SCM SOLUTIONS CAPITAL MANAGEMENT società di intermediazione mobiliare

A step forward on the value path

NEUTRAL

Current Share Price (€): 10.75

Target Price (€): 12.35

Inflows better than market, down of 2015, with higher fee income

Assets Under Management at year-end 2016 were €1,047m, with net inflows of €134m, worth 13% on AUM, vs. industry performance of 3%. SCM reported FY16 fee income of €6.9m, above our estimates. Fee expense was €3m, +30% vs. 2015. Net fees and brokerage margin were €3.9m, stable compared to 2015. Earnings Before Taxes, adjusted of non-recurring costs (IPO and non-deductible VAT costs), would have been €300k, 8% as a percentage of brokerage margin, with a cost/income (adjusted) of 92%.

Business model proved to work, with operating income up, despite low inflows

The fee income mix worked in 2016. Advisory fee income – dominant portion of AUM - was 44% up. Insurance fees were up as well, over the AUM growth. Lower performance means also lower performance fees payable. The combined effect kept the income ratios within the shareholder value path designed.

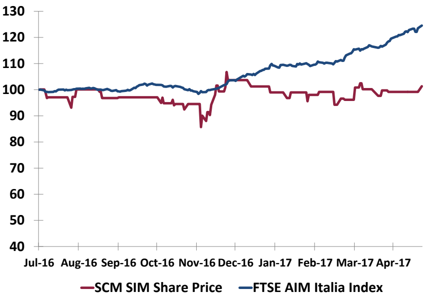
Operational leverage remains the key target

As expected, 2016 has been an atypical year as to the cost/income ratio, due to the IPO effort that has caused a network and structure reinforcement to support the planned growth, while the industry trend was not able to compensate enough to permit the targets reach. H1 cost/income went up to 120% and renormalized at year-end to less than 100%. The 2017 challenge will be to do better than 2015 90% and go forward targets consistent with the value road-map.

Target Price €12.35 per share, NEUTRAL recommendation

We have slightly revised our estimates to make the key drivers consistent with the 2016 figures that could influence the following years. Accordingly, the FCFE-based valuation yields a target price of €12.35 per share, at 15% premium, thus we confirm our NEUTRAL recommendation on the stock.

SCM SIM – Performance since IPO



Note: 28/07/2016=100

Company data

Bloomberg code	SCM IM
Reuters code	SCM.MI
Share Price (€)	10.75
Date of Price	22/05/2017
Shares Outstanding (m)	1.9
Market Cap (€m)	20.5
Market Float (%)	11.0%
Daily Volume (23/05/2017)	0
Daily Volume (22/05/2017)	120
Avg Daily Volume YTD	73
Target Price (€)	12.35
Upside (%)	15%
Recommendation	NEUTRAL

Share price performance

	1M	3M	1Y
SCM SIM - Absolute (%)	1.6%	6.0%	n.a.
FTSE AIM Italia (%)	6.9%	13.4%	n.a.
1Y Range H/L (€)		11.33	9.09
YTD Change (€)/%		0.72	-2.3%

Key financials and estimates

	2016A	2017E	2018E	2019E	2020E	2021E
Assets Under Management (AUM)	1,047	1,350	1,650	2,000	2,400	2,900
Private bankers (units)	30	35	40	45	48	58
Brokerage Margin	3.9	5.1	6.4	8.3	8.3	10.0
EBT	0.1	1.5	2.5	4.2	4.0	5.5
Net Income	0.0	0.7	1.3	2.1	2.0	2.7
Net (Debt) / Cash	2.3	3.7	5.0	6.9	8.8	11.3
Equity	4.1	4.8	6.1	8.2	10.1	12.9
Cost/Income	98%	72%	61%	50%	52%	45%
Net fees/AUM (bps)	38	38	39	41	35	35
ROE	0%	15%	21%	25%	20%	21%

Source: Company data and EnVent Research

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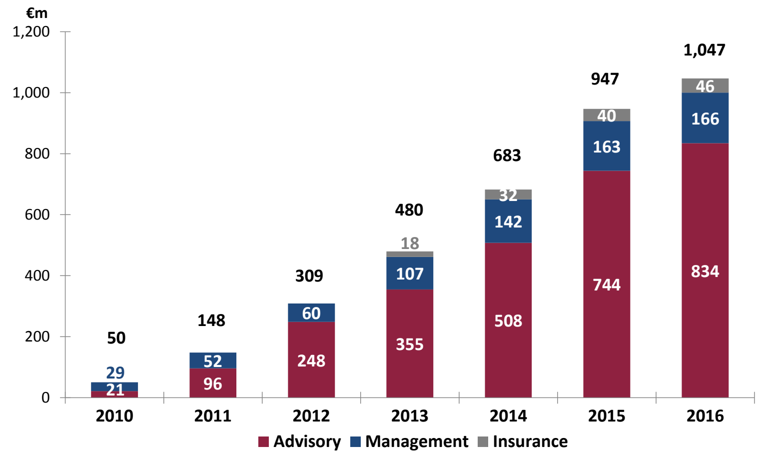
Business model proves to work. Lower inflows, but again better than industry

Assets Under Management at year-end 2016 were €1,047m, €100m lower than our estimate, as a result of net inflows of €134m (-49% vs. 2015). As a percentage of AUM, SCM net inflows were 13% (28% in 2014-2015).

