

Q4 above forecast, underpins strong outlook

18 October 2018

The group's Q4 update confirmed that a transformational year (AUM +72%) finished well, with another 6% growth in AUM during the final three months to £12.5bn at end September 2018. That was above our forecast and comprised a £334m net inflow, boosted by £534m of investment performance/FX.

Aggregate growth was driven by an acquisition, completed in January, creating Impax AM LLC. The latter finished FY18 at £3.04bn AUM. It has moved ahead since purchase, and Impax expects operational synergies to become apparent over the next two to three years.

AUM growth managed by Impax's UK thematic funds was 33% y-o-y, from £6.79bn to £9.02bn, and 11% in Q4 alone. **In aggregate, c 77% of overall AUM growth reported during FY18 (c £1.72bn) comprised net client inflows.**

AUM for real assets stood at £450m at end Sep 2018. That comprised the €357m (£313m) raised by NEF3 at its end May 2018 final close, plus Impax's £22m property fund and remaining holdings. As it previously confirmed that it had sold the bulk (95%) of NEF2's investments our forecasts assume that Impax will have exited most of its real asset holdings other than NEF3 by end September 2019.

Outlook and valuation

We have held our end FY19e AUM forecast at £14.4bn. That assumes net inflows by the UK operation in line with FY18 at £1.75bn, US ahead (+£0.3bn) and neutral investment performance for both. Private funds relate entirely to NEF3, and FY18e PBT/EPS includes one material one-off in respect of the carried interest received post completion of exits from investments in NEF2. The £3.2m received in the first half underpinned a 2.6p/share special dividend; we assume a small further contribution in FY19e.

Recent market-led volatility doesn't change the core message, which is that demand for Impax's specific skillset will continue to gather pace on the back of accelerating recognition that the global economy needs to transition to a more sustainable growth model.

Shorter-term, we see revenues and EPS driven by momentum behind net inflows, cross-selling product portfolios to existing clients, operational synergies and improved scale.

Summary forecasts

Year end 31 Sep	2015A	2016A	2017A	2018E	2019E
Revenue, £m	19.7	21.1	32.7	65.6	77.9
Op. Profit, £m	3.1	4.2	7.9	19.8	20.3
EPS, p	3.1	3.7	6.2	11.8	11.0
PER	83.5	70.0	41.8	21.9	23.5
EV/NOPAT	138	91	30	22	21
Yield, %	0.6	0.8	1.1	1.7	2.1

Source: Group report & accounts and ED estimates (EV calc. includes net cash and seed investments)

Company Data

EPIC	IPX
Price (last close)	259p
52 week Hi/Lo	275p/135p
Market cap	£339m

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 September 2018 was £12.5bn.

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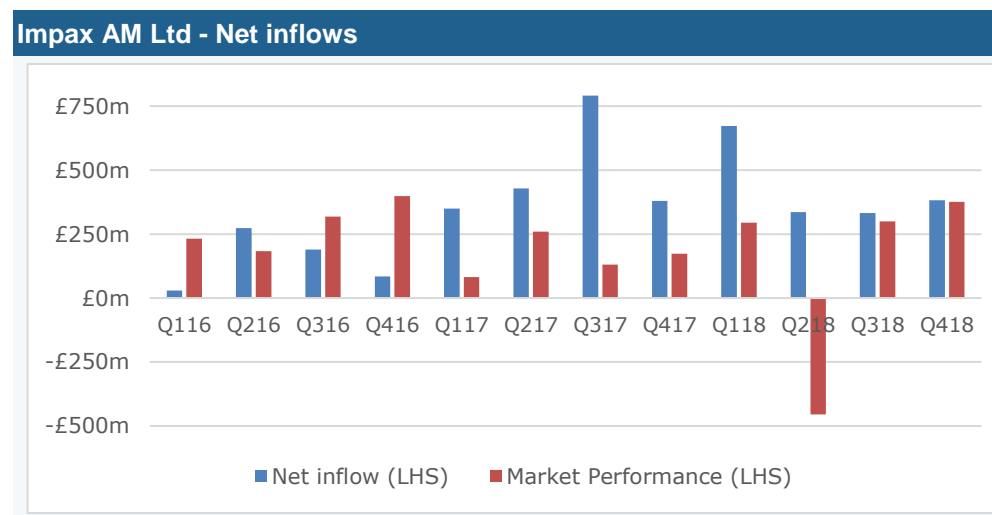
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Q4 result confirms growth momentum

Although period-to-period AUM growth is the main KPI, net investment inflows and new client mandates, particularly for listed equity funds may be a better guide to underlying growth prospects. Over the last 18 months those measures suggest that the group’s investment strategies are gaining the kind of traction that can maintain recent growth momentum.

The chart below shows consistent net inflows over the last three years, and positive investment performance in eleven of twelve quarters.



Source: Impax AM RNS

The above chart ignores Impax AM LLC, created following January’s acquisition. Impax AM LLC also reported increases in AUM, but its figures are obscured post net-off of certain funds to avoid double counting.

The aggregate group performance is set out below. Again, it illustrates continuing thematic equity fund growth, all broadly managed by the UK operation.

We anticipate that the group will provide more detail with its FY18 statement in December, but our FY19e AUM forecast assumes similar net inflows for UK, US +£0.3bn and neutral market performance in aggregate.

