

Lighthouse Group

On course

Lighthouse has confirmed that it is on course to meet board expectations for EBITDA and pre-tax profit for 2018, continuing the progress it made during the first half of the year. The potential to achieve good long-term growth through meeting the need for financial advice, particularly in the affinity business, remains in place.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	47.9	1.9	1.13	0.27	22.0	1.1
12/17	54.1	2.5	1.49	0.42	16.8	1.7
12/18e	55.7	2.8	1.61	0.60	15.5	2.4
12/19e	57.5	3.1	1.81	0.70	13.8	2.8

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

Profits meeting expectations

In its year-end trading update, Lighthouse confirmed that it expects to report EBITDA and profit before tax in line with board expectations. Revenue production per adviser and recurring revenue (over 50% of customer-derived revenue) have continued to increase. Our forecasts are unchanged with 2018 pre-tax profit and EPS expected to increase by 9.5% y-o-y and 8% y-o-y, respectively. Reflecting a strong balance sheet, the interim dividend was stepped up from 0.12p to 0.20p and we are assuming 0.60p for the full year. During the second half, Lighthouse announced a new affinity contract following the merger of two teaching unions (ATL and NUT) to form the National Education Union. While Lighthouse was already preferred supplier of financial advice to the ATL, the NUT added a further 336,000 members and the contract underlined the group's strong position with affinity groups. A [strategic agreement](#) with Tavistock Investments was also reached, which will broaden the Luceo Asset Management product offering and help increase its scale.

Long-term outlook remains appealing

A more volatile market background could have some effect on individuals' propensity to seek financial advice (both positive and negative), but the key longer-term drivers of demand growth remain in place: an ageing population, and increased choices and responsibility for pension accumulation and decumulation. Lighthouse appears well-placed to address this opportunity with a particular focus on developing business through its affinity relationships.

Valuation: Substantial upside

Lighthouse shares are up by over 25% on a 12-month view, but have corrected by a similar amount since their mid-2018 high. On unchanged estimates, our DCF valuation also remains unchanged at 44p, suggesting substantial potential upside from the current price.

Year-end trading update

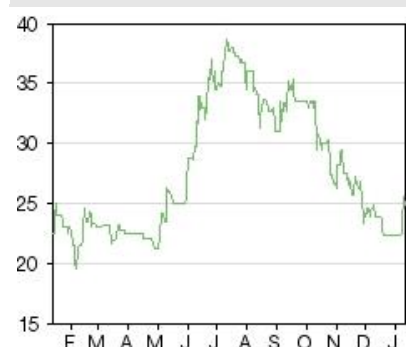
Financial services

11 January 2019

Price 24.9p
Market cap £32m

Net cash (£m) at end-June 2018 9.6
Shares in issue 127.7m
Free float (not in public hands per AIM rule 26, 31 October 2018) 50%
Code LGT
Primary exchange AIM
Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.0	(21.7)	25.8
Rel (local)	(3.5)	(19.2)	40.6
52-week high/low		38.7p	19.5p

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 event

FY18 results February 2019

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Exhibit 1: Financial summary