2010-2016 CAGR 66%

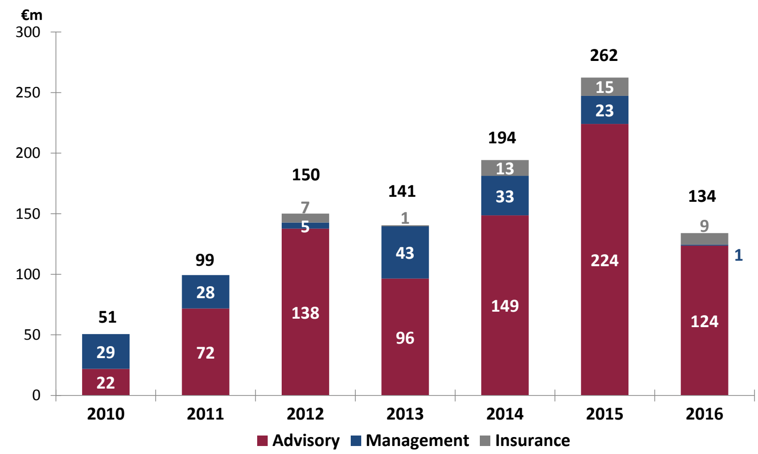
SCM SIM - Total AUM (€m) 2010-2016



Source: Company data

Net inflows from Advisory over 90% of total inflows in 2016

SCM SIM - Net inflows (€m) 2010-2016

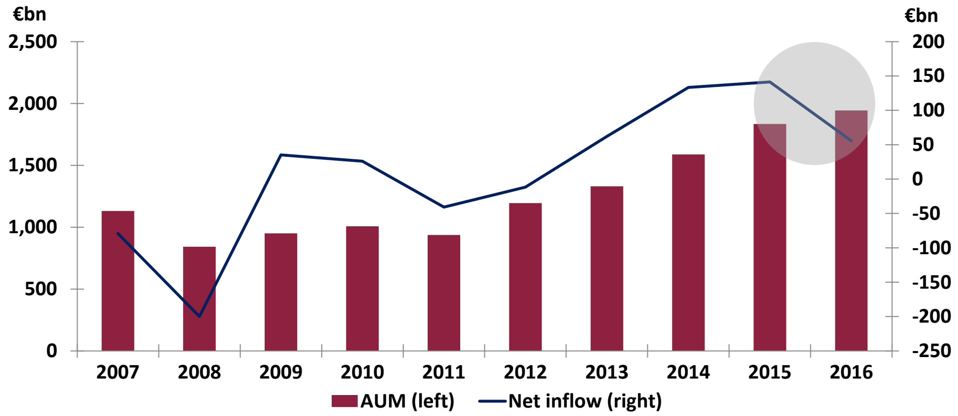


Source: Company data

The industry (total AUM, all segments) inflows in 2016 were 3% on AUM, vs. 8% in 2014-2015.

Industry inflows drop in 2016

Industry - AUM and net inflows 2007-2016



Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in April 2017

Fee income in 2016 was €6.9m, +12% vs. 2015, driven by advisory fees, which grew by over 40% compared to 2015. Insurance fees were around €2m, almost 4x 2015 fees. Performance fees, €1.5m in 2015, fell to €0.25m in 2016, as expected after one year of financial markets' troubles. Overall, fee income was above our €6.1m estimate.

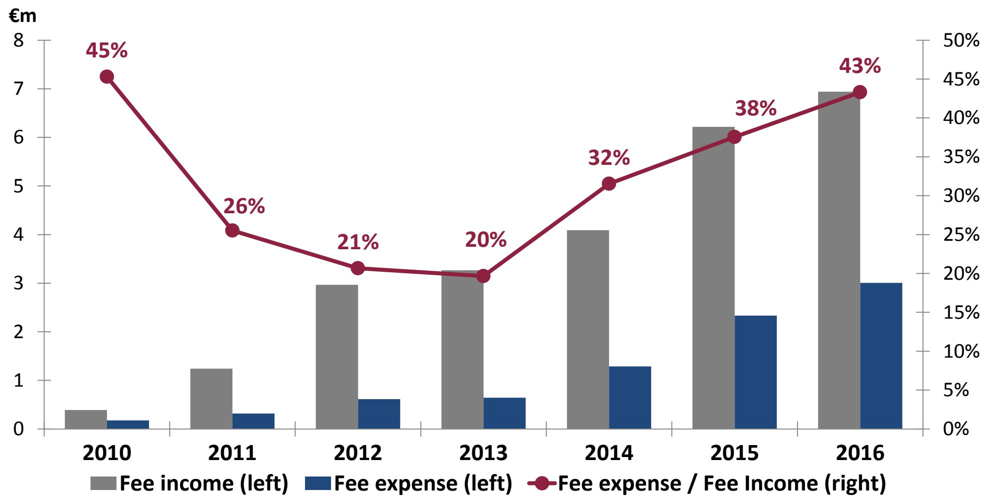
SCM – Breakdown of fee income (€m) 2015-2016

