

Surging AUM boosts revenue, profit & dividend

AUM reached £30.0bn on 31 Mar 21, up 49% over H1 (£20.2bn on 30 Sep 2020). Net inflows were particularly impressive at £6.8bn (full-year FY20 inflows: £3.5bn). Compared to a 15-strong UK-listed peer group, this was by far the highest net inflow rate (as a % of opening AUM) : 34% for Impax, next highest 9%, peer group median 2%. On top of this, Impax achieved strong investment returns of £3.0bn in H1 (12% of ave AUM: 2nd highest in peer group, median return 9%). Post-results, AUM continued to grow strongly, reaching £32.2bn on 30 Apr 21.

The surge in AUM has been the main driver of strong revenue and profit growth, and operating cash generation. H1 revenue was £60.6m, up 47% y-o-y (H1 20: £41.2m). Adjusted operating profit jumped 97% to £20.7m (H1 20: £10.5m) and adjusted diluted eps 87% to 11.8p (H1 20: 6.3p). Adjusted operating margin increased to 34% (H1 20: 25%; FY 20: 27%), providing **ample evidence that operational leverage is kicking in as AUM grows.**

Net cash¹ increased to £38.3m (31 Mar 20: £20.6m) with the end of H1 typically the low point in the annual cash cycle (due to dividend payouts and staff bonuses). Cash generated from operations was £11.7m after tax, but the final FY20 dividend of £8.9m was also paid out. We expect net cash to jump in H2 and end the year north of £50m. **The interim dividend has been doubled from 1.8p in FY20 to 3.6p.**

Our growth outlook for Impax remains very positive, and we note that the sustainable investing market tailwind continues unabated. In Europe, flows into sustainable funds in Q1 21 (calendar year) reached a record EUR120bn, 18% up on Q4 20 and 52% of full-year 2020 flows (EUR233bn). Q1 sustainable flows made up 51% of overall European fund flows with sustainable fund assets now making up 12% of European assets². We see this momentum holding up in light of COP26 (UN Climate Change Conference in Nov 21) and other favourable market developments.

It is also important to stress that **Impax is growing even faster than the overall sustainable investing market, perhaps unsurprisingly given its 22-year track record.** In the Jan-Mar 21 quarter (like-for-like with the European market numbers above), net inflows grew 39% over the Oct-Dec 20 quarter (£3.9bn vs £2.8bn) and made up 71% of calendar year 2020 net inflows (£5.5bn).

With Impax exceeding our previous growth forecasts by some margin, and with evidence of operating leverage kicking in, we have increased our fundamental valuation to 1205p / share.

Company Data

EPIC	IPX
Price (last close)	1122p
52 weeks Hi/Lo	1136p/332p
Market cap	£1,488m
ED Core Value/share	1205p
Proforma net cash	£38.3m
Avg. daily volume	155k

Share Price, p



Source: ADFVN

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 Apr 2021 was £32.2bn



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Key Financials

Year-end 30 Sep	2019A	H1 20A	2020A	H1 21A	2021E	2022E
AUM, £bn	15.1	14.4	20.2	30.0	34.5	42.4
Revenue, £m	73.7	41.2	87.5	60.6	133.9	172.9
Adjusted Op. Profit, £m	18.0	10.5	23.2	20.7	45.1	61.7
Adjusted EPS, diluted, p	11.5	6.3	14.5	11.8	28.6	38.0
PER	97.9	89.5	77.6	95.3	39.3	29.5
Dividend, p	5.5	1.8	8.6	3.6	17.4	23.1
Yield	0.5%	0.2%	0.8%	0.3%	1.6%	2.1%
Net assets, £m	63.2	63.2	71.4	81.1	94.5	118.2
Net cash ¹ , £m	27.2	20.6	38.8	38.3	53.5	79.7

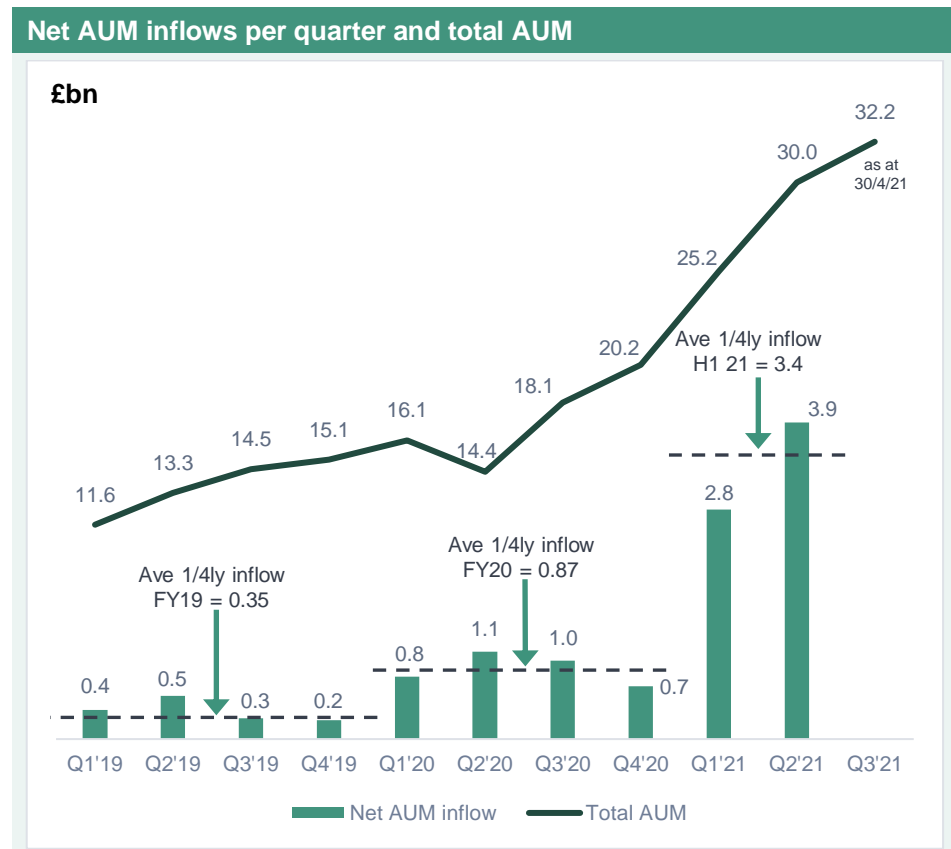
Source: Group report & accounts and ED estimates
 Adj. results eliminate non-recurring acquisition costs, on-going amortisation of intangibles acquired, one-off tax credits and mark-to-market charges on equity award schemes. PER, and Yield calculations based on a share price of 1122p.

