

# Record

## Market trends help but costs and forex hinder

Record's second quarter update showed an increase in dollar denominated AUME to a new high of over \$60bn. Flows were modestly negative but this was well within the normal range of quarterly volatility; the main reasons for a moderate reduction in our earnings estimates are the currency-related reduction in sterling AUME and increased costs to enhance customer service and deal with regulatory changes. After recent weakness the shares trade on below average earnings multiples and offer an attractive yield.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS** (p)	P/E (x)	Yield** (%)
03/16	21.2	7.0	2.54	1.65	17.8	3.6
03/17	23.1	7.9	2.90	2.00	15.6	4.4
03/18e	24.6	8.1	3.11	2.10	14.5	4.6
03/19e	25.0	8.2	3.30	2.20	13.7	4.9

Note: \*PBT and EPS exclude non-controlling interests relating to seed investments and EPS are diluted. \*\*Prospective DPS excludes special dividends.

## Q218 update

In its second quarter update Record reported that in US dollar terms AUME reached \$61.2bn at end September, an increase of 2.2% since the end of June. Dollar weakness over the period resulted in a small reduction in AUME in sterling terms to £45.6bn (£46.1bn end June). Flows during the quarter were modestly negative (-1.7% or \$1bn) while positive movements in global equity and other markets added \$2bn to AUME with FX movements contributing a further \$0.2bn to the dollar-denominated figure. Record has continued to invest in enhancing its service to customers and addressing regulatory changes such as the EMIR-mandated requirement for clients to post collateral against currency positions. This has resulted in some increase in headcount and costs that, together with the reduction in sterling AUME and operational gearing, has resulted in a reduction in our earnings estimates of c 8%.

## Outlook

While near-term estimates are trimmed by this combination of currency movements and investment to support enhanced products, on a longer view the focus on client service and the uncertain global macro background (and hence potential volatility) are positive factors in retaining and adding further clients. Currency-for-return products account for less than 10% of AUME and fees at the current run rate but have, as a group, continued to generate positive returns creating the basis for attracting additional allocations over time.

## Valuation

Record stands on below average P/E and EV/EBITDA multiples when compared with a group of UK asset managers (page 4). The company remains well capitalised with cash and money market instruments of c £20m at end March after adjusting for the £10m tender offer in July. It is therefore well placed to follow its progressive dividend policy and currently offers an attractive yield of nearly 5%.

## Q218 trading update

### Financial services

25 October 2017

**Price** 45.25p  
**Market cap** £90m

Net cash and money market instruments (£m) at 31 March 2017, excluding cash consolidated from seed funds and adjusted for the July tender offer. 19.2

Shares in issue 199.1m

Free float 32%

Code REC

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(7.7)	4.3	66.8
Rel (local)	(10.3)	2.2	53.3
52-week high/low		52.5p	26.5p

### Business description

Record is a specialist independent currency manager that provides a number of products and services, including passive and dynamic hedging, and a range of currency for return strategies, including funds and customised segregated accounts.

### Next events

H118 results	17 November 2017
Q318 update	19 January 2018

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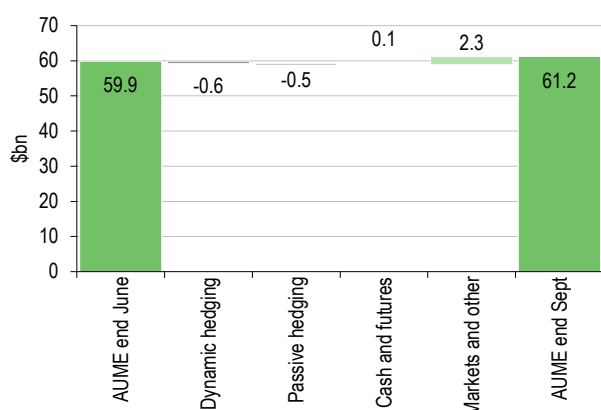
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## Second quarter trading update

Key points from the Q218 update were as follows.