Fee income	2015	2016	YoY %
Advisory	1.7	2.5	*44%*
Management	1.6	1.5	*-8%*
Performance	1.5	0.2	*-83%*
Insurance	0.5	1.9	*315%*
Other	0.9	0.9	*-9%*
Total	**6.2**	**6.9**	***12%***

Source: Company data

Fee expense was €3m, +30% vs. 2015, due to the higher payout on new recruits, also higher than our estimate, which assumed a different mix with more performance fees, whose bankers' portion is lower. Fee expense, historically below 40% of fee income, was 43% in 2016. Net fees and brokerage margin were €3.9m, stable compared to 2015, despite the lack of performance fees. Trading fees, dividends and interest income/expense were negligible, thus brokerage margin is equal to net fees.

SCM - Fee income and expense (€m) 2010-2016



Source: Company data

The increase in G&A (+22% vs. 2015), attributable to IPO and unpredictable non-deductible VAT costs, resulted in a Cost/Income ratio of around 98%, higher than the 2015 90%. The non-recurring costs can be estimated as €230k; adjusted Earnings Before Taxes would have been €300k, 8% as a percentage of Brokerage margin (vs. €70k without adjustment, 2% as a percentage of Brokerage margin), and adjusted Cost/Income 92%, almost in line with 2015. FY16 closed at break-even.

Profit and Loss

€m	2013	2014	2015	2016
Assets Under Management (AUM)	**467**	**683**	**947**	**1,047**
Fee income	3.3	4.1	6.2	6.9
Fee expense	(0.6)	(1.3)	(2.3)	(3.0)
Net fees	**2.6**	**2.8**	**3.9**	**3.9**
Interest income/expense	0.00	0.01	0.01	(0.00)
Brokerage Margin	**2.6**	**2.8**	**3.9**	**3.9**
Personnel	(1.6)	(1.3)	(1.6)	(1.5)
G&A	(1.2)	(1.4)	(1.9)	(2.3)
Writedown/writeup on financial assets	(0.0)	(0.0)	(0.1)	(0.0)
Other income/expense	(0.0)	0.1	0.1	0.1
EBT	**(0.2)**	**0.1**	**0.4**	**0.1**
EBT/Brokerage margin	*-8%*	*2%*	*9%*	*2%*
EBT Adjusted	-	-	-	**0.3**
EBT/Brokerage margin Adj.	-	-	-	*8%*
Income taxes	(0.0)	(0.1)	(0.2)	(0.1)
Net Income / (Loss)	**(0.2)**	**(0.0)**	**0.2**	**0.0**

Source: Company data

Increasing year-end receivables impact operating cash flow

Balance Sheet

€m	2013	2014	2015	2016
Net Working Capital	**1.4**	**1.5**	**0.8**	**1.7**
Non-current assets	**0.1**	**0.1**	**0.1**	**0.1**
Provisions	**(0.1)**	**(0.1)**	**(0.1)**	**(0.1)**
Net Invested Capital	**1.5**	**1.5**	**0.8**	**1.7**
Net Debt / (Cash)	**(0.5)**	**(0.4)**	**(1.3)**	**(2.3)**
Equity	**1.9**	**1.9**	**2.1**	**4.1**
Sources	**1.5**	**1.5**	**0.8**	**1.7**

Source: Company data

Cash Flow

€m	2014	2015	2016
EBT	**0.1**	**0.4**	**0.1**
Current taxes	(0.1)	(0.2)	(0.1)
Net Working Capital	(0.0)	0.7	(0.9)
Provisions	0.00	0.03	(0.02)
Cash flow from operations	**(0.1)**	**0.9**	**(0.8)**
Capex	(0.03)	(0.03)	(0.09)
Cash flow from investing	**(0.0)**	**(0.0)**	**(0.1)**
IPO proceeds	**0.0**	**0.0**	**2.0**
Net cash flow	**(0.1)**	**0.9**	**1.1**
Net (Debt) / Cash - Beginning	0.5	0.4	1.3
Net (Debt) / Cash - End	0.4	1.3	2.3
Change in Net (Debt) / Cash	**(0.1)**	**0.9**	**1.1**

Source: Company data

Ratio analysis

KPIs	2013	2014	2015	2016
Assets Under Management (€m)	467	683	947	1,047
Net inflows (€m)	141	194	262	134
Fee income (€m)	3.3	4.1	6.2	6.9
Fee income/AUM	*0.7%*	*0.6%*	*0.7%*	*0.7%*
Net fees (€m)	2.6	2.8	3.9	3.9
Net fees/AUM (bps)	56.3	41.0	41.0	37.6
Cost/Income	*105.6%*	*97.5%*	*90.4%*	*98.5%*
Cost/Income Adjusted	-	-	-	*92.5%*
Private bankers (units)	11	17	23	30
Avg. Portfolio per Banker (€m)	42	40	41	35
ROE	*-12%*	*-2%*	*9%*	*0%*

