.4	25.2
Diluted adjusted EPS2, p	14.7	18.6	*9.9*	20.6	*10.5*	21.4	23.7

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	*H1-23A*	FY 23A	*H1-24A*	FY 24E	FY 25E
Non-current assets							
Investments in Joint Ventures	-	-	*7.0*	6.8	*6.8*	7.2	7.6
Intangible assets incl goodwill	7.7	13.4	*13.2*	13.0	*12.7*	13.3	13.7
Property, plant and equipment	1.0	0.7	*0.6*	0.5	*0.3*	0.4	0.4
Deferred income tax assets	1.4	0.8	*0.8*	1.3	*1.5*	1.5	1.5
Other receivables					*0.2*		
Total non-current assets	**10.1**	**15.0**	***21.6***	**21.4**	***21.6***	**22.5**	**23.2**
Current assets							
Trade and other receivables	4.3	3.8	*3.9*	3.8	*4.1*	4.2	4.7
Cash and cash equivalents	16.9	21.7	*21.6*	26.5	*24.2*	26.5	32.9
Financial assets at fair value through P&L	0.2	0.2	*0.1*	0.1	*0.2*	0.2	0.2
Corporation tax asset	0.0	0.7	*0.9*	0.1	*0.6*	0.6	0.6
Total current assets	**21.4**	**26.4**	***26.6***	**30.5**	***29.0***	**31.4**	**38.3**
TOTAL ASSETS	**31.5**	**41.3**	***48.2***	**51.9**	***50.7***	**53.9**	**61.5**
Current liabilities							
Trade and other payables	(6.6)	(7.6)	*(6.6)*	(7.9)	*(8.0)*	(8.8)	(9.7)
Total current liabilities	**(6.6)**	**(7.6)**	***(6.6)***	**(7.9)**	***(8.0)***	**(8.8)**	**(9.7)**
Non-current liabilities							
Other payables	(0.5)	(2.7)	*(5.9)*	(2.3)	*(2.3)*	(1.5)	(0.7)
Total non-current liabilities	**(0.5)**	**(2.7)**	***(5.9)***	**(2.3)**	***(2.3)***	**(1.5)**	**(0.7)**
TOTAL LIABILITIES	**(7.1)**	**(10.3)**	***(12.5)***	**(10.2)**	***(10.3)***	**(10.3)**	**(10.5)**
NET ASSETS	**24.4**	**31.0**	***35.7***	**41.8**	***40.3***	**43.6**	**51.0**
Equity							
Share capital	11.6	11.8	*12.0*	12.0	*12.1*	12.1	12.1
Share premium account	11.5	11.6	*15.2*	15.3	*15.5*	15.5	15.5
Other reserve	2.0	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)	(29.0)
Joint Venture reserve				(0.0)	*0.0*	0.0	0.0
Retained Earnings	30.2	34.6	*35.4*	41.5	*42.2*	45.5	52.9
Own shares	(2.0)	-	*-*	-	*(2.6)*	(2.6)	(2.6)
TOTAL EQUITY	**24.4**	**31.0**	***35.7***	**41.8**	***40.3***	**43.6**	**51.0**

Source: Group report & accounts and ED estimates

Consolidated Statement of Cash Flows + Forecasts							
12 months to end Mar, £'m	**FY 21A**	**FY 22A**	***H1-23***	**FY 23A**	***H1-24***	**FY 24E**	**FY 25E**
Operating activities							
Profit for the year	**6.1**	**9.2**	***5.3***	**13.4**	***5.4***	**11.7**	**13.4**
Adjustments:							
Income tax expense	1.2	2.0	*1.3*	2.6	*2.3*	3.7	4.3
Finance (income)/costs	0.2	0.4	*0.3*	0.6	*0.0*	0.1	0.1
Depreciation of property, plant and equipment	0.4	0.4	*0.2*	0.4	*0.2*	0.4	0.4
Amortisation of intangible assets	0.3	0.5	*0.3*	0.7	*0.3*	0.7	0.7
Share-based payment expense	3.7	1.5	*0.5*	1.4	*0.8*	2.4	2.4
Post-tax share of JV profits less related amortisation	-	-	*(0.0)*	(0.0)	*(0.2)*	(0.5)	(0.6)
Changes in FV of contingent consideration				(2.7)	*-*	-	-
Changes in trade and other receivables	(0.5)	0.3	*(0.2)*	(0.1)	*(0.6)*	(0.4)	(0.5)
Changes in trade and other payables	(0.5)	0.9	*(0.8)*	(0.4)	*(0.0)*	0.9	1.0
Exceptional costs	0.0	0.2	*0.4*	0.4	*-*	0.3	0.3
Cash from operations before exceptional costs	**10.9**	**15.5**	***7.3***	**16.2**	***8.3***	**19.2**	**21.4**
Cash generated from operations	**10.9**	**15.3**	***7.0***	**15.8**	***8.3***	**18.9**	**21.2**
Income tax paid	(2.1)	(1.6)	*(1.6)*	(2.6)	*(2.2)*	(3.7)	(4.3)
Net cash from operating activities	**8.8**	**13.6**	***5.4***	**13.2**	***6.1***	**15.2**	**16.9**
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)	*(0.1)*	(0.2)	*(0.1)*	(0.3)	(0.3)
Purchase pf property, plant and equipment	(0.1)	(0.1)	*(0.0)*	(0.1)	*(0.1)*	(0.1)	(0.1)
Net cash used in investing activities	**(0.5)**	**(3.1)**	***(0.3)***	**(0.5)**	***(0.2)***	**(1.9)**	**(1.9)**
Financing activities							
Proceeds from the issue of shares	3.2	0.1	*0.1*	0.1	*0.2*	0.2	-
Purchase of own shares	(1.0)				*(2.6)*		
Proceeds from the exercise of options		1.2	*-*	-	*-*	-	-
Transaction costs related to borrowings	(0.6)						
Interest received/(paid)	(0.0)	(0.1)	*(0.1)*	(0.2)	*0.1*	(0.1)	(0.1)
Payment of lease liabilities	(0.2)	(0.3)	*(0.1)*	(0.3)	*(0.1)*	(0.3)	(0.3)
Dividends paid	(5.6)	(6.6)	*(5.0)*	(7.7)	*(6.0)*	(10.8)	(8.4)
Net cash used in financing activities	**(4.1)**	**(5.8)**	***(5.2)***	**(8.0)**	***(8.2)***	**(13.3)**	**(8.6)**
Net increase in cash and cash equivalents	**4.2**	**4.8**	***(0.1)***	**4.8**	***(2.3)***	**(0.0)**	**6.4**
Cash and equivalents at beginning of the period	12.8	16.9	*21.7*	21.7	*26.5*	26.5	26.5
Net cash and equivalents at end of the period	**16.9**	**21.7**	***21.6***	**26.5**	***24.2***	**26.5**	**32.9**

Source: Group report & accounts and ED estimates

Contacts

Andy Edmond
Direct: 020 7065 2691
Tel: 020 7065 2690
andy@equitydevelopment.co.uk

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690