Impax Asset Management

A template for sustainable growth

11 June 2019

A solid first half demonstrates Impax's ability to trade successfully in choppier markets. It added 6% to AUM to £13.3bn in the period, then another £0.4bn in April. An above-forecast 36% increase in the interim dividend reflects confidence in the underlying outlook, cash generation and enhanced competitive positioning. Fourteen consecutive quarters of positive net inflows reinforces an already strong investment case.

- Impax is a leader in investment in the transition to a sustainable global economy, with over two decades' experience of its bespoke strategies.
- Its fund portfolio is differentiated, diversified by strategy and geography, and includes quoted and private equity infrastructure funds. This adds proven resilience in periods of market volatility.
- The core focus on sustainable growth is of growing interest to institutional and retail investors worldwide that is reflected in an ability to win substantial mandates from institutions and pension funds. Impax has access to global distribution via own network, distribution partners and intermediaries in target markets.
- The business is cash generative with a progressive dividend policy. The interim payment backs a 1.9% prospective yield, supported by management's stated intention to review its distribution policy this year. Based on our forecast 3.5p/share final FY19e payment, dividends have more than doubled over the last three years[1].
- The operation is highly scalable, and costs are closely controlled. AUM growth can be absorbed with limited additional expense, so margins should build progressively.
- Management holds 30% of the equity, well aligned with external investors.

Impax has navigated uncertain global stock markets very effectively. At this stage we've held our £14bn full year AUM forecast i.e. another c £300m net inflow over the final five months vs c £400m in April. We will revisit that as month end AUM updates are released.

The medium-term outlook is under-pinned by new mandates, the growing importance of sustainability and environmental, social and governance (ESG) factors to global investors. We expect that combination to continue to drive AUM growth, EPS and dividends, and further attractive returns for investors.

Summary forecasts

Year end 30 Sep	2016A	2017A	2018A	2019E	2020E
Revenue, £m	21.1	32.7	65.7	69.3	76.2
Adjusted Op. Profit, £m	4.2	9.3	20.0	17.9	21.0
Adjusted EPS, p	3.7	6.2	12.5	10.4	13.4
PER	73.8	44.0	21.9	26.2	20.3
EV/NOPAT	95	39	29	21	21
Yield, %	0.8	1.1	1.5	1.8	2.1

Source: Company, ED estimates (EV includes net cash and seed investments) Adj. results eliminate non-recurring acquisition costs, ongoing amortisation of intangibles acquired, one-off tax credits and mark-to-market of NI on equity award schemes. [1]*Excluding special dividends*

Company Data

EPIC	IPX
Price	273p
52 week Hi/Lo	295p/173p
Market cap	£357m

Share Price, p

Source: ADVFN

Description

Impax AM is a specialist asset manager. Founded in 1998, it offers a range of thematic and unconstrained global equity strategies as well as real asset funds focused on the growth opportunity arising from a sustainable economy.

Aggregate AUM at end May 2019 was £13.6bn.

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First half performance: 6% growth in AUM to £13.3bn

The first half result was reassuringly robust. Assets under management and advice (AUM) was well ahead despite stock market volatility, disruption to international trade, Brexit etc.

AUM rose by 6% and closed the first half at £13.3bn. Another £0.3bn had been added by the end May 2019, so cumulatively that is **8.0% growth** for the first eight months of the current financial year to £13.6bn, versus our £14.0bn target for end September 2019. Sustained momentum has become a feature of Impax's results, **indeed it has now reported 14 consecutive quarters of positive net inflows.**

Organic growth (£887m net inflow in H1) is key. It reflects investors' desire to gain exposure to companies leading the transition to a more sustainable global economy. Impax has two decades' experience in this area, continues to see new long-term investment opportunities, and interest from asset owners globally (eg St James's Place Capital from Dec 2018, and significant new mandates with CalSTRS in the US and West Midlands Pension Fund in the UK).

AUM movement since 30 Sep 2018

£m	Thematic equity funds	Real asset funds [1]	Fixed Int, smart beta, US equity funds	Adjusted.[2]	Group total
Total AUM at 30 Sep 2018	9,024	450	3,644	(603)	12,515
Net flows	1,103	-	(216)	-	887
Market movement, FX and performance	(67)	(14)	(74)	6	(149)
Total AUM at 31 March 2019	**10,060**	**436**	**3,354**	**(597)**	**13,253**

Source: Impax interim results [1] Real Assets comprise Private Equity and Property funds
[2] Avoidance of double count of Pax Global Environmental Markets Fund and Pax Global Opportunities Fund

Investment performance generally above benchmarks

The outlook for global equity markets remains uncertain, but the group's London-managed listed equity strategies generally out-performed their generic benchmarks, typically the MSCI All Country World Index (ACWI) during H1. Its 'Global Opportunities' strategy, a broad-based global equity portfolio, now in its fifth year, was the best-performing strategy.