Impax AM Ltd AIFM Ltd Impax AM LLC ²					
AUM movement (£'000s) 12 months to 30 Sep 2018	Thematic equity	Real assets ¹	Fixed income, smart beta, US equity	Reconciliation ³	Total
Total AUM at 30 Sep 2017	6,788	473	-	-	7,261
Impax LLC acquisition	-	-	3,474	(459)	3,015
Net flows	1,721	(27)	(118)	(117)	1,459
Market movement, FX and performance	515	4	288	(27)	781
Total AUM - 30 Sep 2018	9,024	450	3,644	(603)	12,515

¹ Real Assets comprise Private Equity and Property funds

² Previously named Pax World Management LLC

³ Avoidance of double count of Pax World Global Environmental Markets Fund and Pax Global Opportunities Fd

Backdrop: ongoing transition to sustainable growth

The group sees the real pivot for its growth outlook in the progressive realisation of a wide range of influencers, including investors, that the global economy must transition to a more sustainable model.

In this respect Impax has genuine competitive advantages; this has been its specialisation for over 20 years and that experience offers informed insight into the implications of that transition for investment returns.

Its own investment thesis has evolved from an initial focus on micro/small cap stocks and Environmental Technologies, into broader consideration of Environmental Markets, and most recently Resource Efficiency, across energy, water, waste and sustainable food.

It has developed processes that apply a bespoke market and company analysis framework, to secure superior risk-adjusted returns over the medium to long-term. It identifies which industries/companies are best placed to capitalise upon, or most exposed to the shift from a depletive economic model. The latter externalises long-term environmental and social costs for short-term gain. A more sustainable model is based upon growth with improved social and environmental outcomes.

It also investigates the risks faced by incumbents e.g. fossil fuel-based business models, to identify those companies which are ahead of the curve and better placed to establish more durable business models.

This analysis supports Impax's listed equity, and private equity infrastructure-based high-growth strategies, focusing on the delivery of completed power generation assets.

Capture the benefits, avoid the risks

A key investment opportunity of the next 20 years is to capture the benefits and avoid the risks that the transition may disrupt traditional industries and services. Likely triggers include:

- Technology innovation and falling costs
- Regulation to incorporate the costs of social and environmental factors in business models
- Consumer preferences for more transparent, authentic and healthy products

Impax will provide more detail of how the profile of its AUM has evolved in its full FY18 report in December. That will provide perspective on its access to key investor and geographic markets.

Important recent client win for Global Opportunities Strategy

One notable win was the announcement in July that FTSE-100 listed St. James's Place would invest with the Impax Global Opportunities Strategy. It chose Impax, after a rigorous selection process, to manage its newly rebranded Sustainable and Responsible Equity fund (previously St. James's Place Ethical), which will be formally launched later this year.

The Impax Global Opportunities Strategy (GO) is based upon a concentrated portfolio of 35/45 companies, invested over a five-year horizon with a low turnover. It has broad geographic and sector exposure and integrates ESG considerations, from growth and risk perspectives, into a more traditional, fundamental investment process.

GO seeks to identify companies well-placed to benefit from the transition to a more sustainable global economy over the medium term. In contrast to negative ethical screening, it positively and proactively supports the development of a more sustainable economy, considering how demographic change, resource scarcity, inadequate infrastructure and environmental constraints will disrupt private sector markets in future years.

In addition to the St. James's Place Sustainable and Responsible Equity fund, Impax provides access to this strategy via two group vehicles: the Ireland UCITS fund, which has been incubated with internal seed money for the past three years, and the new Pax Global Opportunities Fund launched in July 2018.

The above reiterates our view that the group is well-positioned for future growth. It has rare insight into the risks and opportunities associated with growing demands for sustainable growth, driven by the kinds of issues identified by the UN Intergovernmental Panel on Climate Change in early October, specifically the dangers of accelerating climate change.

Consolidated Income Statement					
Year to 30 September, £'000s	2015	2016	2017	2018e	2019e
Revenue	19,726	21,067	32,694	65,630	77,915
Operating costs excluding legacy LT incentive schemes	(16,616)	(16,915)	(24,809)	(45,812)	(57,608)
Operating profit	3,110	4,152	7,885	19,818	20,307
Adjust. for minority stake held by IAM LLC management				(627)	(978)
Credits/(charges) related to legacy LT incentive schemes	1,285	27	(653)	0	0
Exceptional acquisition costs	0	0	(999)	0	0
Fair value gain/(loss) on investments & other financial income	615	989	(605)	28	0
Non-controlling interests				42	
Amortisation of goodwill				(1,905)	(1,905)
Investment income	228	319	464	450	400
Finance cost				(432)	(400)
Change in third-party interest in consolidated funds	(101)	(288)	(239)	(30)	0
Reported pre-tax profit	5,137	5,199	5,853	17,344	17,424
Adjusted profit before tax			6,852	19,249	19,329
Taxation	(1,504)	(1,022)	1,814	(4,918)	(5,258)
Profit after tax	3,633	4,177	7,667	12,426	12,166
Adjusted profit after tax	3,633	4,177	8,666	14,331	14,071
<u>Earnings per share</u>					
Basic, p	3.16	3.62	6.48	11.94	11.44
Diluted, p	3.13	3.65	6.24	11.84	10.99
<u>Dividends</u>					
Interim dividend, p	0.40	0.50	0.70	1.10	1.38
Final dividend, p	1.20	1.60	2.20	3.30	4.13
FY dividends per share, p	1.60	2.10	2.90	4.40	5.50
Special dividends per share, p	0.50	0.00	0.00	2.60	0.00

Source: Impax historic data, Equity Development forecasts

n.b. Adjusted PBT excludes non-recurring acquisition costs, the effect of business combinations, mark-to-market charges on equity rewards.



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