

Impax Asset Management Group



Non-independent Research – Marketing Communication

Earnings driven by strong fund momentum

16 May, 2017

First half earnings were 23% up on the second half of FY16 (100% ahead of H1'16). That reflects six consecutive quarters of strong growth in assets under management and advisory (AUM). Total net inflow was a record £870m in the first half, and the value of the group's listed equity funds grew by £340m, or 8.2%. That combined is equivalent to a 27% increase in AUM to £5.7bn, while another very good month pushed that above £6.0bn by end April. The interim figure included \$1bn for North America, an important medium term milestone.

Investment drivers: net inflows and fund performance

We have upgraded AUM forecasts as Impax has already hit our previous target with five months remaining. Our growth assumptions are well below those recently achieved, and incorporate exits from older private equity funds, but no commitments to new PE funds beyond those announced so far. Strong performances by listed equity funds should offset the temporary impact of the wind-down of mature private equity funds, pending new commitments up to its Feb 2018 close (fees backdated to the Nov 2016 launch).

The outlook remains positive. The robust performance by all group investment strategies underpin its profile as a leading global investor in environmental markets. It continues to attract attention from institutional investors in the UK, continental Europe and the US.

Valuation: AUM growth, earnings and dividend outlook

Within the fund management sector Impax is showing impressive growth in AUM, revenues, EPS and dividends. It has demonstrated its skills as an investor in environmental markets, and its ability to capitalise on market shifts driven both by regulation and customer demand for energy efficient, less pollutive alternatives.

A collegiate culture means no dependence on 'star' fund managers (whose departure might mean loss of assets) and its core investment focus is in demand from investors.

Yet market value is 2.2% of AUM, which are themselves growing rapidly.

We have increased our revenue forecasts by £1.5m (FY17e) and £1.9m (FY18e), and operating profit by £0.4m for both. The drivers which helped AUM double over the last two years remain intact. The financial model is cash generative, benefits from a declining cost ratio/improving operating margin. That will finance seed investment in new funds, possibly acquisitions, but also increases in dividends and the pay-out ratio, which we regard as conservative, despite the latest **40% increase** in the interim distribution.

Summary forecasts

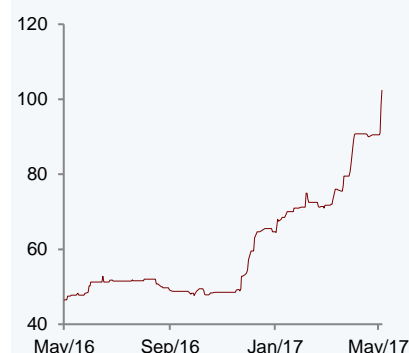
Year end 30 Sep	2014A	2015A	2016A	2017E	2018E
Revenue, £m	20.4	19.7	21.1	29.1	34.9
Op. Profit, £m	5.3	3.1	4.2	7.3	8.8
EPS, p	2.8	3.1	3.6	4.7	6.3
PER	36.1	32.6	28.1	21.5	16.0
EV/NOPAT	21	48	31	17	14
Dividend yield, %	1.3	1.6	2.1	2.8	3.1

Source: Group report & accounts and ED estimates

Company Data

EPIC	IPX
Price	101p
52 week Hi/Lo	45 - 103p
Market cap	£132m

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

Interim results to end March 2017

First six months' revenue was £13.9m (H116: £9.2m - 11.7m), operating profit £3.2m (H116: £1.6m). That's equivalent to a 23% margin vs 17% for the comparable period, and 22% for H2'16. The 23% decline in pre-tax profit to £2.4m (7% fall in EPS to 2.11p) reflected an increased NIC charge on outstanding share awards at a higher share price. Although that's taken through the income statement, it was more than offset by corresponding Corporation Tax credits in the balance sheet. There was also a £0.5m negative movement in market valuation, net of hedges, of Impax's seed investments in its own funds (H216: £0.9m gain).