Listed equities (London): performance to 31 March 2019, % return

Impax strategies		1 Year	3 Years	5 Years
Specialists	Active	0.9	11.3	6.3
FTSE ET100 Index	*Benchmark*	-1.6	8.6	3.4
Leaders	Active	2.8	11.7	6.6
FTSE EOAS Index	*Benchmark*	0.6	12.3	7.1
Asia-Pacific	Active	1.1	12.1	7.6
FTSE EOAP Composite Index	*Benchmark*	0.0	10.5	3.9
Water	Active	1.8	11.5	8.3
FTSE EO Water Technology Index	*Benchmark*	10.3	8.1	14.9
Sustainable Food	Active	1.8	7.3	5.1
MSCI ACWI Agriculture and Food Chain Index	*Benchmark*	7.5	5.4	4.2
Global Opportunities	Active	7.4	16.7	15.0
MSCI All Country World Index	*Benchmark*	2.6	8.6	10.7

Source: Impax interims

The US operation reported a more mixed performance. Its actively managed funds were moderately ahead of benchmark, fixed income funds slightly behind. This division was particularly affected by the impact of a much more risk-averse investor outlook on the entire equity mutual funds market at the end of 2018. This division's products include generic and more diversified funds and some of its strategies will report three-year track records for the first time in 2020, **an important milestone which we expect to generate additional investor interest.**

Although the Pax World Funds reported an aggregate net outflow, there were net inflows into its more differentiated products, particularly the **Global Women's Leadership Fund**. The latter is an initiative which runs parallel to Impax's core sustainability themes, which we expect to enhance its profile as an ESG investor.

Interim results to end March 2019: revenues 32% up y-o-y

Headline numbers reveal a 32% increase in revenue to £33.8m and c 69% higher pre-tax profit at £9.3m. In line with Impax's own approach we refer to adjusted operating profit, PBT and EPS below. This provides a better underlying picture.

Adjusted operating profit was £7.7m, in line with the first half last year. That reflects some costs related to recent new fund launches, staff hires and the higher proportion of UK to US managed AUM, as the former is typically lower margin than US retail funds.

Adjusted earnings & profit

£'000s	**H1 19**	**H1 18**
Revenue	33,794	25,680
Operating costs	(23,871)	(19,932)
Acquisition costs	-	847
Amortisation of intangibles arising on acquisition	1,247	484
Credit from adjustment to contingent consideration	(3,543)	-
Acquisition equity incentive scheme charges	44	97
Mark to market charge on equity awards	42	552
Operating profit	**7,713**	**7,728**
Fair value gains on investments and other financial income	(203)	(77)
Interest expense	(399)	(251)
Non-controlling interest	91	21
Change in third party consolidated funds	2	(30)
Pre-tax profit	**7,204**	**7,391**
Tax	(1,280)	(1,286)
Profit after tax	**5,924**	**6,105**
Diluted EPS	4.4p	4.8p

Source: Impax interims

The adjusted figures strip out non-recurring acquisition costs, ongoing amortisation of acquired intangibles, business combination effects and other items including on-off tax credits. It also ignores a notional credit in respect of the revaluation of estimated contingent consideration related to the acquisition of PAX in early 2018. This reflects the current view, based upon the US division's recent AUM performance, that no further consideration will be payable.

Cost control and cash generation

The first half results illustrate the group's ability to finance ongoing investment to develop its products and investment capacity, while maintaining (a) strict cost control, and (b) cash generation.

Impax's long-term investment programme aims to build upon existing capabilities without the need for large, one-off investments. Over the past 12 months the focus has been on its IT platforms, risk and compliance, and human resources. It has fully integrated the Pax World Management business acquired in early 2018 and established close co-operation across support teams i.e. finance, compliance, HR, trading and back/middle office.

In parallel, client service and business development teams enhanced collaboration, and the investment teams can pool their respective research and analysis.