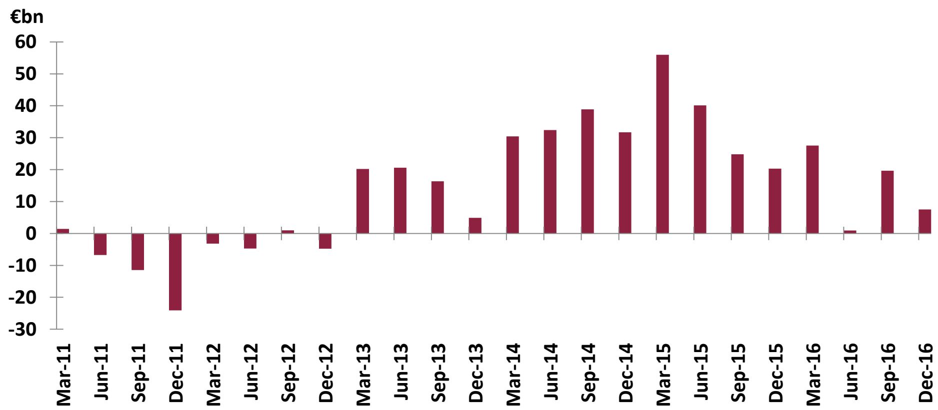
Source: Company data

Industry performance: slowdown in 2016 for the Italian market for managed products

The Italian managed product market had net inflows every quarter from 2013, except for Q2 2016, when there was a strong decline in the amount of new money entrusted to asset managers. Q3 and Q4 2016 show recovery; total net inflows were €56bn in 2016.

As a result of recent continuous inflows (€141bn in 2015 and €56bn in 2016) and positive market effect (performance effect €105bn in 2015 and €53bn in 2016), the stock of assets managed on the Italian market more than doubled between 2011 and 2016, to reach €1,943bn at the end of 2016. Funds and insurance products are the categories that experienced the greatest increase, while individual portfolios stand still in 2016.

Managed assets in Italy – Net inflows, Q1 2011-Q4 2016



Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in April 2017

Managed assets in Italy – AUM 2011- 2016 (€bn)

	2011	2012	2013	2014	2015	2016
Funds	461	525	599	731	899	950
Individual portfolios	100	93	98	114	128	129
Retirement schemes	38	49	63	75	81	83
Insurance products	268	466	499	591	640	685
Other	70	62	71	78	87	96
Total	**938**	**1,195**	**1,330**	**1,588**	**1,835**	**1,943**

Source: Italian Fund Hub – Assogestioni, Cubodata, data extracted in April 2017

Recent events

- Extension of operations in the United Kingdom - November 2016
- Establishment of an open-ended investment company (SICAV) in H1 2017

Estimates revision

We have slightly revised our 2017-2021 estimates:

- lower AUM estimate by €100m
- raised 2017-2019 fee income, consistently with the 2013-2016 historical level, confirmed by the increase in fee income as a percentage of AUM in 2016
- G&A realigned to actual recurring costs

We maintained the more conservative Net fees/AUM (bps) for 2020-2021 estimate. Working Capital items dynamics have been adjusted consistently with 2016 actual.

Change in estimates

€m	Actual 2016	Prev. 2017E	Rev. 2017E	Change %	Prev. 2018E	Rev. 2018E	Change %	Prev. 2019E	Rev. 2019E	Change %
AUM	1,047	1,450	1,350	*-6.9%*	1,750	1,650	*-5.7%*	2,100	2,000	*-4.8%*
Fee income	6.9	7.7	8.9	*15.8%*	9.9	10.9	*9.7%*	11.6	13.2	*13.4%*
Fee expense	(3.0)	(3.2)	(3.8)	*19.8%*	(4.0)	(4.5)	*12.4%*	(4.3)	(4.9)	*13.2%*
Net fees	3.9	4.5	5.1	*12.9%*	5.9	6.4	*7.8%*	7.3	8.3	*13.6%*
Brokerage margin	3.9	4.5	5.1	*13.1%*	5.9	6.4	*8.0%*	7.3	8.3	*13.6%*
EBT	0.1	0.9	1.5	*63.8%*	1.9	2.5	*31.8%*	2.9	4.2	*43.2%*
Net Income	0.0	0.4	0.7	*84.3%*	1.0	1.3	*25.2%*	1.5	2.1	*38.4%*
Net (Debt) / Cash	2.3	4.4	3.7	*-15.5%*	5.7	5.0	*-12.6%*	7.1	6.9	*-3.4%*
Equity	4.1	4.9	4.8	*-1.5%*	5.8	6.1	*4.8%*	7.3	8.2	*11.7%*
Cost/Income	*98%*	*82%*	*72%*	*-12.4%*	*69%*	*61%*	*-11.0%*	*59%*	*50%*	*-16.0%*
Net fees/AUM (bps)	*38*	*31*	*38*	*21.4%*	*34*	*39*	*13.4%*	*35*	*41*	*18.4%*

