finn-ancial Times

finnCap Financials & Insurance quarterly sector note

Q3 2020 | Issue 9

Highlights this quarter:

- **Elevated uncertainty and volatility have been hallmarks of the last 18 months, with Brexit, the UK General Election and more recently COVID-19 all contributing to the challenges that face investors wishing to carve out solid and stable returns amid these 'unprecedented' times.** With this is mind, and simulating finnCap's proven Slide Rule methodology, we found the highest quality and lowest value stocks across the financials space, assessing how the make-up of these lists changed over the period January 2019 to July 2020, tracking indexed share price performance over the period as well as movements in P/E and EV/EBIT valuations.
- **The top quartile list of Quality companies outperformed both the Value list and the FTSE All Share by rising +2.5% over the period versus -5.4% for the All Share and -14.3% for Value stocks.** Furthermore, the Quality list had protection on the downside in the market crash between February and March 2020, and accelerated faster amid the market rally between late March and July 2020. From high to low (January to March), Quality moved -36.3% against the Value list at -45.5%, while a move off the lows to July was +37.4% for Quality and +34.0% for Value.
- **There was some crossover between the Quality and Value lists, with 7 companies of the top quartile (16 companies in total) appearing in both the Quality and Value lists. This meant that a) investors could capture what we call 'Quality at Value' (i.e. this crossover list of 7); and b) outperformance of Quality was explained by the remaining 9 companies that appeared only in the Quality list.** The 'Quality at Value' index returned +1.1% over the period – positive at least, given the backdrop, but low in nominal terms – while buying the 9 companies would have returned +3.6%.
- **Drilling into the makeup of the Quality list, we found that c.60% of the companies were either from the exchanges or fund manager sub-sector, so screening for quality within these two sectors and investing in the top half of the list of 20 companies would have amplified returns further to +9.0%.** For investors wanting the greatest returns with no mind for quality specifically, it would have been possible to simply focus on these two sub-sectors and buy the entire list of exchanges to return +33.5% or the entire list of fund managers to return +18.9%.
- **While exchanges and fund managers provided the greatest upside over the period, the greatest re-rating was in the Value space, moving up from 8.0x to 11.2x on a P/E basis between January 2019 and July 2020.** Indeed, this re-rating occurred steadily over 2019 suggesting that opportunities absolutely remain in the Value space across financials and must not be ignored as the economy enters a phase of recovery.
- Outside of just buying exchanges and fund managers, which as we have argued are exposed to strong underlying drivers post COVID-19 (see previous issue), we are attracted to other quality, non-fund manager/exchange companies and companies presenting value opportunities: **Tatton Asset Management (TP: 335p, Buy), Nucleus Financial (TP: 170p, Buy), STM (TP: 53p, Corp), 1pm (TP: 45p, Buy), Charles Stanley, PCF Group, Manolete Partners, City of London Group (TP:300p, Corp), S&U (TP: 3000p, Buy) and Frenkel Topping (TP: 50p, Corp).**

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The bifurcation between Quality and Value over an 18-month period of elevated uncertainty, including Brexit, a General Election and more recently, COVID-19

Recent market volatility provides a stress test for an investor's chosen strategy while identifying opportunities to tweak and refine it. With this is mind, we wanted to see how Quality holds up against Value in the financials space and found that the traditional view of Quality outperforming Value has held true amid both Brexit, General Election and recently COVID-19-related uncertainty (i.e. between 31 January 2019 and 30 June 2020).

- The top quartile list of Quality companies outperforms both the Value list and the FTSE All Share, rising +2.5% over the period versus -5.4% for the All Share and -14.3% for Value stocks. Quality downside is protected, while the upside accelerates relative to both Value (Fig. 1) and the All Share.
- Quality's outperformance versus Value between 31 January 2019 and 30 June 2020 (+2.5% versus -14.3%) can be explained by just 9 stocks (Fig. 3): **Premier Miton**, **K3 Capital**, **Jarvis Securities**, **Hargreaves Lansdown**, **Tatton Asset Management**, **FRP Advisory**, **SimplyBiz**, **Mortgage Advice Bureau** and **Nucleus Financial**, which together returned +3.6% over the period.
- This is because the other 7 top-quartile companies (16 in total) across our Quality and Value lists appear in both categories, suggesting that investors in the financials space can buy what we call 'Quality at Value', by which we mean companies that appear on the crossover between the two lists. However, while this crossover list of companies outperformed the All Share (+1.1% versus -5.4%), the nominal return was low (Fig. 4).
- Drilling into the Quality and Value lists, we found fund managers and exchanges formed 56% of the Quality list in January 2019 and 63% in June 2020 (Figs 5 and 6). As we stated in the previous issue, we see these sectors as being the likely winners as the economy moves into a recovery phase following COVID-19.
- This begged the question whether investors over this period could have just bought fund managers and exchanges without screening for quality (though the sectors are characterised by high returns on capital). Indeed, holding all stocks in the exchange sector between 31 January 2019 and 30 June 2020 would have produced returns (ex-dividend) of +33.5%, while fund managers delivered +18.9% against the Quality focus of +2.5% (Fig. 7).
- So Quality outperformed Value but a blanket focus on exchanges and fund managers outperformed further. For investors that want to rely on quality in these uncertain times, it would have been possible to screen for it within these two sectors and return +9.0% (Fig. 8) against the overarching Quality return of +2.5%.
- We continue to see underlying drivers in the **fund management** and **exchanges** sector as forming a strong positive thesis that can provide attractive returns as the economy recovers from the measures taken to tackle COVID-19.
- While our top quartile Value companies fell further and recovered slower compared to Quality, our Value index performed well throughout 2019 and into early 2020, tracking Quality (Fig. 2). Value should therefore not be ignored as the economy recovers.
- From a valuation perspective, there has been a re-rating in both Quality and Value, which was more pronounced in the latter (Figs 3 and 14), suggesting that wider 'value' and non-fund manager/exchange sector opportunities continue to exist. We are particularly attracted to the likes of **STM**, **1pm**, **Charles Stanley** and **PCF Group**.
- Outside of a strict Quality or Value focus, we continue to find attractive upside opportunities in the likes of non-fund management/exchange companies: **Manolete Partners**, **City of London Group**, **S&U**, and **Frenkel Topping**.

Buying Quality protects your downside and accelerates the upside

Figure 1: Value fell more quickly and recovered more slowly relative to Quality

	All Share	Quality	Value
High to low	-35.9%	-36.3%	-45.5%
Move off the low	27.4%	37.4%	34.0%

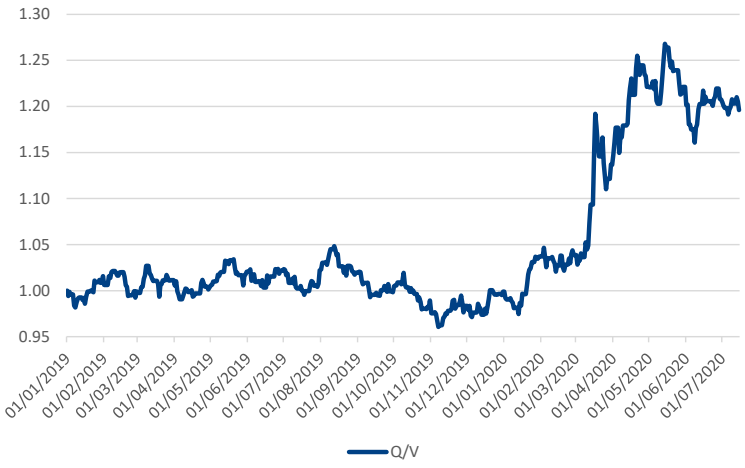
Source: finnCap

Figure 2: Quality in the financials sector outperformed both Value and the All Share, rising +2.5% over the period against Value's -14.3% and All Share's -5.4%

Source: finnCap, FactSet, prices indexed at 100 on 1 January 2019

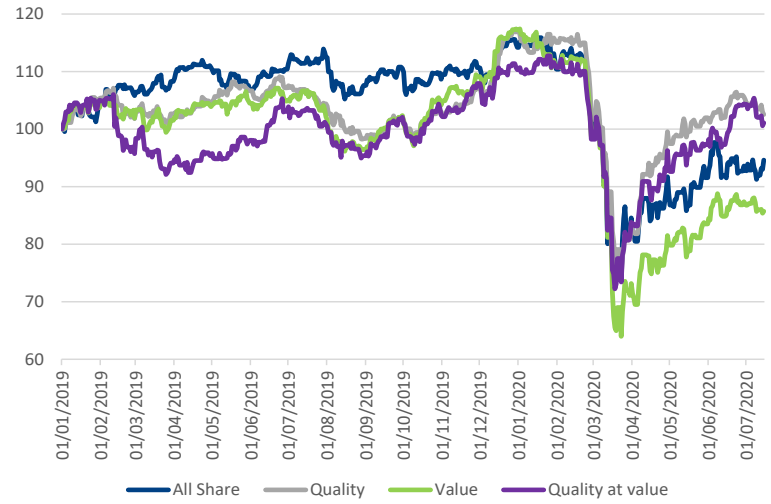
While Quality outperformed Value, the outperformance was explained by just nine companies that appeared in the Quality list and not in the Value list, because there was some crossover between the two lists (what we call Quality at Value). Those nine companies were as follows (the five in bold text indicate those stocks we were recommending in the last quarterly based on the thesis that exchanges and fund managers would be winners in the post COVID-19 environment): **Premier Miton (move off the recent low +53%), K3 Capital (+26%),** Jarvis Securities, Hargreaves Lansdown, **Tatton Asset Management (+60%),** FRP Advisory, SimplyBiz, **Mortgage Advice Bureau (+52%)** and **Nucleus Financial (+37%).**

Figure 3: Outperformance of Quality over Value is driven by nine stocks



Source: finnCap. FactSet. Index of Quality divided by the index of Value

Figure 4: The crossover of companies that appear in both Quality and Value lists means that investors can buy 'Quality at Value', providing a positive return of 1.1% against the Value return of -14.3% and the All Share return of -5.4%



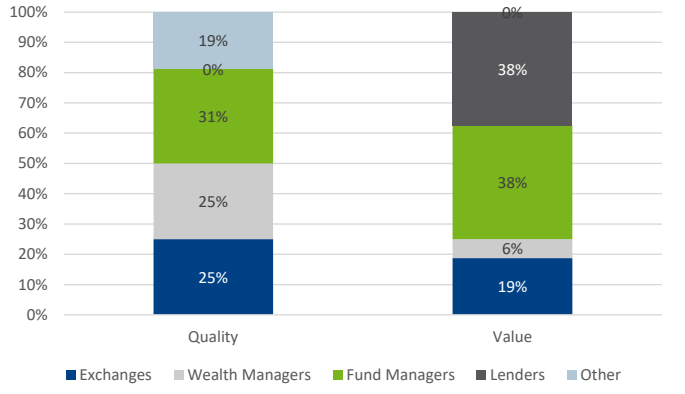
Source: finnCap, FactSet, prices indexed at 100 on 1 January 2019

Aside from the nine stocks driving returns in the Quality list, there are seven stocks that appear in both lists, meaning that investors that like to pick up value can do so while retaining a focus on quality. The returns over this period, however, were muted, at +1.1%. A positive return across such a tumultuous period is commendable and the exposure to Quality should provide a sound foundation for future returns.

Quality in the financials space is largely found within the exchanges and fund management sector, so investors could simply focus on these sub-sectors without screening for quality.

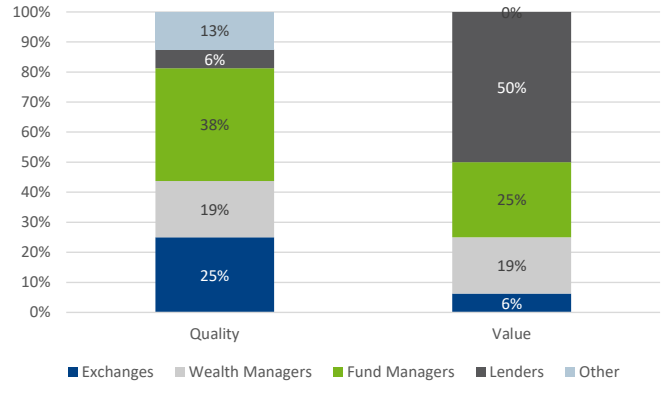
Quality companies in January 2019 were made up of 56% fund managers and exchanges, with the proportion increasing to 63% in June 2020 following the market's reaction to COVID-19. Lenders were prominent in the Value list over the period, forming 38% in January 2019 and 50% in June 2020. In fact, fund managers also made up 38% of the Value list in January 2019, indicating that while fund management is an attractive sector for fundamental reasons, there is a dichotomy within the sector.

Figure 5: Quality and Value constituents 31 Jan 2019



Source: finnCap

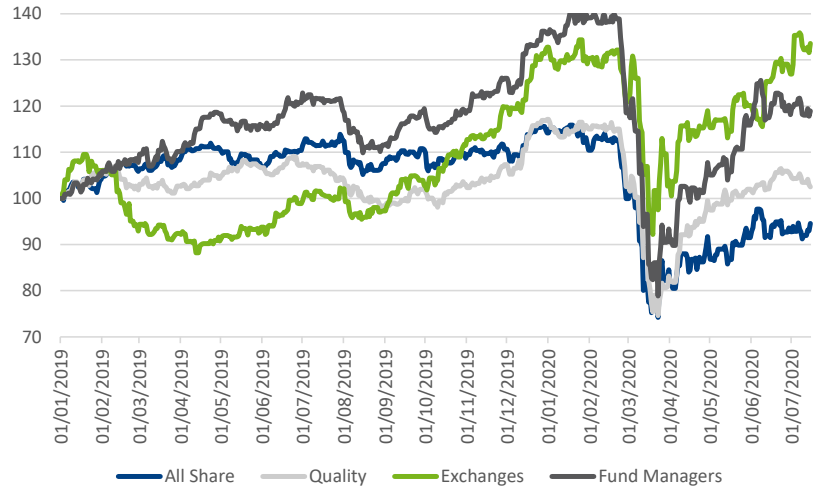
Figure 6: Quality and Value constituents 30 Jun 2020



Source: finnCap

If Quality is largely marked by a company being either an exchange or a fund manager, then shouldn't investors just buy up companies in these two sectors? The answer is yes, despite the existence of quality within the fund management sector being somewhat divergent (only half of fund managers are top quartile Quality). This implies that the underlying drivers in the sector (scale, high margins, long-term structural tailwinds) are a positive for the sector as a whole, carrying lesser quality names higher too. Of course, a stock-picking strategy could help amplify returns further.

Figure 7: While buying Quality is a strong strategy relative to Value (+2.5% versus -14.3%), it could be surpassed by solely focusing on exchanges (+33.5%) and fund managers (+18.9%)



Source: finnCap, FactSet, prices indexed at 100 on 1 January 2019

The logical next step for investors that want to remain focussed on Quality rather than entire sub-sectors is to screen for Quality characteristics within the exchanges and fund management sector.

We apply the same Quality ranking methodology (page 6) to the exchange and fund management space, excluding lenders and wealth management companies, and instead of using the top quartile, we take the top half of companies out of the list of 20.

Figure 8: Screening for Quality within exchanges and fund managers (+9.0%) outperforms the Quality list (+2.5%) over the 18-month period

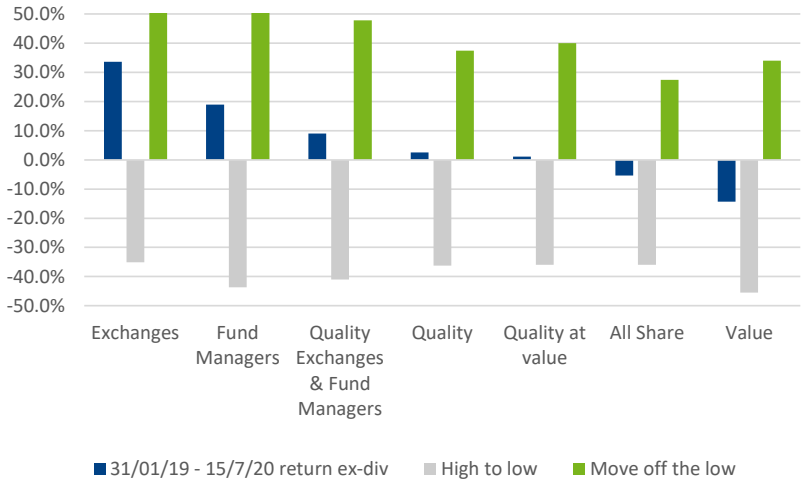
Source: finnCap, FactSet, prices indexed at 100 on 1 January 2019

Figure 9: Ex-div returns over the period ranked from highest to lowest

	31/01/19 - 15/7/20 return ex-div	High to low	Move off the low
Exchanges	33.5%	-35.1%	51.3%
Fund Managers	18.9%	-43.7%	50.8%
Quality Exchanges & Fund Managers	9.0%	-41.0%	47.8%
Quality	2.5%	-36.3%	37.4%
Quality at value	1.1%	-35.9%	39.9%
All Share	-5.4%	-35.9%	27.4%
Value	-14.3%	-45.5%	34.0%

Source: finnCap

Figure 10: The above table in chart form. Exchanges were up by the highest amount, fell by the least and saw the greatest move off the low.



