

Record

Business update

Growing pipeline of potential US mandates

Record is reducing the average fees it will charge both new and existing dynamic hedging clients, to compete effectively for new business in the large US market and maintain its policy of charging similar fees for similar mandates. Fees and profits on existing business will be lower, but Record is hopeful this can be more than offset by new mandate wins in a reasonably short time period. Our new forecasts reflect the impact on existing business and will only include new business when announced.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 03/12 | 20.3 | 7.0 | 2.3 | 1.5 | 12.8 | 5.1 |
| 03/13 | 18.3 | 6.1 | 2.1 | 1.5 | 14.0 | 5.1 |
| 03/14e | 19.7 | 6.7 | 2.3 | 1.5 | 12.8 | 5.1 |
| 03/15e | 20.6 | 7.1 | 2.5 | 1.6 | 11.8 | 5.4 |

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

Improving pipeline of US mandates

The increase in new business enquiries and procurement processes from the US continues. Our October [initiation note](#) highlighted the growing opportunity in the US market, where investors with globally diversified portfolios have the opportunity to reduce volatility and protect currency returns built up over the past decade. Some of the mandates that are out to tender have set timelines for completion, suggesting progress could be made by the end of the current fiscal year.

Avoiding dual pricing

The scale of opportunity in the large US market is attracting competition and creating some fee pressure. Record's policy of charging similar fees for similar mandates has led it to pre-empt the issue by slightly reducing fees to existing dynamic hedging clients, on average from c 17bp to c 14bp in a full year; dynamic hedging AUME needs to increase by c \$2.5bn to offset this, a fraction of the size of the some of the mandates currently out to tender.

Existing business estimates lowered

Without compensating new business, fee income reduces by £2.6m and PBT by £1.8m in a full year, reflected in our new forecasts for the existing business. FY14e is affected for five months (revenues -£1.1m, PBT -£0.8m). This is partially offset by a larger increase in passive hedging AUME than we had forecast (\$12bn since September 2013, including one large mandate that now exceeds the \$8-10bn previously indicated). Overall, FY14e and 15e EPS reduce by 8% and 15% respectively. We will fully update our forecasts with H114 results due next week.

Valuation: Does not assume any new mandate wins

With the estimate reduction, our valuation of the existing business (assuming no new mandate wins) falls from 37p to 33p. Record currently trades on a 21% CY14e P/E discount to smaller UK asset managers.

Investment companies

8 November 2013

Price **29.5p**

Market cap **£65m**

US\$/£1.5774

Net cash (£m) 25.4

Shares in issue 221.4m

Free float 47%

Code REC

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (10.8) (22.2) 7.4

Rel (local) (14.3) (24.4) (8.8)

52-week high/low 38.00p 26.00p

Business description

Record is a specialist currency manager, providing currency hedging and return-seeking mandates to institutional clients. Services include passive and dynamic hedging and return-seeking currency strategies via funds or segregated accounts.

Next events

H1 results 15 November 2013

Q3 trading update 17 January 2014

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[Edison profile page](#)