Year-end 31 December (£000s)	2015	2016	2017	2018e	2019e	2020e
Profit and loss						
National	16,074	15,717	19,840	21,368	23,184	24,923
Communities	23,978	23,780	24,452	23,181	22,181	21,935
Wealth Advisory	8,829	8,422	9,652	10,714	11,410	11,867
Other segments	0	0	166	409	731	1,013
Total revenue	48,881	47,919	54,111	55,672	57,506	59,736
Cost of sales	(34,057)	(33,452)	(39,439)	(40,625)	(41,551)	(42,866)
Gross profit	14,824	14,467	14,672	15,046	15,955	16,870
Underlying expenses	(13,214)	(12,180)	(11,485)	(11,530)	(12,146)	(12,669)
Underlying EBITDA	1,610	2,287	3,187	3,516	3,809	4,201
Share based payment	0	(79)	(385)	(385)	(385)	(385)
EBITDA	1,610	2,208	2,802	3,131	3,424	3,816
Depreciation and amortisation	(552)	(299)	(274)	(352)	(334)	(326)
Operating profit	1,058	1,909	2,528	2,779	3,091	3,489
Finance income	14	11	3	14	15	20
Finance costs	(206)	(27)	(10)	(32)	0	0
Profit before taxation	866	1,893	2,521	2,761	3,106	3,509
Taxation	0	750	200	0	(590)	(667)
Non-controlling interest	0	0	0	0	0	0
Earnings	866	2,643	2,721	2,761	2,516	2,843
Adjusted earnings	866	1,514	2,036	2,236	2,516	2,843
Basic EPS (p)	0.68	2.07	2.13	2.16	1.97	2.23
Dil EPS (p)	0.68	1.97	1.98	1.98	1.81	2.04
Adjusted EPS (p)	0.68	1.19	1.59	1.75	1.97	2.23
Dil adjusted EPS (p)	0.68	1.13	1.49	1.61	1.81	2.04
Dividends (p)	0.24	0.27	0.42	0.60	0.70	0.77
Dividend cover - dil adjusted EPS (x)	2.8	4.2	3.5	2.7	2.6	2.6
EBITDA margin (%)	3.3	4.6	5.2	5.6	6.0	6.4
Return on equity - adj earnings (%)	13.8	19.5	19.7	17.3	16.5	16.0
Balance sheet						
Non-current assets	6,555	7,220	7,478	7,594	7,610	7,583
Intangible assets	5,284	5,230	5,131	5,231	5,229	5,205
Property, plant & equipment	1,271	1,240	1,397	1,412	1,431	1,428
Available for sale investment	0	0	0	0	0	0
Deferred tax asset	0	750	950	950	950	950
Current assets	21,655	17,505	16,920	17,601	19,579	22,667
Trade and other receivables	13,266	9,004	8,187	8,423	9,051	9,602
Cash and cash equivalents	8,389	8,501	8,733	9,178	10,529	13,066
Total assets	28,210	24,725	24,398	25,194	27,189	30,251
Current liabilities	17,254	12,307	11,635	10,150	10,148	10,276
Borrowings	34	34	0	0	0	0
Trade and other payables	10,629	9,268	8,789	8,450	8,448	8,576
Provisions	6,591	3,005	2,846	1,700	1,700	1,700
Non-current liabilities	4,395	3,454	1,076	850	750	750
Borrowings	439	405	0	0	0	0
Provisions	3,956	3,049	1,076	850	750	750
Total liabilities	21,649	15,761	12,711	11,000	10,898	11,026
Net assets	6,561	8,964	11,687	14,194	16,291	19,224
Cash flow						
Operating profit	1,058	1,909	2,528	2,779	3,091	3,489
Depreciation and amortisation	552	299	274	352	334	326
Share-based payments	0	79	385	385	385	385
Change in receivables, payables	(2,415)	2,901	338	(575)	(629)	(423)
Change in provisions	2,270	(4,493)	(2,132)	(1,372)	(100)	0
Finance costs paid	(404)	(27)	(10)	(32)	0	0
Income taxes refunded/paid	0	0	0	0	(590)	(667)
Net cash flow from operating activities	1,061	668	1,383	1,537	2,490	3,111
Purchase of PPE	(119)	(126)	(307)	(243)	(200)	(180)
Purchase of intangibles	(69)	(88)	(25)	(225)	(150)	(120)
Finance income received	14	11	3	14	15	20
Net cash flow from investing activities	(174)	(203)	(329)	(454)	(335)	(280)
Dividends paid	(255)	(319)	(383)	(638)	(805)	(294)
Change in loans	(1,307)	(34)	(439)	0	0	0
Net cash flow from financing activities	(1,562)	(353)	(822)	(638)	(805)	(294)
Change in cash	(675)	112	232	445	1,351	2,537
Change in loans/other	1,505	34	439	0	0	0
Change in net cash	830	146	671	445	1,351	2,537
Closing net cash	7,916	8,062	8,733	9,178	10,529	13,066

Source: Lighthouse Group, Edison Investment Research

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