Source: EnVent Research

Consolidated projections

Consolidated Profit and Loss

€m	2016A	2017E	2018E	2019E	2020E	2021E
Assets Under Management (AUM)	**1,047**	**1,350**	**1,650**	**2,000**	**2,400**	**2,900**
Fee income	6.9	8.9	10.9	13.2	13.2	16.0
Fee expense	(3.0)	(3.8)	(4.5)	(4.9)	(4.9)	(5.9)
Net fees	**3.9**	**5.1**	**6.4**	**8.3**	**8.3**	**10.0**
Net fees/AUM (bps)	*38*	*38*	*39*	*41*	*35*	*35*
Brokerage Margin	**3.9**	**5.1**	**6.4**	**8.3**	**8.3**	**10.0**
Personnel	(1.5)	(1.5)	(1.7)	(1.8)	(1.9)	(2.0)
G&A	(2.3)	(2.1)	(2.2)	(2.3)	(2.4)	(2.6)
Other income/expense	0.1	0.1	0.1	0.0	0.0	0.0
EBT	**0.1**	**1.5**	**2.5**	**4.2**	**4.0**	**5.5**
EBT/Brokerage margin	*2%*	*29%*	*39%*	*50%*	*48%*	*55%*
Income taxes	(0.1)	(0.7)	(1.3)	(2.1)	(2.0)	(2.7)
Net Income / (Loss)	**0.0**	**0.7**	**1.3**	**2.1**	**2.0**	**2.7**

Source: Company data and EnVent Research

Consolidated Balance Sheet

€m	2016A	2017E	2018E	2019E	2020E	2021E
Net Working Capital	**1.7**	**1.0**	**0.9**	**1.1**	**1.2**	**1.4**
Non-current assets	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**
Provisions	**(0.1)**	**(0.04)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**
Net Invested Capital	**1.7**	**1.1**	**1.1**	**1.3**	**1.3**	**1.5**
Net Debt / (Cash)	**(2.3)**	**(3.7)**	**(5.0)**	**(6.9)**	**(8.8)**	**(11.3)**
Equity	**4.1**	**4.8**	**6.1**	**8.2**	**10.1**	**12.9**
Sources	**1.7**	**1.1**	**1.1**	**1.3**	**1.3**	**1.5**

Source: Company data and EnVent Research

Consolidated Cash Flow

€m	2016A	2017E	2018E	2019E	2020E	2021E
EBT	**0.1**	**1.5**	**2.5**	**4.2**	**4.0**	**5.5**
Current taxes	(0.1)	(0.7)	(1.3)	(2.1)	(2.0)	(2.7)
Net Working Capital	(0.9)	0.7	0.1	(0.2)	(0.0)	(0.2)
Provisions	(0.02)	(0.02)	(0.03)	0.0	0.0	0.0
Cash flow from operations	**(0.8)**	**1.4**	**1.3**	**1.9**	**2.0**	**2.5**
Capex	(0.09)	(0.04)	(0.06)	(0.03)	(0.03)	(0.0)
Cash flow investing	**(0.1)**	**(0.0)**	**(0.1)**	**(0.0)**	**(0.0)**	**(0.0)**
IPO proceeds	2.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	**1.1**	**1.4**	**1.3**	**1.9**	**2.0**	**2.5**
Net (Debt) / Cash - Beginning	1.3	2.3	3.7	5.0	6.9	8.8
Net (Debt) / Cash - End	2.3	3.7	5.0	6.9	8.8	11.3
Change in Net (Debt) / Cash	**1.1**	**1.4**	**1.3**	**1.9**	**2.0**	**2.5**

Source: Company data and EnVent Research

Ratio analysis

KPIs	2016A	2017E	2018E	2019E	2020E	2021E
Assets Under Management (€m)	1,047	1,350	1,650	2,000	2,400	2,900
Net inflows (€m)	134	303	300	350	400	500
Fee income (€m)	6.9	8.9	10.9	13.2	13.2	16.0
Fee income/AUM	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.6%*	*0.6%*
Net fees (€m)	3.9	5.1	6.4	8.3	8.3	10.0
Net fees/AUM (bps)	37.6	37.6	38.5	41.5	34.7	34.7
Cost/Income	*98.5%*	*71.8%*	*61.4%*	*49.5%*	*51.9%*	*45.1%*
Private bankers (units)	30	35	40	45	48	58
Avg. Portfolio per Banker (€m)	40	39	41	44	50	50
ROE	*0%*	*15%*	*21%*	*25%*	*20%*	*21%*

Source: Company data and EnVent Research

Valuation

Free cash flow to equity model

We have run our FCFE model with the following assumptions, where only market factors are updated:

- Risk free rate: 2% (Italian 10-year government bonds interest rate – April 2017. Source: Bloomberg)
- Market return: 10% (Calculated by EnVent Research based on Italian market return and sector performance – conservative case. Sector case would be 8%.)
- Market risk premium: 8%
- Beta: 1.2 (Average of European industry peers – April 2017. Source: Bloomberg)
- Cost of equity: 11.3%
- Perpetual growth rate after explicit projections: 2.5%
- Terminal Value assumes a normalized free cash flow, based on net fees and cost/income of last year of explicit projections
- Capital requirements driven by net fees and fixed costs, according to current regulations

