

## The UK small/mid cap broking market and the PG opportunity

- Regulatory and market pressures have undermined the 'traditional' UK broking model where 'recurring' income (commissions, normal trading profits and corporate retainers) broadly covered fixed costs.
- So much is self-evident but a number of significant businesses (Panmure, Peel Hunt, Stifel/Oriel, Liberum) seem unable to face up to this harsh reality and structure themselves accordingly.
- Cenkos and Zeus understand the landscape and have positioned themselves appropriately and continue to be successful. Both brands however are questionable.
- Numis is the exception in that it has cemented such a strong position through the size and quality of its corporate client base (built over 2 ½ decades) that it can withstand the external pressures.
- Panmure is the most interesting opportunity because of the strength of the brand but the model is broken – the market knows this which is why the company is valued at cash.
- In the same way that Westhouse has done on a smaller scale, Panmure needs to focus solely on activities which serve its corporate clients whilst maintaining its integrity and the trust of institutional investors.
- This is as much about a 'state of mind' as it is about resources and structure but a cursory analysis of Panmure suggests that fixed costs could be reduced by 30% without damaging its productive potential.
- A simple characterisation of the old model which Panmure conforms to, is that for every body on the corporate side of the Chinese Wall there are 2 on the trading floor. Cenkos (and now Westhouse) is 1:1 (and still full service); Zeus is 2:1 (but not yet full service).
- Assuming a conservative 25% cost reduction at PG and combining the business with Westhouse should produce a business which produces £5-7m of PBT in Year 1.
- More importantly, the PG brand affords the opportunity to build a similarly focused but much higher quality business than Cenkos or Zeus. Cenkos' market cap is £110m on a P/E of <6.

- The PG brand is also likely to translate into the private client wealth management business which offers a better quality revenue stream than institutional and corporate broking.
- As well as a management team that has 'been there and done it' within the Westhouse *family* of companies is Waverton (JO Hambro Investment Management rebranded when it was bought from Credit Suisse ), an up-market wealth manager with AUM of £5bn which could well see the benefits of the Panmure brand.
- The most elegant solution for Panmure shareholders would be to buy Westhouse for shares and insert Westhouse management into the combined entity.
- The business combination would make sense in its own right given the scope to save central costs but the real opportunity lies in having the clarity and strength of management to leverage the PG brand in a corporately focused model.