

Strong flows in impressive FY22. New acquisition for FY23

AUM ended FY22 (31 Mar 22) on £11.3bn, +26% y-o-y (31 Mar 21: £9.0bn), in line with our previous forecasts. But more impressive from a longer-term strategic perspective, is the fact that 'organic' net inflows of +£1.28bn exceeded our forecasts to make up for an investment performance which was hit by the market turbulence of Q4 (Jan-Mar 22). In fact, net inflows in H2 almost matched H1 (£625m vs £652m).

In summary, Tatton Investment Management's £2.35bn FY22 AUM increase was split: +£1.28bn from net inflows; +£0.65bn from the Verbatim funds acquisition (Sep 21); and +£0.42bn from market movements and investment performance (H1: +£0.495bn; H2: -£0.075bn).

The IFA support services business, **Paradigm**, continued its **steady growth trajectory**. Mortgage completions grew 13% to £12.8bn (FY21: 11.3bn), with mortgage firms increasing from 1,612 to 1,674. Particularly pleasing was mortgage completions holding up in H2 (£6.0bn) following the end of the 'stamp duty holiday' in Sep 21. Consulting member firms also increased from 407 to 421.

Tatton has confirmed that FY22 financial results are expected to be in line with consensus market expectations and that it ended the year with cash on the balance sheet of £21.7m

Acquisition of 8AM Global looks a sound strategic fit and good value

Tatton has also entered into an agreement to acquire 50% of [8AM Global Limited](#) (8AM), for c £7.0m (£3.5m payable on completion, funded through the issue of new shares, plus two performance-adjusted payments after 12 & 24m). Tatton will have an option to acquire a further 50%. This appears to be a solid strategic fit and in line with Tatton's acquisition strategy (see page 2).

The deal is expected to increase adjusted operating profit by c £0.7m after one year (a PE, based on adjusted operated profit, of 10). With an equivalent PE of 18 (using FY22 estimates), Tatton's issuing of new shares to fund the first tranche payment appears to be an efficient funding mechanism.

Recent share-price drop results in discount to our fundamental value

Our bullish view on Tatton's fundamentals remains unchanged, as do our forecasts, other than a small adjustment to FY22 AUM to match the actual closing value. **We maintain our fundamental value of 560p per share¹ which is around 30% above the TAM share price following its recent fall**, although we highlight the fall is not unique to TAM, with 'growth shares' generally hard hit in 2022.

Key Financials						
Year-end 31 Mar	FY 19A	FY 20A	FY 21A	FY 22E	FY 23E	FY 24E
AUM end-of-period, £bn	6.1	6.7	9.0	11.3	13.0	15.1
Revenue, £m	17.5	21.4	23.4	29.2	32.1	36.0
Operating profit (adj), £m	7.3	9.1	11.4	14.3	16.1	18.9
Operating margin (adj), %	41.7%	42.5%	48.8%	48.9%	50.2%	52.3%
EPS basic (adj), p	11.0	13.1	16.1	19.6	22.2	24.1
Div, p	8.4	9.6	11.0	11.9	15.4	16.7
Yield, %	1.9%	2.2%	2.5%	2.7%	3.5%	3.8%
PER*	39.8	33.4	27.1	22.3	19.7	18.1
Net assets, £m	15.3	17.8	24.4	29.3	34.8	39.9
Net cash, £m	12.2	12.8	16.9	21.7	26.9	32.2

Source: Company Historic Data, ED estimates. PER and Yield based on share price of 437.5p
 *PER based on adj basic earnings (particularly relevant in FY21 due to extraordinary share-based pmt charge)
 NB: Estimates do not include impact of 8AM acquisition (transaction date and other details not known)

20th April 2022

Company Data

EPIC	TAM
Price (last close)	437.5p
52 weeks Hi/Lo	620p/368p
Market cap	£258m
ED Fair Value / share	560p
Proforma net cash	£22m
Avg. daily volume	64k