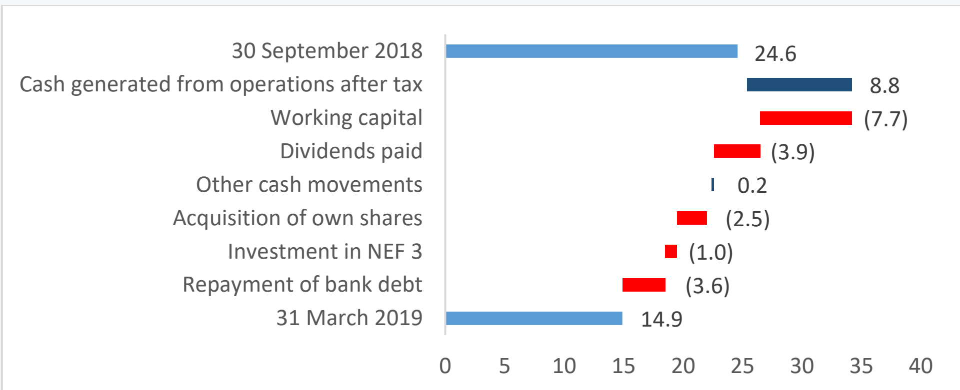
Operating expenses in the UK versus prior comparatives reflects modest increases in employee numbers, but at a reduced average cost per employee of £184k vs £203k at 30 September 2018. The run rate operating margin at end March 2019 was an admirable 32.6% vs with 30.4% for FY18 and 22.8% for the first half overall.

The US operation's cost base was below H2'18, but a period end run-rate operating margin of 10.7% reflects lower revenues and a tougher operating environment for US mutual fund managers generally. However, that division's relative outperformance of its peer group reinforces Impax's conviction that it remains an attractive, well-timed addition to the group.

Strong cashflow, funding debt reduction and seed investment

The group's positive cashflow characteristics enabled it to finance £1.0m investment in NEF 3, £2.5m of share repurchases and a scheduled repayment of £3.6m of outstanding debt, yet still leave substantial cash for future share buybacks, further seed investments or business opportunities not yet identified.

Cash movements , £m

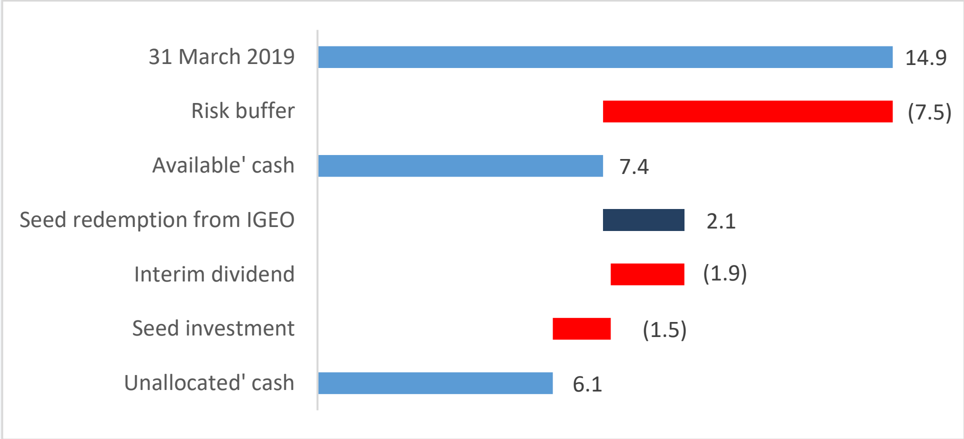


Source: Company

An analysis of group cash reserves at the half-year end shows £6.1m of free, unallocated cash, net of a £7.5m risk buffer, the interim dividend, seed investment in the Global Women's Leadership Fund and redemption of its seed stake in the Global Opportunities Fund.

Impax also has access to a US$13m revolving credit facility, which is currently unutilised. The remaining debt is due to be repaid in the first half of FY'21.

Cash reserves analysis, £m



Source: Company

Real Assets: NEF III to invest €100m by end 2019

Impax's third fund, Impax New Energy Investors III (NEF III) continued to invest across Europe. Investments to date include a large acquisition in France and a portfolio of hydropower assets in Norway. It expects to have invested €100m of capital available by the end of calendar 2019.

The group has nearly completed the sale of the remaining assets of it second renewable energy infrastructure fund, Impax New Energy Investors II (NEF II). **It expects to return all outstanding proceeds to investors over the next eighteen months.**

Outlook: clear momentum behind long-term drivers

Over the last two decades, Impax has accumulated considerable specialist expertise and profile as an expert in the transition to a more sustainable economy. Its core thematic strategies resonate with asset owners worldwide including leading investment advisers and pension funds in Europe and the US, some of which have already appointed it to manage substantial mandates, with others are at advance stages of due diligence.