Interim results summary

£m	H1 2016	H1 2017	change	FY 2016
Revenue	9,434	13,948	+48%	21,067
Operating costs	(7,871)	(10,774)	+37%	(16,915)
Operating profit	1,563	3,174	+103%	4,152
Operating margin	17%	23%		20%
(Charges)/credits relating to legacy long-term incentive schemes	86	(242)		27
Fair value (losses)/gains and other financial income/(expense)	357	(538)		989
Investment income	101	213	+111%	319
Change in third party interests in consolidated fund	(48)	(163)		(288)
Profit before taxation	2,059	2,444	+19%	5,199
Taxation	(508)	77		(1,022)
Profit after taxation	1,551	2,521	+63%	4,177
Basic earnings per share, p	1.35	2.15	+59%	3.62
Diluted earnings per share, p	1.35	2.11		3.62

Source: Group report & accounts

First half driven by investment performance and fund inflows

The listed equity funds saw strong investment performances and fund inflows, while private equity benefited from €185m of commitments. The annualised revenue run rate at the end of March 2017 was £30.6m, which has risen to £31.8m including the increase in AUM by the end of April 2017.

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	92	-	870
Market movement and performance	341	(2)	-	339
Total AUM - 31 March 2017	5,314	375	22	5,711

Source: Impax interim results

The first half operating margin, at 22.8% (or 25.9% excluding a NIC charge which is more than offset by a Corporation Tax credit in the balance sheet), rises to 27.4% based upon the revenue run rate at the mid-year, in line with management's previously stated target.

A 37% increase in operating costs (which includes the above NIC charge) is relative to a 48% increase in revenues and illustrates the inherent scalability of the business.

Balance sheet underpinned by cash reserves

Cash reserves were £13m at the half-year end, vs £15.4m as at the end of September 2016. The group expects some first half 'seasonality' as it pays the final dividend, corporation tax and bonuses.

Net of the group's cash 'risk buffer', there was £6.9m unallocated cash, held for further buy backs, seed investment and business development at the end of March. Impax held c £10m of stakes in its own listed equity funds, £1.5m in its private equity funds, and agreed a €4m commitment to its latest private equity fund. The redemption of its investment in its Food and Agriculture Fund represents the closure of its seed position, and will result in the return of £3.1m in cash later this month.

Balance sheet			
£'000s	March 2016	March 2017	FY 2016
Goodwill and intangibles	1,736	1,712	1,742
Other non-current assets	161	128	122
	1,897	1,840	1,864
Cash and cash equivalents	13,244	13,287	15,695
Current asset investments	10,837	15,550	12,811
Other current assets	5,568	7,641	7,309
Total assets	31,546	36,478	37,679
Current liabilities	4,363	9,528	9,998
Non-current liabilities	2,645	425	936
Net assets	24,538	28,365	26,745

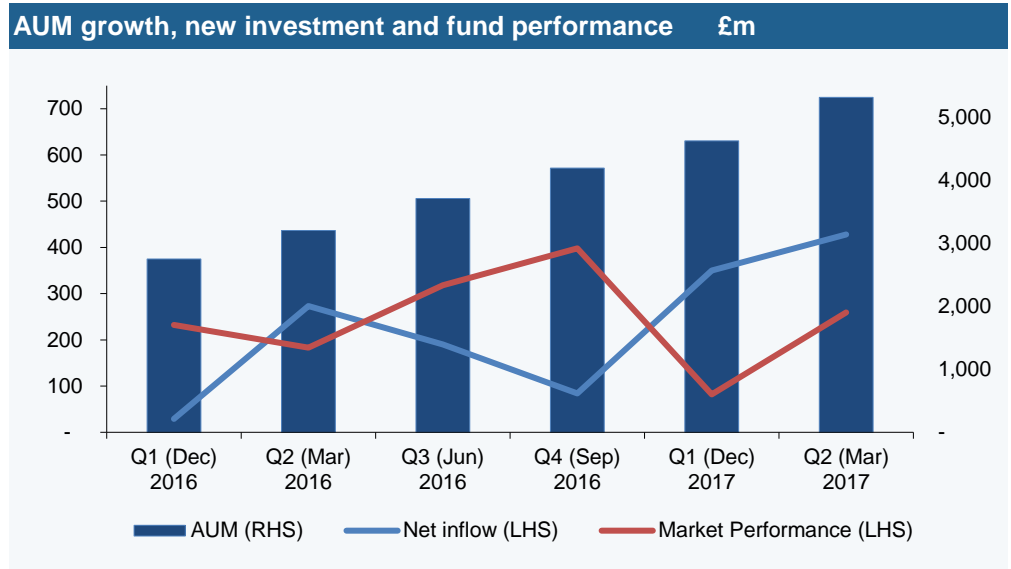
Source: Group report & accounts

Note: The Balance Sheet includes effects due to the consolidation of investments.