¹ Includes funds in money market & LT deposit accounts and 3rd-party interest on consolidated funds (therefore differs slightly from 'cash reserves' which excludes 3rd-party interest on cons. funds)

² Morningstar: European Sustainable Fund Flows: Q1 2021 in Review

Diversified AUM growth

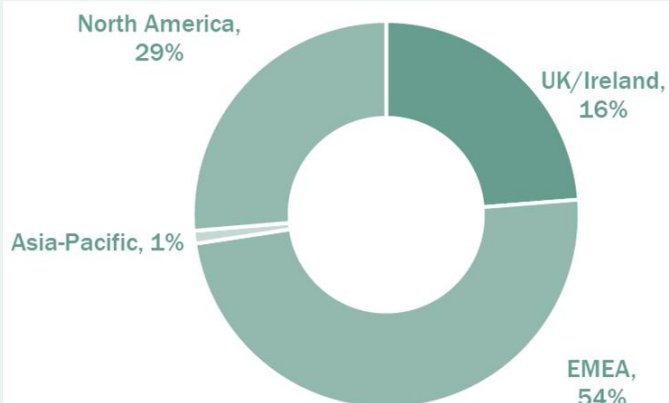
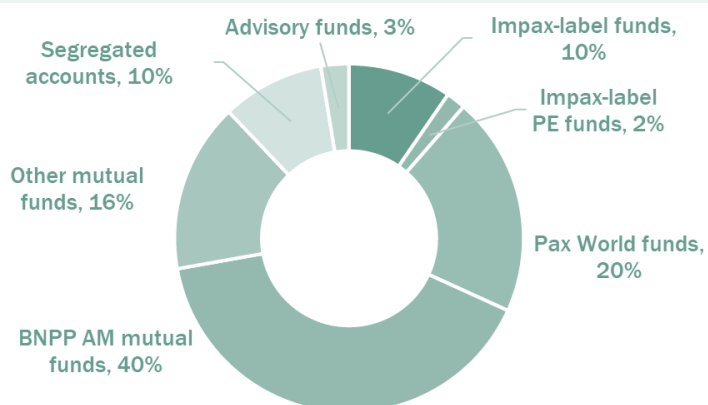
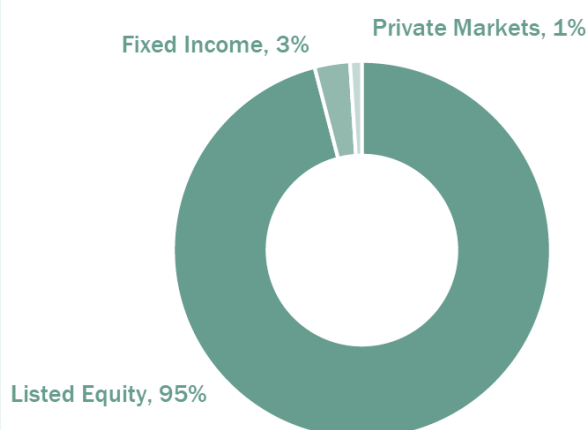
Over the last six months, Impax has undergone a step-change in the pace of its growth with quarterly inflows in FY 21 around **four times that of FY20** and **ten times that of FY 19** (see chart).



Pleasingly, Impax has reported that this growth is diversified across both geographies and channels with a number of developments highlighted, including:

- Winning a second Global Opportunities mandate from St James's Place (SJP) in the UK (H1 21 net inflows from SJP £1.53bn compared to £0.55bn H1 20)
- Irish UCITS funds' reaching AUM of £1.5bn
- A robust pipeline and strong flows in continental Europe, particularly Scandinavia, including a new mandate from BNP Paribas Asset Management Nederland
- A new distribution agreement with Fidante Partners in Australia and New Zealand
- Winning a new Climate strategy mandate from Cbus in Australia
- Winning a new Leaders strategy mandate from Nomura in Japan
- Strong growth through North American intermediaries (Charles Schwab, Morgan Stanley, BoA/ML)
- Winning a new Global Opportunities mandate from FÉRIQUE Fund Management in Canada.

The diversification of its AUM base is shown overleaf, by region and by client type. It shows that **Impax is now a truly global player in the sustainable investing space**. In terms of asset class, the book consists primarily of listed equities.

