Share

Encouraging trends

H117 results & trading update

Financial services

Share's H117 figures announced in August were ahead of management expectations, reflecting robust trading volumes and the benefit of partnership agreements feeding into volumes and revenue. This has prompted us to increase estimates for this year and next. For the moment profitability is still muted because of the investment the company is making in IT in order to deliver a better customer experience. Assuming continued growth in the number of customers and assets under administration (AUA), operational leverage could provide further positive surprises.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	14.1	0.6	0.40	0.74	69.3	2.7
12/16	14.6	0.0	0.00	0.25	N/A	0.9
12/17e	18.0	0.5	0.29	0.30	94.3	1.1
12/18e	19.0	0.8	0.43	0.50	64.1	1.8

Note: *PBT and EPS are normalised, excluding exceptional items and share-based payments.

H117 results

Share's AUA increased by 14% to £4.3bn from end 2016 compared with an increase of 3.3% in the FTSE All-Share. Total revenues increased by 23% from H116, within which dealing revenues increased by 45% and fee income 8%. Operating costs increased by 15%, partly reflecting spending arising from the digital transformation programme. This left the operating loss lower at £0.2m versus £0.7m, while underlying pre-tax profit increased from £0.11m to £0.31m. Shortly after the results, a supplementary trading update reported that a potential partnership agreement Share announced it was working towards last year will not proceed. It will receive £0.9m in compensation for the costs already incurred, which will augment the cash position of £7.8m at the half-year end.

Outlook

After a period of sustained strength there is a risk that UK equity market volatility may rise given the range of political and economic uncertainties that prevail. However, for the moment investor confidence is holding up and Share itself reports trading volumes remain well ahead of last year. On a longer view the investment being made in IT systems should help sustain the market share gains Share has made while increasing the scope for a geared improvement in profitability as the company gains scale.

Valuation

When compared with two peers, Hargreaves Lansdown and Alliance Trust Savings, Share appears reasonably or modestly valued (page 10). A DCF valuation allows us to capture both the near-term muted profitability and a potential strong improvement as operational gearing comes into play. This gives an indicative valuation of 30.5p (29p previously).

8 September 2017

Price	**27.62p**
Market cap	**£40m**

Net cash (£m) at end June 2017	7.8
Shares in issue	143.7m
Free float	31%
Code	SHRE
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.8	12.1	(2.6)
Rel (local)	4.5	13.0	(10.2)
52-week high/low		29.00p	23.75p

Business description

Share plc's main subsidiary is The Share Centre, which is a self-select retail stockbroker that also offers share services for corporates and employees. It has a relatively high proportion of income from fees.

Next events

Q3 trading update	October 2017

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Edison profile page

Share is a research client of Edison Investment Research Limited

Investment summary

Online execution-only stockbroker

Share plc operates the Share Centre, a retail stockbroker that offers investors dealing, ISA, SIPP and investment club accounts. Share has total assets under administration of £4.3bn and c 250,000 customers. As well as signing up clients individually, it has acquired business through partnerships with companies such as Henderson, Barclays and Computershare. As an example, in the case of Computershare it provides a share dealing service for companies that use Computershare's corporate sponsored nominee dealing service. This is branded as Computershare but uses the Share platform and services.

Share adopted a flat fee structure in 2013 under which account fees do not vary with assets under administration. Income from transaction charges may be on a percentage basis but can also be fixed per bargain. Share also earns an interest margin on money held on deposit, but this is now much lower than in earlier years following the reduction in interest rates and accounts for less than 4% of total revenue.

Last year Share embarked on a programme of investment with the aim of delivering a digital transformation in order to improve the customer experience and create greater flexibility and scalability.

Balance sheet strength

At the half year end Share had net cash of £7.8m including cash held in trust for clients of £1.3m. In terms of regulatory capital the company has substantial headroom with capital resources at the end of June 2017 of £15.3m, 2.7 times the requirement.

While Hargreaves Lansdown has signalled a higher regulatory capital requirement during the summer, this reflected the substantial growth in scale and increased complexity of the business, and we do not expect Share to be subject to the same considerations.

Valuation

While Share is undertaking investment in IT, profitability is being depressed and prospective P/E ratios are elevated. However, looking further ahead Share should see the benefits of operational gearing assuming it can achieve growth organically and through partnerships and acquisition. When compared with Alliance Trust Savings (appraised value) and Hargreaves Lansdown, Share's valuation relative to revenue is lowest (after adjusting for surplus capital). Its adjusted value to AUA is markedly cheaper than Hargreaves Lansdown but more expensive than Alliance Trust Savings, although Share does earn a higher yield on AUA than the latter (for further details see Exhibit 12, page 10).