FCFE valuation model – Conservative case: Rm=10%

€m		2017E	2018E	2019E	2020E	2021E	Perpetuity
Cash flow from operations		1.4	1.3	1.9	2.0	2.5	2.6
Capital requirement		0.0	(0.5)	(0.2)	(0.1)	(0.4)	(0.3)
Net cash flow		**1.4**	**0.8**	**1.7**	**1.9**	**2.1**	**2.3**
Cost of Equity (Ke)	11.3%						
Long-term growth (G)	2.5%						
Discounted Cash Flows		**1.2**	**0.6**	**1.2**	**1.3**	**1.2**	
Sum of Discounted Cash Flows	**5.6**						
Terminal Value	**26.7**						
Discounted Terminal Value	**15.7**						
Net cash as of 31/12/2016	**2.3**						
Equity Value	**23.6**						

Implied multiples	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**
P/E	32x	19x	11x	12x	9x
Equity Value/AUM	1.7%	1.4%	1.2%	1.0%	0.8%

Target Price

Our revised projections and updated valuation model, given the current number of shares outstanding equal to 1,909,880, yield a target price of €12.35 per share. Given the 15% upside potential on current share price, we confirm our NEUTRAL rating on the stock.

SCM SIM Price per Share	€
Target Price	**12.35**
Current Share Price (22/05/2017)	10.75
Premium / (Discount)	**15%**

Source: EnVent Research

Peer Group - Performances

Stock	Price (€)	Mkt Cap (€m)	1M	3M	6M	YTD
SCM SIM	10.75	20.5	1.6%	2.4%	7.2%	-2.3%
Italian asset managers						
Anima	5.80	1,785.7	5.7%	14.1%	26.8%	12.3%
Azimut	18.38	2,415.5	7.4%	10.3%	27.8%	15.9%
Banca Generali	27.87	3,247.4	11.8%	14.4%	41.0%	23.0%
Banca Mediolanum	7.55	5,555.2	10.2%	14.7%	27.0%	10.5%
Mean			**8.8%**	**13.3%**	**30.7%**	**15.4%**
Weighted average			**9.5%**	**13.7%**	**30.6%**	**14.9%**

Source: S&P Capital IQ 22/05/2017

Note: Weighted average on market cap

Peer Group – Market Multiples

Company	Market Cap / AUM			P / E			
	2014	2015	2016	2016	2017E	2018E	2019E
Italian asset managers							
Anima	2%	4%	2%	15.3X	12.9X	11.8X	11.1X
Azimut	8%	8%	5%	12.2X	12.5X	11.4X	10.1X
Banca Generali	7%	8%	6%	16.9X	16.9X	15.2X	13.5X
Banca Mediolanum	n.a.	8%	6%	12.8X	13.9X	14.2X	12.9X
Mean	**6%**	**7%**	**5%**	**14.3X**	**14.1X**	**13.2X**	**11.9X**
European asset managers							
Aberdeen	2%	1%	1%	17.6X	12.3X	11.8X	10.9X
Ashmore	4%	4%	4%	14.4X	15.5X	17.2X	15.5X
GAM	2%	2%	2%	14.1X	18.2X	15.3X	11.8X
Henderson	3%	4%	2%	22.8X	13.9X	12.7X	12.0X
Julius Baer	3%	4%	3%	16.0X	14.0X	12.7X	11.4X
Jupiter Fund Mgmt	5%	6%	5%	14.6X	13.1X	12.7X	11.8X
Man	6%	6%	3%	neg.	11.9X	9.1X	8.1X
Schroders	2%	2%	2%	15.9X	14.2X	13.4X	12.5X
St. James's Place	8%	9%	7%	47.7X	24.0X	19.8X	15.2X
Mean	**4%**	**4%**	**3%**	**20.4X**	**15.2X**	**13.9X**	**12.1X**
Mean w/out extremes	**4%**	**4%**	**3%**	**16.9X**	**14.5X**	**13.7X**	**12.2X**
Median	**3%**	**4%**	**3%**	**15.9X**	**14.0X**	**12.7X**	**11.8X**
Combined Mean	**5%**	**6%**	**4%**	**17.3X**	**14.7X**	**13.5X**	**12.0X**

