

TEAM plc

High organic growth, and now going Strategic.

TEAM is all about building a machine in Jersey that can successfully deliver outperformance (as it is doing in spades- see below) and diversification for expats in Asia, Africa and the Middle East, clients found where the wealthy are increasingly going, who trust both in Jersey and in a London-listed company. As the client assets flow in, as they have started to do these last six months, even before unitisation of the main investment products, TEAM shareholders will benefit from a cost structure that ensures high operating leverage, and so rising profitability. The challenge has always been to access the right funding, in a world of outflows from UK equity funds, such that TEAM can blast its way to breakeven and beyond. H1 has seen big steps in the right direction, with the raising of £1.3m in new equity and £0.5m from a convertible loan note. The company has a £1.5m cash balance.

Strategic discussions ongoing

The company has now raised some £9.4m, and we believe it has visibility to cash break-even, however it is clear that “Further external funding will be required to see the business through to a cash flow positive state and to fund all deferred consideration payments”. The company is consequently in “advanced discussions” with a strategic / financial investor “for additional funding and deeper collaboration”. We have noted previously the experience of senior management, and that the founder and the principal of the International division have between them 21% of the company.

H1 results show AUM/A up to £916m, with £321m being managed by TEAM

We detail the results overleaf, but the short version is: 10% organic growth from net new money, taking AUMA to £916m, revenues more than doubling and a PBT loss of £1.0m. £97m is already in the Model Portfolio Service (MPS), and the marginal cost of managing further assets in those portfolios is close to zero. The company guides that a further £100m in the MPS would take the Investment management division to breakeven. TEAM International, formed from the 2023 acquisitions of Globaleye and Neba, now has 42 self-employed, highly incentivised advisers, and growing. It is important to note that this growth was achieved before the company had a unitised version of its MPS to offer to clients coming in from TEAM international, as is scheduled for H2.

Expectations

We model a 47% 4-year CAGR in assets managed by the Investment Management division, leading to a 26% revenue CAGR. We see the breakeven point as some 9-12 months away. We have 2.9p EPS in FY '26 and 5.5p in '27.

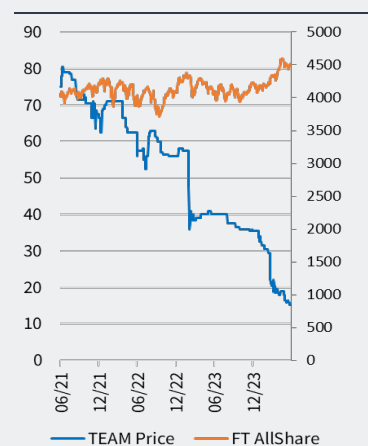
Valuation

We see TEAM at 5.3x September 2026 earnings and 2.8x 2027. The current share price implies some mix of the company not attracting the assets to make it to profitability, and being diluted along the way. Our forecasts however drive a fair value of 70p per share, almost 5x the current share price, based on a DCF analysis, using a 10% WACC and only 16% medium term growth, while our explicit forecasts have a 26% revenue CAGR 2023-2027E. The drop-through in this industrial model, with client assets flowing to a largely fixed cost investment management machine in Jersey, means that each subsequent year's cashflows is very material to the bottom line.

GICS Sector	Diversified Financials
Ticker	TEAM
Market cap. (£m)	6.0
Share price (p)	15.25
Target Valuation (p)	70

+359%

Upside from current share price to our fair value



Source: Bloomberg

Ben Williams

Director, Financials Research

T +44-207-907-8583

E bw@hannam.partners

Roger Bell

Managing Director, Research

T +44-207-907-8534

E rb@hannam.partners

H&P Advisory Ltd
7-10 Chandos Street
London W1G 9DQ

H1 results

- AuA/M +87% YoY to £916m, with AuM £321m, +31% and AUA £595m, +142%.
- Advisers now 42 in number, +320%
- Organic growth rate 19%, with net inflows £139m
- AuA also driven by the previously-announced acquisition of Neba, bringing £84m AuA.
- Revenue £4.1m, +116%
- Gross profit £2.6m, +57%, Loss before tax £1.0m
- Indirect costs (staff, office, technology) were down 2% ex the growth of the International division

Investment & Fund Management Division

- Model portfolio AuM +372% to £97 million
- MPS performance seems excellent to our eyes, with outperformance against their respective benchmarks for all three main strategies (Multi Asset Growth, Multi Asset Balanced and Multi Asset Cautious), over all of 3 months, 1, 3 and 5 years.
- Revenue £0.6m, +23%.
- Indirect costs reduced by 9% following FY23 cost control measures
- Loss before tax £228k, down from £404k in the prior period
- The company guides that another c.£100m in the MPS will see this division hit profitability, given an average MPS management fee of c. 0.3%.