AUM by region

AUM by client type

AUM by asset class with AUM movement for H1


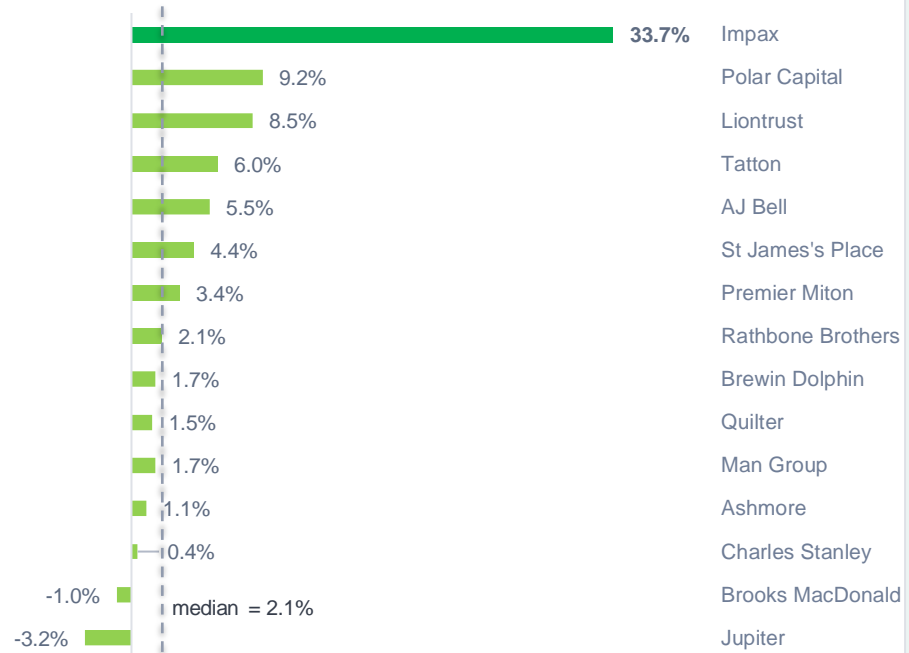
	Listed equities £m	Fixed income £m	Private markets £m	Total firm £m
Total AUM at 30 September 2020	18,865	947	371	20,183
Net flows	6,673	137	–	6,811
Market movements, FX and performance	3,098	(70)	(23)	3,005
Total AUM at 31 March 2021	28,636	1,015	348	29,999

Source: Impax
 Data in pie charts as at 31 March 2021

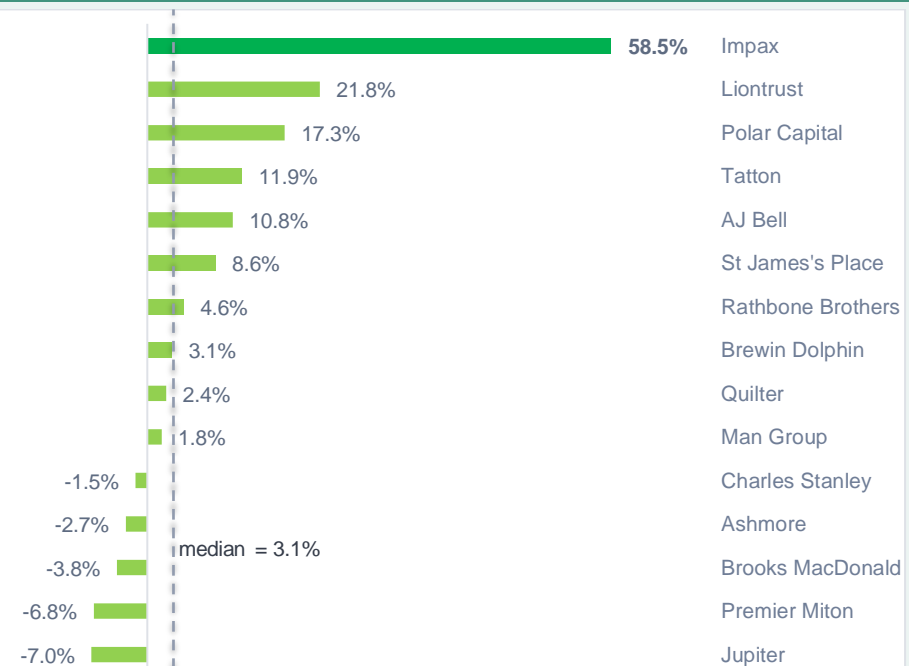
Outpacing peers

The impressiveness of Impax's ability to attract new client assets is put into context when compared to a UK-listed peer group, which shows Impax as a runaway leader over the last six and 12 months.

UK-listed asset managers and platforms 6m to 31/3/21 AUM net inflows as % of opening AUM