Source: finnCap

How the makeup of Quality and Value has shifted between January 2019 and June 2020

Firstly, this is how we look for quality and value

We piggyback on finnCap's Slide Rule analysis, which applies a rigorous quantitative assessment of the relative value of companies across the small and mid-cap universe. The Slide Rule works on the premise that over time, companies that make the best investments are those with high returns on capital and structurally high growth rates (with sense checks on value, growth and momentum). We specifically apply a focus on quality versus value and apply it to the financials space.

How our Quality and Value lists are compiled

The Quality lists as at 31 January 2019 and 30 June 2020 comprise the 16 (i.e. top quartile) highest-quality companies in our financials universe of 64 companies (excluding trusts, REITs, etc), as ranked by ROCE (EBIT), listing ROCE (FCF) side-by-side for reference purposes. The Value list comprises the 16 (i.e. top quartile) cheapest companies in the financials space, as ranked by equally weighting the four value factors – EV/EBIT; P/E; Dividend Yield; Free Cash Yield – then re-ranking by the 16 top-ranked companies. The associated indices are made up of the companies that originally appear in the list as at 31 January 2019.

- We want to understand how companies have performed over an 18-month period of elevated uncertainty and significant volatility, so the first thing to say is that our list of Quality companies (Fig. 11) in the financials space over this time period largely remains the same: 75% of companies remain in the top quartile between January 2019 and June 2020.
- Of this list of 'solid' companies, i.e. those that remained in the top quartile over the period, c.60% were either fund managers or exchanges. Readers may recall from our most recent quarterly (https://researchlibrary.finncap.com/File/View?file=14e4efb7-1b6c-4883-972b-be748a1dafcf) that we recommended firms in these sectors as those that are likely to benefit most from the fallout of COVID-19.
- The four new entrants into the top quartile as at June 2020 were mostly fund managers or exchanges (**CMC, Liontrust, Impax**). This meant that in June 2020, there was a greater share of fund managers or exchanges in the top quartile (63% versus 56% at the start of 2019).
- If investors want to focus on Quality, they should consider the first port of call to be the fund managers and exchanges sub-sectors.
- However, we recognise that there are opportunities outside of these sectors and continue to find attractive upside opportunities in the likes of non-fund management/exchange companies: **Tatton Asset Management, Nucleus, Manolete Partners, 1pm, City of London Group, S&U, Mortgage Advice Bureau, STM Group and Frenkel Topping.**
- In comparison to Quality, the Value list (Fig. 12) shows more movement over the period, with six companies being replaced in the top quartile versus four in the Quality table. The rational explanation – or at last the explanation that a value investor would hope for – is that the market identifies value and prices are bid up as investors begin to realise pricing inefficiencies.
- In fact, this movement in and out of the top quartile should encourage value investors. For instance, one example of screening for financial sector Value in January 2019 (i.e. above on the left) would have produced **IG Group** as an idea. The stock subsequently fell out of our Value list and the shares rose 28.8% (admittedly the business model would be a huge beneficiary of market volatility anyway). **Plus500**, a direct peer, remained in the top quartile and its shares fell 14.3% over the period.
- As at 31 January 2019, median valuations in the top quartile were about half that of the group outside the top quartile on a P/E basis: 6.4x versus 12.5x; and 40% lower on an EV/EBIT basis: 9.5x versus 16.0x. Median dividend yields were 2.4x higher in the top quartile (though questions remained as to whether they would be paid, with companies that were able to do so, given accounting dates, putting the final decision off until clarity emerged). Median FCF yields were 3.4x higher in the top quartile.
- Six companies fell out the top quartile Value ranking over the period (**Secure Trust Bank, Man Group, City of London Investment Group, Record, TP ICAP and IG Group**). These companies were largely fund managers or exchanges (there was just one lender), potentially backing up our thesis that investors looking to benefit from the fallout of COVID-19 in the financials space should look at these two sectors. Indeed, the six places that were subsequently freed up in the top quartile were taken up by lenders and wealth managers, with just one fund manager, **Premier Miton.**

Figure 11: Financials ranked by EBIT ROCE as at 31 January 2019 and 30 June 2020

Quality ranking as at 31 Jan 2019

Sub sector	Ticker	Company name	ROCE (EBIT) %	ROCE (Free Cash Flow)
Exchanges	PLUS-LON	Plus500 Ltd.	180.0	142.6
Exchanges	K3C-LON	K3 Capital Group Plc	88.3	86.9
Other	FRP-LON	FRP Advisory Group Plc	74.8	79.1
Exchanges	MAB1-LON	Mortgage Advice Bureau (Holdings) plc	73.7	71.2
Wealth Managers	HL-LON	Hargreaves Lansdown plc	72.1	59.5
Wealth Managers	JIM-LON	Jarvis Securities plc	67.7	-91.0
Fund managers	CLIG-LON	City of London Investment Group PLC	59.3	55.4
Fund managers	POLR-LON	Polar Capital Holdings Plc	47.1	58.8
Wealth Managers	TAM-LON	Tatton Asset Management Plc	40.7	16.5
Fund managers	PAM-LON	Premier Miton Group Plc	35.7	38.7
Exchanges	IGG-LON	IG Group Holdings plc	33.4	26.1
Other	NUC-LON	Nucleus Financial Group Plc	32.1	27.9
Other	SBIZ-LON	SimplyBiz Group plc	31.1	14.1
Fund managers	REC-LON	Record plc	29.9	9.9
Fund managers	JUP-LON	Jupiter Fund Management plc	29.1	27.2
Wealth Managers	HSD-LON	Hansard Global plc	28.4	24.9
		Top quartile average	**57.7**	**40.5**
		Top quartile median	**43.9**	**33.3**
Fund managers	LIO-LON	Liontrust Asset Management PLC	27.7	50.8
Lenders	HAT-LON	H&T Group plc	27.7	0.4
Exchanges	CMCX-LON	CMC Markets Plc	27.4	21.0
Wealth Managers	BRW-LON	Brewin Dolphin Holdings PLC	25.6	28.2
Fund managers	IPX-LON	Impax Asset Management Group plc	25.6	39.7
Other	MANO-LON	Manolete Partners Plc	24.5	-7.3
Fund managers	ASHM-LON	Ashmore Group plc	24.2	22.2
Lenders	MCL-LON	Morses Club Plc	22.7	6.4
Lenders	PFG-LON	Provident Financial PLC	22.6	-1.8
Lenders	RFX-LON	Ramsdens Holdings PLC	22.1	15.3
Exchanges	AFX-LON	Alpha FX Group Plc	20.7	20.1
Lenders	SUS-LON	S&U plc	20.4	3.7
Fund managers	SDR-LON	Schroders PLC	19.3	18.2
Wealth Managers	BRK-LON	Brooks Macdonald Group plc	18.5	11.2
Wealth Managers	CBP-LON	Curtis Banks Group PLC	17.5	-117.3
Other	ANX-LON	Anexo Group Plc	17.0	-9.6
Wealth Managers	RAT-LON	Rathbone Brothers Plc	17.0	12.8
Fund managers	EMG-LON	Man Group PLC	16.0	30.1
Lenders	OPM-LON	1 PM Plc	14.9	-2.7
Exchanges	LSE-LON	London Stock Exchange Group plc	14.1	12.5
Fund managers	JHG	Janus Henderson Group PLC	11.9	12.7
Wealth Managers	MTW-LON	Mattioli Woods plc	11.7	19.7
Wealth Managers	STM-LON	STM Group PLC	11.6	6.9
Lenders	BWNG-LON	N Brown Group plc	11.1	2.1
Wealth Managers	FEN-LON	Frenkel Topping Group plc	11.0	8.6
Wealth Managers	CAY-LON	Charles Stanley Group PLC	10.9	10.4
Wealth Managers	AFHP-LON	AFH Financial Group PLC	10.9	4.3
Lenders	IPF-LON	International Personal Finance plc	9.7	3.5
Lenders	ORCH-LON	Orchard Funding Ltd.	8.1	-6.9
Exchanges	TCAP-LON	TP ICAP plc	7.9	6.1
Exchanges	FFX-LON	Equals Group Plc	5.5	7.4
Lenders	ARW-LON	Arrow Global Group Plc	5.3	-4.7
Wealth Managers	WCW-LON	Walker Crips Group plc	5.2	21.2
Lenders	CIN-LON	City of London Group plc	0.7	-4.3
Lenders	NSF-LON	Non-Standard Finance Plc	-0.5	-10.7
Wealth Managers	TAVI-LON	Tavistock Investments plc	-1.8	-1.4
Other	MJH-LON	MJ Hudson Group Plc	-7.1	-15.0
Lenders	TSL-LON	Thinksmart Limited	-9.4	1.6
Wealth Managers	KWG-LON	Kingswood Holdings Limited	-14.5	-13.4
Lenders	GLIF-LON	GLI Finance Ltd.	-15.5	-12.8
Wealth Managers	STJ-LON	St. James's Place Plc		-16.2
Lenders	ARBB-LON	Arbuthnot Banking Group PLC		1.4
Lenders	BGEO-LON	Bank of Georgia Group Plc		13.5
Lenders	CBG-LON	Close Brothers Group plc		-23.1
Lenders	PAG-LON	Paragon Banking Group PLC		1.1
Lenders	PCF-LON	PCF Group plc		5.9
Lenders	STB-LON	Secure Trust Bank Plc		8.3
Lenders	TBCG-LON	TBC Bank Group Plc		10.3
		Average ex. top quartile	**12.5**	**4.0**
		Median ex. Top quartile	**13.0**	**6.0**

Quality ranking as at 30 Jun 2020

Sub sector	Ticker	Company name	ROCE (EBIT) %	ROCE (Free Cash Flow)
Wealth Managers	JIM-LON	Jarvis Securities plc	81.3	90.4
Other	FRP-LON	FRP Advisory Group Plc	68.0	50.6
Exchanges	K3C-LON	K3 Capital Group Plc	67.4	46.6
Wealth Managers	HL-LON	Hargreaves Lansdown plc	66.2	55.9
Exchanges	PLUS-LON	Plus500 Ltd.	65.6	43.2
Exchanges	MAB1-LON	Mortgage Advice Bureau (Holdings) plc	64.9	69.7
Fund managers	CLIG-LON	City of London Investment Group PLC	59.3	0.0
Wealth Managers	TAM-LON	Tatton Asset Management Plc	56.8	47.8
Fund managers	POLR-LON	Polar Capital Holdings Plc	43.8	35.0
Exchanges	CMCX-LON	CMC Markets Plc	33.2	17.4
Fund managers	PAM-LON	Premier Miton Group Plc	32.9	29.8
Other	NUC-LON	Nucleus Financial Group Plc	29.2	20.5
Fund managers	LIO-LON	Liontrust Asset Management PLC	28.6	20.1
Fund managers	REC-LON	Record plc	26.2	20.4
Lenders	HAT-LON	H&T Group plc	25.1	11.0
Fund managers	IPX-LON	Impax Asset Management Group plc	24.7	30.8
		Top quartile average	**48.3**	**36.8**
		Top quartile median	**50.3**	**32.9**
Fund managers	ASHM-LON	Ashmore Group plc	23.8	24.2
Fund managers	JUP-LON	Jupiter Fund Management plc	23.2	21.7
Other	MANO-LON	Manolete Partners Plc	23.0	-10.1
Lenders	MCL-LON	Morses Club Plc	22.7	6.4
Wealth Managers	HSD-LON	Hansard Global plc	22.1	-17.3
Exchanges	AFX-LON	Alpha FX Group Plc	21.4	85.5
Wealth Managers	BRK-LON	Brooks Macdonald Group plc	21.3	13.8
Lenders	PFG-LON	Provident Financial PLC	21.0	2.7
Exchanges	IGG-LON	IG Group Holdings plc	20.5	22.6
Lenders	RFX-LON	Ramsdens Holdings PLC	20.3	12.3
Wealth Managers	BRW-LON	Brewin Dolphin Holdings PLC	19.5	18.9
Lenders	SUS-LON	S&U plc	19.2	1.5
Other	ANX-LON	Anexo Group Plc	18.8	-5.7
Wealth Managers	CBP-LON	Curtis Banks Group PLC	16.8	-60.0
Fund managers	EMG-LON	Man Group PLC	16.3	12.5
Exchanges	LSE-LON	London Stock Exchange Group plc	15.6	13.5
Wealth Managers	CAY-LON	Charles Stanley Group PLC	15.1	13.8
Fund managers	SDR-LON	Schroders PLC	15.0	20.0
Wealth Managers	AFHP-LON	AFH Financial Group PLC	14.7	2.8
Lenders	OPM-LON	1 PM Plc	14.3	1.8
Wealth Managers	RAT-LON	Rathbone Brothers Plc	14.2	13.6
Other	SBIZ-LON	SimplyBiz Group plc	12.8	7.7
Wealth Managers	FEN-LON	Frenkel Topping Group plc	11.7	8.9
Wealth Managers	MTW-LON	Mattioli Woods plc	11.6	8.8
Fund managers	JHG	Janus Henderson Group PLC	11.1	8.0
Lenders	IPF-LON	International Personal Finance plc	10.1	4.1
Lenders	BWNG-LON	N Brown Group plc	8.4	3.2
Lenders	ORCH-LON	Orchard Funding Ltd.	8.2	4.8
Exchanges	TCAP-LON	TP ICAP plc	7.3	5.1
Wealth Managers	STM-LON	STM Group PLC	6.0	6.1
Lenders	ARW-LON	Arrow Global Group Plc	5.9	-2.1
Lenders	TSL-LON	Thinksmart Limited	4.6	7.5
Wealth Managers	WCW-LON	Walker Crips Group plc	1.9	-4.9
Lenders	NSF-LON	Non-Standard Finance Plc	1.8	-8.6
Lenders	CIN-LON	City of London Group plc	0.7	-4.3
Lenders	GLIF-LON	GLI Finance Ltd.	-2.7	-11.8
Exchanges	FFX-LON	Equals Group Plc	-3.8	2.1
Other	MJH-LON	MJ Hudson Group Plc	-8.5	-12.2
Wealth Managers	KWG-LON	Kingswood Holdings Limited	-15.1	-14.0
Lenders	ARBB-LON	Arbuthnot Banking Group PLC		-2.7
Lenders	BGEO-LON	Bank of Georgia Group Plc		11.5
Lenders	CBG-LON	Close Brothers Group plc		2.7
Lenders	PAG-LON	Paragon Banking Group PLC		-1.0
Lenders	PCF-LON	PCF Group plc		6.1
Lenders	STB-LON	Secure Trust Bank Plc		11.8
Lenders	TBCG-LON	TBC Bank Group Plc		7.6
Wealth Managers	STJ-LON	St. James's Place Plc		23.4
Wealth Managers	TAVI-LON	Tavistock Investments plc		
		Average ex. top quartile	**12.1**	**5.6**
		Median ex. Top quartile	**14.3**	**6.1**

Source: finnCap, FactSet. Light blue = companies that remained in the top quartile; grey = companies that fell out the top quartile as at June, bordered names = new entrants to the top quartile as at 30 June 2020.