Advice & Consultancy Division

- Advisory revenue £1.0m, +3% adjusted for the JCAP settlement in the prior period
- The company guides that there are signs client activity is picking up

International Division

- PBT loss £305k
- Former Globaleye and Neba businesses now operating as one entity under the Neba Private Clients brand
- New leadership team in place. Office costs reduced 50%.
- Breakeven expected in H2 and a positive contribution in FY25.

Corporate/ Balance Sheet

- In advanced discussions with a strategic / financial investor
- Acquisition of Neba Singapore and Neba Malaysia for £1.2 million settled in new TEAM plc shares
- Fund raise of £1.8 million (after period end), £1.3 million in new equity, £0.5m in a convertible loan note

Near-term plans

- In H2 the company will launch a unitised version of the Model Portfolio Service (MPS), which they believe key to key for gathering assets from Team International's AuA, where it is in third party products, into the MPS.

Guidance

- Rate of net inflows is “expected to step up in H1’25 on launch of unitised models (Oct 2024)”
- Significant self-employed adviser recruitment in International will boost revenues, and AuM flows
- The company has also provided detailed cash flow guidance of:

1. Loan notes due December 2024, 100% expected to be rolled over for 12-24 months
2. Deferred consideration payments due for Omega (H1 25) for £0.1m cash and £0.3m shares, with final £1.0m deferred until JFSC complete their review (2025-7)
3. Cash consideration for Neba shareholders of £0.3m due in H2 24

Analysis

As the company says, the core business is stable and growing, and has been supported by rising markets, adding 3.7% to starting AUM/A. Net inflows of some 10% of starting assets are impressive against a UK-listed peer group, but not yet the full-throttle acceleration that we anticipate once the MPS has been unitised for TEAM International clients.

Performance of the MPS strategies is remarkably strong, Below we show outperformance against the strategies' respective benchmarks.

MPS strategies all outperforming

to 31.3.24	3M	1Y	3Y	5Y
Multi Asset Growth	1.8%	1.0%	6.3%	9.6%
Multi Asset Balanced	3.5%	2.7%	9.6%	6.2%
Multi Asset Cautious	3.4%	2.7%	10.3%	7.3%

Source: Company presentation

We continue to believe that the combination of a Crown Dependency base, with its high asset security and low taxation, and distribution through self-employed advisers in Middle East, East Asia and Eastern and Southern Africa, that that is a special creation. The company has now made and integrated eight acquisitions, and the focus is now more on organic adviser recruitment.

It was pleasing to see good underlying cost control in H1, giving confidence of reducing operating losses in H2. We have indirect costs almost £300k lower H2 on H1, meaning an operating loss forecast for H2 of c. £600k rather than the £1m in H1. In FY25 we see positive EBITDA.

We have taken our expectations for net new money back following conversations with management, but still look for almost £0.5bn of net new money next year, driven by the TEAM International adviser force.

Our revenue assumptions have reduced slightly this year and in the out years, but this is more than outweighed by lower operating costs next year, such that our previously-anticipated £0.3m PBT loss in FY25 becomes much smaller.

Changes to estimates

	New			Old			Change		
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
AuM/A growth	120	495	480	306	661	822	-61%	-25%	-42%
Total AuM/A	943	1438	1918	1278	1730	2272	-26%	-17%	-16%
Revenue	8.0	10.3	11.9	8.4	10.6	12.7	-5%	-2%	-6%
Direct costs	-2.6	-3.4	-3.5	-2.9	-3.4	-3.6	-10%	-1%	-3%
Operating costs	-6.9	-6.8	-6.9	-6.8	-7.3	-7.7	2%	-7%	-10%
EBITDA, underlying	-1.6	0.1	1.5	-1.3	-0.2	1.4	21%	nm	11%
Adj PBT	-1.7	-0.1	1.3	-1.4	-0.3	1.2	19%	nm	13%
Adj EPS	-4.8	-0.1	2.9	-4.0	-0.8	2.7	20%	nm	6%

Source: H&P estimates and analysis

Valuation

Low tax

TEAM operates in low corporation tax jurisdictions. Across the business, corporation tax is low at $\leq 10\%$, allowing a comparatively high conversion of pre-tax profit into earnings attributable to shareholders.