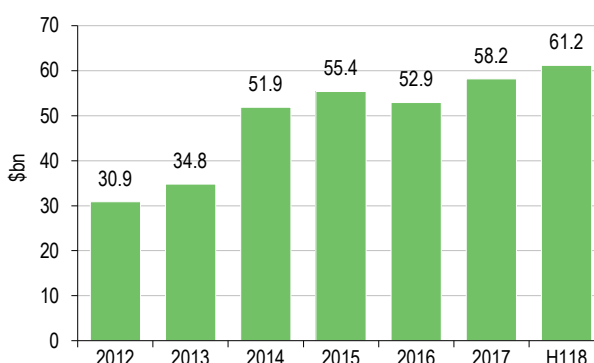
- AUME in dollar terms increased from \$59.9bn at end June to \$61.2bn at end September (+2.2%).
- AUME in sterling terms was slightly down (-1.1%), reflecting dollar weakness.
- There was a net outflow of \$1bn including \$0.6bn for dynamic hedging and \$0.5bn for passive hedging. There was a \$0.1m positive movement on cash and futures.
- Market and other movements increased AUME by \$2.3bn including \$2bn from equity and other market movements, \$0.2bn from FX movements relating to non-US dollar mandates and a \$0.1bn scaling up of AUME within currency-for-return products for mandates with a volatility target. Such scaling (upwards or downwards) in these mandates does not result in a change in fees.
- Exhibit 1 summarises these changes and illustrates the relatively modest scale of the moves during the quarter. Exhibit 2 shows the longer-term evolution of AUME.
- A further rough indicator of progress is the number of clients which stood at 59 compared with 58 in June this year and 48 at the end of FY14. This number is based on separate legal entities which can result in lumpy movements if several linked mandates are added or subtracted. In this period one client left (UK dynamic hedging as noted previously) and two joined. Prospectively, there may be some reduction in client numbers as smaller mandates terminate following implementation of the rules requiring collateral to be posted against FX positions.
- Fee rates remain broadly stable and there were no performance fees in the quarter.
- Record notes that it has continued to invest in personnel to support innovation and enhanced products. There are also costs relating to regulatory change including EMIR and related collateral management and, to a limited extent MiFID II, as Record will absorb research costs itself.

**Exhibit 1: Q218 AUME change analysis**



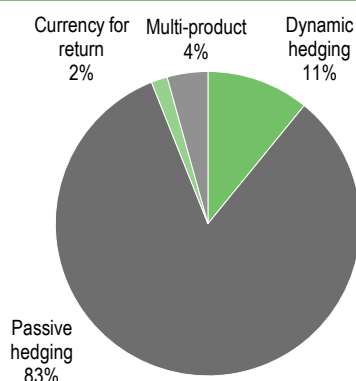
Source: Record, Edison Investment Research

**Exhibit 2: Longer-term AUME progression**

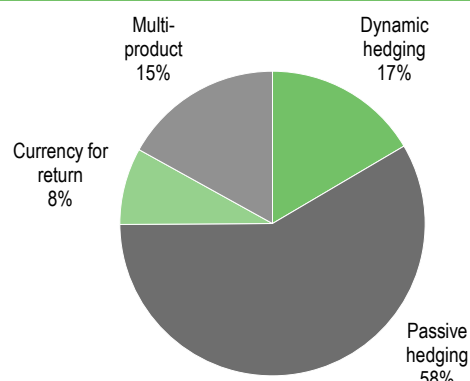


Source: Record, Edison Investment Research

As a reminder we have included Exhibits 3 and 4 which show the composition of AUME and revenues by segment (the latter is based on indicative fee margins and AUME at the end Q218). The difference between the charts reflects the lower fees rates that apply for passive mandates in particular that nevertheless account for nearly 60% of revenues. Passive mandates also tend to be stickier than other mandates and with more than half of passive AUME based in Switzerland the opening of Record's Zurich office makes sense and should help strengthen existing and establish new relationships.

**Exhibit 3: AUME composition by segment**


Source: Record, Edison Investment Research

**Exhibit 4: Revenue by segment**


Source: Record, Edison Investment Research

Performance for most strategies within currency for return was positive during the quarter with the multi-strategy product (ungeared) showing a positive return of 0.08% with the annualised performance since inception (end July 2012) being +1.52%.

