

Upgrades post strong Q2 AUM growth

11 April 2017

An impressive first half saw total assets under discretionary and advisory management (AUM) hit a new £5.7bn peak at end March 2017. As that's already above our existing full-year target with six months still to go, we have upgraded FY17e AUM to £6.0bn and £6.8bn by end FY18. We still see those as relatively conservative vs 27% first half growth i.e. c 5% net new inflows in H2, c 2% from investment performance, and reductions in scale of the group's older private equity funds as they exit investments.

Building investment profile and traction in key markets

Growth in gross AUM, respectively **12.4% and 12.9%** in each of the first two quarters reflects momentum behind key drivers for Impax's listed investments. We interpret this as evidence of the group's growing profile as a prime source of expertise in an area of increasing importance to global investors, and traction in key markets.

Investment drivers: net inflows and fund performance

The first two quarters saw net inflows to **listed** equity funds equivalent to 8.3% and 9.3% across Q1 and Q2, and respectively +2.0% and +5.6% investment performance. The impact on fee income is reflected in our higher revenue and earnings forecasts. The upgrades may yet prove cautious, as for now we only include a minimal contribution from higher-margin private equity funds, pending announcements. Conversely, we have assumed exits from older PE funds near the end of their terms: these *reduce* AUM/fees short term, but are positive events that should **benefit subsequent fund launches**.

Forecasts and valuation

The AUM update didn't detail the sources of £428m of net inflows to listed equity funds in Q2, but Impax previously reported growing receipts from Continental European and North American clients. Despite a strong recent run which puts the shares on a more demanding rating we see our FY17e AUM target as conservative as it assumes £0.27m of listed equity net inflows in H2 vs £0.78m in H1 and nothing from private equity.

Indeed, given scope for continued AUM accumulation, strong fund performance in its chosen space and potential for high margin Private Equity growth to result in further upgrades, the valuation remains attractive vs short term prospects.

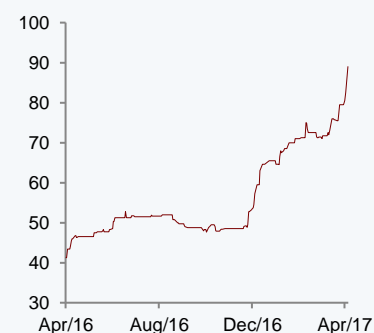
Summary forecasts					
Year end 31 Sep	2014A	2015A	2016A	2017E	2018E
Revenue, £m	20.4	19.7	21.1	27.4	33.0
Op. Profit, £m	5.3	3.1	4.2	6.9	8.3
EPS, p	2.8	3.1	3.6	5.0	6.0
PER x	31.8	28.7	24.7	17.8	14.8
EV/NOPAT	20	43	29	17	13
Yield, %	1.6	1.8	2.1	3.1	3.5

Source: Group report & accounts and ED estimates

Company Data

EPIC	IPX
Price	89p
52 week Hi/Lo	89p / 42p
Market cap	£114m
Net cash (Sep 2016)	£15.4m

Share Price, p



Source: ADVFN

Description

Impax is a market leading manager of both listed and private equity funds, which invest in ways that take advantage of more environmentally sustainable corporate and economic growth globally. Aggregate AUM at end March 2017 was £5.7bn.

The group has won many prestigious awards including:



Roger Leboff (Analyst)

0207 065 2690
roger@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

First half AUM benefits from net inflows and fund performance

The first half AUM growth and flows set out in the table below shows strong progress, specifically £778m of net client inflows and a £341m uplift related to investment performance.

Although no further detail is disclosed, the group appears to be benefiting from the alignment of its impressive investment performance - across distinct strategies - and marketing efforts which continue to build a global profile.

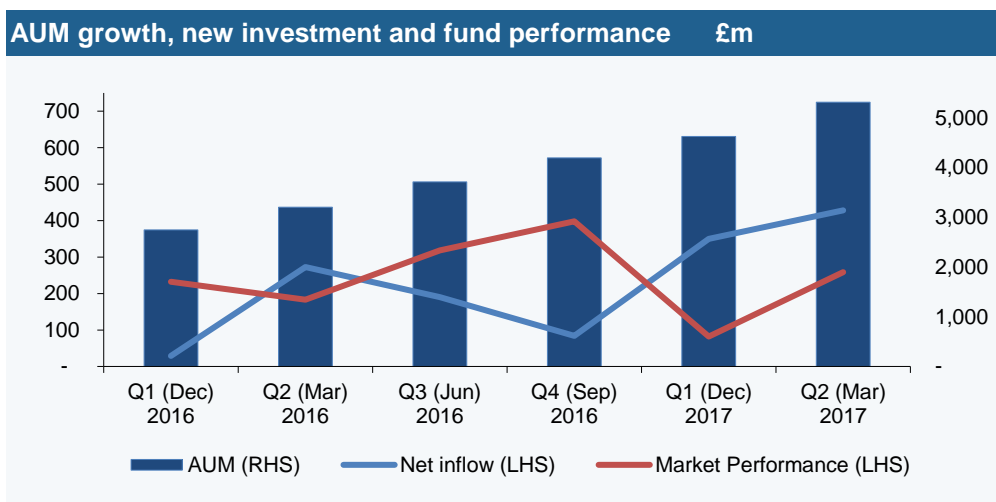
Its relationship with BNP Paribas Investment Partners and more recent additions including the launch with BNP of the Food and Agriculture strategy, mean Impax has achieved a critical mass. Asset management and marketing have both built momentum and generated higher client profiles over the last three to four years.