High revenue quality

TEAM's revenue quality is relatively high with the bulk of revenue recurring and charged on an ad valorem basis of client assets, which are not held on balance sheet and are typically sticky. Until recently, the bulk of AuMA comprised the Jersey client base, where associated revenue was stable with $>90\%$ recurring, but comparatively low growth. The acquisitions of Globaleye in June 2023 and Neba since have provided access to superior growth and higher new business potential. As a result, 70-75% of TEAM's overall revenue is now recurring.

Low capital intensity

In addition, the business model is not capital intensive. Regulatory capital requirements and working capital needs should not be onerous and investment needs are limited. So once TEAM reaches breakeven and existing deferred consideration liabilities have been paid, we envisage strong cash generation, as modelled below, and the establishment of a healthy dividend, as detailed in the Admission Document.

As net flows from TEAM International build, we would expect the market to extrapolate at least the profit growth that would flow from the organic growth.

Where would the company be if it hit its mid-term ambition of £20m of revenues, a 30%+ EBITDA margin, and £4bn of AUA/M? After the 10% corporation tax for regulated financial services in Jersey, a 10-15x forward multiple would mean a £54-76m market capitalisation, or £37-52m discounted back 4 years at 10%.

Valuation

	2024E	2025E	2026E	2027E
14x '27	53 p			77 p
10x EPS from £6m EBITDA	75 p			109 p
15x EPS from £6m EBITDA	104 p			153 p
10x PAT from £6m EBITDA	£37m			£54m
15x PAT from £6m EBITDA	£52m			£76m

Source: H&P estimates and analysis

If we seek to capture the longer-term growth at TEAM, and build a DCF with only 16% growth after our explicit 2027 forecast, then we output a 70p fair value.

DCF with our 2027 EBIT margin, fixed flat, and 16% growth

ASSUMPTIONS		MODEL					
Cost of equity (%)			Explicit forecasts			Middle Period (First CF)	Terminal Period (First CF)
Risk free rate (%)	4.1		2024	2025	2026	2027	2032
Beta	1.0		8.0	10.3	11.9	13.8	25.5
Equity risk premium (%)	6.0		(1.592)	0.097	1.481	2.5	4.6
CAPM unleveraged discount rate	10.1	Revenue	-19.8%	0.9%	12.4%	18.0%	18.0%
Cost of debt (%)		Underlying EBITA	0.038	0.030	0.030	0.0	0.1
Average spread over risk-free rate (%)	3.0	- EBITA margin (%)	(1.554)	0.1	1.5	2.5	4.7
Pre-tax cost of debt (%)	7.1	Add back Depreciation	-19.4%	1.2%	12.7%	18.3%	18.3%
Average corporate tax rate for company (%)	10.0	EBITDA	0.0	(0.1)	(0.2)	(0.2)	(0.5)
Post-tax cost of debt (%)	6.4	- EBITDA margin (%)	0.0	0.0	0.0	(0.1)	(0.0)
Estimated target gearing (net debt/mkt cap) (%)	-	Taxation (EBITA * tax rate)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
WACC (%)	10.1	Less increase in Working Capital	0.0	(0.3)	(1.0)	(0.1)	(0.0)
		Less Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
		Free Cashflow for the Firm (FCFF)	(1.8)	(0.3)	0.2	2.1	4.1
Years of explicit estimates	3.0	Discount rate (WACC) (%)	10.1				
Middle period (yrs)	5.0	Annual discount factor	0.91	0.91	0.91	n/a	n/a
Years to start of terminal period	8.0	Cumulative factor for period	0.91	0.83	0.75	5.06	12.41
Middle period assumptions		Discount factor to start of first FC period				0.75	0.46
Growth rate (%)	+16.0	Total discount factor	0.91	0.83	0.75	3.80	5.76
EBIT margin (%)	18	Discounted value	(1.6)	(0.2)	0.2	7.9	23.4
Capex/depreciation ratio (x)	1.1	Derived EV of operations					
Working capital/ turnover ratio (%)	5.0	Adjusted EV					
Tax rate (%)	10.0	Net cash / (debt)					
Terminal period assumptions		Market Cap					
Growth rate (%)	+2.0	NOSH (m)					
EBIT margin (%)	18						
Capex/depreciation ratio (x)	1.0						
Working capital/ turnover ratio (x)	5.0						
Tax rate (%)	10.0						
First forecast period	2024	Fair value per share (p)					70

Source: H&P estimates and analysis

We base our fair value on the DCF above.