Exhibit 1: Financial summary

| Record | £'000s | 2011 | 2012 | 2013 | 2014e | 2015e |
|---|--------|----------|----------|----------|----------|----------|
| March | | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | |
| Revenue | | 28,094 | 20,283 | 18,331 | 19,715 | 20,563 |
| Operating expenses | | (15,549) | (13,324) | (12,060) | (12,947) | (13,424) |
| EBITDA (norm) | | 12,545 | 6,959 | 6,271 | 6,768 | 7,138 |
| Depreciation & amortisation | | (191) | (106) | (283) | (220) | (185) |
| Operating profit (norm) | | 12,354 | 6,853 | 5,988 | 6,549 | 6,953 |
| Goodwill and amortisation of acquired intangibles | | 0 | 0 | 0 | 0 | 0 |
| Exceptionals | | (1) | (299) | (68) | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Operating Profit | | 12,353 | 6,554 | 5,920 | 6,549 | 6,953 |
| Net Interest | | 184 | 155 | 158 | 180 | 192 |
| Profit Before Tax (norm) | | 12,538 | 7,008 | 6,146 | 6,728 | 7,145 |
| Profit Before Tax (FRS 3) | | 12,537 | 6,709 | 6,078 | 6,728 | 7,145 |
| Tax | | (3,603) | (1,803) | (1,450) | (1,605) | (1,705) |
| Profit After Tax (norm) | | 8,935 | 5,125 | 4,680 | 5,123 | 5,441 |
| Profit After Tax (FRS 3) | | 8,934 | 4,906 | 4,628 | 5,123 | 5,441 |
| | | | | | | |
| Average Diluted Shares Outstanding (m) | | 221.3 | 220.3 | 219.1 | 219.1 | 219.1 |
| Basic EPS - Company reported | | 4.0 | 2.2 | 2.0 | 2.3 | 2.5 |
| Diluted EPS - Company reported | | 4.0 | 2.2 | 2.0 | 2.3 | 2.5 |
| Adjusted diluted EPS - Edison | | 4.0 | 2.3 | 2.1 | 2.3 | 2.5 |
| Dividend per share - proposed (p) | | 4.6 | 1.5 | 1.5 | 1.5 | 1.6 |
| | | | | | | |
| Revenue Margin - AM (%) | | 14.3 | 11.3 | 8.5 | 7.4 | 6.4 |
| EBITDA Margin norm. (%) | | 44.5 | 32.4 | 33.4 | 33.9 | 34.3 |
| Operating Margin norm. (%) | | 43.8 | 33.4 | 32.3 | 32.8 | 33.4 |
| BALANCE SHEET | | | | | | |
| Fixed Assets | | 4,404 | 2,398 | 1,108 | 937 | 792 |
| Intangible Assets | | 1,085 | 1,140 | 963 | 813 | 687 |
| Tangible Assets | | 227 | 183 | 140 | 118 | 100 |
| Investments | | 3,092 | 1,075 | 5 | 5 | 5 |
| Current Assets | | 31,632 | 29,675 | 34,637 | 36,849 | 39,273 |
| Debtors | | 6,904 | 5,070 | 5,569 | 5,989 | 6,247 |
| Cash | | 24,728 | 24,572 | 29,025 | 30,816 | 32,983 |
| Other | | 0 | 33 | 43 | 43 | 43 |
| Long Term Liabilities | | 0 | (15) | 0 | 0 | 0 |
| Long term borrowings | | 0 | 0 | 0 | 0 | 0 |
| Other long term liabilities | | 0 | (15) | 0 | 0 | 0 |
| Current Liabilities | | (5,938) | (3,442) | (3,457) | (3,657) | (3,779) |
| Creditors | | (4,089) | (2,494) | (2,672) | (2,872) | (2,994) |
| Short term borrowings | | 0 | 0 | 0 | 0 | 0 |
| Other | | (1,849) | (948) | (785) | (785) | (785) |
| Net Assets | | 30,098 | 28,616 | 32,288 | 34,128 | 36,286 |
| CASH FLOW | | | | | | |
| Operating cash flow | | 8,241 | 2,393 | 5,609 | 5,122 | 5,491 |
| Capex | | (85) | (52) | (63) | (48) | (41) |
| Cash flow from investing activities | | (491) | 93 | 149 | 0 | 0 |
| Dividends | | (5,723) | (7,371) | (1,645) | (3,283) | (3,283) |
| Other financing activities | | 925 | 784 | 403 | 0 | 0 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Net Cash Flow | | 2,867 | (4,153) | 4,453 | 1,791 | 2,167 |
| | | | | | | |
| Opening unrestricted net debt/(cash) | | (21,861) | (23,728) | (22,372) | (25,425) | (27,216) |
| Decrease / (increase) debt | | 0 | 0 | 0 | 0 | 0 |
| Other | | 1,000 | (2,797) | 1,400 | 0 | 0 |
| Closing unrestricted net debt/(cash) | | (23,728) | (22,372) | (25,425) | (27,216) | (29,383) |
| | | | | | | |
| FUM | | | | | | |
| Opening FUM | | 34 | 31 | 31 | 35 | 50 |
| Net new money flows | | (4) | 0 | 2 | 14 | 0 |
| Investment performance | | 1 | (1) | 2 | 2 | 1 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Closing FUM | | 31 | 31 | 35 | 50 | 52 |

Source: Company data, Edison Investment Research

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