Our DCF model produces an indicative value of 30.5p (previously 29p), but we note the sensitivity of this calculation to the pace with which profitability improves following the completion of the digital transformation programme.

Sensitivities

Among the sensitivities for Share are developments in the equity market, changes in competitor behaviour, resilience of the IT systems on which the business depends and the potential for regulatory changes to increase costs and influence the competitive environment.

Retail stockbroker with a flat fee structure

Business background and profile

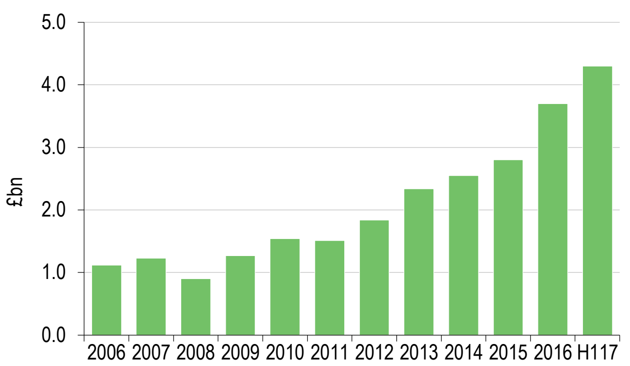
The Share Centre, Share's main business, was established in 1991 by the current chairman, Gavin Oldham, to provide execution-only stockbroking services to individual investors. The company's shares were admitted to trading on AIM and PLUS Market in 2008.

In addition to share dealing accounts, The Share Centre also offers accounts for ISAs, SIPPs and Investment Clubs. It has c 250,000 customer accounts and £4.3bn of assets under administration. Customers are signed up individually and through corporate partnerships such as those with Henderson (ISA service to investment trust investors), Barclays (certificated and investment club dealing services), Computershare (certificated and corporate sponsored nominee dealing and a white-label share trading platform) and Invesco Perpetual (ISA accounts). As part of the Share Centre offering Share manages three funds of funds (AUM £90m), which provide investors with a diversified entry-point to equity investing. Revenue is generated from three sources: account fees, trading commissions and interest income; split 40%, 56% and 4%, respectively, for H117.

In 2013 Share introduced a flat monthly account administration fee, which differentiates it from many peers that have fees based on the value of assets under administration. Transaction commissions are either charged at 1% with a minimum of £7.50 or, for those who deal frequently or in large sizes, on a flat £7.50 per bargain basis with a £20 quarterly fee (a 30% discount is offered to holders of 500 or more shares in Share plc). This means that the accounts frequently rank favourably in comparisons of providers (depending on portfolio size and frequency of trading).[1]

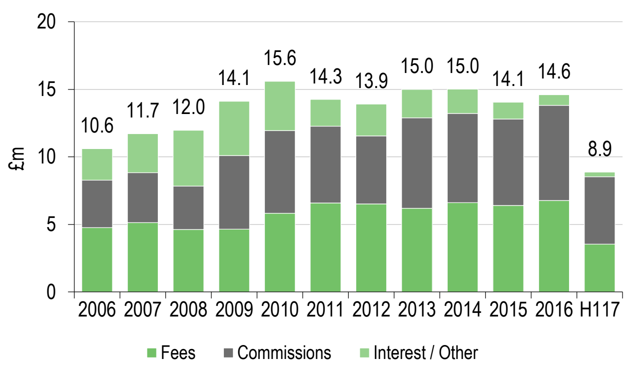
Exhibit 1 shows the evolution of assets under administration (AUA) since 2006,with an acceleration evident in more recent years probably supported by new clients attracted by the flat fee structure, augmented by market strength and partnerships or acquisitions such as those agreed with Barclays and Henderson.

Exhibit 1: Share plc AUA



Source: Share plc

Exhibit 2: Share plc revenue analysis over time



Source: Share plc

An analysis of the growth in Share's revenue is shown in Exhibit 2. Total revenue has been broadly maintained in recent years in the face of falling interest rates, the elimination of trail commission and the adoption of the flat fee structure, which reduced the gearing of revenues to AUA. As a result of these developments the contribution of interest income to revenue declined from 35% in 2008 to 4% in H117, fee income's contribution increased modestly, reflecting growth in the number of customer accounts, and commissions have increased from 27% to 56% between 2008 and H117 as the asset base has expanded.

[1] See, for example, reports with comparative tables prepared by the lang cat.

Strategy

Share sets out its strategy under three headings: (1) putting customers first; (2) focus on the core business; and (3) strategic partnerships and acquisitions.