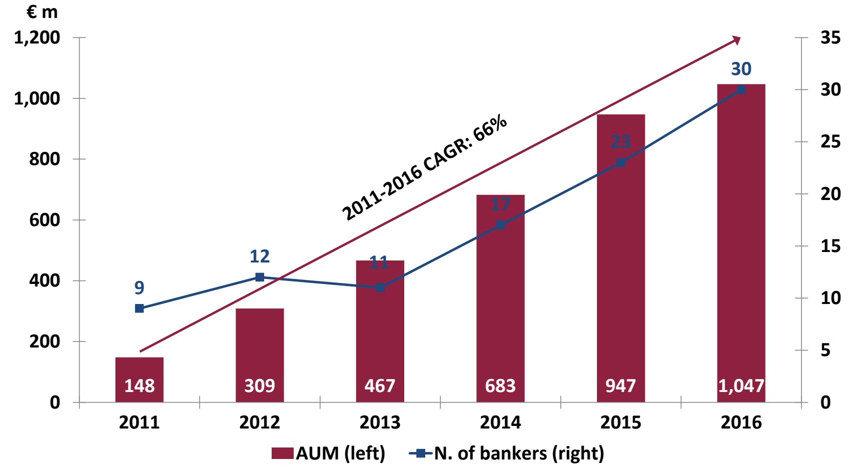
Source: S&P Capital IQ 22/05/2017

Investment case

Independent private banking

S.C.M. SIM – Società di Intermediazione Mobiliare – (SCM) is a Private Banking and Wealth Management firm that operates with a Multi-Family Office logic and a business model, unique in Italy, based on independence, transparency and attractive pricing. SCM provides bespoke portfolio management and investment advice services on the client's all-embracing wealth and assets, without having custody of clients' assets. It does not produce or distributes financial products. The Wealth Management division is the flagship service provided by the Company and is organized according to the model of a Family Office services firm: main clients are high net worth families, entrepreneurs and institutional entities. Operations started in 2010. Assets Under Management (AUM), that in 2011 were €150m, were over €1bn at 2016 year-end (66% 2011-2016 CAGR), with 30 private bankers and over 500 clients.

SCM SIM – AUM and Bankers, 2011-2016



Source: Company data

Industry drivers

Italian private worth is significant and financial assets continue to gain ground. Italian household net worth is significant: financial assets accounted for €3.8tn in 2013, according to Bank of Italy (2.5x the amount of GDP at €1.5tn). To compare Italy with the main European economies (2011 - Eurostat latest available data), Italian households financial assets were 2.3x GDP, 1.8x GDP for Germany, 2.0x GDP for France, 2.8x GDP for the UK. Financial assets represented 43% of total net worth in 2013. Real assets (67%), including residential properties (85% of total real assets), and financial liabilities (-10%) made up the rest of the wealth. Real assets have been decreasing since 2012, while financial assets are experiencing growth again, after a decline in the financial crisis years. Italian investors look to be embracing the shift from real assets to financial investments.

Yields on Italian treasuries are low and not expected to increase. The historical lowest yield on Italian government bonds (currently 1.9% on 10-year treasury bonds – Source: Bloomberg, December 2016) further addresses investors towards alternative investment solutions. As a result, the amount of debt securities held by Italian investors has halved over the past five years (Source: Assogestioni).

Room to improve the mix. Italian financial assets, traditionally government bonds for the most part, show a lower portion of assets professionally managed in comparison to other countries: 29% in 2014 (31% in 2015), versus 40% to 60% of France, UK, Germany and USA. However, financial assets (and, within this category, managed assets) have been experiencing stable growth since 2011, with 3.5% 2011-2014 CAGR (Source: Bank of Italy). After years of super low interest rates and a similar outlook for the mid-term, a continuing shift of funds from low income bonds to professionally managed assets is expected. Total net inflow into managed products was €141bn in 2015, +6% vs 2014 (Source: Assogestioni). As a consequence, advisory services are increasing their stake within Italian households' investment portfolios, aligning them with those of other developed economies.

Stable growth for Private Banking since 2011. Private Banking potentially managed assets in Italy had a size of nearly €1tn in 2014 and have been continuously growing since 2012, when the size was €900bn. However, the assets actually managed are roughly just a half of such amount. Nonetheless, good news comes from the recognition of an increasing trend in AUM for the Private Banking sector: +7% 2012-2014 CAGR and an increase, as a percentage of total potential private banking market, from 49% in 2012 to 51% in 2014 (Source: AIPB).

The Private Banking sector confirms the rise of portfolio advisory. Following the trend registered by the reference market, Private Banking portfolios are experiencing a significant growth of alternative managed financial products and services versus other categories of investments. Concurrently, stocks and bonds are losing ground.

Company drivers

Unique private banking and personal advisory services. After only five years of operation, SCM has an extraordinary track record in attracting High Net Worth and Affluent clients. These have appreciated the close-to-client service and highly personalized advisory approach, uncontaminated by other disguised conflicting interests. A key pillar of SCM's service is its proactivity in advising and coaching clients, with a dedicated team whose mission is to care and preserve the clients' wealth and help them plan for future events.

Independent, transparent, conflict-free. Regardless of market conditions, SCM is positioned to outperform competitors in attracting and retaining HNW clients, thanks to its differentiating strengths that meet key needs: independence from financial institutions or services firms; genuine alignment of interest with clients thanks to a flat fee structure and a MiFID II-ready transparency on clients' costs; no direct holding of assets; sourcing of fees exclusively from clients, without rebates coming from asset managers or from fund sales and distribution activity. In Italy, a unique business model.

No asset custody, no fund production, nor distribution, means no conflicts of interest. Independence is guaranteed: all fees charged are earned from client advisory and are not sourced from rebates coming from asset managers or from fund sales and distribution activity; aside from its compliance to the MiFID II regulation already in place, clients are secure as their holdings are held on separate, ring-fenced, depository accounts which are outside of the scope of the property of the Company. In addition, SCM's shareholding composition unarguably lacks financial institutions, wealth managers or financial services firms.

