

## Valuation increased on AUM inflow momentum

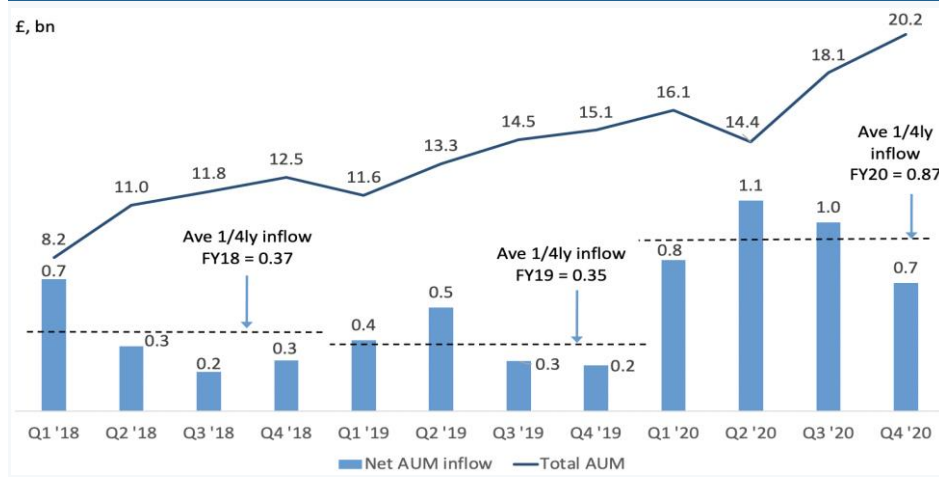
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**A step-change in client inflows is what Impax's FY20 should be remembered for. The global structural shift towards sustainable investing continued at pace - most notably through the Feb-Mar 2020 market crash - and Impax once again proved to be a leader in this space.**

**It ended FY20 (30 Sep) with £20.2bn AUM, 34% up year-on-year (end-FY19 £15.1bn) and 11% up in Q4 alone (£18.1bn on 30 Jun). We increase our per share valuation from 370p to 495p, mostly on higher AUM inflow expectations.**

While volatile markets resulted in top-line AUM swings during the year, client inflows have not only remained robust, but surged.

### Net AUM inflows per quarter and total AUM



Source: Impax, ED analysis

In the Impax Q4 AUM update, Chief Executive Ian Simm noted: "The pandemic has reinforced the imperative of a transition to a more sustainable economy, while society's response has given us an indication of what will be needed to address climate change and other challenges of sustainable development."

These developments have undoubtedly boosted flows into sustainable funds. Morningstar reports that in Europe: (calendar year) Q1 2020 saw sustainable funds attract EUR25bn in net inflows (when many funds saw outflows), while in Q2, this more than doubled to EUR55bn<sup>1</sup>. In the US, sustainable funds saw net inflows of just over US\$10bn in both Q1 and Q2<sup>2</sup>.

Within Impax, **London-managed listed equities** (82% of AUM, sourced mainly from institutional investors), attracted £3.4bn of net inflows, ending FY20 on **£16.6bn AUM, up 43% year-on-year**.

The US retail operation of Impax NH (16% of total AUM) attracted £171m of net inflows, ending FY20 on £3.2bn AUM, up 8% year-on-year. **Especially pleasing is the positive trajectory of net inflows into Impax NH during FY20**, following a volatile FY19, as per the next table:

### Company Data

EPIC	IPX
Price (last close)	538p
52 week Hi/Lo	538p/191p
Market cap	£702m

### Share Price, p



Source: ADVFN

### Description

Impax is a specialist asset manager, focused on the growth opportunities arising from the transition to a sustainable economy. Founded in 1998, it offers a range of thematic and unconstrained global equity strategies, real asset funds, as well as smart beta and fixed income strategies.

