

# Lighthouse Group

## Strategic agreement with Tavistock Investments

Strategic agreement

Lighthouse (LGT) has announced a strategic agreement with Tavistock Investments (TAVI) that will provide it with access to Tavistock's investment solutions. This will help deliver the broader offering Lighthouse seeks for its in-house asset management arm, Luceo. In conjunction with this agreement, Lighthouse has subscribed £1m to Tavistock's £1.25m equity fund-raising giving it a 5.3% stake. Our valuation (c 44p) and estimates are unchanged at this stage.

Year end	Revenue (£m)	PBT (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	47.9	1.9	1.13	0.27	24.0	1.0
12/17	54.1	2.5	1.49	0.42	18.2	1.5
12/18e	55.7	2.8	1.61	0.60	16.8	2.2
12/19e	57.5	3.1	1.81	0.70	15.0	2.6

Note: \*EPS are normalised and fully diluted, with tax credits excluded and a standard tax charge applied.

### Strategic agreement to broaden product offering

Lighthouse launched Luceo Asset Management in 2016 to offer in-house funds of funds tailored to a range of risk profiles. Octopus acts as investment adviser to the funds. In H118, the AUM of the five funds increased from £37m to £53m, with one fund reaching the break-even level of c £20m. Lighthouse has been considering broadening the fund range further and was introduced to Tavistock recently, leading to the strategic agreement which will be formalised in the coming months. This will give Lighthouse access to Tavistock investment solutions, including in particular two recently launched capital protection funds. These funds are mainly invested in BlackRock iShares, and the guarantee is provided by Morgan Stanley and scales with the value of the fund. Tavistock also has a risk-graded fund range, a model portfolio service and plans to launch an app next year allowing consumers to buy a guaranteed fund provided by a large investment bank. Lighthouse sees a good opportunity here to provide products that meet common customer requirements and help Luceo funds reach a profitable scale.

### Subscription to Tavistock fund-raising

In conjunction with the agreement, Lighthouse has subscribed £1m to a £1.25m equity fund-raising by Tavistock (at a 10% discount to the previous day's closing share price). The issue is designed to facilitate the replacement of an expensive loan with an interest cost of 9% due for repayment in April 2019. The £1m investment in Tavistock deploys part of the c £5m free cash Lighthouse has available and at the same time reduces the potential requirement for seed capital that would arise if Luceo launched new funds itself. Tavistock appears to be at an inflexion point in terms of profitability. At end September it had FUM of £941m (up 26% over a year) and total assets under advice of £3.5bn. Half-year gross revenue was £14m (+14%), EBITDA £0.5m (+227%) and there was a small operating loss. It is also in the process of implementing a £0.5m cost reduction programme and this, together with the increase in FUM, is supportive of the consensus expectation of a sustained move into net profit.

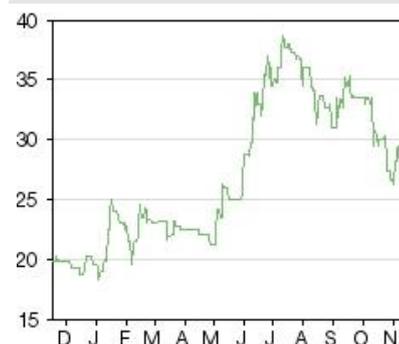
### Financial services

15 November 2018

**Price** 27.10p  
**Market cap** £35m

Net cash (£m) at end June 2018	9.6
Shares in issue	127.7m
Free float (not in public hands per AIM rule 26)	50%
Code	LGT
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(11.7)	(13.4)	33.8
Rel (local)	(12.0)	(6.3)	41.0
52-week high/low		38.7p	18.3p

### Business description

Lighthouse comprises a diverse group of UK financial advice firms serving individuals and businesses. The main focus is on Middle Britain and contracts with 21 affinity groups are an important revenue and profit contributor. Wealth Advisory serves a high net worth client base, while Luceo Asset Management provides an in-house fund offering.

### Next events

FY18 trading update January 2019

### Analyst

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**Lighthouse Group is a research client of Edison Investment Research Limited**