Figure 12: Financials ranked by Value as at 31 January 2019 and 30 June 2020

Value ranking as at 31 Jan 2019

Sub sector	Ticker	Company name	EV/EBIT	P/E	Dividend Yield	FCF Yield
Exchanges	PLUS-LON	Plus500 Ltd.	4.1	4.7	17.1	22.9
Lenders	TBCG-LON	TBC Bank Group Plc	5.8	1.8	15.3	77.7
Lenders	BGEO-LON	Bank of Georgia Group Plc	8.8	1.8	16.4	120.7
Fund managers	JHG	Janus Henderson Group PLC	4.4	7.9	6.6	19.8
Lenders	STB-LON	Secure Trust Bank Plc	6.4	8.7	6.2	18.6
Fund managers	JUP-LON	Jupiter Fund Management plc	5.9	10.4	7.6	11.3
Fund managers	EMG-LON	Man Group PLC	10.0	9.8	8.4	23.7
Lenders	BWNG-LON	N Brown Group plc	7.2	4.0	8.1	7.2
Wealth Managers	HSD-LON	Hansard Global plc	3.1	14.1	9.4	10.8
Fund managers	POLR-LON	Polar Capital Holdings Plc	7.1	10.0	6.8	11.6
Fund managers	CLIG-LON	City of London Investment Group PLC	6.3	11.7	6.9	11.4
Fund managers	REC-LON	Record plc	4.7	9.8	7.8	4.4
Exchanges	TCAP-LON	TP ICAP plc	6.9	9.5	5.4	8.4
Lenders	RFX-LON	Ramsdens Holdings PLC	5.7	9.6	4.4	9.0
Lenders	IPF-LON	International Personal Finance plc	10.2	6.8	6.0	8.5
Exchanges	IGG-LON	IG Group Holdings plc	8.5	12.9	6.8	9.4
		Top quartile average	**6.6**	**8.3**	**8.7**	**23.5**
		Top quartile median	**6.4**	**9.5**	**7.2**	**11.4**
Fund managers	SDR-LON	Schroders PLC	6.1	12.1	4.3	11.2
Wealth Managers	STM-LON	STM Group PLC	3.8	9.9	3.7	7.5
Exchanges	CMCX-LON	CMC Markets Plc	9.5	12.7	6.3	13.7
Wealth Managers	BRW-LON	Brewin Dolphin Holdings PLC	8.8	14.0	5.6	9.1
Lenders	SUS-LON	S&U plc	9.3	9.0	5.6	4.0
Fund managers	PAM-LON	Premier Miton Group Plc	8.6	13.3	5.3	8.4
Wealth Managers	CAY-LON	Charles Stanley Group PLC	5.5	15.0	3.8	8.4
Lenders	ARW-LON	Arrow Global Group Plc	10.0	5.4	6.4	-18.7
Lenders	PAG-LON	Paragon Banking Group PLC	42.9	8.2	5.1	9.6
Fund managers	LIO-LON	Liontrust Asset Management PLC	9.1	12.5	4.1	8.3
Lenders	OPM-LON	1 PM Plc	4.7	6.1	1.9	-3.5
Lenders	MCL-LON	Morses Club Plc	9.1	11.3	5.1	2.6
Wealth Managers	RAT-LON	Rathbone Brothers Plc	0.7	16.7	2.8	5.0
Wealth Managers	FEN-LON	Frenkel Topping Group plc	10.6	15.3	4.8	4.7
Lenders	PCF-LON	PCF Group plc	8.2	12.3	1.1	6.6
Wealth Managers	AFHP-LON	AFH Financial Group PLC	8.5	10.8	2.6	2.2
Fund managers	ASHM-LON	Ashmore Group plc	11.4	17.3	4.2	5.8
Lenders	HAT-LON	H&T Group plc	10.6	11.1	3.7	0.6
Lenders	ARBB-LON	Arbuthnot Banking Group PLC	0.2	50.0	3.0	3.7
Wealth Managers	BRK-LON	Brooks Macdonald Group plc	10.7	14.2	3.1	4.2
Exchanges	K3C-LON	K3 Capital Group Plc	14.2	19.1	4.3	6.8
Lenders	CBG-LON	Close Brothers Group plc	12.3	10.8	4.4	-40.3
Other	ANX-LON	Anexo Group Plc	8.8	10.0	1.2	-7.1
Fund managers	IPX-LON	Impax Asset Management Group plc	12.1	18.1	2.2	8.1
Wealth Managers	MTW-LON	Mattioli Woods plc	16.1	18.1	2.5	8.0
Lenders	ORCH-LON	Orchard Funding Ltd.	12.8	12.5	3.4	-10.2
Lenders	PFG-LON	Provident Financial PLC	12.7	10.8	1.7	-3.7
Other	SBIZ-LON	SimplyBiz Group plc	11.5	16.4	1.5	3.6
Lenders	NSF-LON	Non-Standard Finance Plc	13.4	14.2	4.2	-29.2
Wealth Managers	TAM-LON	Tatton Asset Management Plc	14.1	19.1	3.7	2.1
Other	NUC-LON	Nucleus Financial Group Plc	14.2	20.3	2.9	4.0
Wealth Managers	WCW-LON	Walker Crips Group plc	17.5	22.5	-1.0	32.8
Wealth Managers	JIM-LON	Jarvis Securities plc	17.5	15.5	4.8	-10.9
Exchanges	MAB1-LON	Mortgage Advice Bureau (Holdings) plc	18.3	24.2	3.9	4.7
Wealth Managers	CBP-LON	Curtis Banks Group PLC	11.1	15.6	2.8	-52.9
Wealth Managers	STJ-LON	St. James's Place Plc	19.9	22.6	5.1	-4.5
Other	MANO-LON	Manolete Partners Plc	13.5	20.0	0.7	-1.3
Exchanges	LSE-LON	London Stock Exchange Group plc	18.2	27.5	1.3	4.3
Exchanges	AFX-LON	Alpha FX Group Plc	19.1	27.4	1.1	4.2
Wealth Managers	HL-LON	Hargreaves Lansdown plc	23.9	31.3	2.5	3.1
Lenders	TSL-LON	Thinksmart Limited	17.5	22.5	-1.0	2.2
Other	FRP-LON	FRP Advisory Group Plc	17.5	22.5	-1.0	0.0
Other	MJH-LON	MJ Hudson Group Plc	17.5	22.5	-1.0	0.0
Exchanges	FFX-LON	Equals Group Plc	19.3	22.0	0.0	2.0
Wealth Managers	TAVI-LON	Tavistock Investments plc	17.5	22.5	-1.0	-1.5
Lenders	CIN-LON	City of London Group plc	17.5	22.5	-1.0	-10.3
Lenders	GLIF-LON	GLI Finance Ltd.	21.5	50.0	1.4	-60.8
Wealth Managers	KWG-LON	Kingswood Holdings Limited	50.0	50.0	0.0	-17.8
		Average ex. top quartile	**13.9**	**18.5**	**2.8**	**-1.5**
		Median ex. Top quartile	**12.5**	**16.0**	**3.0**	**3.4**

Value ranking as at 30 Jun 2020

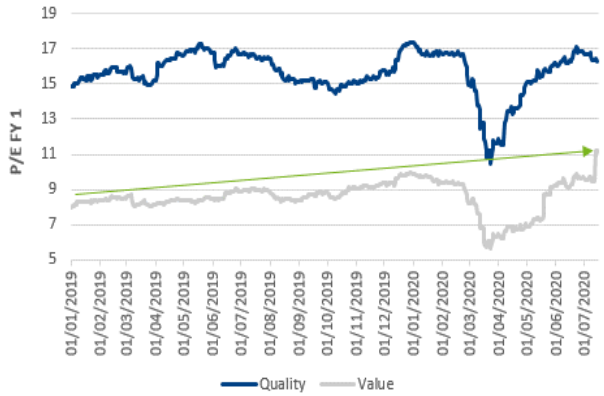
Sub sector	Ticker	Company name	EV/EBIT	P/E	Dividend Yield	FCF Yield	Average rank score
Lenders	IPF-LON	International Personal Finance plc	6.9	1.9	16.3	39.8	58.3
Lenders	TBCG-LON	TBC Bank Group Plc	6.3	1.6	6.8	124.9	58.0
Lenders	BGEO-LON	Bank of Georgia Group Plc	8.6	1.6	11.9	188.0	57.0
Exchanges	PLUS-LON	Plus500 Ltd.	3.7	5.2	9.1	8.9	55.8
Wealth Managers	STM-LON	STM Group PLC	0.6	7.7	6.0	13.7	54.8
Lenders	BWNG-LON	N Brown Group plc	9.1	2.7	8.1	28.2	54.3
Fund managers	JHG	Janus Henderson Group PLC	5.7	9.9	7.1	13.6	52.8
Lenders	MCL-LON	Morses Club Plc	2.0	4.1	13.5	0.0	51.8
Lenders	HAT-LON	H&T Group plc	6.3	6.6	4.5	14.8	50.3
Fund managers	PAM-LON	Premier Miton Group Plc	4.7	9.3	5.6	8.4	50.0
Wealth Managers	HSD-LON	Hansard Global plc	1.1	9.7	13.5	0.0	48.3
Lenders	SUS-LON	S&U plc	7.0	6.1	8.1	2.3	46.8
Fund managers	JUP-LON	Jupiter Fund Management plc	6.8	13.2	6.5	12.4	46.5
Wealth Managers	RAT-LON	Rathbone Brothers Plc	-14.7	14.7	5.0	9.7	46.3
Lenders	RFX-LON	Ramsdens Holdings PLC	6.8	9.5	4.4	12.1	46.0
Fund managers	POLR-LON	Polar Capital Holdings Plc	8.0	12.6	6.6	8.2	44.8
		Top quartile average	**4.3**	**7.3**	**8.3**	**30.3**	
		Top quartile median	**6.3**	**7.2**	**6.9**	**12.2**	
Exchanges	TCAP-LON	TP ICAP plc	6.8	9.6	5.0	6.5	44.5
Fund managers	EMG-LON	Man Group PLC	10.4	10.0	6.2	12.5	44.5
Lenders	STB-LON	Secure Trust Bank Plc	5.1	23.7	5.0	54.1	44.0
Fund managers	CLIG-LON	City of London Investment Group PLC	6.1	12.7	7.3	0.0	42.5
Exchanges	CMCX-LON	CMC Markets Plc	8.1	11.5	4.4	6.9	40.0
Lenders	OPM-LON	1 PM Plc	6.0	7.5	3.6	0.0	39.3
Exchanges	K3C-LON	K3 Capital Group Plc	8.6	11.8	6.8	0.0	39.0
Lenders	PCF-LON	PCF Group plc	17.5	5.6	2.5	12.6	37.5
Exchanges	FFX-LON	Equals Group Plc	5.5	6.2	0.0	2.2	36.5
Fund managers	REC-LON	Record plc	10.4	17.5	5.3	7.6	36.3
Exchanges	IGG-LON	IG Group Holdings plc	9.4	13.0	5.3	0.0	35.3
Wealth Managers	JIM-LON	Jarvis Securities plc	17.5	14.2	5.2	8.5	34.8
Fund managers	SDR-LON	Schroders PLC	10.7	18.0	3.9	12.9	34.8
Wealth Managers	BRW-LON	Brewin Dolphin Holdings PLC	11.1	14.9	4.2	8.1	34.3
Lenders	ARBB-LON	Arbuthnot Banking Group PLC	-0.4	22.2	4.8	-11.2	32.5
Lenders	ORCH-LON	Orchard Funding Ltd.	14.9	16.9	3.9	8.9	32.5
Wealth Managers	CAY-LON	Charles Stanley Group PLC	8.7	33.0	3.4	13.6	32.3
Wealth Managers	AFHP-LON	AFH Financial Group PLC	9.8	11.1	2.6	1.8	31.8
Lenders	NSF-LON	Non-Standard Finance Plc	8.1	22.7	24.6	-186.7	30.8
Other	SBIZ-LON	SimplyBiz Group plc	17.5	11.2	2.9	5.7	30.8
Other	ANX-LON	Anexo Group Plc	8.0	8.5	2.0	-4.6	30.3
Fund managers	ASHM-LON	Ashmore Group plc	10.6	16.5	4.1	0.0	28.3
Lenders	CBG-LON	Close Brothers Group plc	12.4	13.4	1.1	6.6	28.3
Wealth Managers	FEN-LON	Frenkel Topping Group plc	12.4	15.7	3.2	3.3	28.0
Wealth Managers	TAM-LON	Tatton Asset Management Plc	15.4	21.8	3.4	5.4	27.5
Wealth Managers	BRK-LON	Brooks Macdonald Group plc	9.9	15.3	3.3	0.0	27.3
Wealth Managers	CBP-LON	Curtis Banks Group PLC	9.2	13.9	4.0	-33.4	27.0
Wealth Managers	STJ-LON	St. James's Place Plc	25.4	22.4	4.6	6.7	26.8
Exchanges	AFX-LON	Alpha FX Group Plc	16.5	28.3	0.6	18.5	25.8
Wealth Managers	MTW-LON	Mattioli Woods plc	11.9	14.4	2.0	0.0	23.3
Lenders	ARW-LON	Arrow Global Group Plc	89.2	4.6	3.3	-19.4	22.8
Fund managers	LIO-LON	Liontrust Asset Management PLC	17.1	23.1	2.5	2.6	21.5
Lenders	PFG-LON	Provident Financial PLC	50.0	50.0	2.1	16.9	21.3
Exchanges	MAB1-LON	Mortgage Advice Bureau (Holdings) plc	18.6	32.8	2.4	6.3	19.3
Fund managers	IPX-LON	Impax Asset Management Group plc	20.4	28.3	1.9	4.4	17.3
Lenders	PAG-LON	Paragon Banking Group PLC	42.2	10.5	1.1	-8.9	17.3
Other	FRP-LON	FRP Advisory Group Plc	17.7	18.9	0.6	0.0	15.3
Wealth Managers	HL-LON	Hargreaves Lansdown plc	22.7	28.4	2.8	0.0	15.0
Other	NUC-LON	Nucleus Financial Group Plc	30.7	34.1	2.0	4.3	15.0
Lenders	TSL-LON	Thinksmart Limited	17.5	22.5	-1.0	0.0	13.8
Exchanges	LSE-LON	London Stock Exchange Group plc	28.4	40.0	0.9	2.6	13.5
Wealth Managers	WCW-LON	Walker Crips Group plc	17.5	22.5	-1.0	0.0	12.5
Wealth Managers	TAVI-LON	Tavistock Investments plc	17.5	22.5	-1.0	0.0	11.5
Other	MANO-LON	Manolete Partners Plc	18.8	27.1	0.7	-2.0	11.0
Wealth Managers	KWG-LON	Kingswood Holdings Limited	17.5	22.5	-1.0	-10.8	9.5
Other	MJH-LON	MJ Hudson Group Plc	25.2	80.0	0.0	0.0	7.0
Lenders	CIN-LON	City of London Group plc	54.6	50.0	0.0	0.0	6.0
Lenders	GLIF-LON	GLI Finance Ltd.	50.0	50.0	0.0	-153.8	3.8
		Average ex. top quartile	**18.3**	**21.5**	**3.2**	**-4.0**	
		Median ex. Top quartile	**15.2**	**17.8**	**2.9**	**2.0**	

Source: finnCap, FactSet. Light blue = companies that remained in the top quartile; grey = companies that fell out the top quartile as at June, bordered names = new entrants to the top quartile as at 30 June 2020.

If we are in truly unprecedented times, why has there been a re-rating?

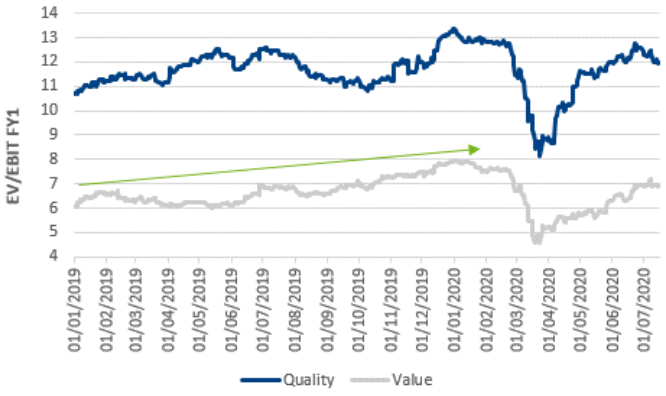
There has been a re-rating in both Quality and Value financials over the period 31 January 2019 to 30 June 2020, despite the FTSE AIM being down 2.9%.

Figure 13: Quality P/E multiples of 16.3x are approaching recent highs of 17.3x achieved in December 2019, while Value multiples hit a high of 11.2x from 8.0x in January 2019



Source: finnCap, FactSet consensus estimates to 15 July 2020

Figure 14: The re-rating in Value EV/EBIT multiples was pronounced across 2019 and into early 2020, suggesting that upside opportunities in the space may present themselves as the economy recovers



Source: finnCap, FactSet consensus estimates to 15 July 2020

- Since valuations are at recent highs amid heightened global uncertainty, we would suggest that there is a disconnect between markets and earnings estimates: either the market is too high or estimates have been downgraded too severely and will go through an upgrade cycle.
- The small and midcap market, as measured by the FTSE AIM, is down slightly, by 2.9% between January 2019 and July 2020, having rallied 49.8% off the lows between 23 March and 30 June. Either the rally is ahead of itself and the market should be lower, meaning valuation multiples are lower and more in line with these 'unprecedented' times (rational, given the environment), or:
- Earnings estimates are too low and will go through an upgrade cycle, thus binging multiples lower.