Consistent AUM growth for last six quarters

The group has reported **six consecutive quarters of strong fund inflows** and during the period saw further commitments from Continental European investors, for the BNP Paribas range of funds, white labelled products based upon Impax's Leaders, Specialists, Water and Food & Agriculture strategies. Other contributions from North America include, from the beginning of this month, a new \$100m mandate, in respect of a segregated account based upon its Leaders strategy.

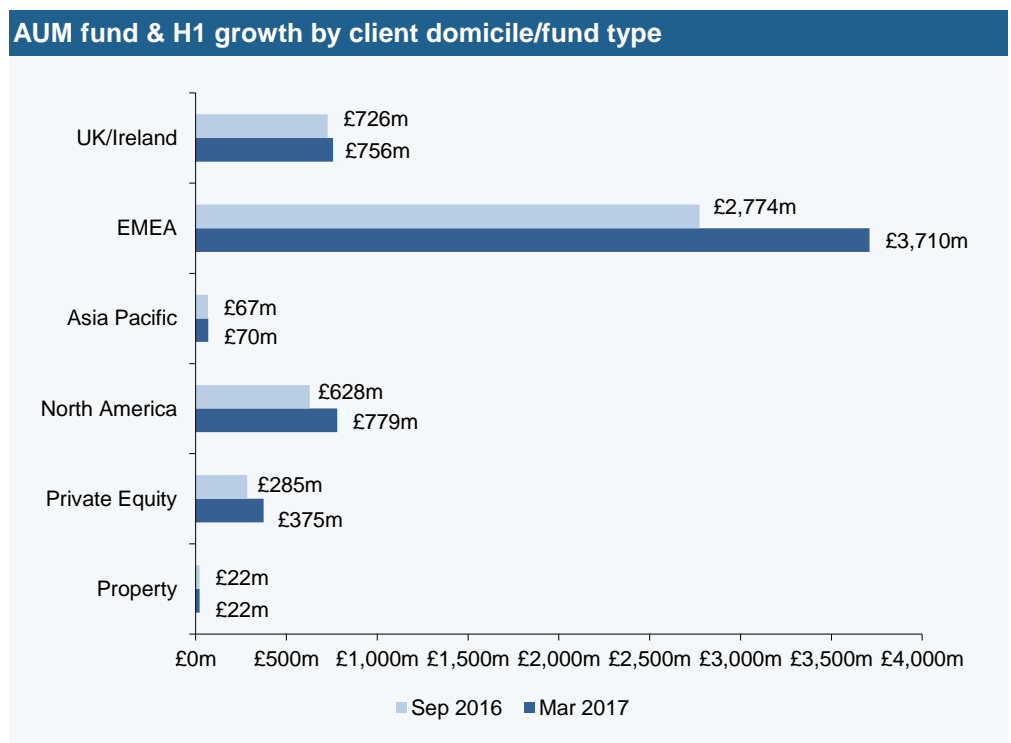
The consistent performance over the last six quarters is set out here:



Source: Company

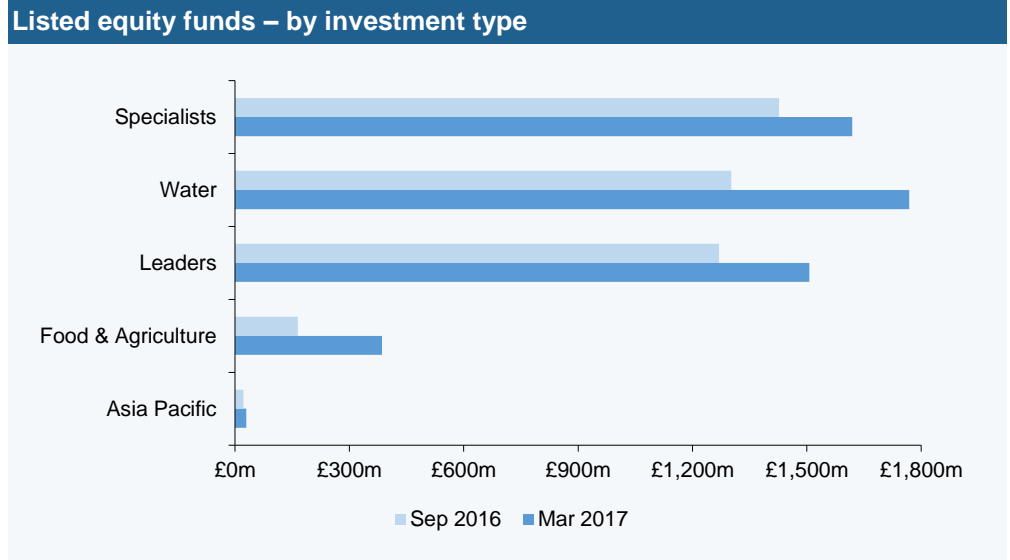
The outlook for group markets remains robust, with continued support for environmental regulation, and development of renewable energy strategies focused on greater efficiency and security in key markets, which include US cities and states despite current uncertainty over the direction of Federal policy. China’s recently reiterated its support for the 2015 Paris Climate Agreement, and there is ongoing impetus behind efforts to reduce CO2 emissions and water pollution, including the transition to ultra-low emission vehicles, and for food, agriculture and forestry industries to reduce their supply-chains’ negative impact on the environment.