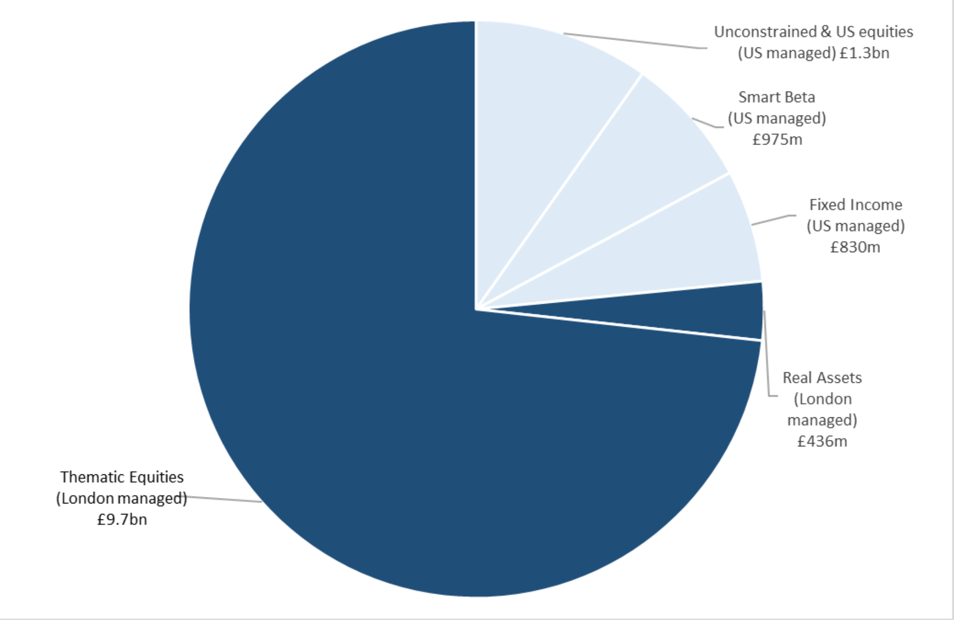
The momentum behind that core investment focus is building as the drivers for sustainable investment evolve. Regulatory pressure has been supplemented by consumer concern, particularly in areas such as the 'war on plastics', which Impax expects will benefit companies operating in areas such as recycling, reverse vending and alternative packaging.

It also identifies moves by consumers in developed countries away from established brands and towards natural foods and reduced meat consumption, plus a new wave of investment in electric vehicle (EV) manufacturing and infrastructure affect the transport sector. These themes underpin interest in the group's managed strategies. It also launched three new segregated accounts for institutional investors and expects to launch further new accounts before the end of calendar 2019.

Despite potential for ongoing disruption related to the UK's departure from the EU, Impax believes it is well positioned to respond to whichever outcome transpires. It has established an Irish entity, Impax Asset Management Ireland Limited, authorised by the Central Bank of Ireland as, amongst other things, a UCITS management company pursuant to the EU's UCITS Regulations.

Overview

Asset management at 31 March 2019



Source: Company

Financials

Consolidated Income statement					
12 months to end Sept, £'000s	**2016**	**2017**	**2018**	**2019e**	**2020e**
Revenue	21,067	32,694	65,683	69,252	76,203
Operating costs excluding legacy LT incentive schemes	(16,915)	(26,461)	(50,200)	(49,694)	(57,343)
Operating profit	4,152	6,233	15,483	19,558	18,860
Adjustments					
Acquisition equity incentive scheme awards	27	0	236	100	100
Mark to market charge on equity awards	0	2,097	1,896	42	0
Exceptional acquisition costs	0	999	866	0	0
Amortisation of goodwill/intangibles	0	0	1,676	1,700	2,000
Credit from contingent consideration adjustment	0	0	(170)	(3,543)	0
Adjusted operating profit	**0**	**9,329**	**19,987**	**17,857**	**20,960**
Fair value gain/(loss) on investments	989	(141)	(337)	(203)	0
Fair value gain/(losses) and other financial income	0	(214)	84	0	0
Non-controlling interest	0	0	184	91	100
Investment income	319	0	0	0	0
Finance cost	0	0	(670)	(531)	(89)
Change in third-party interest in consolidated funds	(288)	(239)	(40)	2	0
Adjusted profit before taxation	**5,199**	**8,735**	**19,208**	**17,216**	**20,972**
IFRS profit before tax	5,199	5,853	14,620	18,917	18,871
Taxation	(1,022)	1,814	(3,219)	(3,783)	(3,774)
Tax credit on adjustments	0	(2,888)	(448)	0	0
Adjusted PAT	**4,177**	**7,661**	**15,541**	**13,432**	**17,197**
IFRS PAT	**0**	**7,667**	**11,401**	**15,133**	**15,097**
Earnings per share					
Adjusted Basic EPS, p	3.6	6.5	12.5	10.4	13.4
Adjusted Diluted EPS, p	3.7	6.2	12.4	10.3	13.3
Dividends					
Interim dividend, p	0.5	0.7	1.1	1.5	1.8
Final dividend, p	1.6	2.2	3.0	3.5	4.0
FY dividends per share, p	**2.1**	**2.9**	**4.1**	**5.0**	**5.8**
Special dividends per share, p	0.0	0.0	2.6	0.0	0.0

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 and tax credits on these adjustments.

Investor Access

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