Recent research highlights

Figure 15: Research highlights through lockdown period

Date	Company	Research Type	Title	Author
24/07/20	Nucleus Financial	Company note	Continued investment for growth	Nik Lysiuk
23/07/20	Frenkel Topping*	Company note	A creative, niche acquisition strategy to secure growth	Nik Lysiuk
14/07/20	Mattioli Woods	Company note	Performing well, positioning for the future	Nik Lysiuk
30/06/20	Morses Club*	Company note	U Account services return to normal	Nik Lysiuk
29/06/20	H&T Group	Company note	Positive signs emerge	Nik Lysiuk
29/06/20	K3 Capital*	Company note	Significant capital injection supports next growth phase	Nik Lysiuk
24/06/20	1 PM	Company note	Positioning to grasp opportunities amid tough times	Nik Lysiuk
23/06/20	1 PM	Company note	Positioning amid tough times to grasp opportunities	Nik Lysiuk
18/06/20	Tatton Asset Management	Company note	Motoring on despite a blip in the road	Nik Lysiuk
16/06/20	Tatton Asset Management	Company note	Commendable performance amid very tough markets	Nik Lysiuk
09/06/20	S&U	Company note	Cash generation will see S&U through to recovery	Nik Lysiuk
05/06/20	Mattioli Woods	Company note	Amending shape of forecasts following trading update	Nik Lysiuk
01/06/20	Mattioli Woods	Company note	Impressive performance in troubling times	Nik Lysiuk
18/05/20	STM Group*	Company note	Litigation uncertainty in Carey Pensions now cleared	Nik Lysiuk
06/05/20	Numerous	Sector Note	finn-ancial Times	Nik Lysiuk
05/05/20	1 PM	Company note	Accreditation to lend under Government loan scheme	Nik Lysiuk

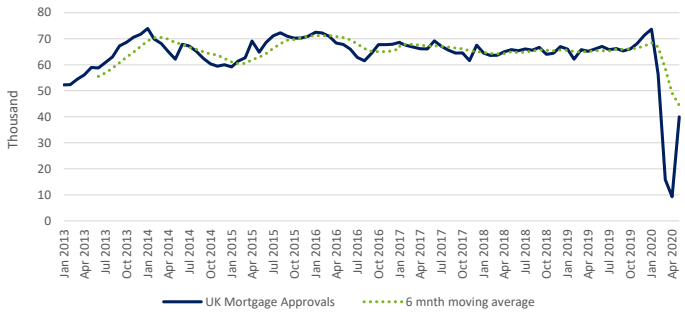
Source: finnCap

Economic indicators

Figure 16: Retail sales of UK funds

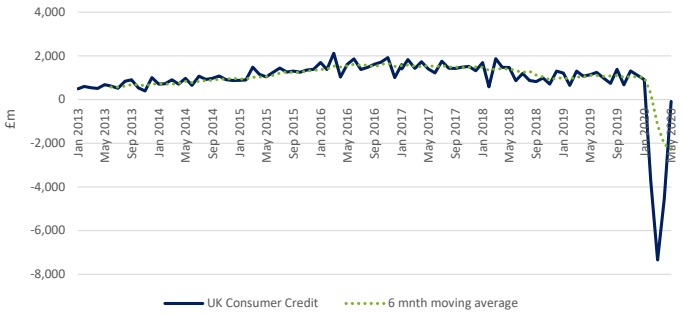
Source: Investment Association

Figure 17: Mortgage approvals



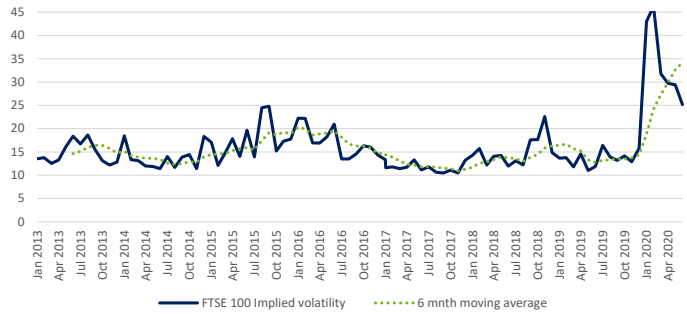
Source: Bank of England

Figure 18: Consumer credit



Source: Bank of England

Figure 19: FTSE 100 implied volatility



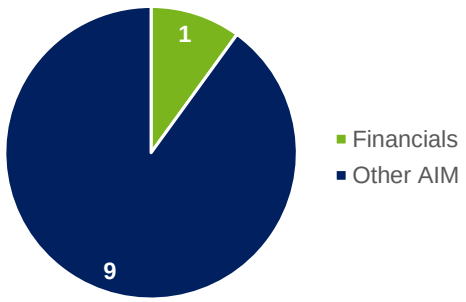
Source: Bloomberg

- **Retail fund sales.** Equity sales in Q1 fell sharply as COVID-19 spread and markets plummeted. Total retail sales came to £2.5bn with fixed income being hit particularly hard, seeing £4.8bn in outflows. Whilst this could have been more severe, further negative data from Q2 is not unlikely.
- **Mortgage approvals.** As expected, mortgage approvals sank heavily through March and April before reaching a record low in May of 9,300. Approvals recovered respectably in June, bouncing to 40,000 and easily beating expectations of 33,900, putting the market in a good position to continue to recover as lockdown measures ease.
- **Consumer credit.** As with mortgage approvals, consumer credit fell substantially during March and into Q2, decreasing by £3.8bn in March, £7.3bn in April and £4.5bn in May versus expectations of £2bn. June saw something of a recovery with consumer credit edging down by a negligible £0.09bn.
- **FTSE 100 implied volatility** has fallen from the historical high reached at the peak of the COVID-19 market crash but is still far higher than the historical average as the market has recovered.

Capital market indicators

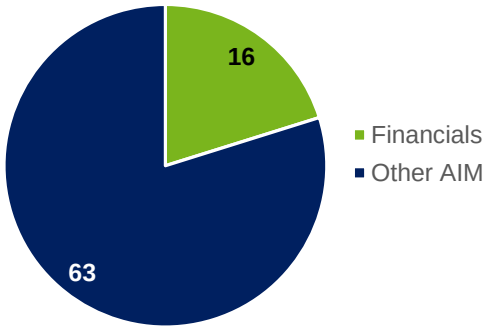
- There was one IPO in the sector in Q2 with an investment company coming to market, raising £16m. Activity across the broader market remained subdued. There were a number of secondary issues with 69 having taken place in the financials sector in 2020 so far, raising a total of £48m.

Figure 20: Financial AIM IPOs YTD, 10% of total



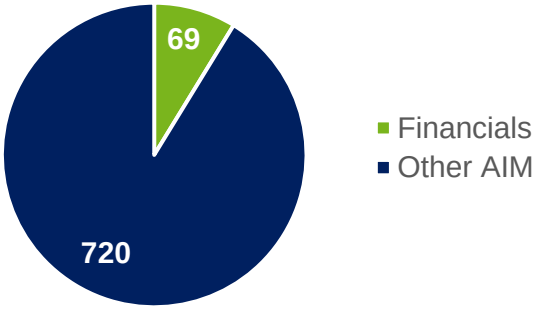
Source: London Stock Exchange, June 2020

Figure 21: £m raised in IPOs YTD, 20% of total



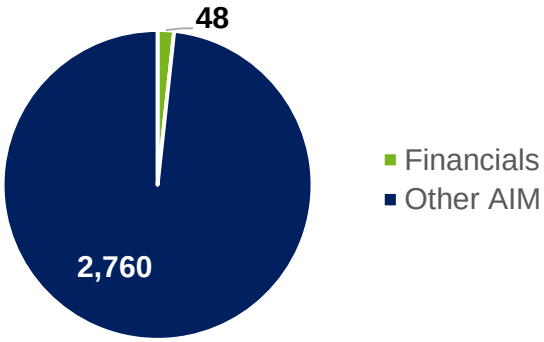
Source: London Stock Exchange, June 2020

Figure 22: Secondary financial AIM issues, 9% of total



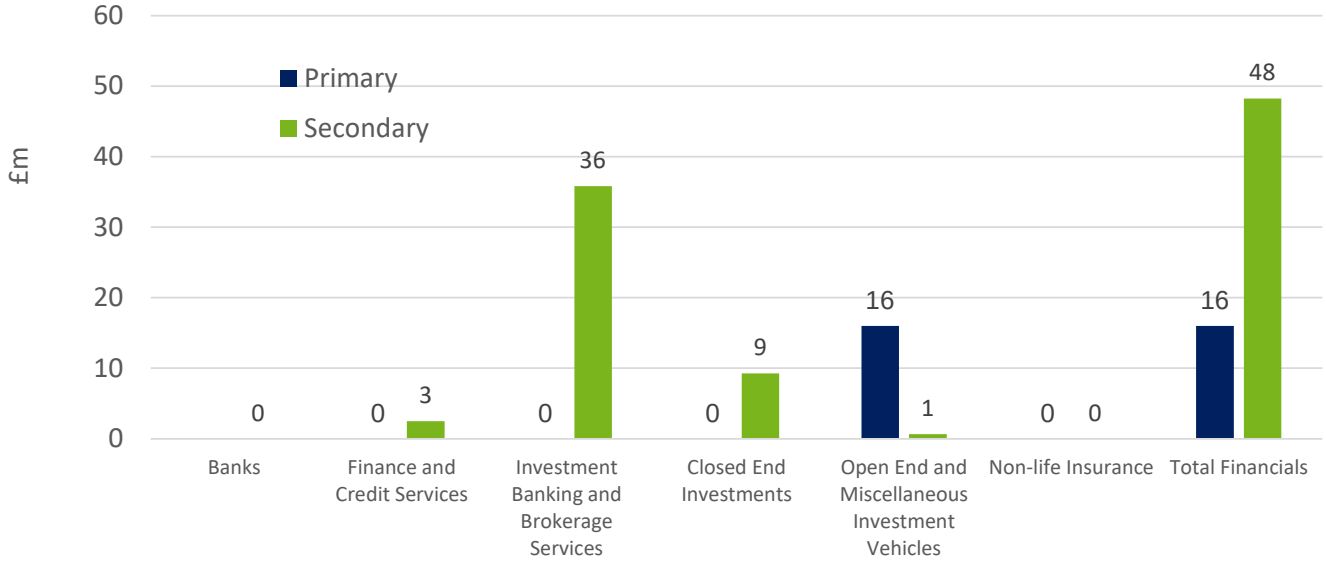
Source: London Stock Exchange, June 2020

Figure 23: £m raised in sec. issues YTD, 2% of total



Source: London Stock Exchange, June 2020

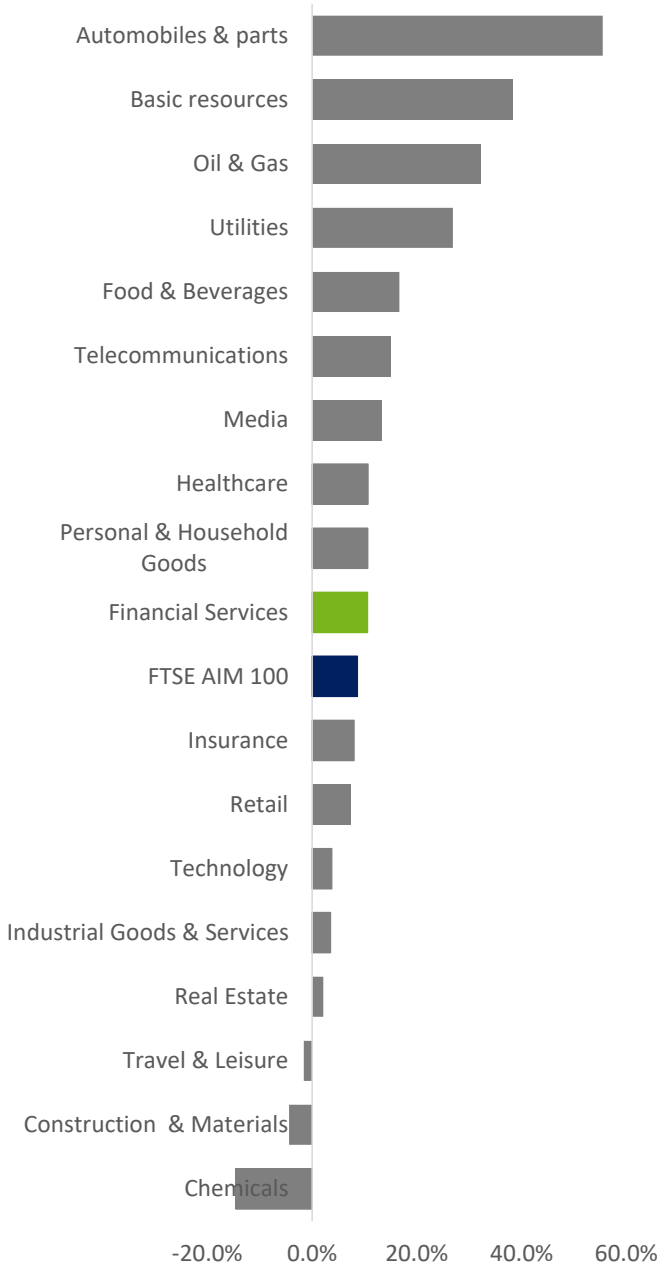
Figure 24: Primary and secondary capital raised by financial sub-sector



Source: London Stock Exchange, June 2020

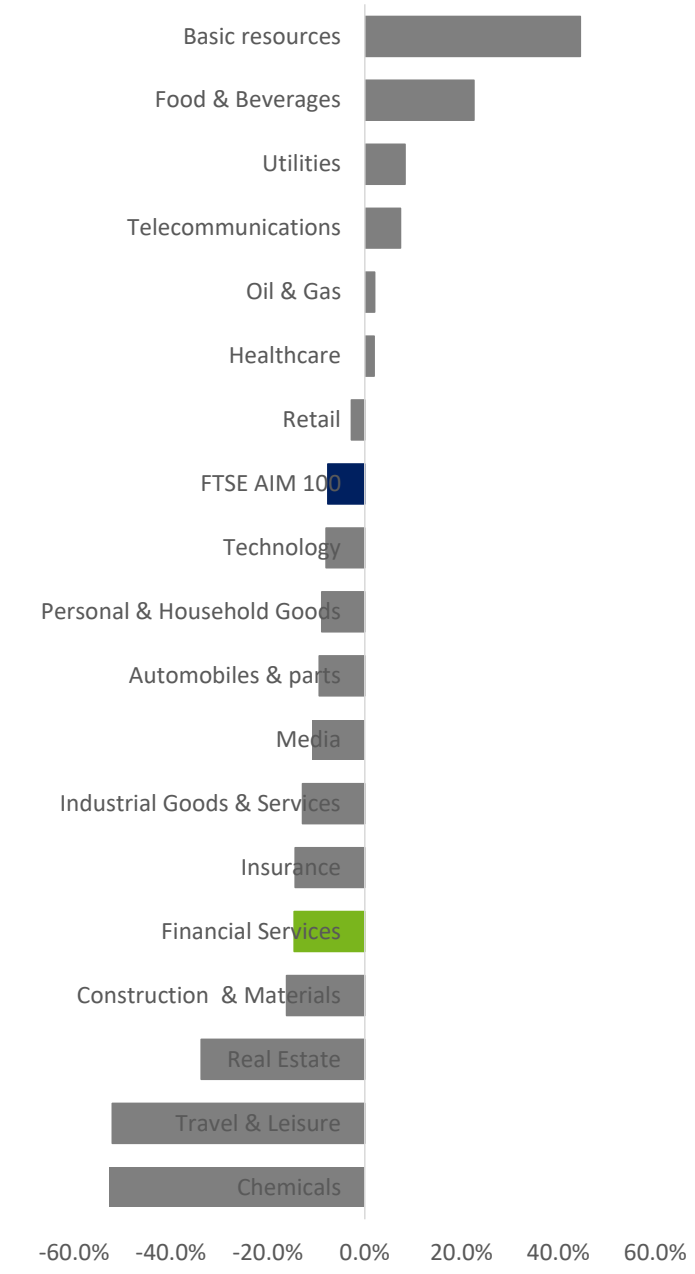
- **Financial sector shares** now look to be recovering, outperforming the AIM 100 by 2.0% over the last three months. On a six-month basis, financials are down 14.6% whilst the AIM 100 is down 7.6%.