Attractive flat fee structure. SCM offers its services characterized by an alignment of interest with its clients thanks to flat fees, no direct holding of assets on its own accounts, and sourcing of its fees exclusively from its clients. The flat fee structure, together with modest performance fees, leave nearly all performance to the client, with no hidden fees.

Business model MiFID II-ready. SCM's business model is MiFID II-compliant from day 1 of its commencement, as the Company implemented a transparent, flat fee asset management service where clients know exactly how much advisory services and asset management cost. The major amendments which will be introduced by MiFID II concern the level of transparency brokers need to respect: they will have to explicitly distinguish between distribution costs and commissions, since referring to an all-embracing fee will not be allowed anymore. This means that a pricing and transparency competitive advantage is soon to emerge in SCM's business model and selling proposition, when compared to its major competitors whose clients will realize how much they have been historically charged through hidden fees.

Strong client growth outlook. The entry of new bankers in 2016, the competitive business model based on independence, service reputation and transparency of flat fees are an excellent base to position SCM to increase its market share, amidst the market need to shift from mere financial product placement to customized advice.

Historical, and forecasted, double-digit earnings growth. Over the past five years SCM posted double-digit growth in net inflows (27% CAGR 2011-2015) and consequently AUM (59% CAGR 2011-2015) nearly reached €1bn at 2015 year-end. Accordingly, fee income grew from €1.2m in 2011 to €6.2m in 2015 (50% CAGR 2011-2015).

Visibility of future revenues. The strong client loyalty, given the high client retention rate, implies a recurring revenue stream and high quality of operating earnings.

Operational gearing to push up profitability soon. The significant AUM growth registered across the last three years and expected to last until 2021 is expected to drive a sound net fee YoY increase. As a consequence, as AUM increases, SCM will benefit of its lean overhead structure and reach a Cost/Income ratio among the best in the industry. Our model assumes that a 3 times growth in net fees would generate growth in earnings of over 15 times, directly linked to an expected Cost/Income ratio of 46%.

High cash flow generation means room to create value. SCM had a net cash position of €0.8m at H1 2016 and, according to our projection model, could generate net cash flow of at least €1m a year on a normalized basis. IPO proceeds and cash flow from operations are foreseen to accelerate growth through its banker network expansion and possible acquisitions.

Management and Shareholders - partnership attitude. Key managers are also shareholders, Board members and operating partners. As a consequence, the main investment decisions are made by Partners who invested in the Company's equity and this should discourage opportunistic behaviors. In addition, each banker is also a shareholder, thus reinforcing a widespread partnership culture.

Highly skilled and experienced team. SCM excels in securing its key service offering: financial wealth advisory services provided by a fully operating team of seasoned experts having served in high standing responsibilities in other domestic and international industry operators. Knowledge empowerment aimed at meticulously trained and technologically supported private advisors allows the field force to be continuously updated and enriched.

Challenges

Market dependence. Cyclical market phases might have several consequences, such as a slowdown in net inflows, although not necessarily accompanied by capital outflows, especially in case of an economic downturn. In a financial market slowdown phase, like that of 2016, AUM are likely to decrease in value, with lower management fees and performance fees, given the predictable drop in asset performance.

Increasing bankers' effectiveness without carrying excessive risk. Bankers' activity should be observed in two dimensions: number of clients and AUM in portfolio. A diversification of portfolios spread out on more clients
would reduce the risk of being dependent on a small number of individual large clients.

Concentration on private bankers. The situation where large portfolios are managed by individual advisors increases the Company's risk, as their bargaining power would be much stronger in case of dispute (four bankers produce approximately 50% of total revenues).

Reputation of the network. To drive profitability, SCM largely relies on its network of private bankers. Therefore, poor performance or reputational damage can strongly impact the Company's revenues. Conversely, a good reputation of SCM's network might increase competitors' willingness to attract its best bankers with generous offers. SCM's bankers are not restricted by any covenant with regard to the possibility of carrying out a similar competitive activity once their contract with the Company expires.

Exposure to Italy. SCM is only active in Italy and its bankers all operate on the domestic territory. As a consequence, any event affecting the Italian economic scenario would likely impact the Company and, of course, its net income. Main concerns are the instable Italian market and the fear of a return of a sovereign-debt crisis. Unstable political outlook is also a matter of potential concern. Furthermore, the Italian tax system has historically experienced frequent changes and could get more stringent over time on families' wealth, thus penalizing asset managers and private banking revenues and profitability.

Regulatory environment. The Company operates in a highly regulated market, where its products are strongly impacted by changes in the current legislation. Risk of non-compliance with the existing regulations is potential, with the related possibility to incur inspections and penalties should the Company not comply with rules concerning transparency, conflict of interest, anti-money laundering, market abuse and consumer protection.

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Date	Recommendation	Target Price (€)	Share Price (€)
09/01/2017	NEUTRAL	12.32	10.74
23/05/2017	NEUTRAL	12.35	10.75

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