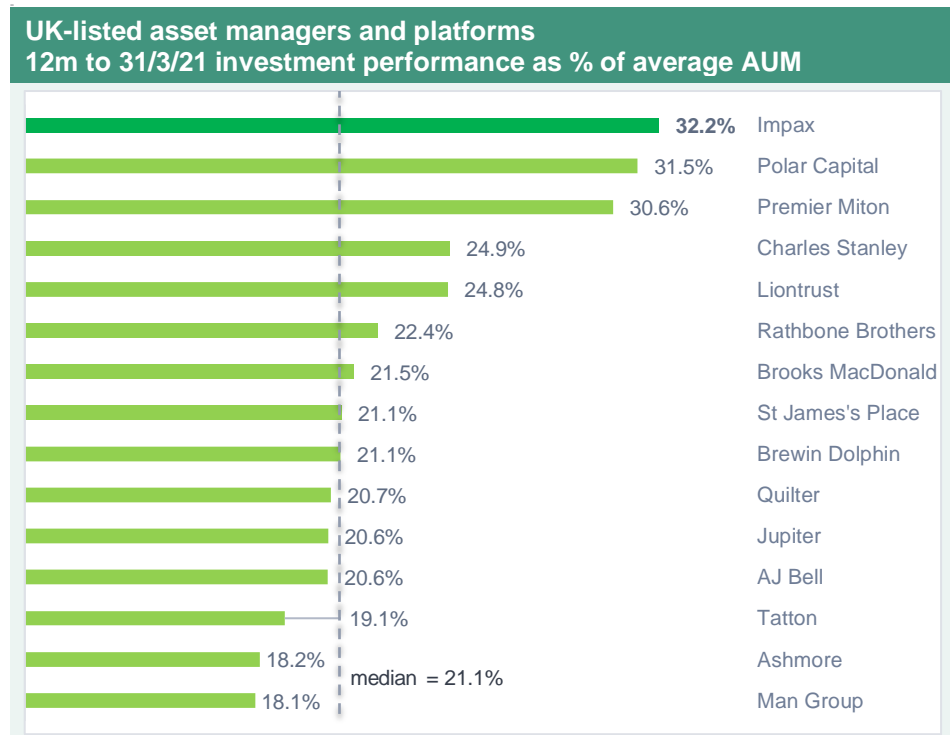
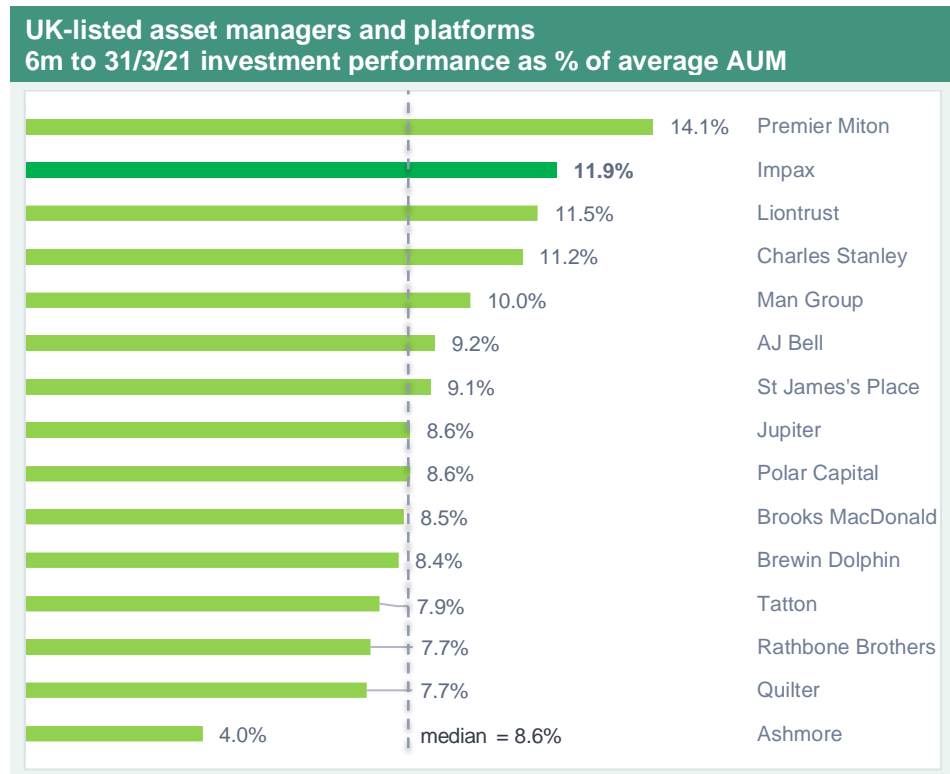


UK-listed asset managers and platforms 12m to 31/3/21 AUM net inflows as % of opening AUM



Source: Company reports and trading updates, ED analysis
 Net inflows exclude AUMs added through acquisitions.

Impax's superior AUM growth is also a function of its ability to deliver strong investment returns compared to peers, where it is ranked 2nd out of 15 over a 6m period and 1st over 12m.



Source: Company reports and trading updates, ED analysis

AUM growth translates to impressive financials

Revenue grew to £60m for H1 21, 47% up on H1 20 (£41.2m). Pricing levels have been largely static, with the weighted average run rate revenue margin in H1 21 being 47 basis points, compared to the 48 basis points of H2 20.

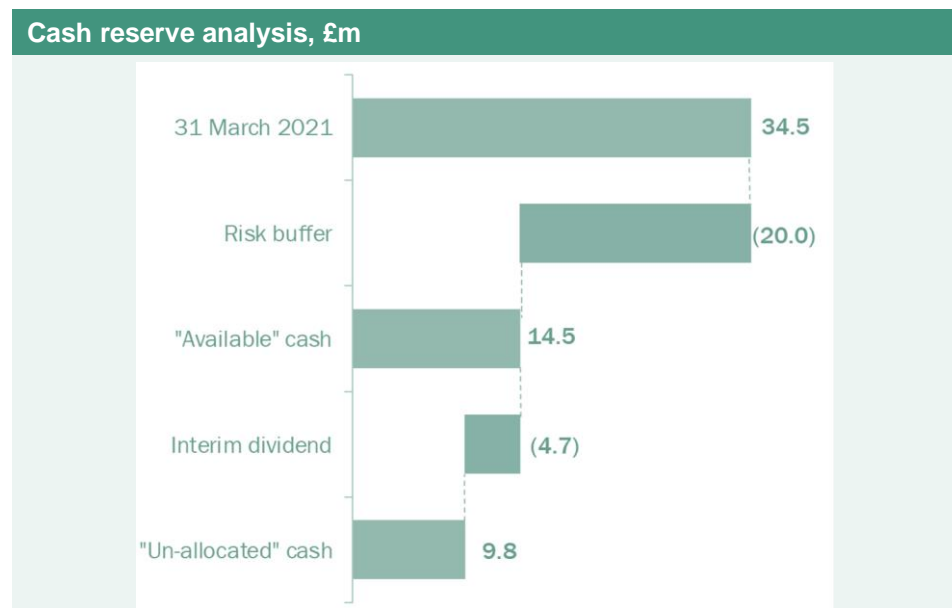
To provide a better insight into operating costs, Impax reports an 'adjusted operating expenses' number which eliminates on-going amortisation of intangibles acquired, one-off tax credits and mark-to-market charges on equity award schemes. **These adjusted operating expenses grew 30% from £30.6m in H1 20 to £39.8m in H1 21. The lower expenses growth rate compared to revenue growth rate is indicative of operating leverage kicking in as the business grows.**