Putting customers first involves a concentration on providing a high quality of service not only with the initial interface, as exemplified by the website and now a mobile app, but also in other areas such as dealing with corporate transactions, which requires adequate back office resourcing and systems to manage the complexity involved. The simple flat fee structure remains a feature of the business that many investors are likely to find attractive in comparison to value-based charging structures. In a customer-friendly initiative Share has announced that it will reduce the ongoing charges figure on its funds of funds by at least 25%. Other recent steps to improve the customer offering were the early launch of a Lifetime ISA and the relaunch of the SIPP product (operated in partnership with Curtis Banks). Reflecting the focus on customers, Share notes that it has won the Investment Trends UK Online Broking Report award for best stockbroker in 2017 with highest overall investor satisfaction rating, a position it has retained for four years. While receiving a small number of critical reviews, Share also scores strongly on Trustpilot, with a score of 8.4 out of 10 based on 634 reviews at the time of writing.

Improving the customer experience and investing in ITplay an important role in the second strategic heading: the **focus on the core Share Centre business**. Share last year embarked on its digital transformation project, which aims to enhance the overall customer experience. The project has already seen the replacement of the underlying database technology for core systems and involves steps to enhance the website including the addition of a new funds research centre in the first half. A mobile app is also live, with an update allowing customers to trade and fund their accounts from within the app due to be released shortly. Work is also being done to transform back office systems. During 2016 withdrawal from the non-core authorised corporate director activity was agreed and this was completed in April this year through the sale of Sharefunds to Treasury Capital (as noted earlier, management of the funds of funds has been retained).

In addition to organic growth, Share continues to pursue additional scale through **strategic partnerships and acquisitions.** In FY16 three books of business were acquired including Barclays Bank and Invesco, as mentioned above, and European Pensions Management (following its insolvency). In addition a partnership agreement was signed with Computershare, with the certificated and nominee dealing service being launched in May this year. These transactions contributed approximately half the revenue growth seen in the first half. The growing number and scale of these partnerships is likely to increase Share's credibility as a counterparty for large financial organisations looking to outsource these services. Although the company has announced that one potential partnership will not proceed (see comments on the trading update below), management reports that there are a number of other partnerships under discussion and while further additions would require some additional resource there should be an opportunity to secure significant benefits from operational gearing.

H117 results and August trading update

Share reported H117 results (9 August) that were ahead of management expectations. Revenues were more than 20% ahead of H116, led by growth in the level of dealing commissions. The results reflected strong trading volumes and the benefit of the partnership agreements highlighted above. Share has also continued to gain revenue market share against the Compeer-collected peer group that it monitors. The cost of investment in IT meant that the company remained in loss at the operating profit level, but the loss has been reduced significantly compared with H116 and there was an increase in underlying profit before tax. The balance sheet remains strong with net cash of just below £8m at the end of June. See Exhibit 3 for details of the profit and loss for the half year periods.

The main points are highlighted below, with changes against H116 unless indicated:

- **Assets under administration**(AUA) at £4.3bn increased by 14% from the year end, reflecting net inflows and a moderate equity market increase (FTSE All-Share +3.3%).Compared with H116 the increase was 26% (FTSE All-Share +13.8%) and within this the increase in assets held in funds was much more rapid at 59% (to £1bn). Segregated cash deposits held on behalf of clients have almost kept pace with overall AUA (+22% to £359m).
- The three in-house **funds of funds**, while still small, now manage £90m compared with £70m at the end of 2016.
- **Revenues** were up 23% and, within this, dealing commission increased by 45% and account fees 8%. Reflecting lower rates, interest income contracted further (-31%) despite the increase in cash balances and only accounted for 4% of total revenue. Half of revenue growth was organic rather than derived from acquisitions or partnership agreements.
- Overall **costs** increased by15%.Higher transaction costs contributed to this, particularly related to the Computershare partnership where Share retains a share of commission, paying the rest to Computershare. Staff costs increased partly as a result of the digital transformation programme and amortisation costs arising from purchased customer accounts and capitalised software costs.
- The **operating loss**, struck before equity dividends, other investment income and disposal gains, was reduced from £0.668m to £0.199m, reflecting the positive gap between revenue and cost growth.
- Reported **pre-tax profit** was £0.075m versus £0.190m, including a small gain of £0.066m on the sale of Sharefunds this year versus a £0.628m gain on London Stock Exchange shares last year. Underlying PBT (removing disposal gains, the FSCS levy and share-based payments) increased to £0.31m compared with £0.11m.
- Underlying, basic, diluted **EPS** was 0.2p versus 0.1p.
- The **balance sheet** remains strong with end-June net cash of £7.8m (£11.4m at end December), within which cash held in trust for clients, pending settlement and dividend payments, was £1.3m (£1.6m end-December).