The group’s investment strategies are gaining traction in key markets, with EMEA and North America producing particularly strong performances during the first half.



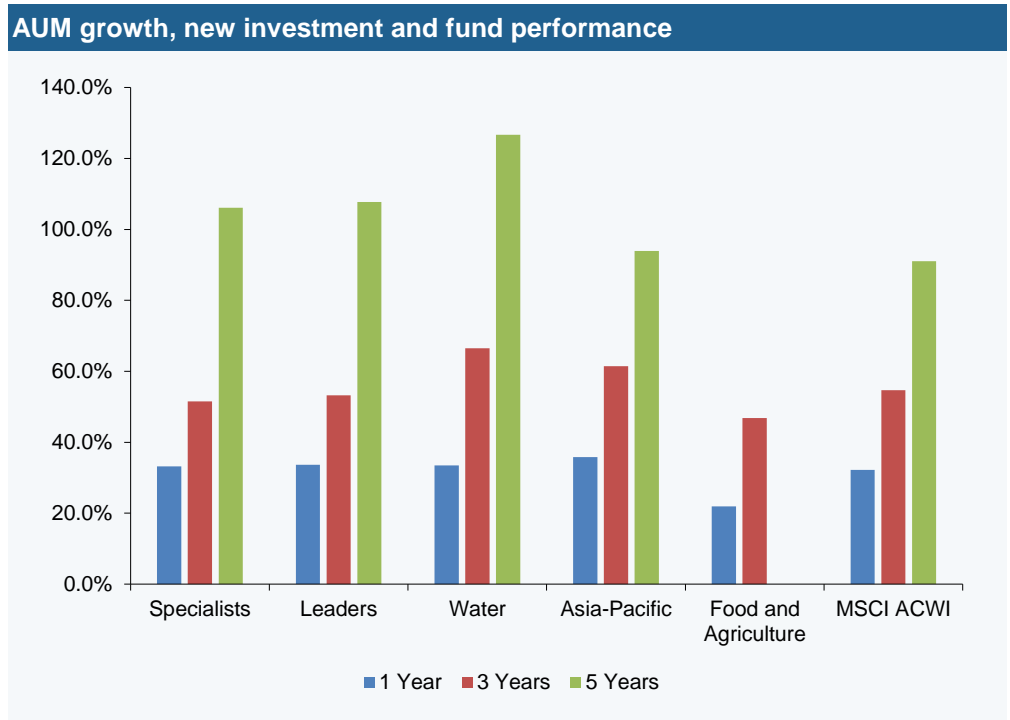
Source: Company

The performance in Europe includes a significant contribution from BNP Paribas white label funds. Over the last two years, BNP Paribas has raised c €450m for its funds based upon Impax’s Food & Agriculture strategy. The net assets of the BNP Paribas Aqua fund, sub-managed by Impax since inception in 2009, recently passed €2bn.



Source: Company

All the group’s listed equity strategies continue to extend their strong long-term track records relative to global markets. Water and Asia strategies were the strongest performers during the period. However, during the last quarter of 2016, financial and energy stocks outperformed and Impax’s strategies provide no exposure to these sectors, so this led to a decline in relative performance over this period.



Source: Company

Private equity

With respect to NEF2, the sale of its remaining assets is progressing, and a full exit and attractive cash distribution to investors is anticipated during 2018.

Sustainable Property fund

Impax's Sustainable Property fund holds one remaining investment in Manchester which is near to being fully leased, and discussions with cornerstone investors are continuing with respect to a new fund.