Adjusted operating profit grew 97% compared to H1 20 (£20.7m vs £10.5m), with adjusted operating margin increasing to 34% (H1 20: 25%; H2 20: 28%). Impax has however flagged that some costs are lagging the financial statements, for example some new staff hires needed to support AUM growth will only come onboard in H2. Full year adjusted operating margin might therefore be slightly lower than H1 (we forecast 33.7%) before increasing again in FY22. Adjusted diluted EPS rose 87% from 6.3p to 11.8p.

IFRS profit before tax grew 80% to £14.4m compared to £8.0m in H1 20. Basic EPS grew 125% from 6.3p in H1 20 to 11.8p

Cash generated from operating activities (after tax) was £11.7m (H1 20: £2.9m). **Net cash increased to £38.3m year-on-year from £20.6m on 31 Mar 20** (these are IFRS net cash balances and include cash held in consolidated funds and research payment accounts which is not available for use – the net cash balances reduce to £34.5m and £19.9m respectively if these amounts are eliminated). Impax has no debt and has access to a US\$ 13m revolving credit facility.

The group also provides a cash reserve analysis that takes into account minimum regulatory cash requirements and upcoming payments and drills down to an 'un-allocated cash' figure of £9.8m (H1 20: £7.2m). This is essentially the cash available to fund growth initiatives (such as seeding new investment vehicles), share-buybacks, or unforeseen expenses and is shown in the charts below.



Source: Impax
 Excluding cash held in RPAs. Data as at 31 March 2021.

It is worth highlighting that the end of H1 represents a low-point in the annual cash cycle, primarily as a result of paying the final dividend (£8.9m paid in H1 21) and staff bonuses from the previous FY. We would therefore expect a jump in the net cash position of the group in H2 – estimated to reach £54m by 30 Sep 21).

Impax has doubled its interim dividend from 1.8p in H1 20 to 3.6p.

Finalisation of Pax Acquisition (USA)

During H1 Impax finalised all payments related to its January 2018 acquisition of US-based Pax World Management LLC (now known as Impax Asset Management LLC). Impax has now acquired the remaining 16.7% of the business not previously held by Impax from members of the management team in cash and shares, for a total consideration, net of loans, of US\$3.0m .

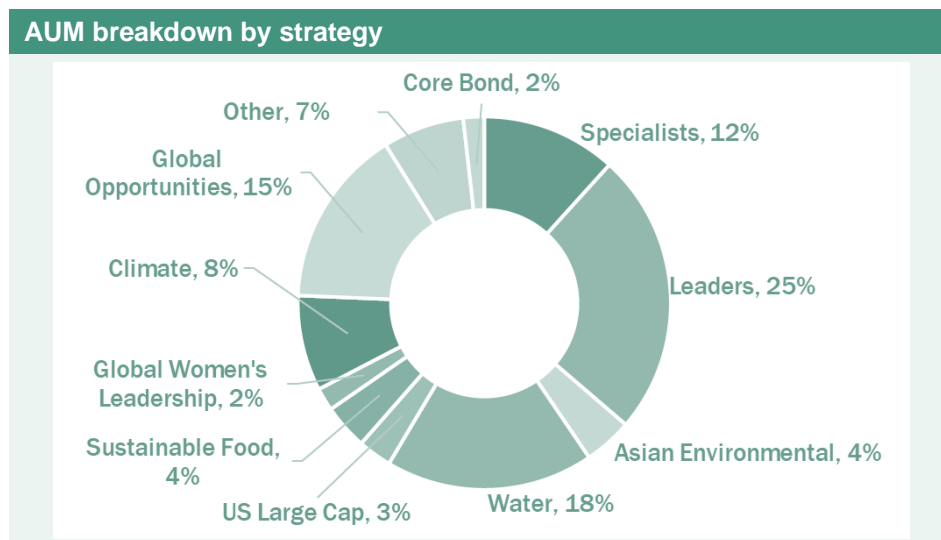
In addition, contingent consideration payments (linked to AUM growth) of US\$270,000 were made in cash to the previous shareholders and management as relevant AUM of the Pax World funds reached an average of US\$5.5bn over the final six months of the 2020 calendar year, growing to US\$6.6bn at 31 Dec 20, up from US\$4.9bn in January 2018.

By the end of H1 21, AUM exceeded US\$7bn with flows increasing from retail investors via intermediaries (including Charles Schwab, Morgan Stanley, and Bank of America Merrill Lynch) and institutional investors. Impax has created a US-based vehicle for its Global Opportunities strategy, which went live with investments from two foundations. In Canada a significant sub-advisory mandate (also for the Global Opportunities strategy) was won from FÉRIQUE Fund Management, a mutual fund serving engineers and their families.