Aggregate AUM at end Sep 2020 was £20.2bn



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<sup>1</sup> <https://www.morningstar.co.uk/uk/news/204525/sustainable-fund-flows-hit-record-in-q2.aspx>

<sup>2</sup> <https://www.morningstar.com/articles/994219/sustainable-funds-continue-to-rake-in-assets-during-Q2>

Impax NH net client inflows / (outflows)				
£m	Q1	Q2	Q3	Q4
<b>FY 19</b>	(178)	(34)	(101)	6
<b>FY 20</b>	6	12	41	112

Source: Impax

NB: all of our Impax NH figures are adjusted to remove the double-counting from London-managed funds distributed through Impax NH in the US.

London-managed private equity (2% of AUM), which focuses mainly on renewable energy, experienced a £79m net outflow, closing the year on £371m AUM.

For the Group as a whole, these were the AUM changes vs prior year:

Summary AUM movement over FY 2020					
£m	Impax Asset Management Ltd, Impax Asset Management (AIFM) Ltd (London managed)		Impax Asset Management LLC (US managed)		Group total
	Listed equities	Real assets	Fixed income, smart beta, US equities	Recon *	
<b>AUM, 30 Sep 2019</b>	11,656	445	3,659	(709)	15,052
<b>Net flows</b>	3,371	(79)	332	(161)	3,463
<b>Market moves, FX &amp; performance</b>	1,584	5	195	(116)	1,668
<b>AUM, 30 Sep 2020</b>	16,611	371	4,186	(986)	20,183

Source: Impax

\* Avoidance of double count of Pax Global Environmental Markets Fund and Pax Global Opportunities Fund

## Valuation and forecasts

Our previous core valuation of 370p / share assumed net inflows of £1.0 - £1.5bn per annum for the next 5 years, but with Impax achieving inflows of £3.5bn in FY20, coupled with the momentum of sustainable investing more generally, this now looks overly conservative.

The repeatability of £3.5bn of inflows remains unproven, **but we believe net inflows of £2.0 - £2.5bn per annum over the next few years is a realistic expectation.**

**We have updated our discounted cash flow model accordingly and increased our fundamental valuation to 495p.**

This remains around 9% below the current market price of 538p. We certainly recognise the potential for Impax’s strong strategic positioning to produce further financial outperformance and upside to shareholders. Yet, given current general economic and market conditions, we also remain wary of the potential for further market volatility to produce sudden dips in total AUM and share price levels. We now look forward to seeing how a stellar AUM performance flows through to FY20 financial results.

**Our forecasts have been upgraded and we expect FY20 revenue to reach £85m, adjusted operating profit to be £23m, and the year-end net cash position to be around £34m.**

## Financials

### Summary forecasts

(Year-end 30 Sep)	2018A	2019A	2020E	2021E
<b>AUM, £bn</b>	12.5	15.1	20.2	23.4
<b>Revenue, £m</b>	65.7	73.7	85.1	104.6
<b>Adj Op. Profit, £m</b>	20.0	18.0	22.6	29.5
<b>Adj EPS, diluted, p</b>	12.4	11.5	13.6	17.5
<b>PER</b>	43.5	47.0	39.6	30.7
<b>Dividend*, p</b>	4.1	5.5	7.6	9.9
<b>Yield</b>	0.8%	1.0%	1.4%	1.8%
<b>Net assets, £m</b>	53.5	63.2	67.2	77.8
<b>Net cash**, £m</b>	16.8	27.2	34.1	48.7

Source: Group report & accounts and ED estimates \* Excludes special dividend of 2.6p in FY18,  
 \*\*includes funds in money market & LT deposit accounts and 3<sup>rd</sup>-party interest on consolidated funds (therefore differs from  
 'cash reserves' which excludes 3<sup>rd</sup>-party interest on cons. funds)  
 Adj. results eliminate non-recurring acquisition costs, on-going amortisation of intangibles acquired, one-off tax credits and  
 mark-to-market charges on equity award schemes. PER, and Yield calculations based on a share price of 538p.



## Investor Access

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