Figure 25: FTSE AIM All Share sector performance across 3 months



Source: FactSet

Figure 26: FTSE AIM All Share sector performance over 6 months



Source: FactSet

Key sector news

Figure 27: Recent newsflow across the financials sector

Date	Company	Event	Comment
30/07/20	Mortgage Advice Bureau	Trading update	Revenue of £63m from £60.9m as at 30 June 2019, up 3% with £6m coming from the First Mortgage acquisition, completed July 2019. No new ARs added, but remote engagement meant mortgage applications were at record levels.
29/07/20	Rathbone Brothers	Interim results	Interims to June show FUM down £49.4bn, down 2% in H1 compared ot the FTSE 100 down 18.2%. Net inflows were up 5.3% to £1.3bn (2.7% of opening FUM). Unit Trust net flows were up 69% to £555m or 7.5% of opening FUM. PBT of £27.3m (underlying flat at £46m), operating income of £179m, up 3.6%. Investment management income was up 2.3% to £158.7m with Unit Trust income up 16% to £20.3m. Underlying operating margin 25.7%.
24/07/20	Nucleus	AUA update	In line Q2 AUA update shows AUA at £15.8bn, up 13.1% QoQ (from £14.0bn) and 3.2% YoY (from £15.3bn). The FTSE All Share was up 9.8% QoQ and down 15.9% YoY. Gross inflows were down while net inflows were up significantly, meaning new money is perhaps building up in the background as advisers focus on servicing existing client requirements.
23/07/20	AJ Bell	Trading update	Q3 trading update to 30 June 2020 shows AUA up 12% QoQ to £54.3bn following total net flows of 2.5% (3.6% on a platform basis, 2.3% on the advised platform and 7.5% from D2C). Platform customers were up 8% in the quarter, advied up 2% and D2C up 12%.
23/07/20	Brewin Dolphin	Trading update	Q3 trading update published yesterday for the three months to 30 June 2020 states total funds grew 12.8% to £46.7bn from £41.4bn QoQ (inc. £2.7bn acquired from Investec Ireland) with DFM up 13.7% to £40.6bn. Total net flows over the quarter were c.1% of opening FUM with DFM flows at 1.1%. Total income at £92.7m, up 6.2% YoY driven by elevated trading and £5.2m acquired income. Financial planning income up 15.3% to £8.3m The custody and settlement implementation will be pushed back to H1 CY 2021 given the remote working practices imposed by COVID-19.
23/07/20	City of London Group	Reciept of Total Capital Requ	City of London's subsidiary, Recognise has received its Total Capital Requirement Letter from the PRA, setting out the PRA's liquidity and capital requirements, signalling positive momentum on the road to receiving the full licence.
23/07/20	Frenkel Topping	Fundraise	Announced today was the successful placing to raise £13.0m (gross) at 40p per share in order to execute an innovative buy and build strategy. An initial acquisition of £1.5m for Forths, a leading forensic accountant, should add £0.35m of EBITDA in 2021 (4.3x multiple). The subsequent focus will be diverted from a traditional IFA roll-up strategy, which would be expensive, inefficient and hazardous from a regulatory perspective, towards an emphasis on ancillary professional services businesses that help Frenkel Topping secure market leadership in the personal injury and clinical negligence space.
22/07/20	Anexo	AGM trading update	AGM trading update states performance is in line with expectations with guidance reintroduced at interims in August. Bond Turner staff have largely returned to the office and recruitment continues in order to increase case settlements and cash collection. On the fleet side, hire numbers have returned to pre-lockdown levels with utilisation at normal levels.
22/07/20	Close Brothers	Trading update	Pre close trading update ahead of full year results to July 2020 states the loan book was down 2.3% to £7.48bn, NIM down to 7.6% from 7.9% and an annualised bad debt ratio of 2.3% up from 0.6%. Total funding of £10.1bn with £5.8bn coming from customer deposits. Asset management saw net flows of 10% with AUM at £12.5bn (total client assets £13.7bn), Winterflood's H2 was materially ahead of H1, with daily bargains up 46% YoY to 82,000.
21/07/20	Integrafin	FUD update	Q3 FUD update to 30 June shows an increase of 13.5% QoQ to £39.7bn and a 5.1% increase over the financial YTD. Quarterly flows were £797m or 2.3% of opening FUD, in line with the performance achieved in Q3 2019. Outlook for flows states the heavy dependence on how effective the measures to tackle COVID-19 are.
16/07/20	Morses Club	Trading update	Reduced lending as a result of no credit being offered to new HCC customers was partially offset by higher quality lending to existing customers, with new HCC customers now being served through the successful launch of the remote lending service, helping to drive portal customers to 109k from 78k at 29 February 2020. Digital lending has been strong, with restructuring in the division continuing. The company was profitable in the first four months of FY 2021.
16/07/20	Brooks Macdonald	Trading update	Q4 trading update states full year expectations on track to be met, with YoY growth in underlying profit and profit margin. The £3.75m cost synergies between Brooks and Cornelian (acquired February 2020) are expected to be met in FY 2021. FUM stood at £13.7bn (+4.1% YoY) after net outflows of £0.1bn in the quarter and £0.8bn across the year. MPS grew 17.6% to £1.8bn following net new business of £0.1bn.
15/07/20	Alpha FX	Trading update	Update showed revenue up 16% YoY to £18m, net assets of £80m and £37m of own free cash. Alpha Payment solutions now consistently generating revenue at record levels. Client numbers increased by 28 to 671. The payment plan with the Norwegian food distributer is performing to schedule.

Source: finnCap

Figure 28: Recent newsflow across the financial sector (cont.)

Date	Company	Event	Comment
09/07/20	Charles Stanley	Trading update	Q1 trading update shows recovery in FUMA, ahead of last year's number by 1.7% and up 11.9% QoQ to £22.6bn as at 30 June 2020. Group revenue was up 1.7% to £42.2m with fee income up 4.1% as a result of financial planning income up 35.3%. Commission income was up 4% while interest income was down 37.5%.
09/07/20	Premier Miton	AuM update	Q3 AUM update shows assets at £10.3bn to 30 June 2020, up 13% QoQ and 56% higher since 1 October 2019, though the merger bolstered AUM by £4.7bn. YTD net outflows were £615m. There are some top performing funds in the range and outflows were slowing in the multi-asset and fixed income products.
09/07/20	Polar Capital	AuM Update	Q1 AUM update shows £15.2bn of assets, up from £12.2bn to end of March 2020 +25% QoQ. Closure of the UK Absolute Equity fund meant outflows were £301m, somewhat damaging net flows, which amounted to £187m or 1.5% of opening AUM (+4% if you adjust for the fund closure).
08/07/20	Liontrust	Final results	AUM at £16.1bn, up 27% after net inflows of £2.7bn or 21% of opening AUM. AUM at 30 June 2020 was £19.3bn (net flows of 6%) with a further £5.0bn due to come in from the Architas deal. Reported revenue £124m, up 27% with reported PBT down 26% to £16.5m, restated to £38.1m and up 26% after adjustments including £2.3m of severance costs, £8.4m professional services and additional D&A associated with the acquisition and reorganisation of Neptune.
03/07/20	Manolete Partners	Final results	Full year results to 31 March 2020 show revenue up 36% to £18.7m, gross profit up 43% to £14.4m and PBT up 40% to £9.5m. Final dividend up 100% to 3.0p from 1.5p taking the full dividend to 3.5p. Investment in cases up to £32.4m, 78% higher YoY. Gross cash of £8.4m as the company entered FY 2021 with £12m of the £20m HSBC revolver available.
02/07/20	Appreciate Group	Trading & financing update	YTD post-March now shows demand in aggregate down 48% with steady improvement. Christmas Savings order book was down 10% with cancellation rates similar to last year, which has continued YTD. Cash at the end of June stood at £18.8m as billings are marginally ahead of the company's 'mid-range' COVID-19 scenario planning. Bank financing discussions are underway to aid strategic development.
01/07/20	Liontrust	Acquisition	Liontrust announced a deal to acquire Architas UK from AXA for up to £75m, including a highly rated multi-manager team, which will merge with Liontrust's team. The new multi-manager proposition will amount to £6.6bn of AUM, from just under a billion pounds for Liontrust's existing offering and Architas PBT was £4.8m to 31 December 2019. Total AUMA will reach £25bn. The deal is expected to be earnings enhancing in the year to 31 March 2022. 5.09m placing shares at 1300p, raising £66m, will be used to satisfy the consideration alongside existing cash resources.
29/06/20	K3 Capital	Fundraise	Successful placing to raise £30.45m (gross) at 150p to fund the £9.3m acquisition of Randd UK Ltd, an R&D tax credit specialist with an LTM EBITDA of c.£2.0m, with a margin of c.50% and revenues typically contracted for 5 tax years with many recurring thereafter, followed by future potential deals in SME exposed markets.
25/06/20	Non-Standard Finance	Final results	FY results showed normalised revenue before fair value adjustments up 10% to £183.7m, operating profit up 20% to £42.2m and PBT up 5% to £14.7m. Reported loss before tax however, was £76m. Goodwill impairments amounted to approximately £66m. COVID-19 updates states lending resumed in May with collections at 86% of normal levels. Guarantor loans said to be hit hardest by COVID-19. The group state £17.2m cash after expenses was generated in May, £7.4m in April. No final dividend, meaning total dividend per share of 0.7p, down from 2.6p YoY. Cash at bank to 31 May 2020 was £60.3m.
24/06/20	Brooks Macdonald	Acquisition	Acquisition of Lloyds Bank International's Channel Islands wealth and fund business for £9.63m to be paid in cash from existing resources, with completion expected Q4 2020, with an agreement in principle with Lloyds Bank Corporate Markets to reciprocate relevant business introductions to one another. HNW-focussed FUM of £1.0bn, all DFM, split by £500m investment management business and £500m in funds distributed to the IFA sector.
23/06/20	1 PM	Trading & funding update	'Satisfactory' trading update that outlines positive cash movements of £1.0m early settlement, a £3.1m term loan and £6.3m for deployment in lending activities under CBILS. Revenue expected to be £29.1m (80% lending 20% broking) with PBT of £3.0m after an exceptional £2.1m increase in the bad debt provision. Provisions increased 5.2% to £5.1m with net assets now in excess of £55m. Borrowing facilities at £180m, cash of £4.2m including the term loan plus an additional £1.0m overdraft.
22/06/20	Polar Capital	Final results	Full year results to 31 March 2020 stated that AUM reached £12.2bn, down 11.6% YoY from £13.8bn following net inflows of £316m to Global Technology and £280m to UK Value Opportunities, though net outflows of £1.1bn exited the North American fund with £485m out of Japan strategies following restructuring. This led to net revenues of £140.4m down 14.8% from £164.8m, driven by lower performance fees despite a constant revenue margin of 84 bps. PBT fell 20.7% to £50.8m from £64.1m, total dividend was maintained at 33p, with the outlook stating that AUM has mostly recovered following the April-May rally, though management expects volatility in markets for some time.

Source: finnCap

Figure 29: Upcoming results

Date	Company	Event
August	City of London Group	Full year results
11/08/20	S&U	Interims trading update
11/08/20	H&T	Interims
02/09/20	Mattioli Woods	Full year results
08/09/20	STM	Interims
08/09/20	Nucleus	Interims
21/09/20	Frenkel Topping	Interims
22/09/20	K3 Capital	Full year results
22/09/20	1pm	Full year results
29/09/20	Mortgage Advice Bureau	Interims

Source: finnCap

Figure 30: Valuation comparables split by sub-sector (Exchanges and Wealth Managers)

Company	Enterprise Value (m) local fx	Market Cap (m) local fx	EV/Sales (x) FY1	EV/Sales (x) FY2	EV/EBITDA (x) FY1	EV/EBITDA (x) FY2	EV/EBIT (x) FY1	EV/EBIT (x) FY2	P/E (x) FY1	P/E (x) FY2	Dividend Yield (%) FY1	Dividend Yield (%) FY2	Share Price YTD %
"Exchanges"													
Alpha FX Group Plc	243	327	6.54	5.30	16.8	12.7	18.0	13.6	30.9	25.0	0.5	0.6	*-34.8*
CMC Markets Plc	859	939	3.15	3.60	8.0	11.6	7.4	11.0	10.7	16.0	4.6	3.1	*122.0*
Equals Group Plc	45	52	1.16	1.00	3.6	3.0			5.1	4.2	0.0	0.0	*-66.4*
IG Group Holdings plc	2,247	2,727	3.71	3.81	8.1	8.6	8.7	9.1	13.3	14.2	5.8	5.8	*6.5*
K3 Capital Group Plc	55	91											*-45.9*
London Stock Exchange Group plc	30,748	29,534	13.15	12.82	22.1	21.9	29.2	28.5	40.3	33.2	0.9	1.0	*8.6*
Mortgage Advice Bureau (Holdings) plc	287	301	2.51	1.81	21.6	16.5	24.1	14.7	31.5	18.2	2.5	4.2	*-25.3*
Plus500 Ltd.	1,132	1,278	2.56	3.67	4.2	7.1	3.8	7.5	6.2	10.3	7.7	4.8	*35.4*
TP ICAP plc	1,948	1,915	1.02	1.00	5.9	5.6	6.5	6.2	9.4	8.9	5.1	5.3	*-16.4*
average			***4.22***	***4.13***	***11.3***	***10.9***	***14.0***	***13.0***	***18.4***	***16.3***	***3.4***	***3.1***	***-1.8***
median			***2.85***	***3.64***	***8.1***	***10.1***	***8.7***	***11.0***	***12.0***	***15.1***	***3.5***	***3.7***	***-16.4***
Wealth Managers													
AFH Financial Group PLC	169	141	2.24	2.03	9.6	8.4	10.7	9.7	10.1	10.3	2.5	2.8	*-6.8*
Brooks Macdonald Group plc	188	272	1.74	1.66	8.9	7.3	9.3	7.9	14.0	13.7	3.0	3.3	*-19.9*
Brewin Dolphin Holdings PLC	726	798	2.14	2.04	9.6	9.4	10.4	10.5	13.5	14.2	5.6	4.4	*-27.4*
Charles Stanley Group PLC	50	131	0.32	0.31	4.2	3.4	5.8	4.4	18.1	14.2	3.5	3.5	*-20.7*
Curtis Banks Group PLC	108	145	2.05	1.63	7.7	7.6	7.4	7.1	12.7	13.3	4.2	3.9	*-39.6*
Kingswood Holdings Limited	46	50											*11.1*
Frenkel Topping Group plc	27	29	2.68	2.24	10.8	8.2	11.8	9.3	23.3	18.3	3.3	3.6	*16.7*
Hargreaves Lansdown plc	7,911	8,177	15.62	15.42	24.3	25.1	25.0	25.9	31.4	32.4	2.6	2.5	*-10.8*
Hansard Global plc	3	42	0.02	0.02			0.5	0.4	7.9	7.9	14.4	14.5	*-26.6*
Jarvis Securities plc	72	75	5.42	5.34					13.5	13.2	5.5	5.7	*42.5*
Mattioli Woods plc	174	185	2.96	2.83	9.9	9.8	13.2	13.5	16.8	15.8	2.4	2.3	*-12.7*
Rathbone Brothers Plc	(921)	923	-2.74	-2.64	-12.3	-11.2	-12.1	-11.1	16.3	15.5	4.2	4.2	*-20.8*
St. James's Place Plc	5,403	5,081	7.49	6.73	17.2	17.9	20.1	19.9	21.3	18.9	4.3	4.7	*-18.3*
STM Group PLC	1	16	0.04	0.03	0.2	0.2	0.3	0.2	7.2	4.3	6.4	6.8	*8.2*
Tatton Asset Management Plc	151	159	6.90	6.30	14.8	12.9	15.6	13.7	21.7	18.8	3.5	3.8	*5.2*
Tavistock Investments plc	9	10											*-21.4*
Walker Crips Group plc	9	11											*-1.9*
average			***3.35***	***3.14***	***8.76***	***8.25***	***9.08***	***8.57***	***16.26***	***15.04***	***4.68***	***4.71***	***-8.43***
median			***2.19***	***2.03***	***9.62***	***8.32***	***10.37***	***9.35***	***15.12***	***14.19***	***3.84***	***3.82***	***-12.73***

Source: finnCap, FactSet

Figure 31: Valuation comparables split by sub-sector (Fund Managers and Lenders)