Share Price, p



Source: ADVFN

AUM 31 Mar 22: £11.34bn

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

Next event: FY 22 results: 15 Jun 22

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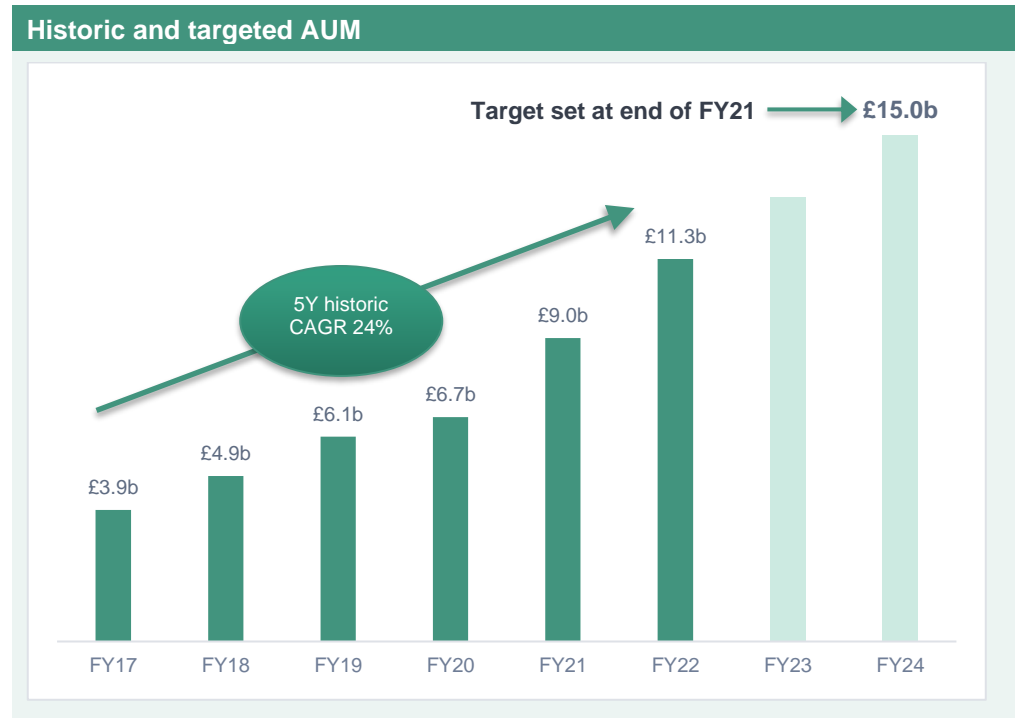
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On-track to meet strategic ambitions

At the end of FY21, with AUM at £9.0bn, Tatton outlined a growth goal of achieving **£15bn AUM** by the end of FY24: by adding £1bn of organic growth per year (£3bn in total) plus adding another £3bn through acquisitions. It's comfortably on track.



Source: Company

After the first year of this three-year plan it has added £1.7bn through organic growth (£1.3bn through net inflows alone, plus £0.4bn through market movements and investment performance). Looking forward, key drivers of further organic growth will be:

- IFAs continuing to move assets onto DFM platforms to avoid the regulatory and risk burden of selecting investments and to focus more on financial planning and advice;
- Tatton continuing to increase the number of IFA firms placing business with it;
- Tatton increasing average AUM per IFA (a 'new client' IFA will typically not move all of their business at once but increase it over time – this is estimated to be an £10-11bn AUM opportunity *without* winning new clients);
- Accelerating the above growth through strategic partnerships such as that with Tenet Group, incepted in 2019, which gives Tatton strategic access to 474 additional IFA firms, and Fintel plc, incepted in Sep 2021, which provides distribution access to 3,800 intermediary firms.

Also in year 1, Tatton acquired the Verbatim range of funds, adding £0.65bn AUM.

Now, at the start of year 2 of its growth plan, it has acquired 50% of 8AM, adding around £0.8bn of 'assets under influence'. This appears to be a solid strategic fit. 8AM runs a range of Model Portfolio Services and Funds which are complementary to Tatton's, and it also broadens Tatton's financial adviser base.

¹ See Equity Development note of 17 Nov 21, [Impressive interims support recent upgrade](#) for details of valuation.



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