The outlook for this part of Impax's business remains positive, with the group announcing it intends to add to research resources, distribution and client service capabilities, and support teams in the US. The Biden administration's sustainability policies are without doubt a significant positive for the business.

Investment returns underpin sustainability propositions

Impax has constructed a diverse range of sustainable investing strategies to cater for a wide range of client needs.



Data as at 31Mar 21
 Source: Impax

While these offerings are attractive from a sustainability perspective, they are also underpinned by delivering superior investment returns, consistently above benchmarks.

This is illustrated in the tables below (performance shown for largest two strategies - Environmental Markets Strategies and Sustainability Lens Strategies - above benchmark performance shaded in green, below benchmark in red).

Environmental Markets Strategies to 31 Mar 21, % annual return			
Investment period	1Y	3Y	5Y
Specialists: Companies with majority of services, infrastructure & technology in environmental markets, alternative energy & efficiency, water treatment & pollution control, waste technology & resource management, sustainable food, agriculture & forestry.	69.5	18.9	18.6
Leaders: Companies with >20% of revenue in Resource Efficiency & Environmental Markets addressing long-term macro-economic themes: growing populations, rising living standards, increasing urbanisation, rising consumption, depletion of natural resources.	53.1	16.0	16.7
Water: Companies providing services, infrastructure & technology in water-related sectors	51.1	16.4	17.1
Asia Environmental: Companies in Asia Pacific with services, infrastructure & technology in environmental markets, alternative energy & efficiency, water treatment & pollution control, waste technology & resource management, sustainable food, agriculture & forestry.	55.1	14.4	16.4
Sustainable Food: Companies involved in agriculture & food-related activities worldwide.	46.7	11.7	11.6
Climate: Global equities with demonstrable exposure to products and services enabling mitigation of climate change or adaptation to its consequences.	63.9	19.6	-
Benchmark (for all of the above) – MCSI All Country World Index	38.9	12.7	14.1

Source: Impax
 All returns shown in GBP.
 Composite figures are presented gross of management fees and include the reinvestment of all income.
 MSCI index is total net return (net dividend reinvested).

Sustainability Lens Strategies to 31 Mar 21, % annual return

Investment period	1Y	3Y	5Y
Global Opportunities: Companies involved in sustainable global	37.2	17.2	18.5
Benchmark: MCSI All Country World Index	38.9	12.7	14.1
US Large Cap: A core strategy that fully integrates analysis of ESG risks and opportunities and invests in a portfolio of companies believed to have strong prospects and attractive valuations. The strategy uses a proprietary sustainability lens and ESG research to better manage sustainability risks and identify opportunities, and is fossil fuel free.	67.0	21.0	-
Benchmark: S&P 500 Index	56.4	16.8	16.3
High yield: A high yield bond strategy leveraging proprietary sustainability tools and research to better identify opportunities and mitigate risks.	20.2	7.4	8.6
B/M: BofA ML US Cash Pay High Yield Constrained (BB-B) Index	21.0	6.7	7.4
Core Bond fund: An investment-grade strategy that allocates a significant portion of the portfolio to impact bonds that promote positive environmental and social outcomes.	1.9	4.8	3.2
Benchmark: Barclays Capital US Aggregate Index	0.7	4.7	3.1

Source: Impax

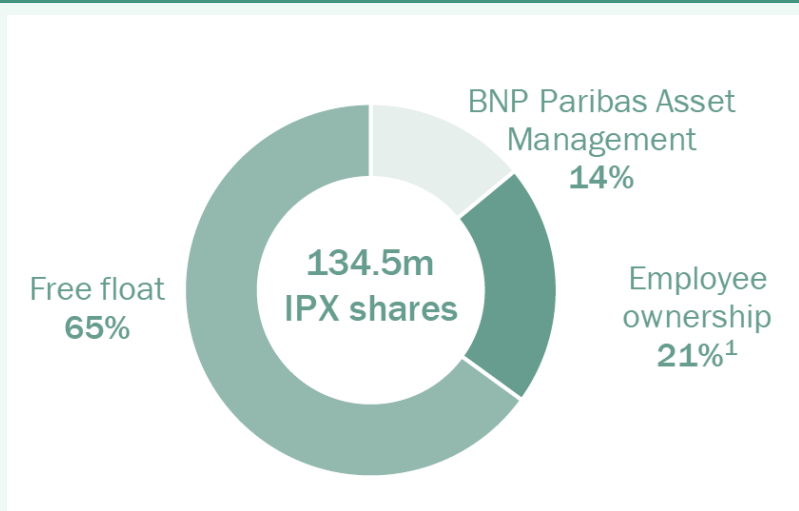
Global Opportunities and benchmark (MSCI Index) - returns shown in GBP. All other strategies and benchmark returns shown in US\$. Composite figures are presented gross of management fees and include the reinvestment of all income.

In line with market standards, the strategy returns are calculated including the dividends re-invested, net of withholding taxes, gross of management fee.

MSCI indices are total net return (net dividend re-invested). S&P 500 Index is an unmanaged index of large capitalization common stocks. The Russell 2000 Index ("Benchmark") is an unmanaged index and measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The ICE BofAMerrill Lynch U.S. High Yield BB B (Constrained 2%) index ("Benchmark") tracks the performance of BB and B rated fixed income securities publicly issued in the major domestic or Eurobond markets, with total index allocation to an individual issuer limited to 2%. Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities and asset-backed securities.

Attractive shareholding structure

The shareholder register of Impax is attractive for a number of reasons. First, management and staff have a significant interest in the business which aligns their interests with shareholders. Second, the ample free float of the business has resulted in rapidly growing share liquidity as interest in Impax grows.