	Enterprise Value (m)	Market Cap (m)	EV/Sales (x)		EV/EBITDA (x)		EV/EBIT (x)		P/E (x)		Dividend Yield (%)		Share Price
Company	local fx	local fx	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	FY1	FY2	YTD %
Fund Managers													
Ashmore Group plc	2,393	2,669	7.41	7.45	11.3	11.3	11.5	11.4	15.7	15.7	4.2	4.3	*-23.0*
City of London Investment Group PLC	98	103	3.06	2.32			7.2	4.7	12.8	10.8	8.3	7.1	*-6.8*
Man Group PLC	1,946	1,810	2.80	2.49	9.8	7.4	11.2	8.0	12.8	9.5	5.0	5.2	*-21.0*
Impax Asset Management Group plc	471	449	6.22	5.50	25.3	21.4	25.3	21.0	32.8	28.5	1.4	1.8	*-1.0*
Janus Henderson Group PLC	3,142	4,000	1.48	1.48	5.1	5.1	5.3	5.4	8.8	8.7	6.8	7.0	*-11.5*
Jupiter Fund Management plc	749	1,259	2.11	1.89	5.8	5.0	6.2	5.3	11.7	11.0	6.9	7.0	*-43.1*
Liontrust Asset Management PLC	652	761	5.08	4.37	14.9	12.1	15.0	12.2	20.8	17.4	2.8	3.3	*15.0*
Premier Miton Group Plc	113	157	2.01	1.68	5.7	4.4	5.8	4.1	6.7	8.8	9.4	6.2	*-47.2*
Polar Capital Holdings Plc	326	451	2.22	2.03	7.0	5.8	7.2	6.1	11.8	10.5	6.9	6.9	*-12.7*
Record plc	49	70	1.99	1.98	7.0	7.4	8.0	8.6	13.9	15.1	6.2	6.2	*-8.8*
Schroders PLC	6,280	8,125	3.12	3.00	9.4	8.8	11.0	10.3	17.6	16.5	3.8	3.9	*-10.9*
average			***3.41***	***3.11***	***10.13***	***8.88***	***10.33***	***8.83***	***15.03***	***13.88***	***5.61***	***5.35***	***-15.55***
median			***2.80***	***2.32***	***8.21***	***7.40***	***8.01***	***8.05***	***12.83***	***10.98***	***6.19***	***6.19***	***-11.53***
Lenders													
Arbuthnot Banking Group PLC	(37)	110	-0.52	-0.50			-0.5	-0.5	208.5	61.2	0.0	5.0	*-45.2*
Arrow Global Group Plc	1,317	131	5.33	3.84	5.3	5.0	-112.7	11.9	3.9	2.7	3.9	9.8	*-71.1*
Bank of Georgia Group Plc	1,593	359	6.06	5.25			9.1	7.2	6.0	3.0	1.7	8.4	*-53.6*
N Brown Group plc	610	106	0.79	0.80	6.5	6.6	9.5	10.1	3.0	3.0	5.2	6.1	*-77.2*
City of London Group plc	96	37	11.30		-71.8		-68.0				0.0		*-33.9*
Close Brothers Group plc	3,535	1,665	4.27	4.20			12.4	14.6	10.3	15.2	3.7	2.5	*-30.2*
GLI Finance Ltd.	72	7	6.00	5.00			-96.2	67.4		16.3	0.0	0.0	*-46.7*
H&T Group plc	161	128	0.94	0.86			6.1	5.9	6.6	6.4	4.5	5.5	*-4.7*
International Personal Finance plc	793	126	0.95	0.91			7.1	6.6	2.0	3.0	15.0	13.5	*-64.8*
Morses Club Plc	91	70	0.66	0.64	4.1	3.2	8.6	5.5	5.0	3.8	11.4	13.7	*-60.4*
Non-Standard Finance Plc	331	16	1.99	1.95	37.0	9.2	19.6	8.1		7.4	0.0	5.0	*-75.4*
1 PM Plc	17	16	0.58		2.9		3.2		4.1		4.3		*-47.8*
Orchard Funding Ltd.	25	15	4.60	4.68	10.8	14.5	11.2	15.2	11.2	17.7	4.2	4.2	*-11.3*
Paragon Banking Group PLC	6,048	826	19.87	20.22			37.0	41.8	7.0	9.8	5.1	2.1	*-39.7*
PCF Group plc	70	46	2.79	2.19					6.2	4.9	2.3	2.8	*-47.1*
Provident Financial PLC	2,088	423	2.46	2.45			-20.3	46.4		8.7	2.2	3.8	*-63.1*
Ramsdens Holdings PLC	39	41	0.70	0.67	4.8	4.3	7.1	5.2	7.9	7.3	4.2	6.2	*-45.0*
Secure Trust Bank Plc	366	108	2.28	2.55			4.9	5.7		56.6	3.9	4.9	*-63.8*
S&U plc	312	194	3.08	2.75			7.1	6.0	6.2	5.6	8.1	8.7	*-24.2*
TBC Bank Group Plc	1,135	404	4.20	3.73			7.7	5.9	6.2	3.4	1.3	6.7	*-43.7*
Thinksmart Limited	20	27		4.74						84.3		5.9	*9.6*
average			***3.92***	***3.52***	***-0.06***	***7.13***	***-7.74***	***15.47***	***19.60***	***16.85***	***4.05***	***6.04***	***-44.73***
median			***2.63***	***2.55***	***5.05***	***5.83***	***7.09***	***7.16***	***6.19***	***7.31***	***3.90***	***5.50***	***-46.74***

Source: finnCap, FactSet

Sub-sector performance

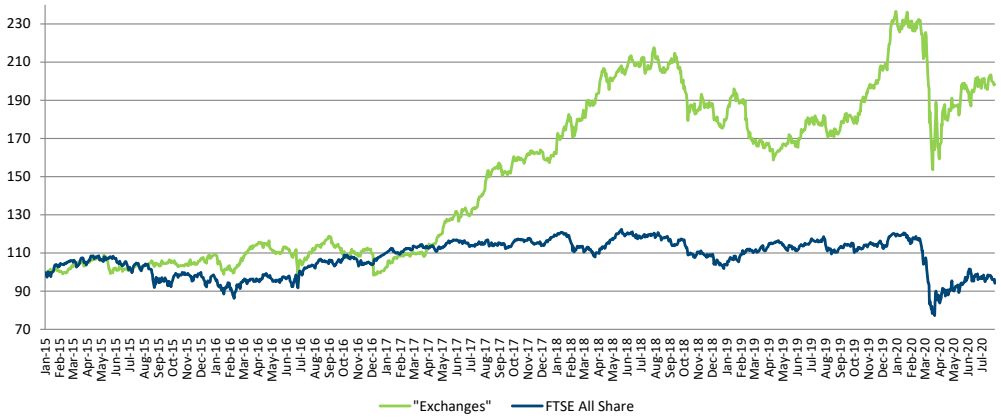
Figure 32: Quarterly price performance of sub-sectors

	Q3 2019	Q4 2019	Q1 2020	Q2 2021
FTSE All Share	-0.8%	3.9%	-26.6%	14.0%
Exchanges	0.2%	32.3%	-28.7%	22.4%
Wealth Managers	-5.1%	6.8%	-26.7%	26.0%
Fund Managers	-4.8%	26.6%	-29.6%	30.2%
Lenders	-4.8%	16.4%	-45.7%	19.0%

Source: finnCap, FactSet

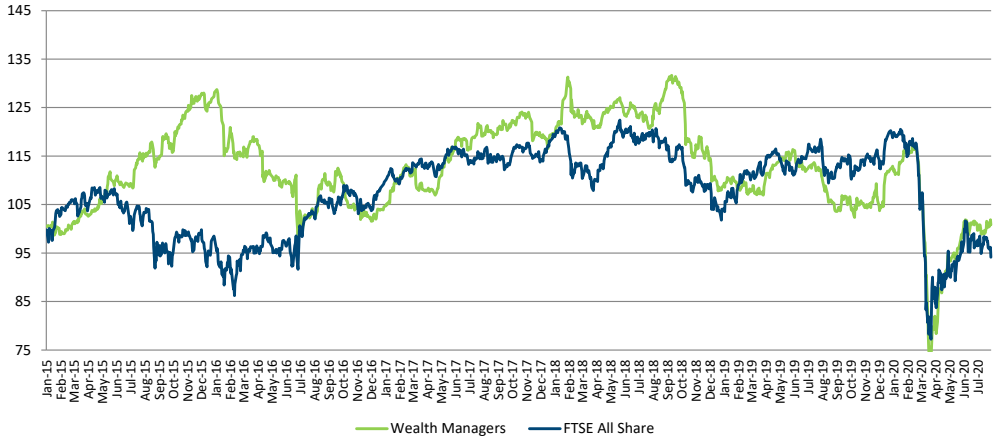
- **Exchanges** have continued a respectable recovery, and **Wealth Managers** have continued to recover in line with the market.
- **Fund Managers** continued their remarkable recovery and have now begun to level out.
- **Lenders** have continued to underperform, starting to fall again after their initial rise in April and May.

Figure 33: Exchanges have recovered strongly, up 26% from March's lows



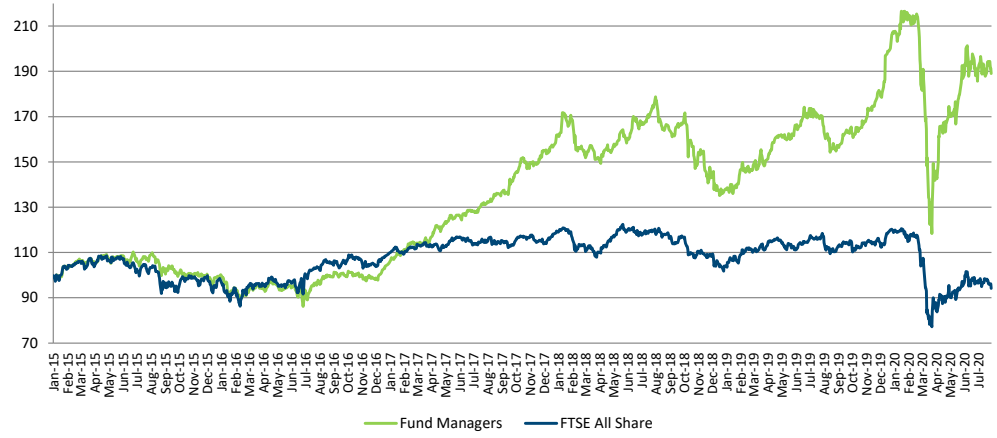
Source: finnCap, FactSet (equally weighted index)

Figure 34: Wealth Managers have risen in line with the market



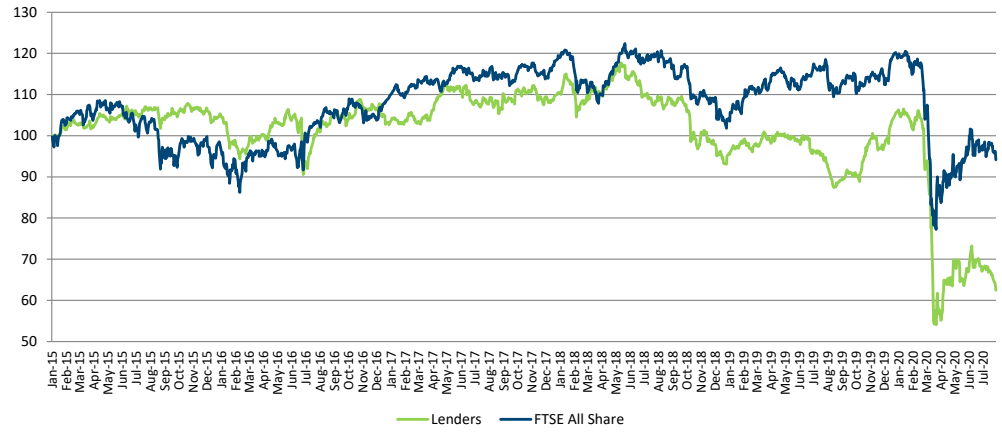
Source: finnCap, FactSet (equally weighted index)

Figure 35: Fund Managers continued their strong recovery



Source: finnCap, FactSet (equally weighted index)

Figure 36: Lenders have continued to underperform, down 37% YTD



Source: finnCap, FactSet (equally weighted index)

Performance of finnCap's evolutionary categories

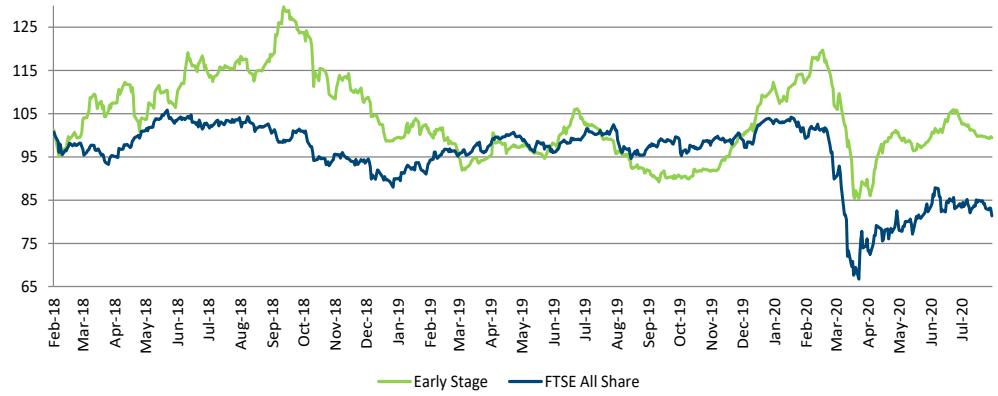
Figure 37: Quarterly price performance of finnCap's evolutionary categories

	Q3 2019	Q4 2019	Q1 2020	Q2 2021
FTSE All Share	-0.8%	3.9%	-26.6%	14.0%
Early Stage	-11.4%	24.0%	-18.8%	17.7%
Fading Returns	-8.8%	19.1%	-40.9%	13.6%
Recovery	2.1%	32.8%	-29.4%	29.3%
Transitioning	5.8%	16.9%	-30.3%	20.2%
Builder	-1.5%	5.9%	-31.3%	15.5%
Steady State	-6.6%	18.0%	-30.8%	20.2%
High Return	2.2%	30.0%	-34.5%	30.6%

Source: finnCap, FactSet

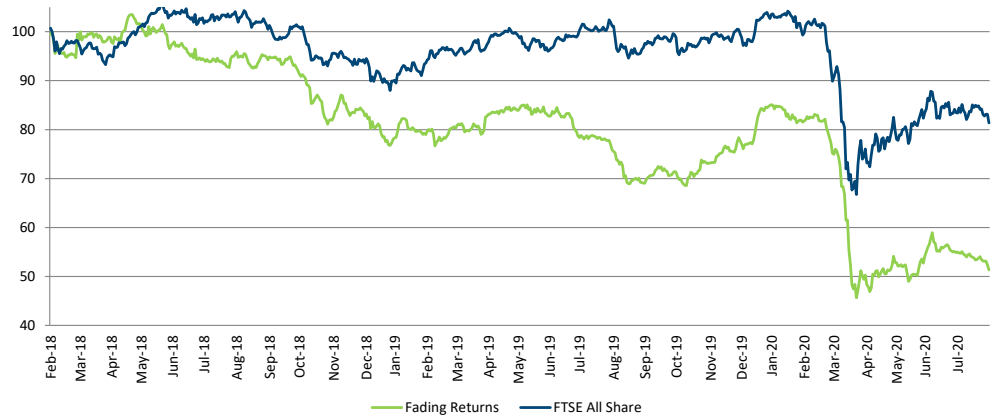
- **High Return** shares recovered well in Q2 with the best performance of +30.6% after they saw the second highest sell-off in Q1. **Fading Return** was the worst performer for the second quarter in a row, rising +13.6% against an average of +21.0%. **Recovery** was another notable strong performer, whilst **Early Stage** and **Builder** were relatively weak.