## Financials

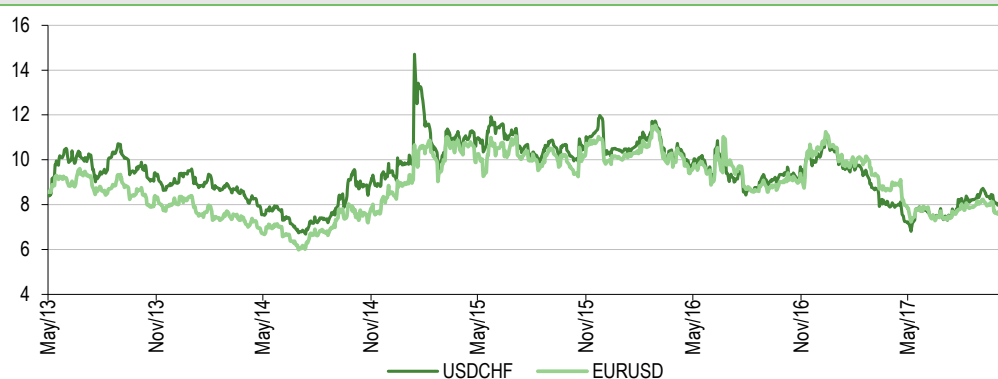
Reflecting the modest reduction in sterling denominated AUME since the beginning of the year, we have trimmed our revenue assumptions for this year and next by 2%. The combination of operational gearing and an allowance for a slightly higher headcount means that our pre-tax profit and earnings per share estimates are reduced by 8% for both forecast years (see Exhibit 5).

**Exhibit 5: Estimate changes**

	Revenue* (£m)			%	PBT* (£m)			%	EPS (p)			%	DPS (p)			%
	Old	New	chg		Old	New	chg		Old	New	chg		Old	New	chg	
03/18e	25.1	24.6	-2%		8.8	8.1	-8%		3.39	3.11	-8%		2.10	2.10	0%	
03/19e	25.6	25.0	-2%		9.0	8.2	-8%		3.59	3.30	-8%		2.20	2.20	0%	

Source: Record, Edison Investment Research. Note: \*Normalised

As in previous estimates we allow for market appreciation of 2% per annum in the hedging mandates to allow for market exposure but do not factor in any incremental mandate wins or losses or changes in asset allocation within existing mandates. There could be significant variation from these assumptions subject to market conditions and success in adding new clients. While currency volatility has recently been relatively subdued (Exhibit 6) the global macroeconomic and geopolitical background continues to highlight the potential for significant surprises and hence spikes in volatility creating a favourable environment for conversations with potential clients.

**Exhibit 6: Implied volatility for one year at the money options CHF and EUR versus USD**


Source: Bloomberg. Note: CHF = Swiss franc, EUR = euro, USD = US\$.

## Valuation

We have updated our comparative table which shows P/Es and EBITDA multiples for Record and a selection of UK asset managers. As usual the caveat here is that Record is differentiated by its specialist service offering but AUME is in part linked to stock and other market levels and fees generally depend on the level of AUME, as for conventional asset managers with AUM.

Record trades on below average earnings and EBITDA multiples (Exhibit 7) and, with earnings set to be largely distributed, offers an attractive yield (prospective yield approaching 5%).

**Exhibit 7: Earnings and EBITDA multiples for UK fund managers**

	Price (local)	Market capitalisation (£m)	P/E (x)	EV/EBITDA (x)
Aberdeen Asset Management	434.0	12,922	14.2	N/A
Ashmore	380.0	2,708	17.3	12.0
City of London Inv Group	405.0	109	10.6	8.1
Impax Asset Management	149.0	190	26.7	39.3
Janus Henderson	35.2	5,353	14.8	11.3
Jupiter	589.5	2,698	17.0	13.7
Liontrust	497.0	246	18.0	18.6
Man Group	189.3	3,129	11.8	Loss
Polar Capital	475.3	441	18.0	18.9
Schroders	3482.0	9,284	16.8	16.6
<b>Average</b>			<b>16.5</b>	<b>17.3</b>
<b>Record</b>	<b>43.3</b>	<b>86</b>	<b>14.9</b>	<b>6.7</b>

Source: Bloomberg, Edison Investment Research. Note: Using calendar 2017 estimated earnings and last reported EBITDA. Priced as at 24 October 2017.