**Exhibit 1: Financial summary**

Year end 31 December (£000s)	2015	2016	2017	2018e	2019e
<b>Profit and loss</b>					
National	16,074	15,717	19,840	21,368	23,184
Communities	23,978	23,780	24,452	23,181	22,181
Wealth Advisory	8,829	8,422	9,652	10,714	11,410
Other segments	0	0	166	409	731
<b>Total revenue</b>	<b>48,881</b>	<b>47,919</b>	<b>54,111</b>	<b>55,672</b>	<b>57,506</b>
Cost of sales	(34,057)	(33,452)	(39,439)	(40,625)	(41,551)
<b>Gross profit</b>	<b>14,824</b>	<b>14,467</b>	<b>14,672</b>	<b>15,046</b>	<b>15,955</b>
Underlying expenses	(13,214)	(12,180)	(11,485)	(11,530)	(12,146)
<b>Underlying EBITDA</b>	<b>1,610</b>	<b>2,287</b>	<b>3,187</b>	<b>3,516</b>	<b>3,809</b>
Share based payment	0	(79)	(385)	(385)	(385)
<b>EBITDA</b>	<b>1,610</b>	<b>2,208</b>	<b>2,802</b>	<b>3,131</b>	<b>3,424</b>
Depreciation and amortisation	(552)	(299)	(274)	(352)	(334)
<b>Operating profit</b>	<b>1,058</b>	<b>1,909</b>	<b>2,528</b>	<b>2,779</b>	<b>3,091</b>
Finance income	14	11	3	14	15
Finance costs	(206)	(27)	(10)	(32)	0
<b>Profit before taxation</b>	<b>866</b>	<b>1,893</b>	<b>2,521</b>	<b>2,761</b>	<b>3,106</b>
Taxation	0	750	200	0	(590)
Non-controlling interest	0	0	0	0	0
<b>Earnings</b>	<b>866</b>	<b>2,643</b>	<b>2,721</b>	<b>2,761</b>	<b>2,516</b>
Adjusted earnings	866	1,514	2,036	2,236	2,516
Basic EPS (p)	0.68	2.07	2.13	2.16	1.97
Dil EPS (p)	0.68	1.97	1.98	1.98	1.81
Adjusted EPS (p)	0.68	1.19	1.59	1.75	1.97
Dil adjusted EPS (p)	0.68	1.13	1.49	1.61	1.81
Dividends (p)	0.24	0.27	0.42	0.60	0.70
Dividend cover - dil adjusted EPS (x)	2.8	4.2	3.5	2.7	2.6
EBITDA margin (%)	3.3	4.6	5.2	5.6	6.0
Return on equity - adj earnings (%)	13.8	19.5	19.7	17.3	16.5
<b>Balance sheet</b>					
Non-current assets	6,555	7,220	7,478	7,594	7,610
Intangible assets	5,284	5,230	5,131	5,231	5,229
Property, plant & equipment	1,271	1,240	1,397	1,412	1,431
Available for sale investment	0	0	0	0	0
Deferred tax asset	0	750	950	950	950
<b>Current assets</b>	<b>21,655</b>	<b>17,505</b>	<b>16,920</b>	<b>17,601</b>	<b>19,579</b>
Trade and other receivables	13,266	9,004	8,187	8,423	9,051
Cash and cash equivalents	8,389	8,501	8,733	9,178	10,529
<b>Total assets</b>	<b>28,210</b>	<b>24,725</b>	<b>24,398</b>	<b>25,194</b>	<b>27,189</b>
Current liabilities	17,254	12,307	11,635	10,150	10,148
Borrowings	34	34	0	0	0
Trade and other payables	10,629	9,268	8,789	8,450	8,448
Provisions	6,591	3,005	2,846	1,700	1,700
Non-current liabilities	4,395	3,454	1,076	850	750
Borrowings	439	405	0	0	0
Provisions	3,956	3,049	1,076	850	750
<b>Total liabilities</b>	<b>21,649</b>	<b>15,761</b>	<b>12,711</b>	<b>11,000</b>	<b>10,898</b>
<b>Net assets</b>	<b>6,561</b>	<b>8,964</b>	<b>11,687</b>	<b>14,194</b>	<b>16,291</b>
<b>Cash flow</b>					
Operating profit	1,058	1,909	2,528	2,779	3,091
Depreciation and amortisation	552	299	274	352	334
Share-based payments	0	79	385	385	385
Change in receivables, payables	(2,415)	2,901	338	(575)	(629)
Change in provisions	2,270	(4,493)	(2,132)	(1,372)	(100)
Finance costs paid	(404)	(27)	(10)	(32)	0
Income taxes refunded/paid	0	0	0	0	(590)
<b>Net cash flow from operating activities</b>	<b>1,061</b>	<b>668</b>	<b>1,383</b>	<b>1,537</b>	<b>2,490</b>
Purchase of PPE	(119)	(126)	(307)	(243)	(200)
Purchase of intangibles	(69)	(88)	(25)	(225)	(150)
Finance income received	14	11	3	14	15
<b>Net cash flow from investing activities</b>	<b>(174)</b>	<b>(203)</b>	<b>(329)</b>	<b>(454)</b>	<b>(335)</b>
Dividends paid	(255)	(319)	(383)	(638)	(805)
Change in loans	(1,307)	(34)	(439)	0	0
<b>Net cash flow from financing activities</b>	<b>(1,562)</b>	<b>(353)</b>	<b>(822)</b>	<b>(638)</b>	<b>(805)</b>
Change in cash	(675)	112	232	445	1,351
Change in loans/other	1,505	34	439	0	0
Change in net cash	830	146	671	445	1,351
Closing net cash	7,916	8,062	8,733	9,178	10,529

Source: Lighthouse Group, Edison Investment Research

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