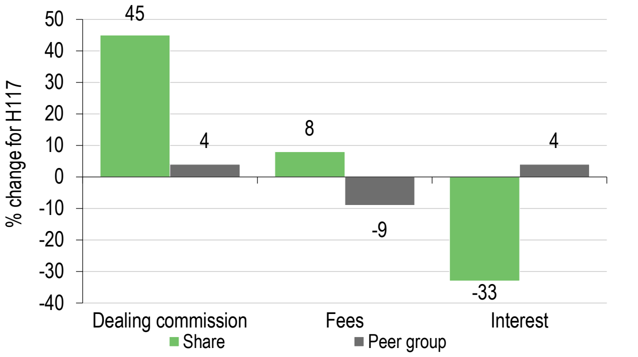
Exhibit 3: H117 results profit and loss summary

Year-end 31 December (£000 except where shown)	H116	H216	H117	H117 vs H116 %
Account fees	3,271	3,513	3,533	8.0
Dealing commissions	3,443	3,597	4,992	45.0
Interest and other income	510	276	350	(31.4)
Revenue	**7,224**	**7,386**	**8,875**	**22.9**
Total costs	(7,892)	(8,064)	(9,074)	15.0
Operating profit/(loss)	**(668)**	**(678)**	**(199)**	**(70.2)**
Investment revenues	230	18	207	(10.0)
Other losses and gains	628	1,491	67	(89.3)
Non-recurring items	0	0	0	
Pre-tax profit	**190**	**831**	**75**	**(60.5)**
Other gains and losses	(628)	(1,494)	(67)	(89.3)
Non-recurring items incl. FSCS	228	71	96	(57.9)
Senior management changes	0	0	0	
Profit share impact of above	12	142	(65)	(641.7)
Normalised pre-tax profit	**110**	**(156)**	**310**	**181.8**
Tax	(56)	(228)	(62)	10.7
Post-tax profit	**134**	**603**	**13**	**(90.3)**
Normalised post-tax profit	**132**	**(128)**	**255**	**93.2**

Source: Share plc

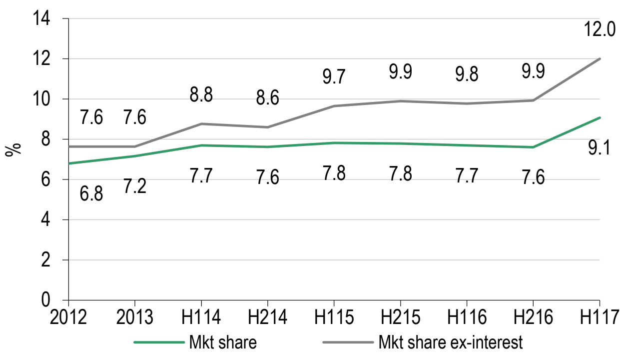
Share monitors trends in its revenue and market share against an industry peer group compiled by ComPeer.[2] Exhibit 4 compares changes in Share's revenue with the peers. Notable here is the outperformance in dealing commissions, presumably reflecting overall AUA growth and the benefit of the partnerships outlined above. As in previous periods, Share's now relatively small interest income has continued to suffer relative to peers, some of which have large banks as parents, which may choose to grant a higher rate internally on customer deposits. Revenue market share (Exhibit 5) has shown an encouraging upward trend, particularly in the first half. Excluding interest, this stood at 12.0% compared with 9.8% for the same period last year.

Exhibit 4: H117 change in revenue, SHRE and peers



Source: Share plc, ComPeer

Exhibit 5: Share plc revenue market share progress



Source: Share plc, ComPeer

On interest income, Share indicates that the FCA has granted it permission to put 60% of customer deposits on up to 95 days' notice. Management notes that this leeway is unlikely to be used in full and that the effect will be more to support the existing reduced level of interest income rather than permitting a significant increase in contribution.

Trading update

At the end of August Share announced that it would receive a one-off payment of £0.9m this year from a prospective partner company in the wealth management sector to compensate it for preparatory work undertaken on a product/service that will not now be launched. Share notes that the relationship between the companies remains strong. While there is some disappointment that the project did not proceed, Share continues to work on a pipeline of other partnership/acquisition opportunities. Reflecting the significant development of the third-party relationship business, Share has appointed Linda Roberts, who has been with the company for eight years, to the Share Centre board as director of partnerships and change, subject to regulatory approval.

The one-off payment will be treated as an exceptional item and excluded from underlying earnings. Share also confirmed that current trading remains strong, in line with market expectations and substantially ahead of the prior year.