Figure 38: Early Stage shares increased 18% in Q2, having been standout in Q1



Source: finnCap, FactSet (equally weighted index)

Figure 39: Underperformance from Fading Returns continued in Q2

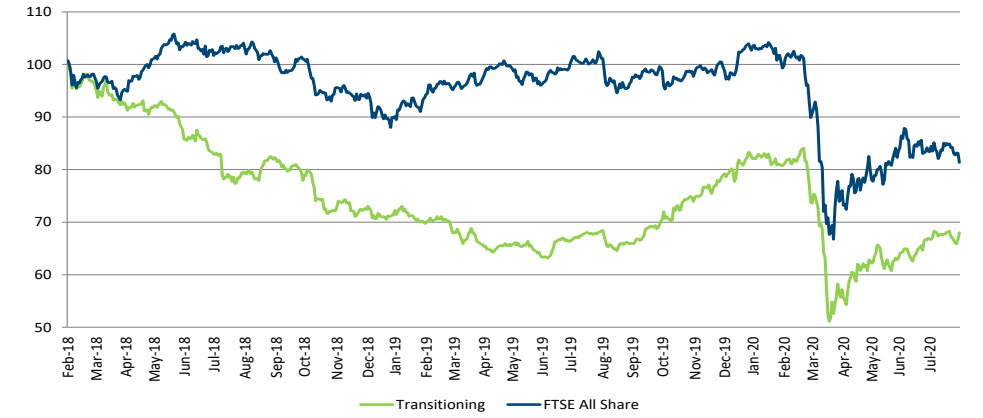


Source: finnCap, FactSet (equally weighted index)

Figure 40: Recovery continued a very strong rise, up 29%

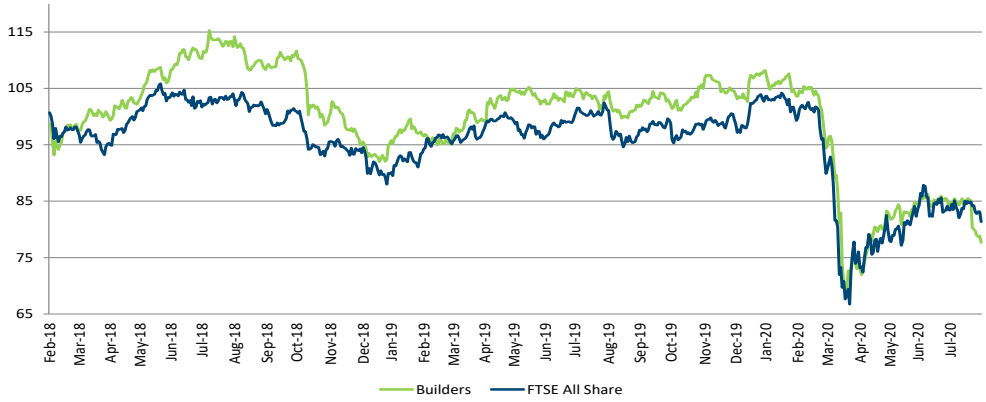
Source: finnCap, FactSet (equally weighted index)

Figure 41: Transitioning shares continued a steady recovery



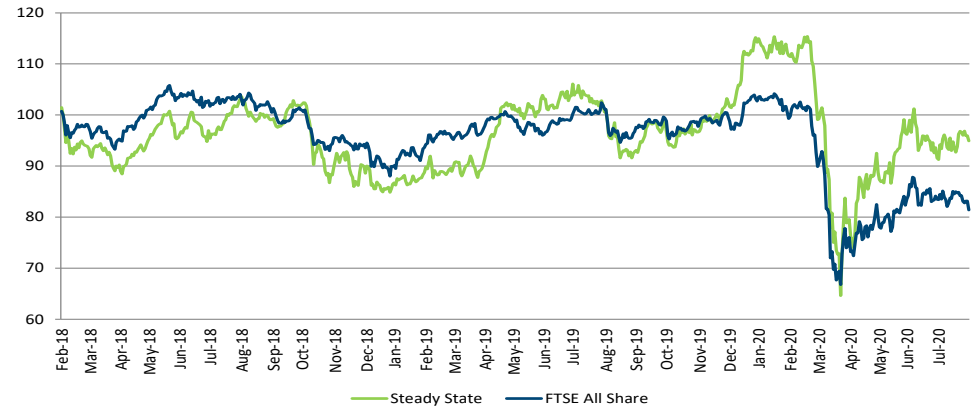
Source: finnCap, FactSet (equally weighted index)

Figure 42: Builders remain in line with the market



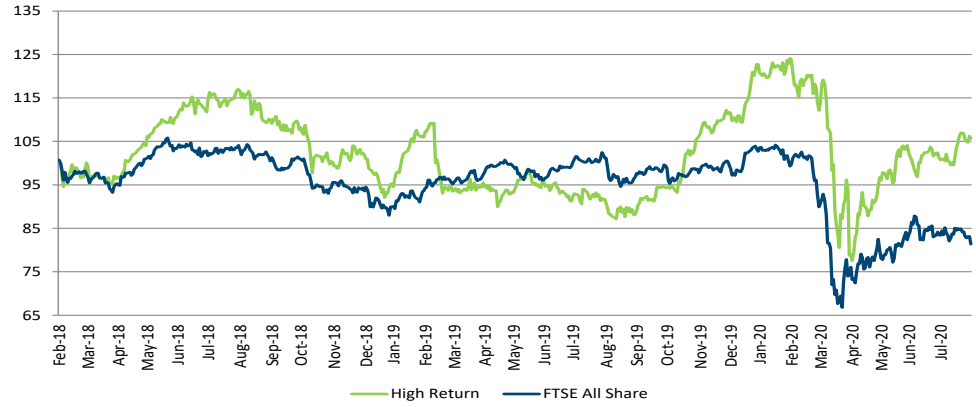
Source: finnCap, FactSet (equally weighted index)

Figure 43: Steady State is now up 48% from March lows



Source: finnCap, FactSet (equally weighted index)

Figure 44: High Return was Q2's best performer, up 31%



Source: finnCap, FactSet (equally weighted index)

Our 7 evolutionary categories from Issue 1

Early Stage

When capex, ROCE and share prices all go up in a straight line. Life is simple here. Companies spend and get a return, and inefficient capex doesn't appear. This is not necessarily young companies, as it could be a result of a related but new market or a drive to innovate.

Fading Returns

When companies keep up capex but at ever-reducing returns, ignoring the fact that capital is limited and the purpose of capital markets is to efficiently allocate capital. Though share prices may temporarily ignore the relationship, these stocks will have a crisis at some point. Profits continue to grow, providing the illusion of growth, while reducing ROCE is the early-warning indicator of the inevitable conclusion: growth is finite.

Recovery

Stocks that have hit the wall and are restructuring. In many cases, this involves a reduction of capex and, miraculously, an improvement in profits.

Transitioning

These stocks have undergone a kind of rehab, recovered somewhat and are now struggling to return to growth despite making good returns on their capital. Different skills are needed at this point, and growth strategies now carry risks.

Builders

These are largely stocks that have also come out of Recovery yet manage to allocate capital efficiently while obtaining good returns. The share price follows the profits. These companies can offer reliable returns.

Steady State

This is a dangerous place to be. Returns on capital have normalised after the early years and may now be heading slightly lower. These stocks are dangerous. They might well recover as their markets recover, they might get taken over, or they might fall back into Recovery (with the possible benefit of improved profits).

High Return

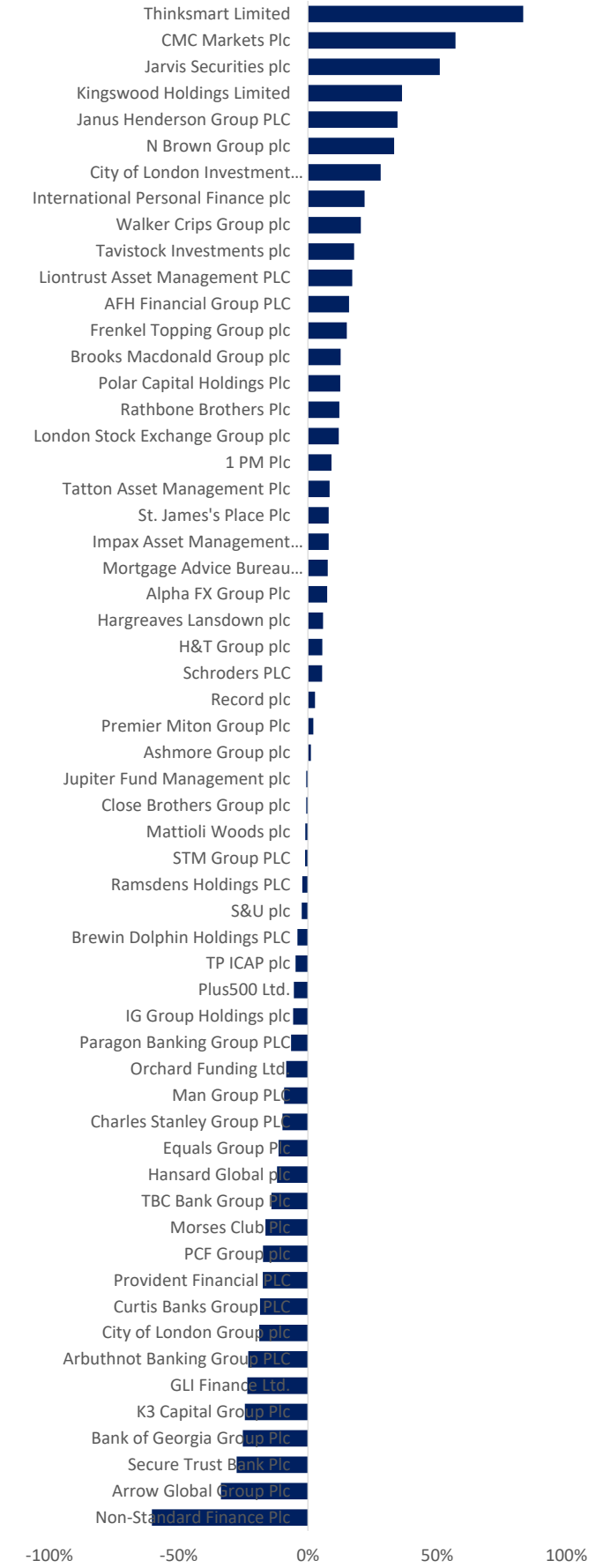
These are companies consistently achieving an ROCE in excess of 60%. They are generally doing something special. Reasons include intellectual property, a continually disruptive/innovative model or light capital requirements.

Figure 45: Full list split by category

Company	finnCap's evolutionary stage category
K3 Capital Group Plc	Early Stage
Tatton Asset Management Plc	Early Stage
AFH Financial Group PLC	Early Stage
Orchard Funding Ltd.	Early Stage
Polar Capital Holdings Plc	Fading Returns
Arrow Global Group Plc	Fading Returns
1 PM Plc	Fading Returns
Mattioli Woods plc	Fading Returns
St. James's Place Plc	Fading Returns
Bank of Georgia Group PLC	Fading Returns
International Personal Finance plc	Fading Returns
Curtis Banks	Fading Returns
GLI Finance Ltd.	Fading Returns
N Brown Group plc	Fading Returns
Provident Financial PLC	Fading Returns
IG Group Holdings plc	Recovery
CMC Markets Plc	Recovery
STM Group PLC	Recovery
Frenkel Topping Group plc	Recovery
Secure Trust Bank Plc	Recovery
Arbuthnot Banking Group PLC	Recovery
Charles Stanley Group PLC	Recovery
Brooks Macdonald Group plc	Recovery
Non-Standard Finance Plc	Recovery
Tavistock Investments plc	Recovery
Thinksmart Limited	Recovery
Hansard Global plc	Transitioning
Ramsdens Holdings PLC	Transitioning
Record plc	Transitioning
Brewin Dolphin Holdings PLC	Transitioning
Rathbone Brothers Plc	Transitioning
TP ICAP plc	Transitioning
European Wealth Group Limited	Transitioning
Walker Crips Group plc	Transitioning
TBC Bank Group Plc	Builder
City of London Investment Group PLC	Builder
H&T Group plc	Builder
London Stock Exchange Group plc	Builder
Janus Henderson Group PLC	Builder
Morses Club Plc	Builder
Paragon Banking Group PLC	Builder
Miton Group plc	Builder
FAIRFX Group Plc	Builder
Harwood Wealth Management Group Plc	Builder
PCF Group plc	Builder
Man Group Plc	Builder
Ashmore Group plc	Steady State
Hargreaves Lansdown plc	Steady State
Jupiter Fund Management plc	Steady State
Impax Asset Management Group plc	Steady State
Close Brothers Group plc	Steady State
S&U plc	Steady State
Schroders PLC	Steady State
Alpha FX Group Plc	High Return
Plus500 Ltd.	High Return
Premier Asset Management Group PLC	High Return
Jarvis Securities plc	High Return
Mortgage Advice Bureau (Holdings) Ltd	High Return

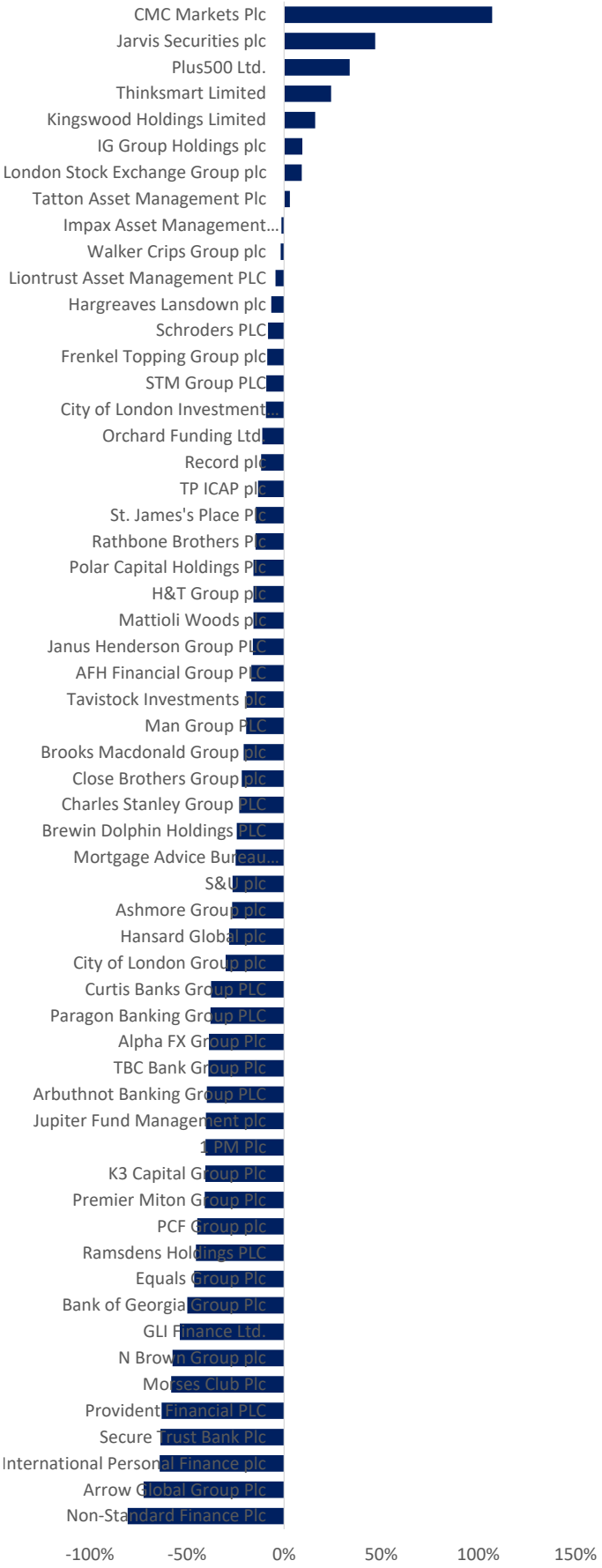
Source: finnCap

Figure 46: Financials 3-month price performance



Source: finnCap

Figure 47: Financials 6-month price performance



Source: finnCap

1pm — Buy

Analyst	**Nik Lysiuk**
Ticker	**OPM-GB**
Financial Services	
Shares in issue (m)	86.0
Next Results	FY Sept
Price	**16.8p**
Target price	45.0p
Upside	169%
Market Cap	**£14.4m**
Net debt/(cash)	£1.9m
Other EV adjustments	£0.0m
Enterprise value	£16.3m

Share price performance

%	1M	3M	12M
Actual	-17.3	-6.9	-36.8

Description: UK specialist finance provider to the SME sector

Comment Proven highly profitable business model focusing on providing lending to small UK businesses

Key estimates Year end:		2017A May	2018A May	2019A May	2020E May
Revenue	£m	16.9	30.0	31.8	29.1
Adj EBITDA	£m	4.9	8.5	9.0	3.9
Adj EBIT	£m	4.4	7.9	8.3	3.3
Adj PBT	£m	4.3	7.8	8.1	3.0
Adj EPS	p	6.5	7.4	7.4	2.7
DPS	p	0.5	0.7	0.8	1.1
Key valuation metrics:					
EV/EBIT (adj)	x	3.7	2.1	2.0	4.9
P/E (adj)	x	2.6	2.3	2.3	6.1
Dividend yield	%	3.0%	3.9%	5.0%	6.5%
Free cash yield	%	29.4%	-16.0%	22.8%	208.7%