Consolidated income statement, £'000s				
12 months to 30 September	2015	2016	2017e	2018e
Revenue	19,726	21,067	29,104	34,862
Operating costs excluding legacy LT incentive schemes	(16,616)	(16,915)	(21,785)	(26,095)
Operating profit	3,110	4,152	7,320	8,768
Credits/(charges) related to legacy LT incentive schemes	1,285	27	(242)	0
Fair value gain/(loss) on investments	615	989	(538)	0
Investment income	228	319	363	320
Change in third-party interest in consolidated funds	(101)	(288)	(163)	0
Profits before taxation	5,137	5,199	6,740	9,088
Taxation	(1,504)	(1,022)	(1,281)	(1,727)
Profit after tax	3,633	4,177	5,459	7,361
Earnings per share				
Shares in issue (basic)	115,133	111,794	110,904	110,904
Shares in issue (diluted)	115,909	114,399	116,710	116,710
Basic	3.16	3.62	4.92	6.64
Diluted	3.13	3.65	4.68	6.31
Interim dividend	0.40	0.50	0.70	0.85
Final dividend	1.20	1.60	2.10	2.25
Dividends per share	1.60	2.10	2.80	3.10
Special dividends per share	0.50	0.00	0.00	0.00

Source: Company historic and ED estimates

Balance sheet/statement of financial position £'000s				
12 months to 30 September	2015	2016	2017e	2018e
Assets				
Total non-current assets	1,955	1,864	1,741	1,791
Trade and other receivables	4,754	6,931	7,148	7,148
Derivative asset	49	0	98	0
Investments	7,419	12,811	12,350	11,675
Margin account	177	378	395	395
Cash invested in money market funds and long-term deposit accounts	17,153	12,891	9,414	9,289
Cash and cash equivalents	2,364	2,804	9,200	14,100
Total current assets	31,916	35,815	38,605	42,607
Total assets	33,871	37,679	40,346	44,398
Equity and liabilities				
Ordinary shares	1,277	1,277	1,277	1,277
Share premium	4,093	4,093	4,093	4,093
Exchange translation reserve	(241)	(154)	(96)	(96)
Hedging reserve	39	(116)	(23)	(23)
Retained earnings	20,759	21,645	23,999	27,922
Total equity	25,927	26,745	29,250	33,173
Trade and other payables	4,987	5,473	4,202	4,202
Third-party interest in consolidated funds	144	2,125	4,321	4,321
Total current liabilities	5,510	9,998	10,671	10,801
Total non-current liabilities	2,434	936	426	424
Total equity and liabilities	33,871	37,679	40,346	44,398

Source: Company historic and ED estimates

Consolidated cash flow statement £'000s				
12 months to 30 September	2015	2016	2017e	2018e
Operating activities				
Profit before taxation	5,137	5,199	6,740	9,088
Operating cash flows before movement in working capital	3,820	4,671	7,833	9,368
Cash generated from operations	1,807	3,131	6,328	9,368
Corporation tax paid	(570)	(815)	(1,351)	(1,200)
Net cash generated from operating activities	1,237	2,316	4,977	8,168
Investing activities				
Investment income received	228	329	363	320
Settlement of investment related hedges	(359)	(1,990)	(1,274)	0
Net redemptions made to Impax by unconsolidated Impax managed funds	2,469	2,329	3,100	0
Net investment disposals made by/(investments made by) consolidated funds	2,749	(4,549)	(2,002)	0
(Increase)/decrease in cash held in money market accounts and long-term deposit accounts	(6,538)	4,262	2,268	0
Acquisition of property, plant and equipment and intangible assets	(156)	(109)	(57)	(150)
Net cash used in investing activities	(1,607)	272	2,398	170
Financing activities				
Dividends paid	(1,676)	(2,462)	(3,105)	(3,438)
Acquisition of own shares	(1,158)	(1,547)	(948)	0
Cash received on exercise of Impax share options	0	166	1,041	0
(Distributions made to)/investments made by 3rd party investors in consolidated funds	(1,067)	1,693	2,034	0
Net cash generated from /(used in) financing activities	(3,901)	(2,150)	(978)	(3,438)
Net (decrease)/increase in cash and cash equivalents	(4,271)	438	6,396	4,900
Cash and cash equivalents at beginning of year	6,634	2,364	2,804	9,200
Effect of foreign exchange rate changes	1	2	0	0
Cash and cash equivalents at end of year	2,364	2,804	9,200	14,100
Plus cash invested in money market funds and long term deposit	17,153	12,891	9,414	9,289

Source: Company historic and ED estimates



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 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