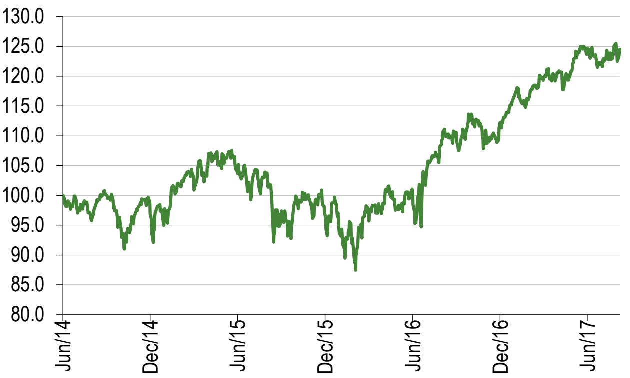
In the next section we discuss the broader market background and outlook for Share's business.

[2] Alliance Trust Savings, Barclays Stockbrokers, Equiniti, Halifax Share Dealing (Lloyds Bank), HSBC Stockbrokers, Saga Personal Finance, Selftrade and TD Direct Investing. Industry leader Hargreaves Lansdown is excluded because it does not submit monthly information to ComPeer.

Background and outlook

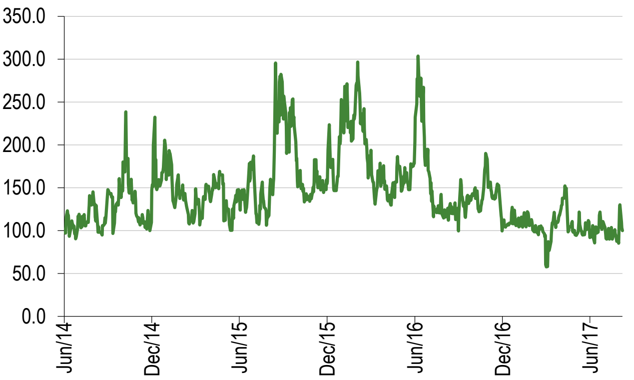
The next two charts illustrate recent trends in the UK equity market, highlighting a sustained period of strength in the FTSE All-Share Index despite relatively short periods of fluctuation around events such as the Brexit vote and the UK election.

Exhibit 6: FTSE All-Share Index (total return)



Source: Thomson Datastream

Exhibit 7: FTSE100 Implied Volatility Index



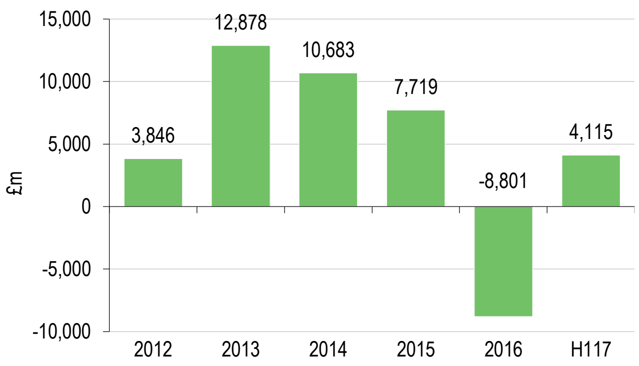
Source: Thomson Datastream

This is echoed in the Volatility Index, which has generally followed a downward trend since the Brexit vote, interrupted only briefly by the outcome of the UK election.

These positive trends could be attributed to the resilience of the UK and US economies together with signs of improvement in Europe and continuing supportive policies from central banks. This seems to have encouraged investors to look through a range of geopolitical developments that might have been expected to unsettle markets more noticeably. The relatively calm equity market environment in turn appears to have encouraged greater activity levels among retail investors from H216 onwards.

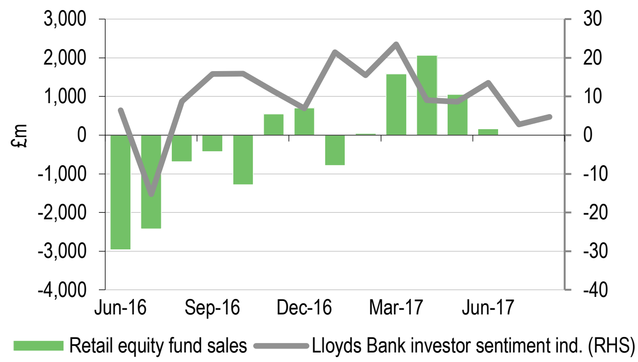
London Stock Exchange retail investor trading volumes are no longer published, but we have used data for retail equity fund sales (to June) from the Investment Association together with the Lloyds Bank Index for UK shares (to August) to give an indication of trends in retail investor confidence. Exhibit 8 shows how net retail equity fund sales were in negative territory last year, reflecting the effect of the EU membership referendum. This followed three years of historically strong sales (the 10-year average to end 2016 was net sales of £6bn). Looking at the shorter-term trend in Exhibit 9, the move from equity fund outflows to inflows is evident but has shown monthly variability, as might be expected. Investment sentiment towards UK equities has shown a clear improvement from the recent low but does appear to have shown some cooling.