Financial Statements Summary

Y/E Sept	2021	2022	2023	2024E	2025E	2026E	2027E
Investment management AuM	296	232	308	335	520	720	950
Advisory AuA	0	329	367	283	353	393	423
International AuA	0	0	180	326	566	806	1,046
Total AuM/A	296	561	856	943	1,438	1,918	2,418
Investment Management	nd	1.03	0.95	1.32	1.97	3.16	4.43
Advisory	nd	1.09	3.04	2.18	2.92	3.13	3.46
International	nd	0.00	1.33	4.53	5.44	5.62	5.74
Total revenue	1.47	2.12	5.32	8.03	10.32	11.91	13.63
change YoY %	110%	44%	151%	51%	29%	15%	14%
Direct costs	(0.27)	(0.41)	(0.92)	(2.64)	(3.38)	(3.47)	(3.56)
Contribution	1.20	1.71	4.40	5.38	6.94	8.44	10.07
Operating costs	(2.00)	(2.52)	(5.09)	(6.94)	(6.82)	(6.93)	(7.05)
EBITDA, underlying	(0.80)	(0.81)	(0.69)	(1.55)	0.13	1.51	3.02
EBITDA margin, underlying	(54%)	(38%)	(13%)	(19%)	1%	13%	22%
Non-underlying items:							
Depreciation	(0.06)	(0.08)	(0.17)	(0.04)	(0.03)	(0.03)	(0.03)
Amortisation	(0.19)	(0.54)	(1.00)	(1.00)	(1.00)	(0.92)	(0.64)
Interest costs	(0.01)	(0.02)	(0.04)	(0.13)	(0.15)	(0.15)	(0.15)
Acquisition-related expenses	(0.24)	(0.13)	(0.22)	(0.09)	0.00	0.00	0.00
Other items	(0.45)	0.00	0.00	0.00	0.00	0.00	0.00
PBT, underlying	(0.87)	(0.92)	(0.91)	(1.72)	(0.05)	1.33	2.84
Tax, underlying	0.05	0.06	0.01	0.06	(0.01)	(0.06)	(0.12)
Underlying tax rate	5.6%	7.9%	2.0%	4.0%	4.0%	4.0%	4.0%
PAT, underlying	(0.82)	(0.85)	(0.89)	(1.66)	(0.06)	1.27	2.72
PBT, reported	(1.75)	(1.59)	(0.44)	(2.80)	(1.05)	0.42	2.20
Tax, reported	0.05	0.06	(0.00)	0.00	(0.07)	(0.22)	(0.42)
PAT, reported	(1.71)	(1.52)	(0.45)	(2.80)	(1.11)	0.20	1.78
Profitability							
Total revenue/ave client assets (bp)	nd	23.2	75.1	95.9	86.7	71.0	62.9
Contribution margin	82%	80%	83%	67%	67%	71%	74%
RoE adjusted	(18.7%)	(10.6%)	(7.5%)	(10.7%)	(0.4%)	8.5%	17.1%
Cash flow and balance sheet (£m)							
EBITDA, underlying	(0.8)	0.0	(0.7)	(1.6)	0.1	1.5	3.0
Non-underlying cash items	(0.7)	0.0	(0.1)	(0.1)	0.0	0.0	0.0
Change in working capital	0.0	(0.4)	0.1	0.0	0.0	0.0	0.0
Capex	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Lease liability	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Free cash flow	(1.5)	(1.4)	(0.9)	(1.8)	(0.0)	1.3	2.8
Payment of deferred consideration	0.0	(1.5)	(0.0)	0.0	(0.2)	(1.1)	0.0
Acquisitions net of cash acquired	(1.0)	(2.9)	0.9	(0.9)	0.0	0.0	0.0
Share issuance	7.2	2.7	4.5	1.2	0.0	0.0	0.0
Net increase/decrease in cash	4.7	(3.1)	4.8	(0.9)	(0.3)	0.2	1.7
Cash & cash equivalents	4.9	1.7	1.9	5.9	5.6	5.8	7.5
Intangible assets	3.7	9.3	12.4	20.2	19.1	18.0	16.8
Net assets	7.4	8.7	8.2	23.4	23.7	22.8	23.3
Per share data (p)							
YE FD shares in issue (m)	17.3	22.0	22.0	39.6	39.9	44.9	49.9
Av. FD shares in issue (m)	11.2	19.3	22.0	34.3	39.9	44.5	49.5
EPS adjusted, diluted	(7.3)	(4.4)	(4.1)	(4.8)	(0.1)	2.9	5.5
EPS reported, basic	(15.2)	(7.9)	(2.0)	(8.2)	(2.8)	0.4	3.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	(13.5)	(7.1)	(4.2)	(5.3)	(0.0)	3.0	5.6
NAV per share	43.0	39.4	68.6	39.9	37.3	33.6	33.8

Source: Company Reports, H&P estimates

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