Discussions with management confirm a busy new business pipeline and in their view, considerable areas of untapped potential.

AUM movement, £m				
Six months to 31 March 2017	Listed Equity funds	Private Equity funds	Property funds	Total
Total AUM at 1 October 2016	4,195	285	22	4,502
Net inflows	778	90	-	868
Market movement and performance	341	-	-	341
Total AUM - 31 March 2017	5,313	375	22	5,710

Source: Impax Q1 update

The consistent performance over the last six quarters is set out below:



Source: Company

Impax views on market outlook and sensitivities

The underlying performance of group investment funds is a key trigger for new investment. That makes any disruption caused by shifts in the investment environment, caused by events such as the US presidential election, or Brexit negotiations, an *apparent* source of sensitivity. However, we would refer to recent group reports which put some of these into perspective.

Trump presidency and headwinds from US – rhetoric vs reality

The group has considered the risk that an administration headed by an admitted climate change sceptic who campaigned as pro-coal and anti-regulation could derail Environmental and Resource Efficiency Markets. It identifies factors which offset this:

- Underlying drivers advancing environmental technologies are increasingly beyond most regulatory intervention
- Any efforts to roll back existing pollution regulation are expected to face stiff legal challenges from both sides of Congress, where there is support for renewable energy and more reliable water supplies
- President Trump has called for focus on clean air and clean water, and the water sector should benefit from a planned US\$1Tn of infrastructure spending.
- Support for domestic energy production could generate new investment opportunities in hazardous waste management, water treatment and testing.

Impax thus expects the new US administration to prove **positive for many environmental markets**. It is business-friendly so should recognise and reward the economic potential of environmental markets. More Americans were employed by solar energy in 2016 than in oil and gas extraction, with rapidly rising employment in industries such as wind, energy efficient lighting and other clean energy technologies.

Additionally, corporate tax rate cuts could benefit environmental markets largely served by small and mid-cap entities, while rising interest rates are less of an issue for an industry with relatively low debt levels.

Global markets, committed to 2015 Paris Climate Agreement

Environmental Markets are highly diversified worldwide and the international community has redoubled its support for 2015 Paris Climate Agreement. China reiterated its commitment to lead development of policy to reduce carbon dioxide emissions and control pollution. Its 13th Five Year Plan put heavy emphasis on improving environmental health, tackling air, water and land pollution, and investing further in renewable energy and energy efficiency.

Other issues

Although the UK's referendum vote and fears of a 'hard Brexit' hit Sterling, Impax's portfolio is **substantially non-UK weighted**. The nature of group access to important Continental European markets has yet to be determined, so it may over the medium-term modify strategic decisions, particularly related to end markets and production locations.

Supply and demand challenges for solar markets have affected Solar Energy Generation Equipment, but long term prospects should benefit from falling technology costs and incremental opportunities as solar generation is combined with energy storage. There were also, in 2016, some weaknesses in emerging markets and issues related to exposure to oil and gas markets.



Head of Corporate

Gilbert Ellacombe

Direct: 0207 065 2698

Tel: 0207 065 2690

gilbert@equitydevelopment.co.uk

Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Ben Ferguson

Direct: 0207 065 2693

Tel: 0207 065 2690

ben.ferguson@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

The research in this document has been produced in accordance with COBS 12.3 as Non-Independent Research and is a marketing communication. This document is not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. It does not constitute a personal investment recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is deemed to be 'non-independent research' but is 'objective' in that the authors are stating their own opinions. This report has not been produced under legal requirements designed for independent research.

ED may in the future provide, or may have in the past provided, investment banking services to its client companies. For ED's employees and consultants there are rules to prevent dealing in the shares of client companies whilst notes are being prepared, or immediately after the note's release. Publication is achieved by a new note being freely available from the ED website. ED's engagement with corporate clients is governed by the laws of England & Wales. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Impax AM. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Self-certification by investors can be completed free of charge at www.fisma.org

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690