Exhibit 8:Retail equity fund net sales from 2012



Source: Investment Association

Exhibit 9:Fund sales and investor sentiment index



Source: Investment Association, Lloyds Bank

This broadly fits with Share's own experience with its clients, where it reports that strong activity levels have carried on beyond the half year end, subject to a normal seasonal slowdown. It remains to be seen whether retail investor activity will resume at a higher level following the holiday season. There are certainly sufficient uncertainties, both economic and geopolitical, to prompt renewed volatility, but for the moment the market has remained calm, potentially creating a favourable background for the trading commission element of Share's revenue.

Beyond fluctuations in the market background, Share's fortunes are likely to be dependent on industry developments such as changes in competitive behaviour and consolidation, while Share's implementation of its own strategic priorities, outlined earlier, including its digital transformation and partnership/acquisition, will also be key.

In terms of the competitive environment, the main recent change has been the acquisition of TD Direct Investing by Interactive Investor. Announced in October 2016, this was completed in June 2017, creating a business with total AUA of £21bn and more than 300,000 customer relationships. This makes it second in size to, although still some way behind, Hargreaves Lansdown (£79.2bn, 954,000 accounts). So far, announcements about changes in the combined group are limited, although a new CEO was appointed at Interactive Investor in March (previously a non-executive director at the company from 2015). The merger is also reported to result in a potential change of SIPP administrator for TD Direct Investing customers (AJ Bell currently). Of particular interest from a Share perspective will be whether the existing Interactive Investor pricing model is adopted for the enlarged business (as would seem logical). Interactive Investor follows a fixed fee approach, similar to Share's, so this would seem likely to encourage retention, although the impact on individual customers will depend on portfolio size and dealing frequency. The implementation of any merger involving migration to new systems can be disruptive for customers so there could be an opportunity for Share to gain from any fall out, but on a longer view the enlarged platform should have scale advantages. These could result in greater profitability or be used to fund increased marketing or more aggressive pricing, with the latter options clearly being less favourable for Share.

Encouragingly, as shown earlier, Share has been gaining market share and, with an established competitive pricing model and a programme of work to upgrade systems and improve website and app customer interfaces, should be well placed to extend these gains. Further partnership deals or acquisitions could accelerate growth and there is more benefit to come from existing partnerships. As an example, the Computershare UK company nominee share service now has 28 company clients compared with 25 in August last year (see Exhibit 10).

Exhibit 10: Computershare UK company nominee share service clients

Arris International	GroupeFnac	Orange (France Telecom)	Standard Chartered
Aviva	International Airlines Group	Perrigo	Steris
Ball Corporation	Janus Henderson Group	Perseus Mining	SuperGroup
Barclays Contingent Value Rights	Liberty Global (Virgin Media)	Prothena Corporation	Thomson Reuters
Colfax	Matra Petroleum	Rio Tinto	Uniper
E.On	Mondelez International	Royal Bank of Scotland	Vodafone Group
Groupe Eurotunnel	Myraid Group	South32	XL Group

Source: Computershare

The regulatory focus on transparency of costs for retail investors combined with the expected growth in the number of self-directed investors would seem to fit well with Share's offering on a longer view, while the FCA work on investment platforms is focused on areas such as complex charging structures and obstacles to competition, which do not appear to pose a particular concern for the company. On a shorter view Share does note that regulatory changes including MiFID 2 and General Data Protection Regulations will involve some costs to adjust the way in which data is held and communicating with investors.

In summary, there are the usual uncertainties relating to the equity market background, but for the moment activity levels remain relatively strong. More strategically successful delivery of the digital transformation will be key for Share, while partnerships and acquisitions of books of business have the potential to enhance growth further.

Financials

Exhibit 11 sets out the changes in our estimates following the H117 figures and August trading statement. Reflecting the strong first half this year and continuing contributions from partnership agreements in 2018, our revenue estimates are increased by 9% and 8%. Profitability is currently depressed, reflecting investment in the digital transformation, but is on an improving trend with the potential to extract operational leverage as the initial investment in improving systems is completed and as organic and partnership-related revenue growth flows through.

Exhibit 11: Estimate revisions

	Revenue (£m)			PBT* (£m)			EPS* (p)			Dividend (p)		
	Old	New	% chg	Old	New	% chg	Old	New	% chg	Old	New	% chg
2017e	16.5	18.0	9%	0.3	0.5	57%	0.12	0.29	138%	0.30	0.30	0%
2018e	17.5	19.0	8%	0.7	0.8	17%	0.36	0.43	19%	0.50	0.50	0%

Source: Edison Investment Research. Note: *PBT and EPS are normalised, excluding exceptional items and share-based payments.

