

Client: Tavistock Investments

Publication: This Is Money

Journalist: Ian Lyall

Date: 31 May 2016

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SMALL CAP IDEAS: Dynamic duo looking to repeat Card Clear alchemy with Tavistock Investments and build value

The world of financial advice and wealth management is one of cautious, sober conservatism borne of some prescriptive regulation, so investing in the industry should be equally dull and boring?

Well not quite. There is excitement to be found; capital growth to be had with the promise of a little dividend income to boot.

Tavistock Investments, led by serial stock market entrepreneur Brian Raven, is what's called a roll-up play. This means Tavistock is growing via acquisition.

The company is gaining critical mass purchasing independent financial advisers and then plugging them into its discretionary fund management operation.

It has done five deals since starting out two years ago from the shell of the defunct tech minnow SocialGo.

In the process Raven and the team have created a business that has assets under influence of around £4billion.

Those who follow the fund management industry will know that the benchmark is assets under management – ie. the money under direct control of that company.

Assets under influence refers the amount of money its consultants have helped clients invest.

Tavistock's selling point is this integrated approach.

Clients like it and there's opportunity to take two bites of the cherry. It earns a fee for both giving advice and investing customers' savings.

'A simple truism is that those businesses that are integrated, that extract more than one business stream from a client, do an awful lot better than those that don't,' said Raven.

Now, IFAs must provide the right product for their customers and not simply the one that fits the Tavistock business plan.

That said Tavistock's conservative house investment-style, its funds' performance and the choice of investment portfolios and managers it offers should have mass appeal.

In fact Raven reckons there is the scope for 40-50 per cent of assets under influence to be brought in-house. Currently the figure is less than 12 per cent.

In two years the company has made five acquisitions, including Blacksquare, the fund management arm that has been renamed Tavistock Wealth.

In March it announced plans to buy Abacus Associates for just under £5.2million, funded by cash, equity and debt.

It has around £3million left in the bank, so just how ambitious will the next deal be?

'We are not afraid of taking a big bite,' said Raven.

'It is harder to find the deals to do. We have looked at hundreds of companies and we have bought just five.'

At the current price of 5.56p a share, Tavistock is trading on just 0.3 per cent of clients' assets.

That's a massive discount to established and larger rival Brooks Macdonald and recently-listed Harwood Wealth.

In fact, the latter, valued at more than three times Tavistock, reveals a 'clear and substantial pricing anomaly', according to City firm WH Ireland.

TAVISTOCK AT A GLANCE

AIM ticker: TAVI

Value: £20million

Share price: 6p

Year high: 6.54p

Low: 2.85p

Okay, WHI is broker to Tavistock, which means there is a certain amount of cheerleading involved in its coverage. But facts are facts. On most metrics Tavistock is actually the larger company.

For value investors this problem, anomaly, call it what you will, is actually an opportunity. WHI has a price target of 13.5p – leaving plenty of headroom for capital growth.

The fundamentals underpinning the rather frugal valuation are solid. Revenues are expected to increase four-fold this year to just under £20million, according to WHI.

Tavistock is expected to make its first annual profit in 2017, at which point turnover is expected to be in the order of £33million.

The firm has even signalled its intent to pay a dividend. WHI expects to it be modest at around 0.1p a share, but still better than a poke in the eye.

Raven and chairman Oliver Cooke are best known for Card Clear, a pioneer of fraud protection for credit cards and one of the first stocks to list on the alternative market back in the 1990s.

The dynamic duo built up Card Clear (which changed its name to Retail Decisions) from a start up to a value of around £100million and will be hoping to repeat the alchemy with Tavistock.

'The tactical approach we have taken in the past of creating an investment vehicle and building value hasn't changed,' said Raven.

'I think we will do that, build value. But, at the same time, we must not forget the retail client, our customer, sits at the heart of everything we do.'