**Exhibit 8: Financial summary**

£'000s	2015	2016	2017	2018e	2019e
March	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue (underlying)	20,865	21,246	23,128	24,578	25,005
Revenue	21,057	21,134	23,928	24,578	25,005
Operating expenses	(13,521)	(14,344)	(15,365)	(16,564)	(16,867)
Operating Profit (before amort. and except.)	7,536	6,790	8,563	8,014	8,138
Finance income	146	143	112	64	109
Profit Before Tax	7,682	6,933	8,675	8,079	8,247
Taxation	(1,708)	(1,523)	(1,540)	(1,616)	(1,649)
Minority interests	(192)	131	(819)	0	0
Attributable profit	5,782	5,541	6,316	6,463	6,598
<b>Normalised revenue (underlying)</b>					
Normalised revenue (underlying)	20,865	21,246	23,128	24,578	25,005
Operating expenses (excl. dep'n and amortisation)	(13,206)	(14,023)	(15,023)	(16,235)	(16,538)
Normalised EBITDA	7,659	7,223	8,105	8,343	8,467
Depreciation and amortisation	(315)	(321)	(342)	(329)	(329)
Normalised Operating profits	7,344	6,902	7,763	8,014	8,138
Finance income	146	143	112	64	109
Profit Before Tax (norm)	7,490	7,045	7,875	8,079	8,247
<b>Normalised revenue/AUME (excl. perf fees) bps</b>					
Normalised revenue/AUME (excl. perf fees) bps	6.0	5.4	6.0	5.7	5.6
<b>Normalised operating margin (%)</b>					
Normalised operating margin (%)	35.2	32.5	33.6	32.6	32.5
<b>Average Diluted Shares Outstanding (m)</b>					
Average Diluted Shares Outstanding (m)	218.4	217.9	218.0	207.5	200.1
<b>Basic EPS (p)</b>					
Basic EPS (p)	2.66	2.55	2.91	3.13	3.31
<b>EPS - normalised (p)</b>					
EPS - normalised (p)	2.65	2.54	2.90	3.11	3.30
<b>Dividend per share (p)</b>					
Dividend per share (p)	1.65	1.65	2.00	2.10	2.20
<b>Special dividend per share (p)</b>					
Special dividend per share (p)	0.00	0.00	0.91	1.03	1.11
<b>Total dividend (p)</b>					
Total dividend (p)	1.65	1.65	2.91	3.13	3.31
<b>BALANCE SHEET</b>					
Fixed Assets	3,273	423	1,228	1,129	1,030
Intangible Assets	504	299	245	115	(15)
Tangible Assets	129	81	881	912	943
Investments	2,567	0	0	0	0
Deferred tax assets	73	43	102	102	102
Current Assets	37,053	40,541	44,247	34,104	34,527
Debtors	6,324	5,695	6,972	7,409	7,538
Cash	12,010	21,720	19,120	8,540	8,834
Money market instruments	18,100	13,020	18,102	18,102	18,102
Other	619	106	53	53	53
Current Liabilities	(4,522)	(3,256)	(3,865)	(4,102)	(4,158)
Creditors	(2,949)	(2,372)	(3,013)	(3,202)	(3,258)
Other	(1,573)	(884)	(852)	(900)	(900)
Net Assets	35,804	37,708	41,610	31,131	31,399
Minority interests	3,876	4,019	4,779	4,779	4,779
Net assets attributable to ordinary shareholders	31,928	33,689	36,831	26,352	26,620
No of shares at year end	217.5	217.2	221.4	199.1	199.1
NAV per share p	14.7	15.5	16.6	13.2	13.4
<b>CASH FLOW</b>					
Operating Cash Flow	6,472	5,509	7,166	6,527	6,744
Capex	(128)	(29)	(899)	(130)	(130)
Cash flow from investing activities	0	(39)	(189)	(100)	(100)
Dividends	(3,266)	(3,750)	(3,592)	(6,942)	(6,329)
Other financing activities	(2,571)	7,737	(5,222)	(9,936)	109
Other	0	282	136	0	0
Net Cash Flow	507	9,710	(2,600)	(10,580)	294
Opening cash/(net debt)	11,503	12,010	21,720	19,120	8,540
Other	0	0	0	0	0
Closing net (debt)/cash	12,010	21,720	19,120	8,540	8,834
Closing net debt/(cash) inc money market instruments	30,110	34,740	37,222	26,642	26,936
<b>AUME</b>					
Opening (\$'bn)	51.9	55.4	52.9	58.2	58.29
Net new money flows	2.9	(1.4)	3.1	(1.0)	0.0
Market/other	0.6	(1.1)	2.2	1.1	1.1
Closing (\$'bn)	55.4	52.9	58.2	58.3	59.4

Source: Company accounts, Edison Investment Research

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