Share's capital exceeds the regulatory requirement set by the FCA by a healthy margin. Capital resources at the end of June 2017 stood at £15.3m, 2.7 times the requirement of £5.7m.The increase in capital requirement indicated to Hargreaves Lansdown (HL) by the FCA in August this year reflected the increased scale and complexity of the business. The HL board concluded that it needed to retain an additional £50m of capital, taking the total estimated requirement to £133m.These considerations would not apply to Share so there is no implication that it would be subject to a proportionate increase in capital requirement.

As noted earlier, end-June net cash stood at £7.8m compared with £11.4m at the end of 2016. The reduction in cash mainly reflected working capital movements (net -£2.5m) together with a small operating loss and spending on the digital programme, which is evident in intangible purchases (mainly) and capex of £0.8m. The dividend absorbed a further £0.35m. Prospectively, the second half will see the payment of the £0.9m compensating Share for work undertaken on the partnership project that was cancelled. This and a positive swing in working capital could see net cash of c £10.4m at the full year. Currently our estimates suggest a further, smaller outflow in 2018, but cash flow could turn positive on our tentative estimates for 2019 (not included in this note).

See the financial summary on page 11 (Exhibit 14) for further detail.

Sensitivities

The sensitivities for the Share business include:

- Equity market developments, particularly the level of volatility, are likely to affect the confidence of retail investors positively or negatively and hence their propensity to trade on the Share platform.
- Competitor behaviour, including marketing and pricing may help or hinder customer acquisition and retention.
- Maintaining a robust IT platform is central for the business.
- Regulatory developments can impose additional costs and may influence the competitive landscape over time, but, as noted earlier, Share appears relatively well placed in this regard given its pricing model and range of services.

Valuation

Our comparative table in Exhibit 12 includes selected measures for Share, Alliance Trust Savings (an unquoted subsidiary of Alliance Trust) and Hargreaves Lansdown. As in previous notes, this underlines the scale of Hargreaves Lansdown with AUA of £79bn in total compared with Alliance Trust Savings at £15bn and Share on £4.3bn. Given the potential benefits of scale, we would expect further consolidation to follow the Interactive Investor/TD Direct Investing combination on a medium- to longer-term view with potential benefits for both buyer and seller.

Hargreaves Lansdown, as market leader by a large margin with an established record of strong growth and profitability, is the most highly valued across each of the measures. Share is more expensive than Alliance Trust Savings in terms of adjusted value to AUA, but this can be explained by the higher revenue yield earned by Share, while in terms of adjusted value to revenue Share is valued below the other two companies. Increased scale through acquisition or organic growth would be likely to benefit profitability and hence valuation on these metrics.

Exhibit 12: Peer comparison

£m unless stated	Share	Alliance Trust Savings	Hargreaves Lansdown
Market capital	39.7		6,342.0
Surplus capital (assumes cover of twice the regulatory requirement)	4.0		-75.0
Adjusted value	35.7	61.5	6,417.0
Revenue	17.8	21.6	385.6
AUA	4,300	15,000	79,200
Number of accounts (active clients HL)	250,000	114,000	954,000
Market capital/revenue (x)	2.2	N/A	16.4
Market capital/AUA (%)	0.9	N/A	8.0
Adjusted value/revenue (x)	2.0	2.8	16.6
Adjusted value/AUA (%)	0.8	0.4	8.1

Source: Edison Investment Research, companies' disclosure. Note: valuation and AUA for Alliance Trust Savings from H117 results and revenue FY16.Hargreaves Lansdown AUA and revenue from FY17. Share revenue H117 annualised.

We have also updated our DCF model, factoring in our new estimates. We allow for two years of rapid growth in revenues between 2020 and 2021 following a move into operating profit in 2019 (growth of 60%), followed by seven years of growth at 5%. We also assume a terminal multiple of 10x and a discount rate of 10%. Exhibit 13 sets out the sensitivity of the value output to changes in the discount rate and 2020-21 growth assumption. Our central valuation of 30.5p compares with our previous figure of 29p. We note the calculation is particularly sensitive (in both directions) to assumptions regarding the pace at which the business moves into stronger operating profitability and cash generation. The operational gearing of the platform and scope to gain scale through acquisition are considerations here.