Ownership as at 31 March 21


¹ Includes vested shares within sub-funds of the Employee Benefit Trusts ('EBTs') from which the individuals and their families may benefit and other shares held by EBTs in respect of other employee incentive schemes.

Source: Impax

Average daily value traded, IPX shares, £



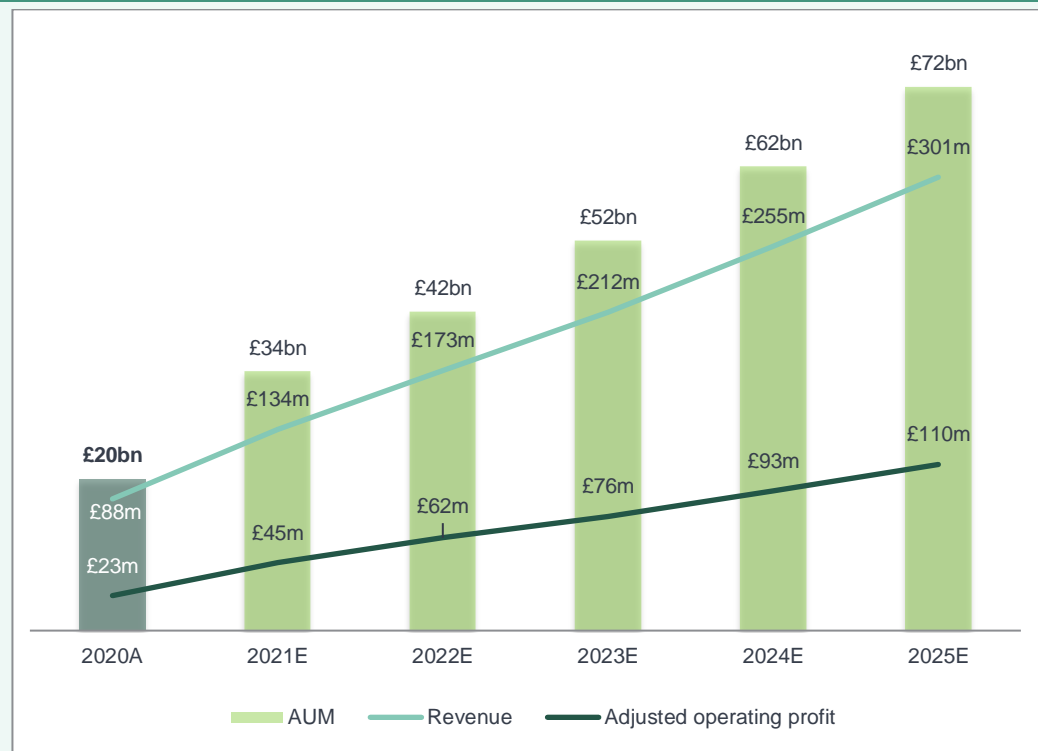
Source: ADVFN, ED analysis

Fundamental value increased

We have increased our core value of Impax to 1205p per share, around 7% above the current market price of 1122p, based on a discounted cash flow methodology with the following main assumptions (underpinned by Impax's strong strategic positioning, market offering, and ability to execute):

- AUM grows to around £72bn by FY25 – based on net inflows of between £1.5bn and £2.0bn per quarter, and market movements of +5% per year. To put the inflows in context, flows for Q1 and Q2 21 were £2.8bn and £3.9bn respectively and inflows during Apr 21 were around £1bn. However, inflows do tend to dip with market declines so we expect to see some volatility in both inflows and market movements going forward.
- Adjusted operating margins continue to improve as the business scales, from around 33.7% in FY21 to 36-37% in FY25.
- The business is sold at the end of this five-year period at a PE multiple of 20 which, given the growth prospects of Impax we believe is very conservative (current forward PE of Impax = 39, peer group median 27).

These growth projections imply that Impax achieves revenues of £301m by FY25 and adjusted operating profit of £110m as illustrated in the chart overleaf.

Projections used for fundamental valuation


Source: Impax, ED Analysis

With what we believe are fairly conservative assumptions, there is potential for Impax to exceed these forecasts, and provide further momentum to its valuation.

Appendix – Historic and forecast financials

Consolidated Income Statement + Forecasts					
12 months to end Sept, £'000s	H1 20A	2020A	H1 21A	2021E	2022E
Revenue	41,191	87,511	60,591	133,853	172,892
<u>IFRS Income Statement</u>					
Operating costs	(32,851)	(69,928)	(44,150)	(91,326)	(113,766)
Operating profit	8,340	17,583	16,441	42,527	59,126
Fair value gain/(loss) on investments	105	-	-	-	-
Finance cost	(400)	(1,921)	(2,103)	(2,500)	-
Investment income	-	1,020	110	-	-
IFRS profit before tax	8,045	16,682	14,448	40,027	59,126
Taxation	(1,718)	(2,944)	(91)	(4,695)	(11,234)
IFRS PAT	6,327	13,738	14,357	35,332	47,892
Basic EPS, p	4.8	10.6	11.1	27.3	36.9
Diluted EPS, p	4.8	10.5	10.9	27.0	36.4
<u>Adjusted Income Statement</u>					
Adjustments to operating costs:					
Acquisition equity incentive awards	67	135	986	-	-
Mark to market charge, equity awards	828	2,997	1,952	-	-
Amortisation of goodwill/intangibles	1,257	2,535	1,196	2,535	2,535
Credit from cont. consideration adj	-	-	167	-	-
Adjusted operating profit	10,492	23,250	20,742	45,062	61,661
Fair value gain/(loss) on investments	(29)	-	-	-	-
Finance cost	(400)	(1,921)	(2,103)	(2,500)	-
Investment income	-	896	68	-	-
Adjusted profit before taxation	10,063	22,225	18,707	42,562	61,661
Taxation	(1,850)	(3,490)	(3,257)	(5,177)	(11,716)
Adjusted PAT	8,213	18,735	15,450	37,385	49,946
Adjusted Basic EPS, p	6.4	14.6	11.9	28.9	38.5
Adjusted Diluted EPS, p	6.3	14.5	11.8	28.6	38.0
<u>Dividends</u>					
Interim dividend, p	1.8	1.8	3.6	3.6	5.8
Final dividend, p	-	6.8	-	13.8	17.3
FY dividends per share, p	-	8.6	-	17.4	23.1
Special dividends per share, p	-	-	-	-	-