City of London Group* — Corp

Analyst	**Nik Lysiuk**
Ticker	**CIN-GB**
Financial Services	
Shares in issue (m)	39.8
Next Results	FY Aug
Price	**87.5p**
Target price	300.0p
Upside	243%
Market Cap	**£34.8m**
Net debt/(cash)	-£15.8m
Other EV adjustments	£0.0m
Enterprise value	£19.0m

Share price performance

%	1M	3M	12M
Actual	-5.4	-19.7	-39.7

Description: Asset financing, equity release, ongoing banking licence application

Comment Launch of FCA-licensed SME banking operations planned for 2020

Key estimates Year end:		2017A Mar	2018A Mar	2019A Mar	2020E Mar	2021E Mar
Revenue	£m	2.6	5.8	7.5	7.2	8.9
Adj EBITDA	£m	-0.1	2.9	3.0	1.9	-2.4
Adj EBIT	£m	-0.1	2.9	3.0	1.9	-2.5
Adj PBT	£m	-1.3	-0.2	-2.0	-3.1	-7.1
Adj EPS	p	-8.5	-2.2	-7.0	-2.9	-6.8
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics:						
EV/EBIT (adj)	x	-366.0	6.6	6.3	9.9	-7.7
P/E (adj)	x	-10.3	-40.2	-12.4	-30.2	-12.9
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-2.1%	14.1%	26.1%	-5.1%	-12.3%

Frenkel Topping* — Corp

Analyst	**Nik Lysiuk**
Ticker	**FEN-GB**
Financial Services	
Shares in issue (m)	108.1
Next Results	H1 Oct
Price	**42.0p**
Target price	50.0p
Upside	19%
Market Cap	**£45.4m**
Net debt/(cash)	-£13.7m
Other EV adjustments	£0.0m
Enterprise value	£31.7m

Share price performance

%	1M	3M	12M
Actual	-4.5	15.1	16.7

Description: The company manages portfolios for vulnerable clients

Comment Unique market position using expert witness capabilities to gather assets

Key estimates Year end:		2018A Dec	2019A Dec	2020E Dec	2021E Dec	2022E Dec
Revenue	£m	7.7	8.6	10.1	12.1	12.7
Adj EBITDA	£m	1.8	2.0	2.5	3.3	3.8
Adj EBIT	£m	1.7	1.8	2.3	2.9	3.5
Adj PBT	£m	1.7	1.8	2.3	2.9	3.5
Adj EPS	p	2.0	2.3	1.8	2.3	2.7
DPS	p	1.3	1.4	1.4	1.5	1.6
Key valuation metrics:						
EV/EBIT (adj)	x	18.6	17.9	14.0	10.7	9.1
P/E (adj)	x	21.5	18.4	23.9	18.5	15.6
Dividend yield	%	3.1%	3.2%	3.4%	3.6%	3.8%
Free cash yield	%	2.7%	2.8%	4.6%	4.4%	6.4%

H&T Group — Buy

Analyst	**Nik Lysiuk**
Ticker	**HAT-GB**
Financial Services	
Shares in issue (m)	38.8
Next Results	H1 Aug
Price	**322.0p**
Target price	490.0p
Upside	52%
Market Cap	**£124.9m**
Net debt/(cash)	£36.3m
Other EV adjustments	£0.0m
Enterprise value	£161.2m

Share price performance

%	1M	3M	12M
Actual	1.1	3.4	-3.3

Description: The largest pawnbroker in the UK

Comment Now expending personal loan book and retailing of watches

Key estimates Year end:		2017A Dec	2018A Dec	2019E Dec	2020E Dec	2021E Dec
Revenue	£m	124.7	143.0	160.5	177.4	186.9
Adj EBITDA	£m	15.2	16.8	24.4	29.4	30.7
Adj EBIT	£m	12.5	14.3	21.5	26.1	27.2
Adj PBT	£m	11.9	13.5	19.2	23.5	24.6
Adj EPS	p	25.9	29.3	39.6	48.4	50.6
DPS	p	10.5	11.0	4.7	16.9	17.7
Key valuation metrics:						
EV/EBIT (adj)	x	12.9	11.3	7.5	6.2	0.0
P/E (adj)	x	12.4	11.0	8.1	6.7	6.4
Dividend yield	%	3.3%	3.4%	1.5%	5.3%	5.5%
Free cash yield	%	-2.7%	4.7%	6.4%	7.7%	8.1%

K3 Capital* — Corp

Analyst	**Nik Lysiuk**
Ticker	**K3C-GB**
Financial Services	
Shares in issue (m)	68.5
Next Results	FY Sept
Price	**162.0p**
Target price	300.0p
Upside	85%
Market Cap	**£111.0m**
Net debt/(cash)	-£8.3m
Other EV adjustments	£0.0m
Enterprise value	£102.7m

Share price performance

%	1M	3M	12M
Actual	9.1	-3.6	13.7

Description: Number 1 UK small cap M&A business, diversified with insolvency & restructuring services

Comment De-risking revenues through adjacent SME professional services acquisitions

Key estimates Year end:		2019A May	2020E May	2021E May	2022E May	2023E May
Revenue	£m	13.6	15.0	35.1	47.4	58.1
Adj EBITDA	£m	5.0	6.8	10.0	13.9	18.0
Adj EBIT	£m	4.9	6.7	9.6	13.5	17.6
Adj PBT	£m	4.9	6.7	9.6	13.5	17.6
Adj EPS	p	9.4	12.8	11.4	16.0	20.8
DPS	p	7.6	10.3	8.6	12.0	15.6
Key valuation metrics:						
EV/EBIT (adj)	x	21.1	15.3	10.6	7.6	5.8
P/E (adj)	x	17.2	12.7	14.2	10.1	7.8
Dividend yield	%	4.7%	6.3%	5.3%	7.4%	9.6%
Free cash yield	%	3.5%	4.9%	7.8%	10.9%	13.9%

Mattioli Woods — Hold

Analyst	**Nik Lysiuk**
Ticker	**MTW-GB**
Financial Services	
Shares in issue (m)	26.9
Next Results	FY Sept
Price	**702.5p**
Target price	850.0p
Upside	21%
Market Cap	**£189.3m**
Net debt/(cash)	-£23.2m
Other EV adjustments	£0.0m
Enterprise value	£166.0m

Share price performance

%	1M	3M	12M
Actual	-1.7	1.1	-9.6

Description: Vertically integrated financial adviser and wealth manager

Comment The company targets a 25% operating margin while maximising growth

Key estimates Year end:		2018A May	2019A May	2020E May	2021E May	2022E May
Revenue	£m	58.7	58.5	58.9	63.7	68.1
Adj EBITDA	£m	14.0	15.5	19.7	16.8	18.6
Adj EBIT	£m	10.9	11.2	14.6	11.6	13.2
Adj PBT	£m	11.1	11.7	15.0	12.1	13.9
Adj EPS	p	35.7	36.1	46.1	37.5	42.9
DPS	p	17.0	20.0	14.6	19.3	22.2
Key valuation metrics:						
EV/EBIT (adj)	x	15.2	14.8	11.4	14.3	12.5
P/E (adj)	x	19.7	19.4	15.2	18.7	16.4
Dividend yield	%	2.4%	2.8%	2.1%	2.7%	3.2%
Free cash yield	%	4.0%	3.7%	4.1%	6.5%	5.9%

Mortgage Advice Bureau — Hold

Analyst	**Nik Lysiuk**
Ticker	**MAB1-GB**
Financial Services	
Shares in issue (m)	51.4
Next Results	H1 Oct
Price	**620.0p**
Target price	510.0p
Upside	-18%
Market Cap	**£318.8m**
Net debt/(cash)	-£14.2m
Other EV adjustments	£0.0m
Enterprise value	£304.6m

Share price performance

%	1M	3M	12M
Actual	0.8	13.3	8.8

Description: Provides mortgage and insurance products across the UK network

Comment Adviser recruitment will drive market share growth and earnings. Attractive yield.

Key estimates Year end:		2017A Dec	2018A Dec	2019A Dec	2020E Dec	2021E Dec
Revenue	£m	108.8	123.3	143.7	109.1	144.1
Adj EBITDA	£m	14.0	16.0	19.8	13.3	17.4
Adj EBIT	£m	14.0	15.7	19.3	12.5	16.5
Adj PBT	£m	14.5	16.2	19.4	12.8	17.0
Adj EPS	p	23.2	26.2	31.0	20.4	26.6
DPS	p	18.3	21.4	17.5	17.1	22.1
Key valuation metrics:						
EV/EBIT (adj)	x	22.6	19.4	15.8	24.3	18.4
P/E (adj)	x	26.7	23.7	20.0	30.4	23.3
Dividend yield	%	3.0%	3.5%	2.8%	2.8%	3.6%
Free cash yield	%	4.9%	4.6%	6.3%	1.1%	5.5%

Nucleus Financial Group — Buy

Analyst	**Nik Lysiuk**
Ticker	**NUC-GB**
Financial Services	
Shares in issue (m)	75.9
Next Results	H1 Sept
Price	**125.0p**
Target price	170.0p
Upside	36%
Market Cap	**£94.8m**
Net debt/(cash)	-£18.5m
Other EV adjustments	£0.0m
Enterprise value	£76.3m

Share price performance

%	1M	3M	12M
Actual	-16.1	-8.1	-27.1

Description: Wrap platform for advisers launched in 2006 by a group of seven financial adviser firms

Comment Lean and simple business growing through AUM accumulation

Key estimates Year end:		2017A Dec	2018A Dec	2019A Dec	2020E Dec	2021E Dec
Revenue	£m	45.5	49.4	51.5	49.6	53.1
Adj EBITDA	£m	6.3	8.7	8.6	3.8	5.6
Adj EBIT	£m	5.9	8.1	7.5	3.0	4.9
Adj PBT	£m	5.9	8.1	7.4	2.9	4.8
Adj EPS	p	5.4	6.3	7.8	2.7	4.6
DPS	p	0.0	5.0	1.5	2.1	3.4
Key valuation metrics:						
EV/EBIT (adj)	x	13.0	9.4	10.2	25.2	15.6
P/E (adj)	x	23.1	20.0	15.9	47.0	26.9
Dividend yield	%	0.0%	4.0%	1.2%	1.6%	2.7%
Free cash yield	%	8.9%	4.9%	5.6%	5.0%	4.3%

Ramsdens Holdings — Buy

Analyst	**Nik Lysiuk**
Ticker	**RFX-GB**
Financial Services	
Shares in issue (m)	30.8
Next Results	FY Dec
Price	**137.5p**
Target price	300.0p
Upside	118%
Market Cap	**£42.4m**
Net debt/(cash)	-£9.0m
Other EV adjustments	£0.0m
Enterprise value	£33.4m

Share price performance

%	1M	3M	12M
Actual	-8.6	-18.6	-27.4

Description: Retail foreign exchange provider and pawn broker

Comment Expanding footprint underpin continued growth

Key estimates Year end:		2017A Mar	2018A Mar	2019A Mar	2020E Mar	2021E Mar
Revenue	£m	34.5	39.9	46.8	54.3	56.8
Adj EBITDA	£m	4.6	7.9	8.2	9.7	9.4
Adj EBIT	£m	4.6	6.6	6.8	8.6	8.3
Adj PBT	£m	4.4	6.5	6.7	8.5	8.2
Adj EPS	p	7.6	16.3	16.7	21.9	20.9
DPS	p	1.3	6.6	7.2	8.3	7.9
Key valuation metrics:						
EV/EBIT (adj)	x	7.3	5.1	4.9	3.9	4.0
P/E (adj)	x	18.1	8.4	8.2	6.3	6.6
Dividend yield	%	0.9%	4.8%	5.2%	6.1%	5.8%
Free cash yield	%	2.2%	6.5%	-2.3%	7.9%	10.1%

S&U — Buy

Analyst	**Nik Lysiuk**
Ticker	**SUS-GB**
Financial Services	
Shares in issue (m)	12.0
Next Results	H1 Oct
Price	**1,600.0p**
Target price	2,800.0p
Upside	75%
Market Cap	**£192.0m**
Net debt/(cash)	£108.0m
Other EV adjustments	£0.0m
Enterprise value	£299.7m

Share price performance

%	1M	3M	12M
Actual	-6.2	-3.0	-23.8

Description: UK motor finance lender

Comment Strong position to benefit from increased car ownership with further opportunity to grow bridge lending operations

Key estimates Year end:		2017A Jan	2018A Jan	2019A Jan	2020A Jan	2021E Jan
Revenue	£m	0.0	79.8	83.0	89.9	92.9
Adj EBITDA	£m	0.0	33.3	39.5	40.4	42.2
Adj EBIT	£m	0.0	33.0	39.1	40.0	41.8
Adj PBT	£m	0.0	30.2	34.6	35.1	37.4
Adj EPS	p		203.8	233.2	239.6	251.4
DPS	p	0.0	105.0	105.0	118.0	136.4
Key valuation metrics:						
EV/EBIT (adj)	x	n/m	9.1	8.0	7.8	7.4
P/E (adj)	x		7.9	6.9	6.7	6.4
Dividend yield	%	0.0%	6.6%	6.6%	7.4%	8.5%
Free cash yield	%	0.0%	-22.6%	5.7%	2.3%	8.5%

STM* — Corp

Analyst	**Nik Lysiuk**
Ticker	**STM-GB**
Financial Services	
Shares in issue (m)	59.4
Next Results	H1 Sept
Price	**29.0p**
Target price	53.0p
Upside	83%
Market Cap	**£17.2m**
Net debt/(cash)	-£17.2m
Other EV adjustments	£0.0m
Enterprise value	£0.0m

Share price performance

%	1M	3M	12M
Actual	1.8	7.4	-33.0

Description: International SIPP and QROP administrator

Comment Moving onshore and diversifying UK revenues

Key estimates Year end:		2017A Dec	2018A Dec	2019A Dec	2020E Dec	2021E Dec
Revenue	£m	21.5	21.4	23.3	24.3	26.8
Adj EBITDA	£m	4.8	4.7	3.5	3.7	5.6
Adj EBIT	£m	4.3	4.3	4.2	2.9	4.7
Adj PBT	£m	4.0	4.0	3.9	2.7	4.5
Adj EPS	p	6.4	5.9	5.6	3.7	6.2
DPS	p	1.8	2.0	1.5	1.7	1.8
Key valuation metrics:						
EV/EBIT (adj)	x	-0.0	0.0	0.0	0.0	0.0
P/E (adj)	x	4.6	4.9	5.1	7.9	4.7
Dividend yield	%	6.2%	6.9%	5.2%	5.7%	6.3%
Free cash yield	%	19.4%	14.8%	4.9%	17.3%	21.3%

Tatton Asset Management — Buy

Analyst	**Nik Lysiuk**
Ticker	**TAM-GB**
Financial Services	
Shares in issue (m)	55.8
Next Results	H1 Dec
Price	**284.0p**
Target price	335.0p
Upside	18%
Market Cap	**£158.6m**
Net debt/(cash)	-£12.8m
Other EV adjustments	£0.0m
Enterprise value	£146.0m

Share price performance

%	1M	3M	12M
Actual	-1.7	11.8	30.3

Description: DFM provider to IFAs offering low cost MPS funds, in addition to consultancy and mortgage aggregation

Comment Quickly scaling AUM with an opportunity to organically double assets from existing clients

Key estimates Year end:		2018A Mar	2019A Mar	2020A Mar	2021E Mar	2022E Mar
Revenue	£m	15.5	17.5	23.0	22.3	24.7
Adj EBITDA	£m	6.6	7.4	9.6	10.3	11.9
Adj EBIT	£m	6.5	7.3	9.1	10.0	11.5
Adj PBT	£m	6.5	7.5	9.1	10.0	11.5
Adj EPS	p	9.1	10.2	12.4	13.1	15.2
DPS	p	6.6	8.4	9.6	9.9	10.7
Key valuation metrics:						
EV/EBIT (adj)	x	22.4	20.0	16.1	14.5	12.7
P/E (adj)	x	31.2	27.9	22.9	21.6	18.6
Dividend yield	%	2.3%	3.0%	3.4%	3.5%	3.8%
Free cash yield	%	1.4%	3.8%	5.5%	4.4%	6.0%

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