Exhibit 13: Discounted cash flow valuation sensitivity (pence per share)

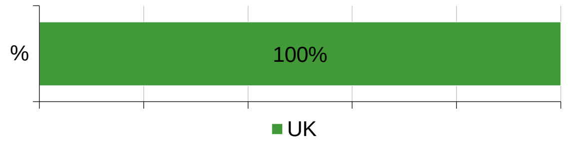
	Discount rate				
2020-21 growth	**8%**	**9%**	**10%**	**11%**	**12%**
0%	21.9	19.3	18.6	18.0	17.4
30%	29.4	25.1	23.9	22.8	21.9
60%	38.8	32.3	**30.5**	28.9	27.5
70%	42.3	35.0	33.0	31.2	29.6

Source: Edison Investment Research

Exhibit 14: Financial summary

£000	2014	2015	2016	2017e	2018e
Year end 31 December					
PROFIT & LOSS					
Account fees	6,610	6,400	6,784	7,530	7,831
Dealing Commissions	6,610	6,400	7,040	9,786	10,373
Interest and other income	1,800	1,250	786	711	769
Revenue	15,042	14,050	14,610	18,027	18,973
Cost of Sales (exc amortisation and depreciation)	(14,579)	(14,812)	(15,727)	(18,003)	(18,725)
EBITDA	463	(762)	(1,117)	23	248
Depreciation	(104)	(111)	(121)	(131)	(150)
Amortisation	(11)	(21)	(108)	(390)	(400)
Operating profit (pre-exceptional)	348	(894)	(1,346)	(498)	(302)
Exceptionals	0	0	0	900	0
Other	60	1,479	2,119	67	0
Investment revenues	308	276	248	220	198
Profit Before Tax (FRS 3)	716	861	1,021	689	(104)
Profit Before Tax (norm)	1,615	584	(46)	516	768
Tax	(109)	(196)	(284)	(133)	0
Profit After Tax (FRS 3)	607	665	737	557	(104)
Profit After Tax (norm)	1,416	555	4	409	602
Average Number of Shares Outstanding (m) - exc treasury	143.5	139.2	139.3	139.7	139.7
EPS - normalised (p)	0.99	0.40	0.00	0.29	0.43
EPS - FRS3 (p)	0.42	0.48	0.53	0.40	(0.07)
Dividend per share (p)	0.62	0.74	0.25	0.30	0.50
EBITDA Margin (%)	3.1%	(5.4%)	(7.6%)	0.1%	1.3%
Normalised operating margin (%)	8.3%	2.2%	(2.0%)	(3.4%)	3.0%
BALANCE SHEET					
Fixed Assets (mainly Investments)	9,405	8,083	8,341	9,753	9,903
Current Assets	21,316	19,716	23,883	21,980	22,509
Total Assets	30,721	27,799	32,224	31,733	32,412
Current Liabilities	(8,450)	(7,681)	(13,384)	(11,830)	(12,430)
Long term Liabilities	(1,594)	(1,418)	(1,096)	(1,158)	(1,158)
Net Assets	20,677	18,700	17,744	18,745	18,824
CASH FLOW					
Operating Cash Flow	199	(2,104)	492	1,092	250
Net cash from investing activities	(434)	1,990	483	(1,495)	(502)
Net cash from (used in) financing	(736)	(878)	(1,217)	(590)	(419)
Net Cash Flow	(971)	(992)	(242)	(993)	(671)
Opening net (debt)/cash	13,626	12,655	11,663	11,421	10,428
Closing net (debt)/cash	12,655	11,663	11,421	10,428	9,757

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Oxford House, Oxford Road, Aylesbury, Bucks, HP21 8SZ +44 (0)1296 414141 www.shareplc.com	

Management team

Executive Chairman: Gavin Oldham	Chief Executive: Richard Stone
Gavin is the founder and controlling shareholder of Share plc, having previously established Barclayshare (now Barclays Stockbrokers) for Barclays Bank. He is a regular contributor to radio and television. Gavin is an elected member of the General Synod and a church commissioner.	Richard, a qualified chartered accountant, joined Share plc in April 2006, assuming the CEO role in 2014. His previous experience includes a directorship at Huntswood, a financial services sector outsourcing business, a role as group financial controller at ECSsoft (now CIBER Inc) and as an investment analyst at Robertson Stephens, a US investment bank.
Finance Director: Mike Birkett	**IT Director (not on board): John Sargeant**
Mike joined Share plc in 2014 and was previously finance director at Thomas Cook Online, the e-commerce centre of excellence in Thomas Cook Group. Prior to this he worked for eight years with Betfair Group, initially as head of financial planning and analysis and then as finance director of Betfair Group's financial trading exchange, LMAX.	John joined The Share Centre in November 2014 from One Stop, the retail convenience subsidiary of Tesco, where he was head of IT. Before his seven years with One Stop, John was business systems manager with Signet Jewellers.

Principal shareholders (as at 31 December 2016)	(%)
Oldham family and connected trusts	68.8
Other directors and staff	5.3
Customers (exc Oldham family and directors)	20.7
Shareholders on general register	5.2

Companies named in this report

Hargreaves Lansdown (HL), Alliance Trust (ATST)