Source: Group report & accounts and ED estimates

Consolidated Balance Sheet + Forecasts					
as at end Sept, £'000s	H1 20A	2020A	H1 21A	2021E	2022E
Assets					
Non-current assets					
Goodwill	12,732	12,306	11,622	11,622	11,622
Intangible assets	23,005	20,871	18,338	18,336	15,801
Property, plant and equipment	11,777	10,857	9,805	9,816	8,775
Deferred tax assets	3,599	5,492	6,099	5,492	5,492
Total non-current assets	51,113	49,526	45,864	45,266	41,690
Current assets					
Trade and other receivables	18,096	20,735	26,750	31,715	40,965
Investments	4,950	4,387	6,537	6,964	6,964
Current tax account	311	224	1,601	224	224
Cash: money mkt & LT deposits	11,268	18,516	11,357	11,357	11,357
Cash and cash equivalents	9,363	20,245	26,896	42,180	68,302
Total current assets	43,988	64,107	73,141	92,441	127,812
Total Assets	95,101	113,633	119,005	137,707	169,502
Equity and Liabilities					
Equity					
Ordinary shares	1,304	1,304	1,326	1,326	1,326
Share premium	9,291	9,291	10,824	10,824	10,824
Exchange translation reserve	1,869	1,449	172	1,449	1,449
Hedging reserve	(48)	(111)	123	(111)	(111)
Retained earnings	50,830	59,515	68,652	81,046	104,747
Total equity	63,246	71,448	81,097	94,534	118,235
Current Liabilities					
Trade and other payables	15,394	27,984	27,570	33,581	43,375
Lease liability	1,421	1,410	1,403	1,198	986
Current tax liability	89	190	127	190	190
Total current liabilities	16,904	29,584	29,100	34,969	44,551
Non-current Liabilities					
Accruals	748	-	-	-	-
Lease liability	9,975	9,261	8,378	7,774	6,287
Deferred tax liability	4,228	3,340	430	430	430
Total non-current liabilities	14,951	12,601	8,808	8,204	6,717
Total equity and liabilities	95,101	113,633	119,005	137,707	169,502

Source: Group report & accounts and ED estimates

Consolidated Cash Flow Statement + Forecasts					
12 months to end Sept, £'000s	H1 20A	2020A	H1 21A	2021E	2022E
Profit before taxation	8,045	16,682	14,448	40,027	59,126
Adjustment for:					
Investment income	-	(1,020)	(110)	-	-
Interest expense	400	1,921	2,103	2,500	-
Depreciation and amortisation	2,117	4,260	2,032	4,260	3,576
Fair value (gains)/losses	(105)	-	-	-	-
Share-based payment charges	938	1,813	1,743	1,813	1,813
Op CF before movement in working capital	11,395	23,656	20,216	48,600	64,515
(Increase)/decrease in receivables	(1,356)	(3,995)	(6,664)	(10,980)	(9,250)
(Decrease)/increase in payables	(6,995)	4,721	(277)	5,597	9,794
Cash generated from operations	3,044	24,382	13,275	43,216	65,059
Corporation tax paid	(152)	(607)	(1,532)	(7,605)	(11,234)
Net cash generated from op.activities	2,892	23,775	11,743	35,611	53,825
Investing activities					
Investment income received	48	222	54	100	-
Settlement of investment related hedges	469	(156)	(120)	-	-
Net redemptions: unconsolidated funds	-	1,191	-	-	-
Net investment disposals: consolidated funds	(702)	-	(1,973)	(1,973)	-
(Incr)/decr in money mkt & LT deposits	3,967	(3,281)	7,159	7,159	-
Acquisition of PPE & intangible assets	(147)	(182)	(33)	-	-
Net cash used in investing activities	3,635	(2,206)	4,383	4,582	-
Financing activities					
Acquisition of non-controlling interest	-	(201)	-	-	-
Interest paid on bank debt	(38)	(136)	(64)	(2,500)	-
Dividends paid	(5,140)	(7,442)	(8,871)	(13,059)	(25,005)
Acquisition of own shares	(3,186)	(4,223)	-	(1,000)	(1,000)
Payment of lease liabilities	(839)	(1,699)	(832)	(1,699)	(1,699)
Cash received on exe. of share options	97	489	597	-	-
Net cash from /(used by) financing	(9,106)	(13,212)	(9,170)	(18,258)	(27,704)
Net (decr.)/incr. in cash & equivalents	(2,579)	8,357	6,956	21,935	26,122
Cash & equivalents at beginning of year	11,939	11,939	20,245	20,245	42,180
Effect of foreign exchange rate changes	3	(51)	(305)	-	-
Cash & equivalents at end of year	9,363	20,245	26,896	42,180	68,302

Source: Group report & accounts and ED estimates



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